New Residential Investment Corp.
Form 10-Q
May 15, 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 March 31, 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	45-3449660

(State or other jurisdiction of incorporation or organization)	(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

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: 281,959,669 shares outstanding as of May 8, 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 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 MSRs, servicer advances, RMBS and consumer loan portfolios;
- the risks that default and recovery rates on our Excess MSRs, 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 MSRs;
- the risk that projected recapture rates on the portfolios underlying our Excess MSRs 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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Investments in:		
Excess mortgage servicing rights, at fair value	$ 341,704	$ 324,151
Excess mortgage servicing rights, equity method investees, at fair value	338,307	352,766
Servicer advances, at fair value	3,457,385	2,665,551
Real estate securities, available-for-sale	2,345,221	1,973,189
Residential mortgage loans, held-for-investment	34,045	33,539
Consumer loans, equity method investees	231,422	215,062
Cash and cash equivalents	140,495	271,994
Restricted cash	34,607	33,338
Derivative assets	45,040	35,926
Other assets	30,608	53,142
	$ 6,998,834	$ 5,958,658
Liabilities and Equity		
Liabilities		
Repurchase agreements	$ 2,143,094	$ 1,620,711
Notes payable	3,234,805	2,488,618
Trades payable	—	246,931
Due to affiliates	7,997	19,169
Dividends payable	44,312	63,297
Accrued expenses and other liabilities	7,977	6,857
	5,438,185	4,445,583
Commitments and Contingencies		

Equity

Common Stock, $0.01 par value, 2,000,000,000 shares authorized, 253,209,669 and 253,197,974 issued and outstanding at March 31, 2014 and December 31, 2013, respectively	2,532	2,532
Additional paid-in capital	1,156,408	1,157,118
Retained earnings	107,446	102,986
Accumulated other comprehensive income, net of tax	9,928	3,214
Total New Residential stockholders’ equity	1,276,314	1,265,850
Noncontrolling interests in equity of consolidated subsidiaries	284,335	247,225
Total Equity	1,560,649	1,513,075
	$ 6,998,834	$ 5,958,658

See notes to consolidated financial statements.

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NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2014	2013
Interest income	$71,490	$16,191
Interest expense	38,997	899
Net Interest Income	32,493	15,292
Impairment		
Other-than-temporary impairment (“OTTI”) on securities	328	—
Valuation allowance on loans	164	—
	492	—
Net interest income after impairment	32,001	15,292
Other Income		
Change in fair value of investments in excess mortgage servicing rights	6,602	1,858
Change in fair value of investments in excess mortgage servicing rights, equity method investees	6,374	969
Earnings from investments in consumer loans, equity method investees	16,360	—
Gain on settlement of investments	4,357	—
Other income	1,357	—
	35,050	2,827
Operating Expenses		
General and administrative expenses	2,075	2,719
Management fee allocated by Newcastle	—	2,325
Management fee to affiliate	4,486	—
Incentive compensation to affiliate	3,338	—
	9,899	5,044
Income (Loss) Before Income Taxes	57,152	13,075
Income tax expense	287	—
Net Income (Loss)	$56,865	$13,075
Noncontrolling interests in Income (Loss) of Consolidated Subsidiaries	$8,093	$—
Net Income (Loss) Attributable to Common Stockholders	$48,772	$13,075
Net Income Per Share of Common Stock		
Basic	$0.19	$0.05

Diluted	$0.19	$0.05
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	253,209,019	253,025,645
Diluted	259,839,934	253,025,645
Dividends Declared per Share of Common Stock	$0.175	$—

See notes to consolidated financial statements.

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NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(dollars in thousands)

	Three Months Ended March 31,	
	2014	2013
Comprehensive income (loss), net of tax		
Net income (loss)	$56,865	$13,075
Other comprehensive income (loss)		
Net unrealized gain (loss) on securities	10,878	16,183
Reclassification of net realized (gain) loss on securities into earnings	(4,164)	—
	6,714	16,183
Total comprehensive income (loss)	$63,579	$29,258
Comprehensive income (loss) attributable to noncontrolling interests	$8,093	$—
Comprehensive income (loss) attributable to common stockholders	$55,486	$29,258

See notes to consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(dollars in thousands)

	Common Stock							
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total New Residential Stockholders' Equity	Noncontrolling Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2013	253,197,974	$2,532	$1,157,118	$102,986	$3,214	$1,265,850	$247,225	$1,513,075
Dividends declared	—	—	—	(44,312)	—	(44,312)	—	(44,312)
Capital contributions	—	—	—	—	—	—	142,024	142,024
Capital distributions	—	—	—	—	—	—	(113,795)	(113,795)
Dilution impact of distributions from consolidated subsidiaries	—	—	(788)	—	—	(788)	788	—
Director share grant	11,695	—	78	—	—	78	—	78
Comprehensive income (loss) (net of tax)								
Net income (loss)	—	—	—	48,772	—	48,772	8,093	56,865
Net unrealized gain (loss) on securities	—	—	—	—	10,878	10,878	—	10,878
Reclassification of net realized (gain) loss on securities into	—	—	—	—	(4,164)	(4,164)	—	(4,164)

earnings								
Total comprehensive income (loss)	—	—	—	—	—	55,486	8,093	63,579
Equity - March 31, 2014	253,209,669	$ 2,532	$ 1,156,408	$ 107,446	$ 9,928	$ 1,276,314	$ 284,335	$ 1,560,649

See notes to consolidated financial statements.

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NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)

	Three Months Ended March 31,	
	2014	2013
Cash Flows From Operating Activities		
Net income (loss)	$56,865	$13,075
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	(6,602)	(1,858)
Change in fair value of investments in excess mortgage servicing rights, equity method investees	(6,374)	(969)
Distributions of earnings from excess mortgage servicing rights, equity method investees	11,940	1,344
Earnings from consumer loan equity method investees	(16,360)	—
Change in fair value of investments in derivative assets	(1,357)	—
Accretion of discount and other amortization	(42,834)	(4,798)
(Gain) / loss on settlement of investments (net)	(4,357)	—
Other-than-temporary impairment (“OTTI”)	328	—
Valuation allowance on loans	164	—
Non-cash directors’ compensation	78	—
Changes in:		
Restricted cash	(1,269)	—
Other assets	5,531	(366)
Due to affiliates	(11,172)	2,648
Accrued expenses and other liabilities	1,179	2,377
Other operating cash flows:		
Interest received from servicer advance investments	16,304	—
Cash proceeds from investments, in excess of interest income	—	34,436
Net cash proceeds deemed as capital distributions to Newcastle	—	(45,889)
Net cash provided by (used in) operating activities	2,064	—
Cash Flows From Investing Activities		
Acquisition of investments in excess mortgage servicing rights	(19,132)	—
Purchase of servicer advance investments	(2,205,070)	—
Purchase of Agency ARM RMBS	(37,922)	—
Purchase of Non-Agency RMBS	(1,038,721)	—
Purchase of derivative assets	(71,923)	—
Return of investments in excess mortgage servicing rights	8,121	—
Return of investments in excess mortgage servicing rights, equity method investees	8,893	—
Principal repayments from servicing advance investments	1,442,648	—

Principal repayments from Agency ARM RMBS	75,470	—
Principal repayments from Non-Agency RMBS	13,890	—
Principal repayments from non-performing loans	1,900	—
Proceeds from sale of Agency ARM RMBS	162,897	—
Proceeds from sale of Non-Agency RMBS	258,449	—
Net cash provided by (used in) investing activities	(1,400,500)	—

Continued on next page

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)

	Three Months Ended March 31,	
	2014	2013
Cash Flows From Financing Activities		
Repayments of repurchase agreements	(1,080,197)	—
Margin deposits under repurchase agreements	(43,270)	—
Repayments of notes payable	(3,117,213)	—
Payment of deferred financing fees	(5,660)	—
Common stock dividends paid	(63,297)	—
Borrowings under repurchase agreements	1,618,664	—
Return of margin deposits under repurchase agreements	66,899	—
Borrowings under notes payable	3,862,782	—
Capital contributions	—	—
Noncontrolling interest in equity of consolidated subsidiaries - contributions	142,024	—
Noncontrolling interest in equity of consolidated subsidiaries - distributions	(113,795)	
Net cash provided by (used in) financing activities	1,266,937	—
Net Increase (Decrease) in Cash and Cash Equivalents	(131,499)	—
Cash and Cash Equivalents, Beginning of Period	271,994	—
Cash and Cash Equivalents, End of Period	$140,495	$—
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest expense	$35,194	$868
Cash paid during the period for income tax expense	—	—
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	$—	$34,436
Acquisition of real estate securities	—	227,293
Acquisition of investments in excess mortgage servicing rights, equity method investees at fair value	—	109,588
Acquisition of residential mortgage loans, held-for-investment	—	35,138
Borrowings under repurchase agreements	—	768,038
Repayments of repurchase agreements	—	3,902

Capital contributions by Newcastle	—	372,019
Contributions in-kind by Newcastle	—	797,811
Capital distributions to Newcastle	—	810,025

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

Dividends declared but not paid	$44,312	$—

See notes to consolidated financial statements.

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NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 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 intends to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes for the tax year ended December 31, 2013. 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.

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 March 31, 2014, New Residential conducted its business through the following segments: (i) investments in Excess MSRs, (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 5.3 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals as of March 31, 2014. In addition, Fortress, through its affiliates, held options to purchase approximately 15.2 million shares of New Residential's common stock as of March 31, 2014. For recent activities related to Fortress's ownership of New Residential's common stock and options thereon, see Note 18.

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 INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

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 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 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.

Recent Accounting Pronouncements

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, financial statement presentation, revenue recognition, financial instruments, hedging, and contingencies. 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 March 31, 2014	2013
Gain (loss) on non-hedge derivative instruments	$1,357	$ —
	$1,357	$ —

Other assets and liabilities are comprised of the following:

	Other Assets			Accrued Expenses and Other Liabilities	
	March 31, 2014	December 31, 2013		March 31, 2014	December 31, 2013
Margin receivable	$16,503	$ 40,132	Interest payable	$5,033	$ 4,010
Interest and other receivables	5,968	7,548	Accounts payable	2,573	2,829
Deferred financing costs	11,201	5,541	Derivative liability	84	18
Accumulated amortization	(4,006)	(768)	Current taxes payable	287	—
Other	942	689		$7,977	$ 6,857
	$30,608	$ 53,142			

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NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

As reflected on the consolidated statements of cash flows, accretion of discount and other amortization is comprised of the following:

	Three Months Ended March 31,	
	2014	2013
Accretion of servicer advance interest income	$45,716	$—
Accretion of net discount on securities and loans	356	4,798
Amortization of deferred financing costs	(3,238)	—
	$42,834	$4,798

3. SEGMENT REPORTING

New Residential conducts its business through the following segments: (i) investments in Excess MSRs, (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.

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	Real Estate	Consumer Loans	Corporate	Total

			Securities	Loans			
Three Months Ended March 31, 2014							
Interest income	$13,816	$45,716	$11,238	$720	$—	$—	$71,490
Interest expense	1,291	31,956	4,069	198	1,483	—	38,997
Net interest income	12,525	13,760	7,169	522	(1,483)	—	32,493
Impairment	—	—	328	164	—	—	492
Other income	12,976	—	5,042	671	16,360	1	35,050
Operating expenses	65	250	60	90	23	9,411	9,899
Income (Loss) Before Income Taxes	25,436	13,510	11,823	939	14,854	(9,410)	57,152
Income tax expense	—	287	—	—	—	—	287
Net Income (Loss)	$25,436	$13,223	$11,823	$939	$14,854	$(9,410)	$56,865
Noncontrolling interests in income (loss) of consolidated subsidiaries	$—	$8,093	$—	$—	$—	$—	$8,093
Net income (loss) attributable to common stockholders	$25,436	$5,130	$11,823	$939	$14,854	$(9,410)	$48,772

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 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
March 31, 2014							
Investments	$680,011	$3,457,385	$2,345,221	$34,045	$231,422	$—	$6,748,084
Cash and cash equivalents	3,704	75,408	10,425	127	—	50,831	140,495
Restricted cash	—	34,607	—	—	—	—	34,607
Derivative assets	—	—	769	44,271	—	—	45,040
Other assets	—	7,108	21,853	618	87	942	30,608
Total assets	$683,715	$3,574,508	$2,378,268	$79,061	$231,509	$51,773	$6,998,834
Debt	$—	$3,142,292	$2,000,594	$23,458	$142,500	$69,055	$5,377,899
Other liabilities	110	4,667	1,338	293	244	53,634	60,286
Total liabilities	110	3,146,959	2,001,932	23,751	142,744	122,689	5,438,185
Total equity	683,605	427,549	376,336	55,310	88,765	(70,916)	1,560,649
Noncontrolling interests in equity of consolidated subsidiaries	—	284,335	—	—	—	—	284,335
Total New Residential stockholders' equity	$683,605	$143,214	$376,336	$55,310	$88,765	$(70,916)	$1,276,314
Investments in equity method investees	$338,307	$—	$—	$—	$231,422	$—	$569,729

	Servicing Related Assets		Residential Securities and Loans				
	Excess MSRs	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans	Corporate	Total
Three Months Ended March 31, 2013							
Interest income	$10,035	$ —	$6,156	$ —	$—	$—	$16,191
Interest expense	—	—	899	—	—	—	899
Net interest income	10,035	—	5,257	—	—	—	15,292

Impairment	—	—	—	—	—	—	—
Other income	2,827	—	—	—	—	—	2,827
Operating expenses	62	—	—	—	1,951	3,031	5,044
Income (Loss) Before Income Taxes	12,800	—	5,257	—	(1,951)	(3,031)	13,075
Income tax expense	—	—	—	—	—	—	—
Net Income (Loss)	$12,800	$ —	$5,257	$ —	$(1,951)	$(3,031)	$13,075
Noncontrolling interests in income (loss) of consolidated subsidiaries	$—	$ —	$—	$ —	$—	$—	$—
Net income (loss) attributable to common stockholders	$12,800	$ —	$5,257	$ —	$(1,951)	$(3,031)	$13,075

4. INVESTMENTS IN EXCESS MORTGAGE SERVICING RIGHTS AT FAIR VALUE

Pool 1. On December 13, 2011, Newcastle announced the completion of the first co-investment between New Residential and Nationstar in Excess MSRs related to mortgage servicing rights acquired by Nationstar. New Residential invested approximately $43.7 million to acquire a 65% interest in the Excess MSRs on a portfolio of government-sponsored enterprise ("GSE") residential mortgage loans ("Pool 1"). Nationstar has co-invested on a pari passu basis with New Residential in 35% of the Excess MSRs and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, the servicing obligations and liabilities associated with this portfolio as the servicer. 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 and Nationstar, subject to certain limitations.

Pool 2. On June 5, 2012, Newcastle announced the completion of a co-investment between New Residential and Nationstar in Excess MSRs related to mortgage servicing rights Nationstar acquired from Bank of America. New Residential invested approximately $42.3 million to acquire a 65% interest in the Excess MSRs on a portfolio of residential mortgage loans ("Pool 2"), comprised of loans in GSE pools. Nationstar has co-invested on a pari passu basis with New Residential in 35% of the Excess MSRs and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are

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refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New Residential and Nationstar, subject to certain limitations.

Pools 3, 4 and 5. On June 29, 2012, Newcastle announced the completion of a co-investment between New Residential and Nationstar in Excess MSRs related to mortgage servicing rights Nationstar acquired from Aurora Bank FSB, a subsidiary of Lehman Brothers Bancorp Inc. New Residential invested approximately $176.5 million to acquire a 65% interest in the Excess MSRs on a portfolio of residential mortgage loans, comprised of approximately 25% conforming loans in Fannie Mae ("Pool 3") and Freddie Mac ("Pool 4") GSE pools as well as approximately 75% non-conforming loans in private label securitizations ("Pool 5"). Nationstar had co-invested on a pari passu basis with New Residential in 35% of the Excess MSRs and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. In September 2013, New Residential invested an additional $26.6 million to acquire an additional 15% interest in the Excess MSRs related to Pool 5 from Nationstar. 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 and Nationstar, subject to certain limitations. In December 2013, New Residential entered into a corporate loan secured by the Excess MSRs related to Pool 5 (Note 11). New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSRs associated with Pool 5. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 5.

Pool 11. On May 20, 2013, New Residential entered into an excess spread agreement with Nationstar to purchase a two-thirds interest in the Excess MSRs on a portion of the loans in the pool which are eligible to be refinanced by a specific third party for a period of time for $2.4 million, with Nationstar retaining the remaining one-third interest in the Excess MSRs and all servicing rights. After this period expired, Nationstar acquired the ability to refinance all of the loans in the pool. See Note 5 for information on New Residential's other agreements with Nationstar with respect to Excess MSRs on Pool 11.

Pool 12. On September 23, 2013, New Residential invested approximately $17.4 million to acquire a 40% interest in the Excess MSRs on a portfolio of residential mortgage loans ("Pool 12"), comprised of loans in private label securitizations. Fortress-managed funds also acquired a 40% interest in the Excess MSRs and the remaining 20%

interest in the Excess MSRs is owned by Nationstar. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. 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. New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSRs associated with this portfolio. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 12.

Pool 17. 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 ("Pool 17"). New Residential invested approximately $19.1 million in Pool 17 on loans with an aggregate UPB of approximately $8.1 billion.

New Residential agreed to acquire a one-third interest in Excess MSRs on the portfolio. 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. New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSRs associated with this portfolio. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 17.

Pool 18. In the fourth quarter of 2013, New Residential invested approximately $17.0 million to acquire a 40% interest in the Excess MSRs on a portfolio of residential mortgage loans ("Pool 18") comprised of loans in private

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label securitizations. Fortress-managed funds also acquired a 40% interest in the Excess MSRs and the remaining 20% interest in the Excess MSR is owned by Nationstar. Nationstar performs all servicing and advancing functions and it retains the ancillary income, servicing obligations and liabilities associated with the portfolio as the servicer. 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. New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSRs associated with this portfolio. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 18.

As described above, 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). 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:

	March 31, 2014						Three Months Ended March 31, 2014
	Unpaid Principal	Interest in	Amortized Cost	Carrying Value	Weighted Average	Weighted Average	Changes in Fair Value

	Balance ("UPB") of Underlying Mortgages	Excess MSR		Basis (A)	(B)	Yield		Life (Years) (C)	Recorded in Other Income (D)
MSR Pool 1	$6,626,389	65.0	%	$25,600	$35,442	12.5	%	5.3	$ (114)
MSR Pool 1 - Recapture Agreement	—	65.0	%	517	6,019	12.5	%	12.1	(209)
MSR Pool 2	7,689,490	65.0	%	29,395	34,389	12.5	%	5.5	(22)
MSR Pool 2 - Recapture Agreement	—	65.0	%	696	5,969	12.5	%	12.7	(62)
MSR Pool 3	7,595,633	65.0	%	24,015	31,830	12.5	%	5.2	(449)
MSR Pool 3 - Recapture Agreement	—	65.0	%	2,237	6,065	12.5	%	12.3	(81)
MSR Pool 4	4,940,045	65.0	%	9,581	13,605	12.5	%	4.9	77
MSR Pool 4 - Recapture Agreement	—	65.0	%	2,144	3,897	12.5	%	12.1	(51)
MSR Pool 5 (E)	35,823,960	80.0	%	115,186	141,967	12.5	%	5.4	3,691
MSR Pool 5 - Recapture Agreement	—	80.0	%	9,193	5,735	12.5	%	13.2	163
MSR Pool 11	444,667	66.7	%	2,059	2,369	12.5	%	6.6	321
MSR Pool 11 - Recapture Agreement	—	66.7	%	254	280	12.5	%	14.0	45
MSR Pool 12 (E)	4,998,929	40.0	%	15,519	17,180	12.5	%	4.5	1,601
MSR Pool 12 - Recapture Agreement	—	40.0	%	467	328	12.5	%	13.0	94
MSR Pool 17 (E)	8,096,439	33.3	%	18,112	18,471	12.5	%	5.2	359
MSR Pool 17 - Recapture Agreement	—	33.3	%	1,123	598	12.5	%	13.0	(526)
MSR Pool 18 (E)	8,463,426	40.0	%	15,157	16,785	12.5	%	4.6	1,624
MSR Pool 18 - Recapture Agreement	—	40.0	%	1,127	775	12.5	%	12.6	141
	$84,678,978			$272,382	$341,704	12.5	%	5.8	$ 6,602

(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) Carrying Value represents the fair value of the pools or Recapture Agreements, as applicable.
(C) Weighted Average Life represents the weighted average expected timing of the receipt of expected cash flows for this investment.
(D) The portion of the change in fair value of the Recapture Agreements relating to loans recaptured to date is reflected in the respective pool.
(E) Pool in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2014 (Note 6).

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The table below summarizes the geographic distribution of the underlying residential mortgage loans of the direct investments in Excess MSRs as of March 31, 2014:

State Concentration	Percentage of UPB	
California	30.6	%
Florida	9.2	%
New York	4.6	%
Washington	4.1	%
Maryland	4.1	%
Texas	3.9	%
Virginia	3.8	%
Arizona	3.7	%
New Jersey	3.3	%
Colorado	3.0	%
Other U.S.	29.7	%
	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 INVESTEES

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.

Pool 6. On January 4, 2013, New Residential, through a joint venture, co-invested in Excess MSRs on a portfolio of Government National Mortgage Association ("Ginnie Mae") residential mortgage loans ("Pool 6"). Nationstar acquired the related servicing rights from Bank of America in November 2012. New Residential contributed approximately $28.9 million for a 50% interest in a joint venture which acquired an approximately 67% interest in the Excess MSRs on this portfolio. The remaining interests in the joint venture are owned by a Fortress-managed fund and the remaining interest of approximately 33% in the Excess MSRs is owned by Nationstar. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. 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 the joint venture and Nationstar, subject to certain limitations.

Pools 7, 8, 9, 10. On January 6, 2013, New Residential, through joint ventures, agreed to co-invest in Excess MSRs on a portfolio of four pools of residential mortgage loans Nationstar acquired from Bank of America. At the time of acquisition, approximately 53% of the loans in this portfolio were in private label securitizations ("Pool 10") and the remainder were owned, insured or guaranteed by Fannie Mae ("Pool 7"), Freddie Mac ("Pool 8") or Ginnie Mae ("Pool 9"). New Residential committed to invest approximately $340 million for a 50% interest in joint ventures which were expected to acquire an approximately 67% interest in the Excess MSRs on these portfolios. The remaining interests in the joint ventures are owned by Fortress-managed funds and the remaining interest of approximately 33% in the Excess MSRs is owned by Nationstar. In September 2013, New Residential and a Fortress-managed fund each invested an additional $13.9 million into the joint venture invested in Pool 10 to acquire

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an additional 10% in the Excess MSRs held by the joint venture. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. 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 the joint ventures and Nationstar, subject to certain limitations. New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSRs associated with Pool 10. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 10.

Pool 11. On May 20, 2013, New Residential acquired, through a joint venture, an interest in Excess MSRs from Nationstar on a portfolio of Freddie Mac residential mortgage loans ("Pool 11"). New Residential has invested approximately $37.8 million for a 50% interest in a joint venture which acquired an approximately 67% interest in the Excess MSRs on this portfolio. The remaining interests in the joint venture are owned by a Fortress-managed fund and the remaining interest of approximately 33% in the Excess MSR is owned by Nationstar. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are included in the portfolio, subject to certain limitations. See Note 4 for information on New Residential's other agreements with respect to Pool 11.

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

	March 31, 2014
Excess MSR assets	$673,718
Other assets	7,152
Debt	—
Other liabilities	(4,256)
Equity	$676,614
New Residential's investment	$338,307

New Residential’s ownership	50.0 %

	Three Months Ended March 31,	
	2014	2013
Interest income	$ 18,493	$ 5,616
Other income (loss)	(5,705)	(3,154)
Expenses	(40)	(524)
Net income	$ 12,748	$ 1,938

The following is a summary of New Residential’s Excess MSR investments made through equity method investees:

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	March 31, 2014						
	Unpaid Principal Balance	Investee Interest in Excess MSR	New Residential Interest in Investees	Amortized Cost Basis (A)	Carrying Value (B)	Weighted Average Yield	Weighted Average Life (Years) (C)
MSR Pool 6	$9,628,238	66.7 %	50.0 %	$37,424	$46,261	12.5 %	5.1
MSR Pool 6 - Recapture Agreement	—	66.7 %	50.0 %	6,922	9,165	12.5 %	12.1
MSR Pool 7	30,574,186	66.7 %	50.0 %	97,392	99,290	12.5 %	5.2
MSR Pool 7 - Recapture Agreement	—	66.7 %	50.0 %	14,156	24,498	12.5 %	12.4
MSR Pool 8	13,547,232	66.7 %	50.0 %	55,107	54,406	12.5 %	5.1
MSR Pool 8 - Recapture Agreement	—	66.7 %	50.0 %	5,836	13,050	12.5 %	12.1
MSR Pool 9	29,704,976	66.7 %	50.0 %	100,528	125,876	12.5 %	4.8
MSR Pool 9 - Recapture Agreement	—	66.7 %	50.0 %	32,271	31,743	12.5 %	12.1
MSR Pool 10 (D)	66,582,388	66.7-77.0%	50.0 %	196,933	194,571	12.5 %	5.4
MSR Pool 10 - Recapture Agreement	—	66.7-77.0%	50.0 %	13,658	7,304	12.5 %	13.3
MSR Pool 11	17,322,366	66.7 %	50.0 %	41,804	51,216	12.5 %	5.7
MSR Pool 11 - Recapture Agreement	—	66.7 %	50.0 %	22,849	16,338	12.5 %	11.4
	$167,359,386			$624,880	$673,718	12.5 %	6.3

(A) Represents the amortized cost basis of the equity method investees in which New Residential holds a 50% interest. 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) Pool in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2014 (Note 6).

The table below summarizes the geographic distribution of the underlying residential mortgage loans of the Excess MSR investments made through equity method investees at March 31, 2014:

State Concentration	Percentage of UPB	
California	23.5	%
Florida	9.1	%
New York	5.4	%
Texas	4.9	%
Georgia	4.0	%
New Jersey	3.8	%
Illinois	3.5	%
Virginia	3.2	%
Maryland	3.1	%
Washington	2.8	%
Other U.S.	36.7	%
	100.0	%

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 (Pools 10, 17 and 18) (Notes 4 and 5), including the basic fee component of the related MSRs. During the three months ended March 31, 2014, the Buyer also agreed to purchase outstanding servicer advances on a portfolio of loans underlying Pools 5 and 12. As of March 31, 2014, New Residential and

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third-party co-investors had settled $3.4 billion of servicer advances, net of recoveries, financed with $3.1 billion of notes payables outstanding (Note 11). A taxable wholly owned subsidiary of New Residential is the managing member of the Buyer that holds its investments in servicer advances and owned an approximately 33.5% interest in the Buyer as of March 31, 2014. Noncontrolling third-party investors owning the remaining interest in the Buyer have aggregate capital commitments to the Buyer of $390.3 million, which were fully funded as of March 31, 2014. As of March 31, 2014, New Residential had capital commitments to the Buyer of $197.9 million, which were fully funded. The Buyer may call capital up to the commitment amount on unfunded commitments and recall capital to the extent the Buyer makes distributions to the co-investors, including New Residential. 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 investments 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 is 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.

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

March 31, 2014	Three Months Ended

	Amortized Cost Basis	Carrying Value (A)	Weighted Average Yield	Weighted Average Life (Years) (B)	March 31, 2014 Change in Fair Value Recorded in Other Income
Servicer advances	$3,457,385	$3,457,385	5.8 %	3.2	—

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

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

The following is additional information regarding the servicer advances, and related financing, of the Buyer, which New Residential consolidates as of March 31, 2014:

	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
Servicer advances (C)	$79,687,268	$3,430,473	4.3 %	$3,142,292	91.6 %	90.6 %	3.0%	2.2%

(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.

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

	March 31, 2014
Principal and interest advances	$1,615,067
Escrow advances (taxes and insurance advances)	1,393,014
Foreclosure advances	422,392
Total	$3,430,473

Interest income recognized by New Residential related to its investments in servicer advances for the three months ended March 31, 2014 was comprised of the following:

Interest income, gross of amounts attributable to servicer compensation	$67,138
Amounts attributable to servicer compensation	(21,422)
Interest income from investments in servicer advances	$45,716

7. INVESTMENTS IN REAL ESTATE SECURITIES

During the three months ended March 31, 2014, New Residential acquired $1.4 billion face amount of Non-Agency RMBS for approximately $863.4 million and no new Agency ARM RMBS. New Residential sold Non-Agency RMBS with a face amount of approximately $437.9 million and an amortized cost basis of approximately $244.6 million for approximately $248.5 million, recording a gain on sale of approximately $3.8 million. Furthermore, New Residential sold Agency ARM RMBS with a face amount of $154.2 million and an amortized cost basis of approximately $162.2 million for approximately $162.9 million, recording a gain on sale of approximately $0.7 million.

On March 6, 2014, New Residential and Merrill Lynch, Pierce, Fenner & Smith Incorporated 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 represent 75% of the mezzanine and subordinate tranches of a securitization previously sponsored by Springleaf. The securitization, including the purchased securities, is collateralized by residential mortgage loans with a face amount of approximately $0.9 billion.

The following is a summary of New Residential's real estate securities as of March 31, 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.

			Gross Unrealized				Weighted Average					
Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gains	Losses	Carrying Value (A)	Number of Securities	Rating (B)	Coupon	Yield	Life (Years) (C)	Principal Subordination (D)
Agency ARM RMBS (E) (F)	$1,085,447	$1,162,098	$4,131	$(3,579)	$1,162,650	109	AAA	3.16%	1.53%	4.3	N/A
Non-Agency RMBS (G)	1,780,864	1,173,195	14,962	(5,586)	1,182,571	121	CC	0.97%	4.68%	8.4	14.9%
Total/Weighted Average (H)	$2,866,311	$2,335,293	$19,093	$(9,165)	$2,345,221	230	BBB-	1.80%	3.49%	6.8	

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

(B) 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 four bonds that are no longer rated and four 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 Residential used an implied AAA rating for the Agency ARM 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.

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(D) Percentage of the outstanding face amount of securities that is subordinate to New Residential's investments. Excludes Other ABS securities representing 0.2% of the carrying value of the Non-Agency RMBS portfolio.
(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 $8.6 million.
(G) Includes Other ABS securities representing 0.2% of the carrying value of the Non-Agency RMBS portfolio.

			Gross Unrealized				Weighted Average				
Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gains	Losses	Carrying Value (A)	Number of Securities	Rating (B)	Coupon	Yield	Life (Years) (C)	Principal Subordination (D)
Other ABS	$ 207,431	$ 2,160	$ 60	$ —	$ 2,220	1	N/A	0.21 %	4.93 %	7.5	N/A

(H) The total outstanding face amount was $584.0 million for fixed rate securities and $2.3 billion for floating rate securities.

Unrealized losses that are considered other than temporary are recognized currently in earnings. During the three months ended March 31, 2014, New Residential recorded other-than-temporary impairment charges ("OTTI") of $0.3 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.

The following table summarizes New Residential's securities in an unrealized loss position as of March 31, 2014.

	Amortized Cost Basis		Weighted Average

Securities in an Unrealized Loss Position	Outstanding Face Amount	Before Impairment	Other-Than-Temporary Impairment (A)	After Impairment	Gross Unrealized Losses	Carrying Value	Number of Securities	Rating (B)	Coupon	Yield	Life (Years
Less than Twelve Months	$1,165,919	$1,046,734	$(1,090)	$1,045,644	$(8,843)	$1,036,801	80	BBB	1.90%	3.55%	6.2
Twelve or More Months	47,733	51,102	(703)	50,399	(322)	50,077	8	AAA	3.32%	1.40%	3.5
Total/Weighted Average	$1,213,652	$1,097,836	$(1,793)	$1,096,043	$(9,165)	$1,086,878	88	BBB+	1.96%	3.46%	6.1

(A) This amount represents other-than-temporary impairment recorded on securities that are in an unrealized loss position as of March 31, 2014.

(B) The rating of securities in an unrealized loss position for less than twelve months excludes the rating of one bond which has not been rated.

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:

	March 31, 2014			
		Amortized Cost Basis	Unrealized Losses	
	Fair Value	After Impairment	Credit (A)	Non-Credit (B)
Securities New Residential intends to sell (C)	$62,742	$63,825	$(121)	$ (1,084)
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	238,162	240,857	(1,793)	(2,695)
Non credit impaired securities	797,997	803,384	—	(5,386)
Total debt securities in an unrealized loss position	$1,098,901	$1,108,066	$(1,914)	$ (9,165)

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(A) 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 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.

(C) A portion of securities New Residential intends to sell have a fair value equal to their amortized cost basis after impairment, and, therefore do not have unrealized losses reflected in other comprehensive income as of March 31, 2014.

(D) New Residential may, at times, be more likely than not to be required to sell certain securities for liquidity 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:

	Three Months Ended March 31, 2014
Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	$ 2,071
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	104
Additions for credit losses on securities for which an OTTI was not previously recognized	225
Reduction for credit losses on securities for which no OTTI was recognized in other comprehensive income at the current measurement date	(607)
	$ 1,793

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

The table below summarizes the geographic distribution of the collateral securing New Residential's Non-Agency RMBS as of March 31, 2014:

Geographic Location (A)	Outstanding Face Amount	Percentage of Total Outstanding	
Western U.S.	$452,630	28.8	%
Southeastern U.S.	437,365	27.8	%
Northeastern U.S.	301,484	19.1	%
Midwestern U.S.	248,757	15.8	%
Southwestern U.S.	93,646	6.0	%
Other (B)	39,551	2.5	%
	$1,573,433	100.0	%

(A) Excludes Other ABS securities representing 0.2% of the carrying value of the Non-Agency RMBS portfolio.
(B) 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 three months ended March 31, 2014, the face amount of these real estate securities was $353.0 million, with total expected cash flows of $330.0 million and a fair value of $252.0 million on the dates that New Residential purchased the respective securities.

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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, at December 31, 2013 and March 31, 2014:

	Outstanding Face Amount	Carrying Value
March 31, 2014	$ 787,134	$533,155
December 31, 2013	$ 729,895	$483,680

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

	For the Three Months Ended March 31, 2014
Beginning Balance	$143,067
Additions	78,028
Accretion	(3,541)
Reclassifications from non-accretable difference	(577)
Disposals	(32,763)
Ending Balance	$184,214

8. INVESTMENTS IN RESIDENTIAL 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 has 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.

The following is a summary of residential mortgage loans at March 31, 2014, all of which are classified as held for investment:

Loan Type	Outstanding Face Amount (A)	Amortized Cost Basis (A)	Carrying Value (A)	**Loan Count**	Wtd. Avg. Yield	Weighted Average Coupon (B)	Weighted Average Life (Years) (C)	Floating Rate Loans as a % of Face Amount	Delinquent Face Amount (A)(D)
Residential Mortgage Loans Held-for-Investment (E)	$ 57,818	$ 34,045	$ 34,045	321	10.3 %	5.1 %	3.6	21.7 %	$ 47,919

(A) Represents a 70% interest New Residential holds in the reverse mortgage loans. The average loan balance outstanding based on total UPB is $0.3 million.

(B) Represents the stated interest rate on the loans. Accrued interest on reverse mortgage loans is generally added to the principal balance and paid when the loan is resolved.

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

(D) Includes loans that have either experienced (i) a termination event or (ii) an event of default, substantially all of which are more than 90 days past the time at which they were considered delinquent or real estate owned ("REO"). Collateral value underlying loans considered delinquent is generally sufficient, however $3.6 million face amount of REO loans, representing New Residential's 70% interest therein, was on non-accrual status resulting from the uncertainty of cash collections as of March 31, 2014.

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(E) 80% 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.

Activities related to the carrying value of residential mortgage loans were as follows:

	For the Three Months Ended March 31, 2014
Balance at December 31, 2013	$33,539
Purchases/additional fundings	—
Proceeds from repayments	(50)
Accretion of loan discount and other amortization	720
Valuation allowance	(164)
Balance at March 31, 2014	$34,045

Activities related to the valuation allowance on residential mortgage loans were as follows:

	For the Three Months Ended March 31, 2014
Balance at December 31, 2013	$ 461

Charge-offs		—
Valuation allowance on loans		164
Balance at March 31, 2014	$	625

The table below summarizes the geographic distribution of the underlying residential mortgage loans as of March 31, 2014:

State Concentration	Percentage of Total Outstanding Unpaid Principal Amount	
New York	22.3	%
Florida	21.4	%
Illinois	7.4	%
New Jersey	6.9	%
California	5.6	%
Massachusetts	4.2	%
Washington	4.0	%
Connecticut	3.9	%
Virginia	3.2	%
Maryland	2.8	%
Other U.S.	18.3	%
	100.0	%

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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 records a non-hedge derivative instrument on a net basis, with changes in market value recorded as “Other Income” in the 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. 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 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).

9. INVESTMENTS IN CONSUMER LOAN EQUITY METHOD INVESTEES

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, 2012. The portfolio includes 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 ($1.4 billion outstanding as of March 31, 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 of asset-backed notes for 96% of par. These notes are 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.

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

	March 31, 2014
Consumer loan assets	$2,428,397
Other assets	189,049
Debt (A)	(1,815,734)
Other liabilities	(30,306)
Equity	$771,406
New Residential's investment	$231,422
New Residential's ownership	30.0 %

(A) Represents the Class A asset-backed notes with a face amount of $1.4 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 $0.4 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 is required to be used to pay down the Class A notes. When the balance of the outstanding Class A notes is reduced to 50% of the outstanding UPB of the performing consumer loans and the managing member is reimbursed by the consumer loan companies for expenses accumulated up to that date, 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.

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	Three Months Ended March 31, 2014
Interest income	$142,815
Interest expense	(22,195)
Provision for finance receivable losses	(34,156)
Other expenses, net	(20,452)
Change in fair value of debt	(16,867)
Net income	$49,145
New Residential's equity in net income	$16,360
New Residential's ownership	30.0 %

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

	March 31, 2014					
	Unpaid Principal Balance	Interest in Consumer Loan Companies	Carrying Value (A)	Weighted Average Coupon (B)	Weighted Average Asset Yield	Weighted Average Expected Life (Years) (C)
Consumer Loans	$3,098,138	30.0 %	$2,428,397	18.1 %	15.9 %	3.2

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

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

(C) 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 three months ended March 31, 2014 as follows:

	For the Three Months Ended March 31, 2014
Balance at December 31, 2013	$215,062
Contributions to equity method investees	—
Distributions of earnings from equity method investees	—
Distributions of capital from equity method investees	—
Earnings from investments in consumer loan equity method investees	16,360
Balance at March 31, 2014	$231,422

10. DERIVATIVES

As of March 31, 2014, New Residential's derivative instruments include 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.

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As of March 31, 2014, New Residential also held to-be-announced forward contract positions (“TBAs”) with $850.0 million in a long notional amount of Agency RMBS and $975.0 million in 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. In addition, as of March 31, 2014, New Residential held a $300.0 million short position of 3-year forward U.S. Treasury (“U.S.T.”) notes, and $100.0 million notional exposure of an interest rate swap. New Residential’s net short position in TBAs of $125.0 million notional, 3-year forward U.S.T. short position, and interest rate swaps were entered into as economic hedges in order to mitigate New Residential’s interest rate risk assumed as part of its purchased securities with Merrill Lynch, Pierce, Fenner & Smith Incorporated that were previously sponsored by Springleaf, and planned resecuritization of certain Non-Agency RMBS. Furthermore, New Residential’s interest swaps are subject to certain customary margin requirements.

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

	Balance Sheet Location	March 31, 2014	December 31, 2013
Derivative assets			
Real Estate Securities (A)	Derivative assets	$—	$ 1,452
Non-Performing Loans (A)	Derivative assets	44,271	34,474
TBAs	Derivative assets	362	—
U.S.T. Short Positions	Derivative assets	407	—
		$45,040	$ 35,926
Derivative liabilities			
Interest Rate Swaps	Other liabilities	$84	$ —
		$84	$ —

(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 information related to derivatives:

	March 31, 2014	December 31, 2013
Notional amount of Non-Performing Loans (A)	$228,540	$164,598
Notional amount of U.S.T. Short Positions	300,000	—
Notional amount of Interest Rate Swap Agreements (B)	100,000	—
Notional amount of Real Estate Securities (C)	—	10,000
Notional amount of TBAs, long position (D)	$850,000	$—
Notional amount of TBAs, short position (D)	975,000	—
Notional amount of TBAs, net	$(125,000)	$—

(A) Represents the UPB of the underlying loans of the non-performing loan pools within linked transactions.
(B) Receives LIBOR and pays a fixed rate.
(C) Represents the current face amount of the real estate securities within linked transactions.
(D) Represents the notional amount of Agency RMBS, classified as derivatives.

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

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		For the Three Months Ended March 31,	
	Income Statement Location	2014	2013
Non-Performing Loans (A)	Other income (loss)	$671	$ —
TBAs	Other income (loss)	362	—
U.S.T. Short Positions	Other income (loss)	408	—
Interest Rate Swaps	Other income (loss)	(84)	—
		$1,357	$ —

(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:

	March 31, 2014	December 31, 2013
<u>Non-Performing Loans</u>		
Non-performing loan assets, at fair value (A)	$128,957	$ 95,014
Repurchase agreements (B)	84,686	60,540
	44,271	34,474
<u>Real Estate Securities</u>		
Real estate securities, at fair value (C)	—	9,952
Repurchase agreements (B)	—	8,500
	—	1,452
Net assets recognized as linked transactions	$44,271	$ 35,926

(A) Non-performing loans that had a UPB of $228.5 million as of March 31, 2014, which represents 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 represents the notional amount of the linked transaction.

11. DEBT OBLIGATIONS

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

March 31, 2014 (A)

Debt Obligations/ Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Weighted Average Funding Cost	Weighted Average Life (Years)	Collateral Outstanding Face	Amortized Cost Basis	Carrying Value	Weighted Average Life (Years)
Repurchase Agreements (B)										
Agency ARM RMBS (C)	Various	$1,117,592	$1,117,592	Jun-14	0.34%	0.3	$1,085,447	$1,153,504	$1,154,057	4.3
Non-Agency RMBS (D)	Various	883,002	883,002	Apr-14 to Oct-14	1.98%	0.1	1,501,192	1,156,794	1,163,721	8.8
Consumer Loans (E)	Jan-14	142,500	142,500	Jun-14	4.16%	0.3	N/A	N/A	231,422	3.2
Total Repurchase Agreements		2,143,094	2,143,094		1.27%	0.2				
Notes Payable										
Secured Corporate Loan (F)	Dec-13	69,055	69,055	May-14	4.16%	0.2	35,823,960	124,379	147,702	6.0
Servicer Advances (G)	Various	3,142,292	3,142,292	Sep-14 to Mar-17	3.01%	1.2	3,430,473	3,457,385	3,457,385	3.2
Residential Mortgage Loans (H)	Dec-13	23,458	23,458	Sep-14	3.41%	0.5	57,818	34,045	34,045	3.6
Total Notes Payable		3,234,805	3,234,805		3.03%	1.1				
Total		$5,377,899	$5,377,899		2.33%	0.8				

(A) Excludes debt related to linked transactions (Note 10).
(B) These repurchase agreements had approximately $0.7 million of associated accrued interest payable as of March 31, 2014.
(C)

The counterparties of these repurchase agreements are Mizuho ($160.8 million), Morgan Stanley ($160.5 million), Daiwa ($315.0 million) and Jefferies ($481.3 million) and were subject to customary margin call provisions.

(D) The counterparties of these repurchase agreements are Barclays ($34.7 million), Credit Suisse ($132.3 million), Royal Bank of Scotland ($42.5 million), Bank of America ($459.9 million), Goldman Sachs ($83.3 million), UBS ($74.6 million) and Royal Bank of Canada

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($55.7 million) and were subject to customary margin call provisions. All of the Non-Agency repurchase agreements have LIBOR-based floating interest rates. Includes $103.2 million borrowed under a master repurchase agreement, which bears interest at one-month LIBOR plus 1.75%.

(E) The repurchase agreement is payable to Credit Suisse and bears interest equal to one-month LIBOR plus 4.0%.

(F) The loan bears interest equal to one-month LIBOR plus 4.0%. The outstanding face of the collateral represents the UPB of the residential mortgage loans underlying the Excess MSRs that secure this corporate loan, which is subject to monthly principal amortization payments.

(G) The notes bear interest equal to the sum of (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 2.5%.

(H) 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.

As of March 31, 2014, New Residential held TBA positions with $850.0 million in a long notional amount of Agency RMBS and $975.0 million in 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. 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.

On January 8, 2014, New Residential financed all of its ownership interest in each of the Consumer Loan Companies under a $150.0 million master repurchase agreement with Credit Suisse Securities (USA) LLC which matures on June 30, 2014. Borrowings under the facility bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 4.00%. The facility contains customary covenants, event of default provisions, and is subject to required monthly principal payments.

On March 31, 2014, New Residential obtained approximately $415 million in financing from Merrill Lynch, Pierce, Fenner & Smith Incorporated (a wholly-owned subsidiary of Bank of America) to settle its 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 New Residential's purchase.

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.

Maturities

New Residential's debt obligations as of March 31, 2014 had contractual maturities as follows:

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Year	Nonrecourse	Recourse (A)	Total
April 1 through December 31, 2014	$ 1,633,561	$ 2,145,202	$ 3,778,763
2015	1,101,336	—	1,101,336
2016	—	—	—
2017	497,800	—	497,800
	$ 3,232,697	$ 2,145,202	$ 5,377,899

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

Borrowing Capacity

The following table represents New Residential's borrowing capacity as of March 31, 2014:

Debt Obligations/ Collateral	Collateral Type	Borrowing Capacity	Balance Outstanding	Available Financing
Repurchase Agreements				
Residential Mortgage Loans (A)	Real Estate Loans	$ 300,000	$ 59,190	$ 240,810
Notes Payable				
Secured Corporate Loan	Excess MSRs	75,000	69,055	5,945
Servicer Advances (B)	Servicer Advances	4,647,900	3,142,292	1,505,608
		$ 5,022,900	$ 3,270,537	$ 1,752,363

(A) Financing related to linked transaction (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 March 31, 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 March 31, 2014 were as follows:

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			Fair Value			
	Principal Balance or Notional Amount	Carrying Value	Level 1	Level 2	Level 3	Total
Assets:						
Investments in:						
Excess mortgage servicing rights, at fair value (A)	$84,678,978	$341,704	$—	$—	$341,704	$341,704
Excess mortgage servicing rights, equity method investees, at fair value (A)	167,359,386	338,307	—	—	338,307	338,307
Servicer advances	3,430,473	3,457,385	—	—	3,457,385	3,457,385
Real estate securities, available-for-sale	2,866,311	2,345,221	—	1,162,650	1,182,571	2,345,221
Residential mortgage loans, held for investment (B)	57,818	34,045	—	—	34,045	34,045
Non-hedge derivative investments (C)	228,540	45,040	—	769	44,271	45,040
Cash and cash equivalents	140,495	140,495	140,495	—	—	140,495
Restricted cash	34,607	34,607	34,607	—	—	34,607
	$258,796,608	$6,736,804	$175,102	$1,163,419	$5,398,283	$6,736,804
Liabilities:						
Repurchase agreements	$2,143,094	$2,143,094	$—	$2,000,594	$142,500	$2,143,094
Notes payable	3,234,805	3,234,805	—	—	3,234,805	3,234,805
	$5,377,899	$5,377,899	$—	$2,000,594	$3,377,305	$5,377,899

(A) The notional amount represents the total unpaid principal balance of the mortgage loans underlying the Excess MSRs. New Residential does not receive an excess mortgage servicing amount on non-performing loans in Agency portfolios.
(B) Represents New Residential’s 70% interest in the total unpaid principal balance of the Residential Mortgage Loans.
(C) Notional amount consists of the aggregate current face and UPB amounts of the securities and loans, respectively, 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 three months ended March 31, 2014 as follows:

	Level 3							
	Excess MSRs (A)		Excess MSRs in Equity Method Investees(A) (B)					
	Agency	Non-Agency	Agency	Non-Agency	Servicer Advances	Non-Agency RMBS	Linked Transactions	Total
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)	—	—	—	—	—	(328)	—	(328)
Included in change in fair value of investments in excess mortgage servicing rights (D)	(545)	7,147	—	—	—	—	—	6,602
Included in change in fair value of investments in excess mortgage servicing rights, equity method investees (D)	—	—	(739)	(2,114)	—	—	—	(2,853)
Included in gain on settlement of investments	—	—	—	—	—	3,810	—	3,810
Included in other income (D)	—	—	—	—	—	—	671	671
Gains (losses) included in other comprehensive income, net of tax (E)	—	—	—	—	—	5,710	43	5,753
Interest income	4,747	9,069	6,721	2,526	45,716	2,007	—	70,786
Purchases, sales and repayments								—
Purchases	—	19,132	—	—	2,205,070	863,291	9,758	3,097,251
Purchase adjustments	(60)	—	—	—	—	—	—	(60)
Proceeds from sales	—	—	—	—	—	(248,454)	(1,495)	(249,949)

Proceeds from repayments	(8,937)	(13,000)	(14,044)	(6,809)	(1,458,952)	(13,890)	(632)	(1,516,264)
Balance at March 31, 2014	$139,865	$201,839	$237,337	$100,970	$3,457,385	$1,182,571	$44,271	$5,364,238

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

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(B) Amounts represent New Residential's portion of the Excess MSRs 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 Consolidated Statements of Comprehensive Income.

Investments in Excess MSRs Valuation

The following table summarizes certain information regarding the inputs used in valuing the Excess MSRs owned directly and through equity method investees as of March 31, 2014:

	Significant Inputs										
Held Directly (Note 4)	Prepayment Speed (A)		Delinquency (B)		Recapture Rate (C)		Excess Mortgage Servicing Amount (bps)(D)		Discount Rate	
MSR Pool 1	12.4	%	8.7	%	35.4	%	26		12.5	%
MSR Pool 1 - Recapture Agreement	8.0	%	5.0	%	35.0	%	21		12.5	%
MSR Pool 2	12.6	%	10.0	%	35.5	%	22		12.5	%
MSR Pool 2 - Recapture Agreement	8.0	%	5.0	%	35.0	%	21		12.5	%
MSR Pool 3	12.8	%	11.0	%	35.5	%	22		12.5	%
MSR Pool 3 - Recapture Agreement	8.0	%	5.0	%	35.0	%	21		12.5	%
MSR Pool 4	15.5	%	14.8	%	36.5	%	17		12.5	%
MSR Pool 4 - Recapture Agreement	8.0	%	5.0	%	35.0	%	21		12.5	%
MSR Pool 5	11.5	%	N/A	(E)	9.3	%	14		12.5	%
MSR Pool 5 - Recapture Agreement	8.0	%	N/A	(E)	35.0	%	21		12.5	%
MSR Pool 11 - Recapture Agreement	7.8	%	5.0	%	35.0	%	19		12.5	%
MSR Pool 12	16.0	%	N/A	(E)	9.0	%	26		12.5	%

MSR Pool 12 - Recapture Agreement	8.0 %	N/A	(E)	35.0	%	19	12.5	%
MSR Pool 17	11.4%	N/A	(E)	9.3	%	19	12.5	%
MSR Pool 17 - Recapture Agreement	8.0 %	N/A	(E)	35.0	%	19	12.5	%
MSR Pool 18	15.0%	N/A	(E)	9.0	%	16	12.5	%
MSR Pool 18 - Recapture Agreement	8.0 %	N/A	(E)	35.0	%	19	12.5	%
Held through Equity Method Investees (Note 5)								
MSR Pool 6	15.4%	7.7	%	30.5	%	25	12.5	%
MSR Pool 6 - Recapture Agreement	8.0 %	5.0	%	35.0	%	23	12.5	%
MSR Pool 7	12.8%	7.8	%	35.6	%	15	12.5	%
MSR Pool 7 - Recapture Agreement	8.0 %	5.0	%	35.0	%	19	12.5	%
MSR Pool 8	13.9%	6.7	%	35.5	%	19	12.5	%
MSR Pool 8 - Recapture Agreement	8.0 %	5.0	%	35.0	%	19	12.5	%
MSR Pool 9	15.7%	5.0	%	30.1	%	22	12.5	%
MSR Pool 9 - Recapture Agreement	8.0 %	5.0	%	35.0	%	26	12.5	%
MSR Pool 10	11.3%	N/A	(E)	9.3	%	11	12.5	%
MSR Pool 10 - Recapture Agreement	8.0 %	N/A	(E)	35.0	%	19	12.5	%
MSR Pool 11	13.9%	10.0	%	36.0	%	15	12.5	%
MSR Pool 11 - Recapture Agreement	8.0 %	5.0	%	35.0	%	19	12.5	%

(A) Projected annualized weighted average lifetime voluntary and involuntary prepayment rate using a prepayment vector.
(B) Projected percentage of mortgage loans in the pool that will miss their mortgage payments.
(C) Percentage of voluntarily prepaid loans that are expected to be refinanced by Nationstar.
(D) Weighted average total mortgage servicing amount in excess of the basic fee.
(E) The Excess MSR will be paid on the total UPB of the mortgage portfolio (including both performing and delinquent loans until REO).

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Excess Mortgage Servicing Rights Equity Method Investees Valuation

New Residential's investments in equity method investees measured at fair value on a recurring basis using Level 3 inputs changed during the three months ended March 31, 2014 as follows:

Balance at December 31, 2013	$352,766
Contributions to equity method investees	—
Distributions of earnings from equity method investees	(11,940)
Distributions of capital from equity method investees	(8,893)
Change in fair value of investments in equity method investees	6,374
Balance at March 31, 2014	$338,307

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	Discount Rate
March 31, 2014	2.3 %	15.0 %	17.0 %	19.8 bps	5.8 %
December 31, 2013	2.7 %	13.3 %	20.0 %	21.2 bps	5.6 %

Real Estate Securities Valuation

As of March 31, 2013, New Residential's securities valuation methodology and results are further detailed as follows:

			Fair Value		
Asset Type	**Outstanding Face Amount**	**Amortized Cost Basis**	**Multiple Quotes (A)**	**Total**	**Level**
Agency ARM RMBS	$ 1,085,447	$1,162,098	$1,162,650	$1,162,650	2
Non-Agency RMBS	1,780,864	1,173,195	1,182,571	1,182,571	3
Total	$ 2,866,311	$2,335,293	$2,345,221	$2,345,221	

(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.

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Residential Mortgage Loans for Which Fair Value is Only Disclosed

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

The following table summarizes the inputs used in valuing reverse mortgage loans as of March 31, 2014:

					Significant Inputs	
Loan Type	Outstanding Face Amount (A)	Carrying Value (A)	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Discount Rate	Weighted Average Life (Years) (B)
Reverse Mortgage Loans	$ 57,818	$34,045	$34,045	$ 164	10.3%	3.6

(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.

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 also enters into economic hedges including interest rate swaps and U.S.T. short positions, 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 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 March 31, 2014, these recently issued notes also have an estimated fair value equal to their carrying value since market interest rates and spreads have not fluctuated significantly since their issuance.

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.

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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 253,025,645 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.

For recent activity related to New Residential's common stock and options thereon, see Note 18.

On December 17, 2013, New Residential declared a quarterly dividend of $0.175 per common share and a special cash dividend of $0.075 per common share, totaling $63.3 million, for the quarter ended December 31, 2013. The combined dividend of $0.25 was paid on January 31, 2014. On March 19, 2014, New Residential declared a quarterly dividend of $0.175 per common share, or $44.3 million, for the quarter ended March 31, 2014, which was paid in April 2014.

Approximately 5.3 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals at March 31, 2014.

Option Plan

New Residential's outstanding options at March 31, 2014 consisted of the following:

	Number of Options	Strike Price	Maturity Date

	343,275	$13.86	05/25/14
	162,500	16.95	11/22/14
	330,000	15.97	01/12/15
	2,000	16.68	08/01/15
	170,000	15.87	11/01/16
	242,000	16.90	01/23/17
	456,000	14.96	04/11/17
	1,580,166	3.29	03/29/21
	2,424,833	2.49	09/27/21
	2,000	2.74	12/20/21
	1,867,167	3.41	04/03/22
	2,265,000	3.67	05/21/22
	2,499,167	3.67	07/31/22
	5,750,000	5.12	01/11/23
	2,300,000	5.74	02/15/23
	8,000	6.79	06/02/23
Total/Weighted Average	20,402,108	$5.11	

As of March 31, 2014, New Residential’s outstanding options were summarized as follows:

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Held by the Manager	15,232,638
Issued to the Manager and subsequently transferred to certain of the Manager's employees	5,157,470
Issued to the independent directors	12,000
Total	20,402,108

For recent activities related to option exercises, see Note 18.

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 months ended March 31, 2014, based on the treasury stock method, New Residential had 6,630,915 dilutive common stock equivalents. During the three months ended March 31, 2013, New Residential did not have any dilutive common stock equivalents outstanding.

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 21.5 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 March 31, 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 March 31, 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 March 31, 2014, including investments in residential mortgage loans):

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Excess MSRs — As of March 31, 2014, New Residential had outstanding capital commitments of $26.0 million related to the acquisition of four pools (Pools 13-16) of Excess MSRs on portfolios comprised of Fannie Mae and Freddie Mac residential mortgage loans. See Notes 4 and 5 for information on New Residential's investments in excess MSRs, as well as Note 18 for Excess MSR pools subsequently closed.

Servicer Advances — New Residential and third-party co-investors agreed to purchase, through the Buyer, future servicer advances related to the 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.

Debt Covenants — New Residential's debt obligations contain various customary loan covenants (Notes 8 & 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 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 affiliate is comprised of the following amounts:

	March 31, 2014	December 31, 2013
Management fees	$1,495	$ 1,495
Incentive compensation	5,855	16,847
Expense reimbursements and other	647	827
	$7,997	$ 19,169

Affiliate expenses and fees were comprised of:

	Three Months Ended March 31,	
	2014	2013
Management fees	$4,486	$2,325
Incentive compensation	3,338	—
Expense reimbursements (A)	125	—
Total	$7,949	$2,325

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

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See Notes 4, 5, 6, 7, 8, 11, 14 and 18 for a discussion of transactions with Nationstar. As of March 31, 2014, a total face amount of $900.0 million of New Residential's Non-Agency portfolio was serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately $12.2 billion as of March 31, 2014.

See Notes 9 and 18 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:

Accumulated Other Comprehensive Income Components	Statement of Income Location	Three Months Ended March 31, 2014		
Reclassification of net realized (gain) loss on securities into earnings	Gain on settlement of securities	$	(4,492	)
Reclassification of net realized (gain) loss on securities into earnings	Other-than-temporary impairment on securities		328	
Total reclassifications		$	(4,164	)

17. INCOME TAXES

The provision for income taxes consists of the following:

	Three Months Ended March 31, 2014	2013
Current:		
Federal	$217	$ —
State and Local	70	—
Total Current Provision	287	—
Deferred:		
Federal	—	—
State and Local	—	—
Total Deferred Provision	—	—
Total Provision for Income Taxes	$287	$ —

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 three months ended March 31, 2013.

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New Residential has made certain investments, particularly its investments in servicer advances (Note 6), through TRSs and is subject to regular corporate income taxes on these investments. New Residential and its TRSs will file income tax returns with the U.S. federal government and various state and local jurisdictions for the tax years ending December 31, 2013 and 2014. 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.

18. RECENT ACTIVITIES

These financial statements include a discussion of material events that have occurred subsequent to March 31, 2014 (referred to as "subsequent events") through the issuance of these consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

Excess MSRs

On May 12, 2014 New Residential invested approximately $34.0 million to acquire a one-third interest in the Excess MSRs on each of three portfolios of GSE residential mortgage loans (Pools 14, 16 and 19) with an aggregate UPB of $12.9 billion. Fortress-managed funds and Nationstar each agreed to acquire a one-third interest in the Excess MSRs. 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 GSE residential mortgage loans (Pool 20) 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 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 MSRs are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations.

New Residential has remaining commitments of $20.8 million to invest in Excess MSRs on portfolios of GSE residential mortgages comprised of two pools (Pools 13 and 15) with an aggregate outstanding unpaid principal balance of approximately $8.3 billion that New Residential committed to in 2013. Commitments related to GSE residential mortgage loans are contingent upon GSE approval of Nationstar to service such loans and transfer Excess MSRs to New Residential.

Servicer Advances

Subsequent to March 31, 2014 and prior to May 5, 2014, the Buyer funded a total of $911.0 million of servicer advances, including the purchase of $617.5 million of additional advances described below, and recovered $545.2 million of existing servicer advances. Notes payable outstanding increased by $346.9 million and restricted cash increased approximately $5.0 million in relation to these fundings. Additionally, the Buyer received $12.3 million from Nationstar to satisfy a targeted return shortfall.

On May 2, 2014, the Buyer received $86.4 million from New Residential 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 2.10% and maturing in May 2016. As of May 2, 2014, the principal balance of this note was approximately $580.5 million.

Real Estate Securities

Subsequent to March 31, 2014, New Residential acquired Agency ARM RMBS with an aggregate face amount of approximately $223.9 million for approximately $238.1 million, financed with repurchase agreements. Furthermore, New Residential acquired Non-Agency RMBS with an aggregate face amount of approximately $50.7 million for approximately $14.2 million, financed with repurchase agreements. New Residential sold no Agency ARM RMBS and sold Non-Agency RMBS with a face amount of $207.1 million and an amortized cost basis of approximately $138.5 million for approximately $145.0 million and recorded a gain of $6.5 million.

Subsequent to March 31, 2014, New Residential acquired additional net short TBA positions that increased our net short notional position by $30.0 million of Agency RMBS, and any amounts or obligations owed by or to

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New Residential are subject to the right of set-off with the TBA counterparty. New Residential also entered into two additional interest rate swaps with a total notional amount of $400.0 million in order to mitigate New Residential's interest rate risk assumed as part of its purchased securities with Merrill Lynch, Pierce, Fenner & Smith Incorporated that were previously sponsored by Springleaf, and its planned resecuritization of certain Non-Agency RMBS.

Other Investments

Subsequent to March 31, 2014, New Residential paid down approximately $7.5 million of the master repurchase agreement secured by its ownership interest in the consumer loan companies.

Corporate Activities

On March 19, 2014, New Residential's board of directors declared a first quarter 2014 dividend of $0.175 per share of common stock, or $44.3 million, which was paid on April 30, 2014 to stockholders of record as of March 31, 2014.

In April 2014, New Residential issued 27,750,000 shares of its common stock in a public offering at a price to the public of $6.10 per share for net proceeds of approximately $164.1 million. One of New Residential's executive officers participated in this offering and purchased an additional 1,000,000 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 2,875,000 shares of New Residential's common stock at a price of $6.10, 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 215,000 options with a weighted average exercise price of $2.81 on May 7, 2014. Upon exercise, 215,000 shares of common stock of New Residential were issued.

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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 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 residential mortgage related assets. 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 investments in servicing related assets, residential securities and loans and other investments including, but not limited to, Excess MSRs, servicer advances, real estate securities and real estate loans. Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets in diverse markets, including non-real estate related assets such as consumer loans. 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."

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, which we believe are generating significant investment opportunities. Since the 2008 financial crisis, the residential mortgage industry has been 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 fourth quarter of 2013, 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. 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 $200 – 300 billion of mortgages are currently for sale, which would require a capital investment of approximately $2 – 3 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 MSRs or other servicing assets, such as advances. We also estimate that approximately $1 – 2 trillion of MSRs could be sold over the next several years. In addition, approximately $1.2 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 MSRs on newly originated loans on a recurring basis (often monthly or quarterly). We believe that MSRs 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 MSRs or that any future investment in Excess MSRs will generate returns similar to the returns on our original investments in Excess MSRs.

Beginning in April 2012, we began to invest in RMBS as a complement to our Excess MSR portfolio. As of the fourth quarter of 2013, 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 started to recover 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.

Interest rates have risen significantly in recent months and may continue to increase, although the timing of any further increases is uncertain. 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 MSRs 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 MSRs is subject to a variety of factors, as described under “Risk Factors.” In the first quarter of 2014, the fair value of our investments in Excess MSRs (directly and through equity method investees) increased by approximately $3.6 million and the weighted average discount rate of the portfolio remained relatively unchanged at 12.5%.

We do not expect changes in interest rates to have a meaningful impact on the net interest spread of our Agency ARM 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 ARM RMBS portfolio as of March 31, 2014 was 1.19%, compared to 0.94% as of December 31, 2013. The net interest spread on our Non-Agency RMBS portfolio as of March 31, 2014 was 2.67%, compared to 2.83% as of December 31, 2013.

In November 2013, we made our first investment in non-performing loans. We are seeing substantial volumes of distressed residential mortgage loan sales.

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,” in the first 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.

	Outstanding Face Amount	Amortized Cost Basis (A)	Percentage of Total Amortized Cost Basis		Carrying Value	Weighted Average Life (years) (B)
Investments in:						
Excess MSRs (C)	$252,038,364	$584,822	9.1	%	$680,011	6.1
Servicer Advances (C)	3,430,473	3,457,385	53.9	%	3,457,385	3.2
Agency ARM RMBS	1,085,447	1,162,098	18.1	%	1,162,650	4.3
Non-Agency RMBS	1,780,864	1,173,195	18.3	%	1,182,571	8.4
Residential Mortgage Loans	57,818	34,045	0.6	%	34,045	3.6
Consumer Loans (C)	3,098,138	N/A	N/A		231,422	3.2
Total/ Weighted Average	$261,491,104	$6,411,545	100.0	%	$6,748,084	4.6
Reconciliation to GAAP total assets:						
Cash and restricted cash					175,102	
Derivative assets					45,040	
Other assets					30,608	
GAAP total assets					$6,998,834	

(A) Net of impairment.
(B) Weighted average life is based on the timing of expected principal reduction on the asset.
(C) The outstanding face amount of Excess MSRs, servicer advances, and consumer loans is based on 100% of the face amount of the underlying residential mortgage loans, currently outstanding advances, and consumer loans respectively.

Servicing Related Assets

Excess MSRs

As of March 31, 2014, we had approximately $680.0 million estimated carrying value of Excess MSRs (held directly and through joint ventures). As of March 31, 2014, our completed investments represent an effective 33% to 80% interest in the Excess MSRs (held either directly or through joint ventures) on pools of mortgage loans with an aggregate UPB of approximately $252.0 billion. Nationstar is the servicer of the loans underlying all of our investments in Excess MSRs 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 MSRs 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 MSRs. 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 MSRs, on the Non-Agency portfolios (Pools 5, 10, 12, 17 and 18) 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 March 31, 2014.

Summary of Direct Excess MSR Investments as of March 31, 2014

					MSR Component(A)			Excess MSR	
	Investment Date	Initial UPB (bn)	**Current UPB (bn)(B)**	**Loan Type(C)**	MSR (bps)	Excess MSR (bps)	Interest in Excess MSR (%)	Purchase Price (mm)	Carrying Value (mm)
Pool 1	Dec-11	$9.9	$ 6.6	GSE	32 bps	26 bps	65 %	$43.7	$41.5
Pool 2	Jun-12	10.4	7.7	GSE	30	22	65 %	42.3	40.3
Pool 3	Jun-12	9.8	7.6	GSE	30	22	65 %	36.2	37.9
Pool 4	Jun-12	6.3	4.9	GSE	26	17	65 %	15.4	17.5
Pool 5(D)	Jun-12	47.6	35.8	PLS	33	14	80 %	151.5	147.7
Pool 11 (direct portion)(E)	May-13	—	0.5	GSE	25	19	67 %	2.4	2.6
Pool 12(D)	Sep-13	5.4	5.0	PLS	50	26	40 %	17.4	17.5
Pool 17(D)	Jan-14	8.1	8.1	PLS	34	19	33 %	19.1	19.1
Pool 18(D)	Nov-13	9.2	8.5	PLS	37	16	40 %	17.0	17.6
Total/Weighted Average		$106.7	$ 84.7		33 **bps**	18 **bps**		$345.0	$341.7

(A) The MSR is a weighted average as of March 31, 2014, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

(B) As of March 31, 2014.

(C) "GSE" refers to loans in Fannie Mae or Freddie Mac securitizations. "PLS" refers to loans in private label securitizations.

(D) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2014 (Note 6 to our consolidated financial statements included herein).

(E) A portion of our investment in Pool 11 was made as a direct investment, and the remainder was made as an investment through a joint venture accounted for as an equity method investee, as described in the chart below. The direct investment in Pool 11 includes loans that, upon refinancing by a third-party, became serviced by Nationstar and subject to a 67% Excess MSR owned by us.

Summary Excess MSR Investments Through Equity Method Investees as of March 31, 2014

					MSR Component(A)					
	Commitment/ Investment Date	**Initial UPB (bn)**	**Current UPB (bn)(B)**	**Loan Type(C)**	**MSR (bps)**	**Excess MSR (bps)**	**NRZ Interest in Investee**	**Investee Interest in Excess**	**NRZ Effective Ownership (%)(D)**	**Investee Carrying Value (mm)**

							(%)	MSR (%) (D)		
Pool 6	Jan-13	$13.0	$9.6	GM	40 bps	25 bps	50 %	67 %	33.5 %	$55.4
Pool 7	Jan-13	38.0	30.6	GSE	26	15	50 %	67 %	33.5 %	123.8
Pool 8	Jan-13	17.6	13.5	GSE	28	19	50 %	67 %	33.5 %	67.5
Pool 9	Jan-13	33.8	29.7	GM	39	22	50 %	67 %	33.5 %	157.6
Pool 10(E)	Jan-13	75.6	66.7	PLS	34	11	50 %	67-77 %	33.5-38.5 %	201.8
Pool 11 (indirect portion)(F)	May-13	22.8	17.3	GSE	25	15	50 %	67 %	33.5 %	67.6
Total/Weighted Average		$200.8	$167.4		32 **bps**	16 **bps**				$673.7

(A) The MSR is a weighted average as of March 31, 2014, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

(B) As of March 31, 2014.

(C) "GM" refers to loans in Ginnie Mae securitizations. "GSE" refers to loans in Fannie Mae or Freddie Mac securitizations. "PLS" refers to loans in private label securitizations.

(D) The equity method investee purchased an additional interest in a portion of Pool 10. Investee interest in Excess MSR and NRZ effective ownership in Pool 10 represent the range of ownership interests in the pool.

(E) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2013 (Note 6 to our consolidated financial statements included herein).

(F) A portion of our investment in Pool 11 was made as a direct investment and the remainder was made as an investment through a joint venture accounted for as an equity method investee, as described in the chart above.

The tables below summarize the terms of our investments in Excess MSRs that were not yet completed as of May 12, 2014:

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

					MSR Component(A)				
	Commitment Date	Initial UPB (bn)	**Current UPB (bn)(B)**	**Loan Type(C)**	MSR (bps)	Excess MSR (bps)	NRZ Interest in Investee (%)	Direct Interest in Excess MSR (%)	**NRZ Excess MSR Initial Investment (mm)(D)**
Pool 13 (Direct Investment)	Nov-13	$ 6.1	$ 6.1	GSE	25 bps	19 bps	N/A	33 %	$ 14.5
Pool 15 (Direct Investment)	Nov-13	2.2	2.2	GSE	37	27	N/A	33 %	6.3
Pool 20 (Direct Investment)	Apr-14	0.7	0.7	GSE	42	32	N/A	33 %	2.3
Total/Weighted Average		$ 9.0	$ 9.0		29 **bps**	22 **bps**			$ 23.1

(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) "PLS" refers to loans in private label securitizations. "GSE" refers to loans in Fannie Mae or Freddie Mac securitizations.
(D) The actual amount invested will be based on the UPB at the time of close.

Summary of Excess MSR Investments closed subsequent to March 31, 2014

					MSR Component(A)				
	Commitment Date	**Initial UPB (bn)**	Current UPB (bn)(B)	Loan Type(C)	MSR (bps)	Excess MSR (bps)	NRZ Interest in Investee (%)	Direct Interest in Excess MSR (%)	**NRZ Excess MSR Initial Investment (mm)(D)**
Pool 14 (Direct Investment)	Nov-13	$ 1.0	$ 1.0	GSE	25	19	N/A	33 %	$ 2.4

Pool 16 (Direct Investment)	Nov-13	1.5	1.5	GSE	27	17	N/A	33 %	2.9
Pool 19 (Direct Investment)	Apr-14	10.4	10.4	GSE	25	19	N/A	33 %	28.7
		$ **12.9**	$ 12.9		25 bps	19 bps			$ 34.0

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The following table summarizes the collateral characteristics of the loans underlying our direct Excess MSR investments as of March 31, 2013 (dollars in thousands):

	Collateral Characteristics											
	Current Carrying Amount	Original Principal Balance	Current Principal Balance	Number of Loans	WA FICO Score (A)	WA Coupon	WA Maturity (months)	Average Loan Age (months)	Adjustable Rate Mortgage % (B)	1 Month CPR (C)	1 Month CRR (D)	1 Mon CDR (E)
Pool 1												
Original Pool	$26,918	$9,940,385	$4,964,917	37,172	672	5.5%	274	89	21.0%	25.4%	22.4%	3.9
Recaptured Loans	8,524	—	1,661,472	8,947	727	4.4%	319	10	—	1.8 %	1.5 %	0.2
Recapture Agreements	6,019	—	—	—	—	—	—	—	—	—	—	—
	41,461	9,940,385	6,626,389	46,119	686	5.2%	285	69	15.7%	19.5%	17.2%	3.0
Pool 2												
Original Pool	27,791	10,383,891	6,429,723	34,178	668	4.7%	319	77	11.0%	17.6%	12.9%	5.4
Recaptured Loans	6,598	—	1,259,767	6,624	732	4.4%	319	8	—	2.3 %	2.3 %	—
Recapture Agreements	5,969	—	—	—	—	—	—	—	—	—	—	—
	40,358	10,383,891	7,689,490	40,802	678	4.7%	319	66	9.2 %	15.1%	11.2%	4.5
Pool 3												
Original Pool	27,702	9,844,114	6,807,396	42,792	677	4.0%	285	101	42.0%	16.6%	12.6%	4.5
Recaptured Loans	4,128	—	788,237	4,841	722	4.4%	315	7	—	1.9 %	1.9 %	—
Recapture Agreements	6,065	—	—	—	—	—	—	—	—	—	—	—
	37,895	9,844,114	7,595,633	47,633	682	4.1%	288	91	37.6%	15.0%	11.5%	4.0
Pool 4												
Original Pool	12,466	6,250,549	4,720,539	23,804	678	3.3%	304	92	59.0%	13.3%	6.6 %	7.1
Recaptured Loans	1,139	—	219,506	1,131	736	4.5%	328	7	—	2.4 %	2.4 %	—
Recapture Agreements	3,897	—	—	—	—	—	—	—	—	—	—	—
	17,502	6,250,549	4,940,045	24,935	681	3.3%	305	89	56.4%	12.8%	6.4 %	6.8
Pool 5												
Original Pool (F)	141,693	47,572,905	35,780,280	155,613	658	4.3%	285	97	53.0%	10.5%	5.0 %	5.8
Recaptured Loans	274	—	43,680	185	755	3.8%	315	7	2.0 %	0.1 %	0.1 %	—

Recapture Agreements	5,735	—	—	—	—	—	—	—	—	—	—	—
	147,702	47,572,905	35,823,960	155,798	658	4.3%	285	97	52.9%	10.5%	5.0%	5.8
Pool 11 (direct portion)(G)												
Original Pool	—	—	—	—	—	—	—	—	—	—	—	—
Recaptured Loans	2,369	—	444,667	2,733	—	4.2%	306	8	—	1.0%	1.0%	—
Recapture Agreements	280	—	—	—	—	—	—	—	—	—	—	—
	2,649	—	444,667	2,733	—	4.2%	306	8	—	1.0%	1.0%	—
Pool 12												
Original Pool (F)	17,164	5,375,157	4,992,898	40,495	597	5.7%	311	100	33.0%	9.7%	2.9%	7.0
Recaptured Loans	16	—	6,031	44	684	4.3%	281	3	—	—	—	—
Recapture Agreements	328	—	—	—	—	—	—	—	—	—	—	—
	17,508	5,375,157	4,998,929	40,539	597	5.7%	311	100	33.0%	9.7%	2.9%	7.0
Pool 17												
Original Pool (F)	18,471	8,088,574	8,096,010	33,572	692	4.5%	258	98	44.0%	8.8%	6.8%	2.1
Recaptured Loans	—	—	429	2	777	4.3%	323	1	—	—	—	—
Recapture Agreements	598	—	—	—	—	—	—	—	—	—	—	—
	19,069	8,088,574	8,096,439	33,574	692	4.5%	258	98	44.0%	8.8%	6.8%	2.1
Pool 18												
Original Pool (F)	16,784	9,238,001	8,462,896	42,318	673	4.9%	241	108	50.0%	11.4%	8.0%	3.8
Recaptured Loans	1	—	530	4	698	5.0%	288	1	—	—	—	—
Recapture Agreements	775	—	—	—	—	—	—	—	—	—	—	—
	17,560	9,238,001	8,463,426	42,322	673	4.9%	241	108	50.0%	11.4%	8.0%	3.8
Total/Weighted Average	$341,704	$106,693,576	$84,678,978	434,455	663	4.5%	284	92	42.3%	12.0%	7.5%	4.8

Continued on next page.

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	Collateral Characteristics						
	Uncollected Payments (H)	Delinquency 30 Days (H)	Delinquency 60 Days (H)	Delinquency 90+ Days (H)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
Pool 1							
Original Pool	9.5 %	5.7 %	1.9 %	1.6 %	3.9 %	1.3 %	2.9 %
Recaptured Loans	0.6 %	0.5 %	0.1 %	0.2 %	0.1 %	—	0.1 %
Recapture Agreements	—	—	—	—	—	—	—
	7.3 %	4.4 %	1.4 %	1.2 %	2.9 %	1.0 %	2.2 %
Pool 2							
Original Pool	13.5 %	4.7 %	1.9 %	1.7 %	6.3 %	2.5 %	5.1 %
Recaptured Loans	0.9 %	0.6 %	0.1 %	0.1 %	0.1 %	—	0.2 %
Recapture Agreements	—	—	—	—	—	—	—
	11.5 %	4.1 %	1.6 %	1.5 %	5.3 %	2.1 %	4.3 %
Pool 3							
Original Pool	12.3 %	4.4 %	1.2 %	1.1 %	6.1 %	2.6 %	3.4 %
Recaptured Loans	0.6 %	0.8 %	0.1 %	—	—	—	0.2 %
Recapture Agreements	—	—	—	—	—	—	—
	11.1 %	4.0 %	1.1 %	1.0 %	5.5 %	2.3 %	3.1 %
Pool 4							
Original Pool	14.2 %	3.4 %	1.5 %	1.4 %	7.9 %	2.7 %	4.2 %
Recaptured Loans	0.6 %	0.5 %	0.1 %	—	—	—	0.1 %
Recapture Agreements	—	—	—	—	—	—	—
	13.6 %	3.3 %	1.4 %	1.3 %	7.6 %	2.5 %	4.0 %
Pool 5							
Original Pool (F)	22.5 %	10.1 %	2.2 %	4.4 %	11.9 %	2.4 %	4.7 %
Recaptured Loans	—	—	—	—	—	—	—
Recapture Agreements	—	—	—	—	—	—	—
	22.5 %	10.1 %	2.2 %	4.3 %	11.9 %	2.4 %	4.7 %
Pool 11 (direct portion)(G)							
Original Pool	—	—	—	—	—	—	—
Recaptured Loans	5.1 %	12.9 %	0.5 %	0.2 %	0.1 %	—	—
Recapture Agreements	—	—	—	—	—	—	—
	5.1 %	12.9 %	0.5 %	0.2 %	0.1 %	—	—
Pool 12							
Original Pool (F)	31.2 %	11.2 %	3.8 %	5.6 %	17.2 %	2.9 %	5.4 %
Recaptured Loans	46.3 %	46.3 %	—	—	—	—	—
Recapture Agreements	—	—	—	—	—	—	—
	31.2 %	11.2 %	3.8 %	5.6 %	17.2 %	2.9 %	5.4 %
Pool 17							
Original Pool (F)	17.1 %	12.4 %	2.2 %	1.5 %	8.4 %	1.5 %	3.5 %

Recaptured Loans	—	—	—	—	—	—	—
Recapture Agreements	—	—	—	—	—	—	—
	17.1%	12.4%	2.2%	1.5%	8.4%	1.5%	3.5%
Pool 18							
Original Pool (F)	25.0%	3.6%	1.2%	9.0%	10.8%	1.2%	4.9%
Recaptured Loans	—	—	—	—	—	—	—
Recapture Agreements	—	—	—	—	—	—	—
	25.0%	3.6%	1.2%	9.0%	10.8%	1.2%	4.9%
Total/Weighted Average	18.9%	7.8%	1.9%	3.6%	9.6%	2.1%	4.2%

(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) 1 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) 1 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) 1 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) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2014 (Note 6 to our consolidated financial statements included herein).

(G) A portion of our investment in Pool 11 was made as a direct investment, and the remainder was made as an investment through a joint venture accounted for as an equity method investee, the collateral of which is described in the chart below. The direct investment in Pool 11 includes loans that, upon refinancing by a third-party, became serviced by Nationstar and subject to a 67% Excess MSR owned by us.

(H) 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.

The following table summarizes the collateral characteristics as of March 31, 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 (A)**	**WA Coupon**	**WA Maturity (months)**	**Average Loan Age (months)**	**Adjustable Rate Mortgage % (B)**	**1 Mont CPR (C)**
Pool 6											
Original Pool	$40,851	$12,987,190	$8,648,504	33.3%	62,442	660	5.6%	298	61	—	33.3
Recaptured Loans	5,410	—	979,734	33.3%	5,957	713	3.8%	351	6	—	2.1
Recapture Agreements	9,165	—	—	33.3%	—	—	—	—	—	—	—
	55,426	12,987,190	9,628,238		68,399	665	5.4%	304	55	—	30.2
Pool 7											
Original Pool	88,368	37,965,199	28,326,818	33.3%	209,936	680	4.9%	284	91	23.0%	16.9
Recaptured Loans	10,922	—	2,247,368	33.3%	14,386	711	4.6%	300	4	—	1.8
Recapture Agreements	24,498	—	—	33.3%	—	—	—	—	—	—	—
	123,788	37,965,199	30,574,186		224,322	682	4.9%	285	84	21.3%	15.8
								—			
Pool 8								—			
	45,656	17,622,118	11,753,885	33.3%	80,594	691	5.2%	294	79	15.0%	22.4

Original Pool Recaptured Loans	8,750	—	1,793,347	33.3 %	10,192	726	4.6%	303	5	—	1.3
Recapture Agreements	13,050	—	—	33.3 %	—	—	—	—	—	—	—
	67,456	17,622,118	13,547,232		90,786	696	5.1%	295	69	13.0%	19.6
Pool 9											
Original Pool	120,987	33,799,700	28,871,283	33.3 %	218,603	681	5.0%	295	54	4.0 %	18.4
Recaptured Loans	4,889	—	833,693	33.3 %	5,419	630	4.4%	349	20	—	0.1
Recapture Agreements	31,743	—	—	33.3 %	—	—	—	—	—	—	—
	157,619	33,799,700	29,704,976		224,022	680	5.0%	297	53	3.9 %	17.9
Pool 10											
Original Pool (F)	194,485	75,574,361	66,564,742	33.3-38.5%	357,695	670	4.8%	259	100	50.0%	10.4
Recaptured Loans	86	—	17,646	33.3-38.5%	77	743	4.4%	276	2	5.0 %	—
Recapture Agreements	7,304	—	—	33.3-38.5%	—	—	—	—	—	—	—
	201,875	75,574,361	66,582,388		357,772	670	4.8%	259	100	50.0%	10.4
Pool 11 (indirect portion)(G)											
Original Pool	50,480	22,817,213	17,168,549	33.3 %	122,411	620	5.1%	295	73	4.0 %	13.7
Recaptured Loans	736	—	153,817	33.3 %	863	680	5.0%	317	3	—	1.8
Recapture Agreements	16,338	—	—	33.3 %	—	—	—	—	—	—	—
	67,554	22,817,213	17,322,366		123,274	621	5.1%	295	72	4.0 %	13.6
Total/ Weighted Average	$673,718	$200,765,781	$167,359,386		1,088,575	671	4.9%	280	81	25.9%	14.9

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	Collateral Characteristics						
	Uncollected Payments (H)	Delinquency 30 Days (H)	Delinquency 60 Days (H)	Delinquency 90+ Days (H)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
<u>Pool 6</u>							
Original Pool	10.0%	5.6 %	1.6 %	1.1 %	5.0 %	1.2 %	2.3 %
Recaptured Loans	0.8 %	0.7 %	0.2 %	0.2 %	0.1 %	0.0 %	0.1 %
Recapture Agreements	—	—	—	—	—	—	—
	9.7 %	5.4 %	1.6 %	1.1 %	4.8 %	1.1 %	2.2 %
Pool 7							
Original Pool	14.6%	3.8 %	1.0 %	1.6 %	8.6 %	1.9 %	3.8 %
Recaptured Loans	0.7 %	0.6 %	0.1 %	0.1 %	0.1 %	—	0.1 %
Recapture Agreements	—	—	—	—	—	—	—
	14.0%	3.7 %	1.0 %	1.6 %	8.3 %	1.9 %	3.7 %
Pool 8							
Original Pool	11.3%	3.6 %	1.2 %	1.7 %	5.6 %	1.6 %	3.7 %
Recaptured Loans	0.5 %	0.5 %	0.1 %	0.1 %	0.1 %	—	0.1 %
Recapture Agreements	—	—	—	—	—	—	—
	10.9%	3.4 %	1.2 %	1.6 %	5.2 %	1.5 %	3.4 %
Pool 9							
Original Pool	7.4 %	3.9 %	1.1 %	1.0 %	3.9 %	0.4 %	1.6 %
Recaptured Loans	5.9 %	1.9 %	1.1 %	3.8 %	0.1 %	—	0.1 %
Recapture Agreements	—	—	—	—	—	—	—
	7.4 %	3.9 %	1.1 %	1.1 %	3.9 %	0.4 %	1.5 %
Pool 10							
Original Pool (F)	27.4%	5.3 %	1.7 %	9.7 %	14.7 %	1.6 %	4.9 %
Recaptured Loans	—	—	—	—	—	—	—
Recapture Agreements	—	—	—	—	—	—	—
	26.3%	5.3 %	1.7 %	9.7 %	14.7 %	1.6 %	4.9 %
Pool 11 (indirect portion)(G)							
Original Pool	13.9%	13.2 %	1.9 %	2.1 %	5.6 %	1.6 %	2.5 %
Recaptured Loans	0.7 %	1.3 %	—	—	0.1 %	—	0.1 %
Recapture Agreements	—	—	—	—	—	—	—
	13.4%	13.2 %	1.9 %	2.1 %	5.5 %	1.6 %	2.5 %
Total/Weighted Average	16.5%	5.4 %	1.4 %	4.4 %	8.9 %	1.4 %	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.

(B) Adjustable Rate Mortgage % represents the percentage of the total principal balance of the pool that corresponds to adjustable rate mortgages.

(C)

1 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.

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(D) 1 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) 1 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) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2014 (Note 6 to our consolidated financial statements included herein).

(G) A portion of our investment in Pool 11 was made as a direct investment and the remainder was made as an investment through a joint venture accounted for as an equity method investee, the collateral of which is described in the chart above.

(H) 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 MSRs 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 MSRs related to these loans, which are in Pools 10, 17 and 18. See above "—Our Portfolio—Servicing Related Assets—Excess MSRs." 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 March 31, 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 MSRs, made by the Buyer, which we consolidate (dollars in thousands):

	March 31, 2014				Three Months Ended March 31, 2014
	Amortized Cost Basis	Carrying Value (A)	Weighted Average Yield	Weighted Average Life (Years)(B)	Change in Fair Value Recorded in Other Income
Servicer Advances	$3,457,385	$3,457,385	5.8 %	3.2	—

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

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

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The following is additional information regarding the servicer advances, and related financing, of the Buyer, which we consolidate as of March 31, 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 Gross	Loan-to-Value Net (A)	Cost of Funds (B) Gross	Cost of Funds (B) Net
Servicer advances (C)	$79,687,268	$3,430,473	4.3 %	$3,142,292	91.6 %	90.6 %	3.0%	2.2%

(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:

	March 31, 2014
Principal and interest advances	$1,615,067
Escrow advances (taxes and insurance advances)	1,393,014
Foreclosure advances	422,392
Total	$3,430,473

	As of 12/31/13	As of 03/31/14	As of 5/5/2014 (D)
Advances Purchased	$2,687,813	$4,252,654	$4,870,156
Activity Since Purchase	(26,683)	(822,181)	(1,073,851)
Ending Advance Balance	$2,661,130	$3,430,473	$3,796,305
Net Debt (A)	$2,357,440	$3,107,685	$3,435,858
Total Equity Invested (B)	$363,324	$587,574	$674,009
Distributions Since Purchase	$—	$172,732	$172,732
Net Equity Invested (B)	$363.324	$414,842	$501,277
New Residential's Equity % in Buyer (C)	31.8 %	33.5 %	42.2 %
Co-investors' Equity % in Buyer (C)	68.2 %	66.5 %	57.8 %

(A) Outstanding debt net of restricted cash.
(B) Includes working capital.

(C) Based on cash basis equity.
(D) Includes new capital contribution of $86 million on May 2, 2014.

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 MSRs, 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. As of March 31, 2014, the remaining outstanding balance of the advances subject to the Call Right was approximately $1.4 billion and the UPB of the related loans was approximately $42.8 billion (an approximately $750 million balance of the advances, with a UPB of the related loans of approximately $30.8 billion, were outstanding as of May 5, 2014). We previously acquired an interest in the Excess MSRs related to these loans, which are in Pools 5, 10 and 12. See above “—Our Portfolio—Servicing Related Assets—Excess MSRs.” The Cal Right expires on June 30, 2014.

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 as of the exercise dates, February 28, 2014 and March 7, 2014. On May 2, 2014, $617.5 of the remaining portion of the outstanding balance of the servicer advances subject to the Call Right was exercised. If the Buyer exercises the Call Right in full, it expects to fund the total purchase price with approximately $2.5 billion of debt and $0.3 billion of equity, excluding working capital. As of March 31, 2014, the Buyer has settled $1.1 billion of advances related to Transaction 2, which was financed with approximately $0.9 billion of debt.

The remaining balance of the Call Right is expected to be settled in the second quarter of 2014. There can be no assurance that the remainder of the Call Right will be settled. The servicer advances subject to the Call Right cannot be purchased unless and until the related financings are repaid or renegotiated or until the related collateral is released in accordance with the terms of such financings (which would require the consent of various third parties.) For more information about the financing, see “—Liquidity and Capital Resources—Debt Obligations.”

The Buyer

We, through a wholly owned subsidiary, are the managing member of the Buyer. As of March 31, 2014, we owned approximately 33.5% of the Buyer, which corresponds to a $139.0 million equity investment (net of distributions). On May 2, 2014, we have funded another $86.4 million and have brought our current ownership to approximately 42%. At the expiry of the Call Right and the settlement of the associated advances, we expect to own approximately 45-50% of the Buyer. As noted above, there can be no assurance that the Call Right will be settled in full.

The following is a summary of our interests in the Buyer’s equity:

	March 31, 2014
Required equity (A)(B)	$508,539
Working capital (A)(B)	79,035
Other	12,994
Distributions	(172,732)
Total GAAP equity (B)	$427,836
GAAP equity attributable to New Residential	$143,501
New Residential’s GAAP ownership	33.5 %

(A) Equity on which the Buyer applies its specified return.
(B) Capital held at the Buyer to invest in additional servicer advances and provide compensating balances for financing facilities.

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 March 31, 2014 is equal to approximately 9.2%, which is equal to (i) 2 basis points divided by (ii) the basic fee, which is 21.8 basis points on a weighted average basis as of March 31, 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.

Residential Securities and Loans

Real Estate Securities

As of March 31, 2014, we had approximately $2.9 billion face amount of real estate securities, including $1.1 billion of Agency ARM RMBS and $1.8 billion of Non-Agency RMBS. These investments were financed with repurchase agreements with an aggregate face amount of approximately $1.1 billion for Agency ARM RMBS and approximately $883.0 million for Non-Agency RMBS. As of March 31, 2014, a total face amount of $900.0 million of our Non-Agency portfolio was serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately $12.2 billion as of March 31, 2014.

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 represent 75% of the mezzanine and subordinate tranches of a securitization previously sponsored by Springleaf. The securitization, including the purchased securities, is collateralized by residential mortgage loans with a face amount of approximately $0.9 billion.

Subsequent to March 31, 2014, we acquired Agency ARM RMBS with an aggregate face amount of approximately $223.9 million for approximately $238.1 million, financed with repurchase agreements. Furthermore, we acquired Non-Agency RMBS with an aggregate face amount of approximately $50.7 million for approximately $14.2 million, financed with repurchase agreements. We sold no Agency ARM RMBS and sold Non-Agency RMBS with a face amount of $207.1 million and an amortized cost basis of approximately $138.5 million for approximately $145.0 million and recorded a gain of $6.5 million.

Agency ARM RMBS

The following table summarizes our Agency ARM RMBS portfolio as of March 31, 2014 (dollars in thousands):

Asset Type	Outstanding Face Amount	**Amortized Cost Basis(A)**	Gross Unrealized Gains	Gross Unrealized Losses	**Carrying Value(A)(B)**	Outstanding Repurchase Agreements
Agency ARM RMBS	$1,085,447	$1,153,504	$4,131	$(3,579)	$1,154,057	$1,117,592

(A) Amortized cost basis and carrying value exclude $8.6 million of principal receivables as of March 31, 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 March 31, 2014 (dollars in thousands):

Months to Next Reset (A)	**Number of Securities**	**Outstanding Face Amount**	**Amortized Cost Basis (B)**	**Percentage of Total Amortized Cost Basis**	**Carrying Value (B)**	**Weighted Average Coupon**	**Margin**	**Periodic Cap 1st Coupon Adjustment (C)**	**Periodic Cap Subsequent Coupon Adjustment (D)**	**Lifetime Cap (E)**	**Months to Reset (F)**
1 - 12	78	$673,603	$716,617	62.1 %	$716,720	3.0%	1.8%	N/A(G)	2.0%	9.8%	7
13 - 24	26	294,346	312,778	27.1 %	313,264	3.4%	1.8%	5.0 %	2.0%	8.5%	17
25 - 36	5	117,498	124,109	10.8 %	124,073	3.3%	1.8%	5.0 %	2.0%	8.3%	25
Total/Weighted Average	109	$1,085,447	$1,153,504	100.0%	$1,154,057	3.2%	1.8%	5.0 %	2.0%	9.3%	12

(A) Of these investments, 89.0% reset based on 12 month LIBOR index, 2.1% reset based on 6 month LIBOR Index, 0.5% reset based on 1 month LIBOR, and 8.4% reset based on the 1 year Treasury Constant Maturity Rate. After the initial fixed period, 97.4% of these securities will reset annually and 2.6% will reset semi-annually.
(B) Amortized cost basis and carrying value exclude $8.6 million of principal receivables as of March 31, 2014.
(C) Represents the maximum change in the coupon at the end of the fixed rate period.
(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.

(G) Not applicable as 57 of the securities (66% of the current face of this category) are past the first coupon adjustment period. The remaining 21 securities (34% of the current face of this category) have a maximum change in the coupon of 5.0% at the end of the fixed rate period.

The following table summarizes the characteristics of our Agency ARM RMBS portfolio and of the collateral underlying our Agency ARM RMBS as of March 31, 2014 (dollars in thousands):

	Agency ARM 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	26	$ 139,853	$ 148,236	12.9 %	$ 149,105	5.4	10.5 %
2006	6	30,538	32,699	2.8 %	32,646	4.1	19.4 %
2007	15	79,151	84,199	7.3 %	84,266	4.8	21.3 %
2008	8	62,054	65,776	5.7 %	66,146	6.7	6.6 %
2009	8	70,296	75,452	6.5 %	75,264	3.8	19.9 %
2010	27	324,083	344,591	29.9 %	344,660	3.9	25.4 %
2011	14	229,801	242,861	21.1 %	243,082	3.8	18.6 %
2012 and later	5	149,671	159,690	13.8 %	158,888	3.8	21.8 %
Total/Weighted Average	109	$ 1,085,447	$ 1,153,504	100.0 %	$ 1,154,057	4.3	19.6 %

(A) The year in which the securities were issued.
(B) Amortized cost basis and carrying value exclude $8.6 million of principal receivables as of March 31, 2014.
(C) Three month average constant prepayment rate.

The following table summarizes the net interest spread of our Agency ARM RMBS portfolio as of March 31, 2014:

Net Interest Spread (A)	
Weighted Average Asset Yield	1.53 %
Weighted Average Funding Cost	0.34 %
Net Interest Spread	1.19 %

(A) The entire Agency ARM RMBS portfolio consists of floating rate securities. See table above for details on rate resets.

Non-Agency RMBS

The following table summarizes our Non-Agency RMBS portfolio as of March 31, 2014 (dollars in thousands):

Asset Type	Gross Unrealized Gains	Gross Unrealized Losses

	Outstanding Face Amount	Amortized Cost Basis			**Carrying Value**(A)	Outstanding Repurchase Agreements
Non-Agency RMBS (B)	$1,573,433	$1,171,035	$14,902	$(5,586)	$1,180,351	$ 883,002
Other ABS	207,431	2,160	60	—	2,220	—
Non-Agency RMBS	$1,780,864	$1,173,195	$14,962	$(5,586)	$1,182,571	$ 883,002

(A) Fair value, which is equal to carrying value for all securities.
(B) Excludes Other ABS securities representing 0.2% of the carrying value of the Non-Agency RMBS portfolio.

The following tables summarize the characteristics of our Non-Agency RMBS portfolio and of the collateral underlying our Non-Agency RMBS as of March 31, 2014 (dollars in thousands):

Non- Agency RMBS Characteristics (A)

Vintage (B)	Average Minimum Rating (C)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (D)	Excess Spread (E)	Weighted Average Life (Years)
Pre 2004	CCC	50	$86,634	$59,099	5.0 %	$60,681	17.4 %	1.9 %	6.3
2004	D	16	85,709	64,986	5.5 %	67,272	18.3 %	3.6 %	9.7
2005	C	10	131,080	102,163	8.7 %	102,585	10.5 %	2.0 %	10.0
2006	C	20	358,589	225,620	19.4 %	226,240	2.5 %	3.6 %	15.0
2007 and later	CCC	24	911,421	719,167	61.4 %	723,573	19.9 %	2.1 %	5.8
Total/Weighted Average	CC	120	$1,573,433	$1,171,035	100.0 %	$1,180,351	14.9 %	2.5 %	8.5

Vintage (B)	Collateral Characteristics (A)(F)				
	Average Loan Age (years)	Collateral Factor (G)	3 month CPR (H)	Delinquency (I)	Cumulative Losses to Date
Pre 2004	11.9	0.06	9.3 %	14.1 %	3.4 %
2004	9.8	0.07	9.5 %	17.9 %	3.7 %
2005	10.7	0.14	8.7 %	19.0 %	10.3 %
2006	7.9	0.23	9.8 %	30.9 %	25.8 %
2007 and later	8.3	0.45	13.7 %	8.4 %	13.6 %
Total / WA	8.7	0.33	11.9 %	15.2 %	15.0 %

(A) Excludes Other ABS securities representing 0.2% of the carrying value of the Non-Agency RMBS portfolio.
(B) The year in which the securities were issued.
(C) 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 four bonds which are no longer rated and four 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 March 31, 2014.
(D) The percentage of the outstanding face amount of securities and residual interests that is subordinate to our investments.
(E) 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 March 31, 2014.
(F) The weighted average loan size of the underlying collateral is $181.8 thousand. This excludes the collateral underlying one bond, due to unavailable information.
(G) The ratio of original UPB of loans still outstanding.
(H) Three month average constant prepayment rate and default rates.
(I) 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 March 31, 2014 (dollars in thousands):

Geographic Location (A)	Outstanding Face Amount	Percentage of Total Outstanding
Western U.S.	$452,630	28.8 %
Southeastern U.S.	437,365	27.8 %
Northeastern U.S.	301,484	19.1 %
Midwestern U.S.	248,757	15.8 %
Southwestern U.S.	93,646	6.0 %
Other (B)	39,551	2.5 %
	$1,573,433	100.0 %

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(A) Excludes Other ABS securities representing 0.2% of the carrying value of the Non-Agency RMBS portfolio.
(B) 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 March 31, 2014:

Net Interest Spread (A)	
Weighted Average Asset Yield	4.65%
Weighted Average Funding Cost	1.98%
Net Interest Spread	2.67%

(A) The Non-Agency RMBS portfolio consists of 76.1% floating rate securities and 23.9% fixed rate securities. Excludes Other ABS securities representing 0.2% of the carrying value of the Non-Agency RMBS portfolio.

Real Estate Loans

Residential Mortgage Loans

As of March 31, 2014, we had approximately $57.8 million outstanding face amount of residential mortgage loans. In February 2013, we invested approximately $35.1 million to acquire a 70% interest in the mortgage loans. Nationstar co-invested pari passu with us in 30% of the 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.

In the fourth quarter of 2013, we invested approximately $92.7 million in a pool of residential mortgage loans with a UPB of approximately $170.1 million. The investment was financed with $60.1 million under a $300.0 million master repurchase agreement with RBS. On March 28, 2014, we invested approximately $3.8 million in a pool of residential mortgage loans with a UPB of approximately $7.0 million. The investment was financed with a $2.5 million master repurchase agreement with RBS. These acquisitions are accounted for as “linked transactions” (derivatives), as described in Note 10 to our consolidated financial statements included in this report.

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. To finance this purchase, 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. This acquisition is accounted for as a linked transaction, as described in Note 10 to our consolidated financial statements included in this report.

On April 8, 2014, we agreed to purchase from an affiliate of Natixis a portfolio of non-performing and re-performing residential mortgage loans with a UPB of approximately $93 million for a price of approximately $67 million. We expect to finance approximately 70% of the purchase price with a repurchase agreement. The purchase is expected to settle in the second quarter of 2014, although there can be no assurance that the transaction will be completed as expected or at all.

On April 11, 2014, we agreed to purchase from JPMorgan Chase Bank, N.A. a portfolio of non-performing residential mortgage loans with a UPB of approximately $525 million for a price of approximately $392 million. We expect to finance approximately 75% of the purchase price with a repurchase agreement. The purchase is expected to settle in the second quarter of 2014, although there can be no assurance that the transaction will be completed as expected or at all.

The following table summarizes the characteristics of our reverse mortgage loans as of March 31, 2013 (dollars in thousands):

	Outstanding Face Amount	Loan Count	Weighted Average Coupon (A)	Weighted Average Maturity (Years) (B)	Floating Rate as a % of Face Amount
Reverse Mortgage Loans (C)	$ 57,818	321	5.1 %	3.6	21.7 %

(A) Represents the stated interest rate on the loans. Accrued interest on reverse mortgage loans is generally added to the principal balance and paid when the loan is resolved.
(B) The weighted average maturity is based on the timing of expected principal reduction on the assets.
(C) 80% of these loans have reached a termination event. As a result, the borrower can no longer make draws on these loans.

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 ($1.4 billion outstanding as of March 31, 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 of asset-backed notes for 96% of par. These notes are subordinate to the debt issued in April 2013, have a maturity of December 2024, and pay a coupon of 4%.

Subsequent to March 31, 2014, we paid down approximately $7.5 million of the master repurchase agreement secured by our ownership interest in the consumer loan companies.

The table below summarizes the collateral characteristics of the consumer loans as of March 31, 2014 (dollars in thousands):

Collateral Characteristics													
UPB	Personal Unsecured Loans %	Personal Homeowner Loans %	Number of Loans	Weighted Average Original FICO Score	Weighted Average Coupon	Adjustable Rate Loan %	Average Loan Age (months)	Average Expected Life (Years)	Delinquency 30 Days (B)	Delinquency 60 Days (B)	Delinquency 90+ Days (B)	3 Month Weighted Average Charge-	3 Month CRR (D)

					(A)								off Rate (C)	
Consumer Loans	$3,098,138	67.5%	32.5%	323,570	634	18.1%	10.3%	106	3.2	3.4%	1.9%	5.1%	9.6%	15.4%

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

(B) 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.

(C) 3 Month weighted average charge-off rate represents the loans charged-off during the three months as a percentage of total principal balance of the pool.

(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.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our 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 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 MSRs

Upon acquisition, we elected to record each investment in Excess MSRs at fair value. We elected to record our investments in Excess MSRs 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 MSRs.

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 MSRs are categorized as Level 3 under the GAAP hierarchy. The inputs used in the valuation of Excess MSRs 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 MSRs 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 MSRs acquired prior to the current quarter, the fairness opinion relates to the valuation at the current quarter end date. For Excess MSRs 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 MSRs acquired during the current quarter, we revalue the Excess MSRs at the quarter end date if a payment is received between the acquisition date and the end of the quarter. Otherwise, Excess MSRs 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 MSRs are aggregated into pools as applicable; each pool of Excess MSRs is accounted for in the aggregate. Interest income for Excess MSRs is accreted using an effective yield or “interest” method, based upon the expected income from the Excess MSRs 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 MSRs in existing eligible underlying mortgages.

Under the fair value election, the difference between the fair value of Excess MSRs 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 tables summarize the estimated change in fair value of our interests in the Excess MSRs owned directly as of March 31, 2014 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

Fair value at March 31, 2014	$341,704			
Discount rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$373,543	$356,846	$327,908	$315,297
Change in estimated fair value:				
Amount	$31,838	$15,141	$(13,797)	$(26,408)
%	9.3%	4.4%	-4.0%	-7.7%
Prepayment rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$370,632	$355,661	$328,659	$316,454
Change in estimated fair value:				
Amount	$28,927	$13,956	$(13,046)	$(25,251)
%	8.5%	4.1%	-3.8%	-7.4%
Delinquency rate shift in %	-20%	-10%	10%	20%

Estimated fair value	$345,985	$343,842	$339,558	$337,415
Change in estimated fair value:				
Amount	$4,280	$2,137	$(2,147)	$(4,290)
%	1.3 %	0.6 %	-0.6 %	-1.3 %

Recapture rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$335,264	$338,449	$344,809	$347,727
Change in estimated fair value:				
Amount	$(6,441)	$(3,256)	$3,104	$6,022
%	-1.9 %	-1.0 %	0.9 %	1.8 %

The following tables summarize the estimated change in fair value of our interests in the Excess MSRs owned through equity method investees as of March 31, 2014 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

Fair value at March 31, 2014	$338,307			
Discount rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$371,364	$353,980	$324,049	$311,088
Change in estimated fair value:				
Amount	$33,057	$15,673	$(14,258)	$(27,219)
%	9.8 %	4.6 %	-4.2 %	-8.0 %
Prepayment rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$365,567	$351,470	$325,927	$314,324
Change in estimated fair value:				
Amount	$27,260	$13,163	$(12,380)	$(23,983)
%	8.1 %	3.9 %	-3.7 %	-7.1 %
Delinquency rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$343,836	$341,060	$335,509	$332,736
Change in estimated fair value:				
Amount	$5,529	$2,753	$(2,798)	$(5,571)
%	1.6 %	0.8 %	-0.8 %	-1.6 %
Recapture rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$327,204	$332,685	$344,009	$349,860
Change in estimated fair value:				
Amount	$(11,103)	$(5,622)	$5,702	$11,553
%	-3.3 %	-1.7 %	1.7 %	3.4 %

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 MSRs," 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 $700.0 million per year on average over the weighted average life of the investment held as of March 31, 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 ARM 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.

Real Estate 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 consolidated balance sheet at cost net of any unamortized discount (or gross of any unamortized premium). We determine at acquisition whether loans will be aggregated into pools based on common risk characteristics (credit quality, loan type, and date of origination or acquisition); loans aggregated into pools are accounted for as if each pool were a single loan.

Income on these loans is recognized similarly to that on our securities using a level yield methodology and is subject to similar uncertainties and contingencies, which are also analyzed on at least a quarterly basis.

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 Consolidated Statements of Income.

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.

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 MSRs. 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 May 5, 2014, we owned an approximately 42% 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 Consolidated Statements of Income. Equity method investments are included in “Investments in consumer loans, equity method investees” on the 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 MSRs 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 MSRs at fair value. The equity method investees have also elected to measure their investments in Excess MSRs at fair value.

Income Taxes

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. Our investments through TRSs did not generate any material taxable income in 2013.

RECENT ACCOUNTING PRONOUNCEMENTS

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, financial statement presentation, revenue recognition, 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 months ended March 31, 2014 compared to the three months ended March 31, 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 March 31,		Increase (Decrease)	
	2014	2013	Amount	%
Interest income	$71,490	$16,191	$55,299	341.5 %
Interest expense	38,997	899	38,098	4237.8 %
Net Interest Income	32,493	15,292	17,201	112.5 %
Impairment				
Other-than-temporary impairment (“OTTI”) on securities	328	—	328	N.M.
Valuation allowance on loans	164	—	164	N.M.
	492	—	492	N.M.
Net interest income after impairment	32,001	15,292	16,709	109.3 %
Other Income				
Change in fair value of investments in excess mortgage servicing rights	6,602	1,858	4,744	255.3 %
Change in fair value of investments in excess mortgage servicing rights, equity method investees	6,374	969	5,405	557.8 %
Earnings from investments in consumer loans, equity method investees	16,360	—	16,360	N.M.
Gain on settlement of securities	4,357	—	4,357	N.M.
Other income	1,357	—	1,357	N.M.
	35,050	2,827	32,223	1139.8 %
Operating Expenses				
General and administrative expenses	2,075	2,719	(644)	-23.7 %
Management fee allocated by Newcastle	—	2,325	(2,325)	-100.0 %
Management fee to affiliate	4,486	—	4,486	N.M.
Incentive compensation to affiliate	3,338	—	3,338	N.M.
	9,899	5,044	4,855	N.M.
Income (Loss) Before Income Taxes	57,152	13,075	44,077	337.1 %
Income tax expense	287	—	287	N.M.
Net Income (Loss)	$56,865	$13,075	$43,790	334.9 %
Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries	$8,093	$—	$8,093	N.M.
Net Income (Loss) Attributable to Common Shareholders	$48,772	$13,075	$35,697	273.0 %

Interest Income

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

Interest income increased by $55.3 million primarily due to increases in interest income as a result of new investments in servicing related assets and real estate securities.

Interest Expense

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

Interest expense increased by $38.1 million due to repurchase agreements and notes payable financing entered into since March 2013 on our servicer advances, real estate securities and loans, and other investments.

Other than Temporary Impairment ("OTTI") on Securities

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

The other-than-temporary impairment on securities increased by $0.3 million due to the recognition of impairment on certain of our Non-Agency RMBS securities during the three months ended March 31, 2014.

Valuation Allowance on Loans

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

The valuation allowance on loans increased by $0.2 million due to the recognition of loan losses on our residential mortgage loans during the three months ended March 31, 2014.

Change in Fair Value of Investments in Excess Mortgage Servicing Rights

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

The change in fair value of investments in excess mortgage servicing rights increased $4.7 million due to the acquisition of new investments in 2013 and 2014 and subsequent net increases in value.

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

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

The change in fair value of investments in excess mortgage servicing rights, equity method investees increased $5.4 million due to the acquisition of these investments in 2013 and subsequent net increases in value.

Earnings from Investments in Consumer Loans, Equity Method Investees

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

Earnings from investments in consumer loans, equity method investees increased $16.4 million due to the acquisition of these investments in the second quarter of 2013 and subsequent income recognized by the investees.

Gain on Settlement of Securities

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

Gain on settlement of securities increased by $4.3 million due to the sale of Agency ARM RMBS and Non-Agency RMBS during the three months ended March 31, 2014.

Other Income

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

Other income increased by $1.4 million primarily due to an unrealized gain on derivatives and linked transactions accounted for as derivatives during the three months ended March 31, 2014.

General and Administrative Expenses

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

General and administrative expenses decreased by $0.6 million primarily due to a non-recurring deal expense of $2.0 million related to our investment in consumer loans, equity method investees that was incurred during the three months ended March 31, 2013, partially offset by an increase in expenses incurred to maintain and monitor our increasing asset base.

Management Fee Allocated by Newcastle

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

Management fee allocated by Newcastle decreased $2.3 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 March 31, 2014 compared to the three months ended March 31, 2013.

Management fee to affiliate increased $4.5 million as a result of the management agreement becoming effective on May 15, 2013.

Incentive Compensation to Affiliate

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

Incentive compensation to affiliate increased $3.3 million as a result of the management agreement becoming effective on May 15, 2013 and subsequent investment performance.

Income Tax Expense

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

Income tax expense increased $0.3 million due to the acquisition of servicer advances held in a taxable subsidiary in the fourth quarter of 2013 and subsequent taxable income recognized.

Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries

Three months ended March 31, 2014 compared to the three months ended March 31, 2013.

Noncontrolling interest in income (loss) of consolidated subsidiaries increased $8.1 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 March 31, 2014, we had outstanding repurchase agreements with an aggregate face amount of approximately $142.5 million to finance our ownership interest in each of the consumer loan companies, approximately $883.0 million to finance $1.5 billion face amount of Non-Agency RMBS and approximately $1.1 billion to finance $1.1 billion face amount of Agency ARM 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 ARM RMBS to between 15% and 40% for Non-Agency RMBS. 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 March 31, 2014, we have sufficient liquid assets, which include unrestricted cash and Agency ARM 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) unrealized gains or losses on our Excess MSRs owned directly and through equity method investees, (iii) the difference between (a) accretion and unrealized gains and losses recorded with respect to our servicer advance investments and (b) cash received therefrom, and

(iv) 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:

March 31, 2014 (A)

Debt Obligations/ Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Weighted Average Funding Cost	Weighted Average Life (Years)	Collateral Outstanding Face	Amortized Cost Basis	Carrying Value	Wei Ave Life (Yea
Repurchase Agreements (B)										
Agency ARM RMBS (C)	Various	$1,117,592	$1,117,592	Jun-14	0.34 %	0.3	$1,085,447	$1,153,504	$1,154,057	4.3
Non-Agency RMBS (D)	Various	883,002	883,002	Apr-14 to Oct-14	1.98 %	0.1	1,501,192	1,156,794	1,163,721	8.8
Consumer Loans (E)	Jan-14	142,500	142,500	Jun-14	4.16 %	0.3	N/A	N/A	231,422	3.2
Total Repurchase Agreements		2,143,094	2,143,094		1.27 %	0.2				
Notes Payable										
Secured Corporate Loan (F)	Dec-13	69,055	69,055	May-14	4.16 %	0.2	35,823,960	124,379	147,702	6.0
Servicer Advances (G)	Various	3,142,292	3,142,292	Sep-14 to Mar-17	3.01 %	1.2	3,430,473	3,457,385	3,457,385	3.2
Residential Mortgage Loans (H)	Dec-13	23,458	23,458	Sep-14	3.41 %	0.5	57,818	34,045	34,045	3.6

Total Notes Payable	3,234,805	3,234,805	3.03	%	1.1
Total	$5,377,899	$5,377,899	2.33	%	0.8

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

(B) These repurchase agreements had approximately $0.7 million of associated accrued interest payable as of March 31, 2014.

(C) The counterparties of these repurchase agreements are Mizuho ($160.8 million), Morgan Stanley ($160.5 million), Daiwa ($315.0 million) and Jefferies ($481.3 million) and were subject to customary margin call provisions.

(D) The counterparties of these repurchase agreements are Barclays ($34.7 million), Credit Suisse ($132.3 million), Royal Bank of Scotland ($42.5 million), Bank of America ($459.9 million), Goldman Sachs ($83.3 million), UBS ($74.6 million) and Royal Bank of Canada ($55.7 million) and were subject to customary margin call provisions. All of the Non-Agency repurchase agreements have LIBOR-based floating interest rates. Includes $103.2 million borrowed under a master repurchase agreement, which bears interest at one-month LIBOR plus 1.75%.

(E) The repurchase agreement is payable to Credit Suisse and bears interest equal to one-month LIBOR plus 4.0%.

(F) The loan bears interest equal to one-month LIBOR plus 4.0%. The outstanding face of the collateral represents the UPB of the residential mortgage loans underlying the Excess MSRs that secure this corporate loan.

(G) The notes bore interest equal to the sum of (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 2.5%.

(H) 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 following table provides additional information regarding our short-term borrowings (dollars in thousands). All of the Agency ARM RMBS repurchase agreements and $792.6 million face amount of the Non-Agency RMBS repurchase agreements have full recourse to us, while $90.4 million face amount of the Non-Agency RMBS repurchase agreements is non-recourse debt. The weighted average differences between the fair value of the assets and the face amount of available financing for the Agency ARM RMBS repurchase agreements and Non-Agency RMBS repurchase agreements were 4.0% and 24.0%, respectively, during the three months ended March 31, 2014. Additional short-term borrowings are noted in the table and descriptions below.

	Three Months March 31, 2014 (A)			
	Outstanding Balance at March 31, 2014	Average Daily Amount Outstanding (B)	Maximum Amount Outstanding	Weighted Average Daily Interest Rate
Repurchase Agreements				
Agency ARM RMBS	$ 1,117,592	$ 1,192,924	$ 1,332,954	0.37 %
Non-Agency RMBS	883,002	516,675	883,002	1.90 %
Consumer Loans	142,500	149,726	150,000	4.16 %
Notes Payable				
Secured Corporate Loan	69,055	71,839	75,000	4.16 %
Servicer Advances	2,644,492	2,817,373	3,386,396	2.29 %
Residential Mortgage Loans	23,458	22,943	23,458	3.41 %
Total/Weighted Average	$ 4,880,099	$ 4,771,480	$ 5,850,810	1.86 %

(A) Note this excludes debt related to linked transactions. See Note 10 to the consolidated financial statements included in this report for additional information on linked transactions.
(B) Represents the average for the period the debt was outstanding.

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 2.10% and maturing in May 2016. As of May 2, 2014, the principal balance of this note was approximately $580.5 million.

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 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 January 8, 2014, we financed all of our ownership interest in each of the Consumer Loan Companies under a $150.0 million master repurchase agreement with Credit Suisse Securities (USA) LLC, which matures on June 30, 2014. Borrowings under the facility bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 4.00%. The facility contains customary covenants and event of default provisions.

Maturities

Our debt obligations as of March 31, 2014, as summarized in Note 11 to our consolidated financial statements, had contractual maturities as follows (in thousands):

Year	**Nonrecourse**	Recourse (A)	**Total**
April 1 through December 31, 2014	$ 1,633,561	$ 2,145,202	$ 3,778,763
2015	1,101,336	—	1,101,336
2016	—	—	—
2017	497,800	—	497,800
	$ 3,232,697	$ 2,145,202	$ 5,377,899

(A) Excludes recourse debt related to linked transactions. Refer to Note 10 to our consolidated financial statements included herein.

Borrowing Capacity

The following table represents our borrowing capacity as of March 31, 2014:

Debt Obligations/ Collateral	Collateral Type	Borrowing Capacity	Balance Outstanding	Available Financing
Repurchase Agreements				
Residential Mortgage Loans (A)	Real Estate Loans	$ 300,000	$ 59,190	$ 240,810
Notes Payable				
Secured Corporate Loan	Excess MSRs	75,000	69,055	5,945
Servicer Advances (B)	Servicer Advances	4,647,900	3,142,292	1,505,608
		$ 5,022,900	$ 3,270,537	$ 1,752,363

(A) Financing related to linked transaction. See Note 10 to the consolidated financial statements included in this report for additional information on linked transactions.

(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 March 31, 2014.

Stockholders' Equity

Common Stock

Approximately 5.3 million shares of our common stock were held by Fortress, through its affiliates, and its principals as of March 31, 2014.

As of March 31, 2014, our outstanding options corresponding to Newcastle options issued prior to 2011 had a weighted average strike price of $15.49 and our outstanding options corresponding to Newcastle options issued in 2011, 2012 and 2013 (as well as options issued by us to our directors in 2013) had a weighted average strike price of $4.16. Our outstanding options as of March 31, 2014 were summarized as follows:

	March 31, 2014		
	Issued Prior to 2011	Issued in 2011 - 2014	Total
Held by the Manager	1,257,305	13,975,333	15,232,638
Issued to the Manager and subsequently transferred to certain of the Manager’s employees	446,470	4,711,000	5,157,470
Issued to the independent directors	2,000	10,000	12,000
Total	1,705,775	18,696,333	20,402,108

In April 2014, we issued 27,750,000 shares of our common stock in a public offering at a price to the public of $6.10 per share for net proceeds of approximately $164.1 million. One of our executive officers participated in this offering and purchased an additional 1,000,000 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 2,875,000 shares of our common stock at a price of $6.10, 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.

Subsequent to March 31, 2014, an employee of the Manager exercised 215,000 options with a weighted average exercise price of $2.81 on May 7, 2014. Upon exercise, 215,000 shares of our common stock were issued.

<u>Accumulated Other Comprehensive Income (Loss)</u>

During the three months ended March 31, 2014, our accumulated other comprehensive income (loss) changed due to the following factors (in thousands):

	Total Accumulated Other Comprehensive Income
Accumulated other comprehensive income, December 31, 2013	$ 3,214
Net unrealized gain (loss) on securities	10,878
Reclassification of net realized (gain) loss on securities into earnings	(4,164)
Accumulated other comprehensive income, March 31, 2014	$ 9,928

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 three months ended March 31, 2014, we recorded unrealized gains on our real estate securities primarily caused by a net tightening of credit spreads. We recorded OTTI charges of $0.3 million with respect to real estate securities and realized gains of $4.5 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	$0.175

Cash Flow

<u>Operating Activities</u>

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 increased approximately $2.1 million for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013 as New Residential did not have a cash balance as of March 31, 2013. Operating cash flows for the three months ended March 31, 2014 primarily consisted of net interest income received of $14.4 million and distributions of earnings from equity method investees of $11.9 million, partially offset by incentive compensation and management fees paid to the Manager of $18.8 million, additional restricted cash of $1.3 million and other outflows of approximately $4.1 million that primarily consists of general and administrative costs.

<u>Investing Activities</u>

Cash flows used in investing activities were $1.4 billion for the three months ended March 31, 2014. Investing activities during the three months ended March 31, 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 Agency RMBS and Non-Agency RMBS.

Financing Activities

Cash flows provided by financing activities were approximately $1.3 billion during the three months ended March 31, 2014. No cash flow from financing activities was recorded prior to the date of contribution of cash by Newcastle to us. Financing activities during the three months ended March 31, 2014 consisted primarily of borrowings net of repayments under debt obligations, and capital contributions net of distributions from noncontrolling interests in the equity of a consolidated subsidiary.

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 the consumer loan purchase through a number of joint venture companies. The purchase price of approximately $3.0 billion was financed with approximately $2.2 billion ($1.4 billion outstanding as of March 31, 2014) of asset-backed notes within such companies. These notes have an interest rate of 3.75% and a maturity of April 2021. In September 2013, the joint ventures issued and sold an additional $0.4 billion of asset-backed notes for 96% of par. These notes are subordinate to the debt issued in April 2013, have a maturity of December 2024 and pay a coupon of 4%. We have a 30% membership interest in the Consumer Loan Companies and do not consolidate them.

We also had approximately $84.7 million of repurchase agreements as of March 31, 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. 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 March 31, 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 three months ended March 31, 2014:

- Servicer Advance Securitization – As described in Note 11 to our consolidated financial statements, we 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 using proceeds of new notes issued pursuant to the NRART Master Trust.
- Non-Agency RMBS Repurchase Agreement – As described in Note 11 to our consolidated financial statements, we obtained approximately $415 million in financing from Merrill Lynch, Pierce, Fenner & Smith Incorporated to settle our purchase of approximately $625 million face amount of Non-Agency residential mortgage securities for approximately $553 million, which represents 75% of the mezzanine and subordinate tranches of a securitization previously sponsored by an affiliate of Springleaf.
- Consumer Loan Repurchase Agreement – As described in Note 11 to our consolidated financial statements, we financed all of our ownership interest in each of the Consumer Loan Companies under a $150.0 million master repurchase agreement with Credit Suisse Securities (USA) LLC.
- Servicer Advance Transaction 2 – We exercised the call right in Transaction 2 and financed the outstanding balance of the servicer advances subject to the portion of the Call Right that was exercised using additional borrowings from existing facilities.

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, 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 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 March 31,	
	2014	2013
Net income (loss) attributable to common stockholders	$48,772	$13,075
Impairment	492	—
Other Income	(35,050)	(2,827)
Incentive compensation to affiliate	3,338	—
Non-capitalized deal inception costs	—	2,478
Core earnings of equity method investees:		
Excess mortgage servicing rights	9,225	2,546
Consumer loans	14,987	—
Core Earnings	$41,764	$15,272

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 ARM RMBS under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Portfolio – Real Estate Securities – Agency ARM 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 March 31, 2014, a 100 basis point increase in short term interest rates would increase our earnings by approximately $9.7 million per annum, based on the current net floating rate exposure from our real estate securities and related financings.

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 March 31, 2014, a 100 basis point change in short term interest rates would impact our net book value by approximately $12.9 million, based on the current net fixed rate exposure from our investments.

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 MSRs, servicer advances (including the basic fee component of the related MSRs, and the related financing) and 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 MSRs and basic fees to decrease and the value of consumer loans to increase. Conversely, in an increasing interest rate environment, prepayment speeds decrease which in turn would cause the value of Excess MSRs and basic fee to increase and the value of consumer 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 MSRs, basic fees and consumer 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 MSRs, the basic fee component of MSRs (which we own as part of our investment in servicer advances) and 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 MSRs 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 or our right to the basic fee component of MSRs, 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 consumer loans could delay our expected cash flows and reduce the yield on this investment.

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 MSRs” 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 March 31, 2014, a 25 basis point movement in credit spreads would impact our net book value by approximately $16.9 million, based on a static portfolio of real estate securities and related financings, 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 may 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 ARM 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 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 MSRs 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 MSRs 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 MSRs 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 MSRs 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 MSRs and servicer advances, and the determination of the fair value of Excess MSRs 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 MSRs 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 MSRs 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 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 MSRs will be extinguished and our investment in such Excess MSRs 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 MSRs. 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 MSRs 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.

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 MSRs and servicer advances could result in:

- the validity and priority of our ownership in the Excess MSRs 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 MSRs, 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 MSRs 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 MSRs.

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 MSRs 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 MSRs 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 MSRs 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 MSRs. 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 MSRs and servicer advances may involve complex or novel structures.

Investments in Excess MSRs and servicer advances are new types of transactions and may involve complex or novel structures. Accordingly, the risks associated with the transactions and structures are not fully known to buyers and sellers. In the case of Excess MSRs on Agency pools, GSEs may require that we submit to costly or burdensome conditions as a prerequisite to their consent to an investment in Excess MSRs on Agency pools. GSE conditions may diminish or eliminate the investment potential of Excess MSRs on Agency pools by making such investments too expensive for us or by severely limiting the potential returns available from Excess MSRs on Agency pools.

It is possible that a GSE's views on whether any such acquisition structure is appropriate or acceptable may not be known to us when we make an investment and may change from time to time for any reason or for no reason, even with respect to a completed investment. A GSE's evolving posture toward an acquisition or disposition structure through which we invest in or dispose of Excess MSRs on Agency pools may cause such GSE to impose new conditions on our existing investments in Excess MSRs on Agency pools, including the owner's ability to hold such Excess MSRs on Agency pools directly or indirectly through a grantor trust or other means. Such new conditions may be costly or burdensome and may diminish or eliminate the investment potential of the Excess MSRs on Agency pools that are already owned by us. Moreover, obtaining such consent may require us or our co-investment counterparties to agree to material structural or economic changes, as well as agree to indemnification or other terms that expose us to risks to which we have not previously been exposed and that could negatively affect our returns from our investments.

Many of our investments may be illiquid, and this lack of liquidity could significantly impede our ability to vary our portfolio in response to changes in economic and other conditions or to realize the value at which such investments are carried if we are required to dispose of them.

Many of our investments are illiquid. Illiquidity may result from the absence of an established market for the investments, as well as legal or contractual restrictions on their resale, refinancing or other disposition. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof.

Excess MSRs and servicer advances are highly illiquid and may be subject to numerous restrictions on transfers, including without limitation the receipt of third-party consents. For example, the Servicing Guidelines of a mortgage owner generally require that holders of Excess MSRs obtain the mortgage owner's prior approval of any change of direct ownership of such Excess MSRs. Such approval may be withheld for any reason or no reason in the discretion of the mortgage owner. Moreover, we have not received and do not expect to receive any assurances from any GSEs that their conditions for the sale by us of any Excess MSRs will not change. Therefore, the potential costs, issues or restrictions associated with receiving such GSEs' consent for any such dispositions by us cannot be determined with any certainty. Additionally, investments in Excess MSRs and servicer advances are new types of transaction, and the risks associated with the transactions and structures are not fully known to buyers or sellers. As a result of the foregoing, we may be unable to locate a buyer at the time we wish to sell Excess MSRs or servicer advances. There is some risk that we will be required to dispose of Excess MSRs or servicer advances either through an in-kind distribution or other liquidation vehicle, which will, in either case, provide little or no economic benefit to us, or a sale to a co-investor in the Excess MSRs or servicer advances, which may be an affiliate. Accordingly, we cannot provide any assurance that we will obtain any return or any benefit of any kind from any disposition of Excess MSRs or servicer advances. We may not benefit from the full term of the assets and for the aforementioned reasons may not receive any benefits from the disposition, if any, of such assets.

In addition, some of our real estate related securities may not be registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. There are also no established trading markets for a majority of our intended investments. Moreover, certain of our investments, including our investments in consumer loans, servicer advances and certain investments in Excess MSRs, are made indirectly through a vehicle that owns the underlying assets. Our ability to sell our interest may be contractually limited or prohibited. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be limited.

Our real estate related securities have historically been valued based primarily on third-party quotations, which are subject to significant variability based on the liquidity and price transparency created by market trading activity. A disruption in these trading markets could reduce the trading for many real estate related securities, resulting in less transparent prices for those securities, which would make selling such assets more difficult. Moreover, a decline in market demand for the types of assets that we hold would make it more difficult to sell our assets. If we are required to liquidate all or a portion of our illiquid investments quickly, we may realize significantly less than the amount at which we have previously valued these investments.

Market conditions could negatively impact our business, results of operations, cash flows and financial condition.

The market in which we operate is affected by a number of factors that are largely beyond our control but can nonetheless have a potentially significant, negative impact on us. These factors include, among other things:

- interest rates and credit spreads;
- the availability of credit, including the price, terms and conditions under which it can be obtained;
- the quality, pricing and availability of suitable investments and credit losses with respect to our investments;
- the ability to obtain accurate market-based valuations;
- loan values relative to the value of the underlying real estate assets;
- default rates on the loans underlying our investments and the amount of the related losses;
- prepayment speeds, delinquency rates and legislative/regulatory changes with respect to our investments in Excess MSRs, servicer advances, RMBS, and loans, and the timing and amount of servicer advances;
- the actual and perceived state of the real estate markets, market for dividend-paying stocks and public capital markets generally;
- unemployment rates; and
- the attractiveness of other types of investments relative to investments in real estate or REITs generally.

Changes in these factors are difficult to predict, and a change in one factor can affect other factors. For example, during 2007, increased default rates in the subprime mortgage market played a role in causing credit spreads to widen, reducing availability of credit on favorable terms, reducing liquidity and price transparency of real estate related assets, resulting in difficulty in obtaining accurate mark-to-market valuations, and causing a negative perception of the state of the real estate markets and of REITs generally. These conditions worsened during 2008, and intensified meaningfully during the fourth quarter of 2008 as a result of the global credit and liquidity crisis, resulting in extraordinarily challenging market conditions. Since then, market conditions have generally improved, but they could deteriorate in the future as a result of a variety of factors beyond our control.

The geographic distribution of the loans underlying, and collateral securing, certain of our investments subjects us to geographic real estate market risks, which could adversely affect the performance of our investments, our results of operations and financial condition.

The geographic distribution of the loans underlying, and collateral securing, our investments, including our Excess MSRs, servicer advances, Non-Agency RMBS and consumer loans, exposes us to risks associated with the real estate and commercial lending industry in general within the states and regions in which we hold significant investments. These risks include, without limitation: possible declines in the value of real estate; risks related to general and local economic conditions; possible lack of availability of mortgage funds; overbuilding; extended vacancies of properties; increases in competition, property taxes and operating expenses; changes in zoning laws; increased energy costs; unemployment; costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; casualty or condemnation losses; uninsured damages from floods, earthquakes or other natural disasters; and changes in interest rates. As of March 31, 2014, 25.9% of the total UPB of the residential mortgage loans underlying our Excess MSRs was secured by properties located in California and 9.1% was secured by properties located in Florida. As of March 31, 2014, 28.8% of the collateral securing our Non-Agency RMBS was located in the Western U.S., 27.8% was located in the Southeastern U.S., 19.1% was located in the Northeastern U.S., 15.8% was located in the Midwestern U.S. and 6.0% was located in the Southwestern U.S. New Residential was unable to obtain geographical information for 2.5% of the collateral. To the extent any of the foregoing risks arise in states and regions where we hold significant investments, the performance of our investments, our results of operations, cash flows and financial condition could suffer a material adverse effect.

Many of the RMBS in which we invest are collateralized by subprime mortgage loans, which are subject to increased risks.

Many of the RMBS in which we invest are backed by collateral pools of subprime residential mortgage loans. “Subprime” mortgage loans refer to mortgage loans that have been originated using underwriting standards that are less restrictive than the underwriting requirements used as standards for other first and junior lien mortgage loan purchase programs, such as the programs of Fannie Mae and Freddie Mac. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories (including outstanding judgments or prior bankruptcies), mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with subprime mortgage loans, the performance of RMBS backed by subprime mortgage loans could be correspondingly adversely affected, which could adversely impact our results of operations, liquidity, financial condition and business.

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.

Allegations of deficiencies in servicing and foreclosure practices among several large sellers and servicers of residential mortgage loans that surfaced in 2010 raised various concerns relating to such practices, including the improper execution of the documents used in foreclosure proceedings (so-called “robo signing”), inadequate documentation of transfers and registrations of mortgages and assignments of loans, improper modifications of loans, violations of representations and warranties at the date of securitization and failure to enforce put-backs.

As a result of alleged deficiencies in foreclosure practices, a number of servicers temporarily suspended foreclosure proceedings beginning in the second half of 2010 while they evaluated their foreclosure practices. In late 2010, a group of state attorneys general and state bank and mortgage regulators representing nearly all 50 states and the District of Columbia, along with the U.S. Justice Department and the Department of Housing and Urban Development, began an investigation into foreclosure practices of banks and servicers. The investigations and lawsuits by several state attorneys general led to a settlement agreement in early February 2012 with five of the nation's largest banks, pursuant to which the banks agreed to pay more than $25 billion to settle claims relating to improper foreclosure practices. The settlement does not prohibit the states, the federal government, individuals or investors from pursuing additional actions against the banks and servicers in the future.

Under the terms of the agreement governing our investment in servicer advances, we (together with third-party co-investors) are required to purchase from Nationstar advances on certain pools. While a mortgage loan is in foreclosure, servicers, including Nationstar, are generally required to continue to advance delinquent principal and interest and to also make advances for delinquent taxes and insurance and foreclosure costs and the upkeep of vacant property in foreclosure to the extent it determines that such amounts are recoverable. Servicer advances are generally recovered when the delinquency is resolved.

Foreclosure moratoria or other actions that lengthen the foreclosure process increase the amount of servicer advances Nationstar is required to make and we are required to purchase, lengthen the time it takes for us to be repaid for such advances and increase the costs incurred during the foreclosure process. In addition, our advance financing facilities contain provisions that modify the advance rates for, and limit the eligibility of, servicer advances to be financed based on the length of time that servicer advances are outstanding, and, as a result, an increase in foreclosure timelines could further increase the amount of servicer advances that we need to fund with our own capital. Such increases in foreclosure timelines could increase our need for capital to fund servicer advances (which do not bear interest), which would increase our interest expense, reduce the value of our investment and potentially reduce the cash that we have available to pay our operating expenses or to pay dividends.

Even in states where servicers have not suspended foreclosure proceedings or have lifted (or will soon lift) any such delayed foreclosures, servicers, including Nationstar, have faced, and may continue to face, increased delays and costs in the foreclosure process. For example, the current legislative and regulatory climate could lead borrowers to contest foreclosures that they would not otherwise have contested under ordinary circumstances, and servicers may incur increased litigation costs if the validity of a foreclosure action is challenged by a borrower. In general, regulatory developments with respect to foreclosure practices could result in increases in the amount of servicer advances and the length of time to recover servicer advances, fines or increases in operating expenses, and decreases in the advance rate and availability of financing for servicer advances. This would lead to increased borrowings, reduced cash and higher interest expense which could negatively impact our liquidity and profitability. Although the terms of our investment in servicer advances contain adjustment mechanisms that would reduce the amount of performance fees payable to Nationstar if servicer advances exceed pre-determined amounts, those fee reductions may not be sufficient to cover the expenses resulting from longer foreclosure timelines.

A failure by any or all of the members to make capital contributions for amounts required to fund servicer advances could result in an event of default under our advance facilities and a complete loss of our investment.

The integrity of the servicing and foreclosure processes are critical to the value of the mortgage loan portfolios underlying our Excess MSRs, servicer advances and RMBS, and our financial results could be adversely affected by deficiencies in the conduct of those processes. For example, delays in the foreclosure process that have resulted from investigations into improper servicing practices may adversely affect the values of, and result in losses on, these investments. Foreclosure delays may also increase the administrative expenses of the securitization trusts for the RMBS, thereby reducing the amount of funds available for distribution to investors.

In addition, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments while the defaulted loans remain in the trusts, rather than absorbing the default losses. This may reduce the amount of credit support available for the senior classes of RMBS that we own, thus possibly adversely affecting these securities. Additionally, a substantial portion of the $25 billion settlement is a “credit” to the banks and servicers for principal write-downs or reductions they may make to certain mortgages underlying RMBS. There remains uncertainty as to how these principal reductions will work and what effect they will have on the value of related RMBS. As a result, there can be no assurance that any such principal reductions will not adversely affect the value of our Excess MSRs, servicer advances and RMBS.

While we believe that the sellers and servicers would be in violation of their servicing contracts to the extent that they have improperly serviced mortgage loans or improperly executed documents in foreclosure or bankruptcy proceedings, or do not comply with the terms of servicing contracts when deciding whether to apply principal reductions, it may be difficult, expensive, time consuming and, ultimately, uneconomic for us to enforce our contractual rights. While we cannot predict exactly how the servicing and foreclosure matters or the resulting litigation or settlement agreements will affect our business, there can be no assurance that these matters will not have an adverse impact on our results of operations, cash flows and financial condition.

The loans underlying the securities we invest in and the loans we directly invest in are subject to delinquency, foreclosure and loss, which could result in losses to us.

Mortgage backed securities are securities backed by mortgage loans. The ability of borrowers to repay these mortgage loans is dependent upon the income or assets of these borrowers. If a borrower has insufficient income or assets to repay these loans, it will default on its loan. Our investments in RMBS will be adversely affected by defaults under the loans underlying such securities. To the extent losses are realized on the loans underlying the securities in which we invest, we may not recover the amount invested in, or, in extreme cases, any of our investment in such securities.

Residential mortgage loans, manufactured housing loans and subprime mortgage loans are secured by single-family residential property and are also subject to risks of delinquency and foreclosure, and risks of loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors may impair borrowers' abilities to repay their loans, including, among other things, changes in the borrower's employment status, changes in national, regional or local economic conditions, changes in interest rates or the availability of credit on favorable terms, changes in regional or local real estate values, changes in regional or local rental rates and changes in real estate taxes.

In the event of default under a loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the outstanding principal and accrued but unpaid interest of the loan, which could adversely affect our results of operations, cash flows and financial condition.

Our investments in real estate related securities are subject to changes in credit spreads, which could adversely affect our ability to realize gains on the sale of such investments.

Real estate related securities are subject to changes in credit spreads. Credit spreads measure the yield demanded on securities by the market based on their credit relative to a specific benchmark.

Fixed rate securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. Floating rate securities are valued based on a market credit spread over LIBOR and are affected similarly by changes in LIBOR spreads. As of March 31, 2014, 67.2% of our Non-Agency RMBS Portfolio consisted of floating rate securities and 32.8% consisted of fixed rate securities, and our entire Agency ARM RMBS portfolio consisted of floating rate securities. Excessive supply of these securities combined with reduced demand will generally cause the market to require a higher yield on these securities, resulting in the use of a higher, or "wider," spread over the benchmark rate to value such securities. Under such conditions, the value of our real estate related securities portfolios would tend to decline. Conversely, if the spread used to value such securities were to decrease, or "tighten," the value of our real estate related securities portfolio would tend to increase. Such changes in the market value of our real estate securities portfolios may affect our net equity, net income or cash flow directly through their impact on unrealized gains or losses on available-for-sale securities, and therefore our ability to realize gains on such securities, or indirectly through their impact on our ability to borrow and access capital. During 2008 through the first quarter of 2009, credit spreads widened substantially. Widening credit spreads could cause the net unrealized gains on our securities and derivatives, recorded in accumulated other comprehensive income or retained earnings, and therefore our book value per share, to decrease and result in net losses.

Prepayment rates on the mortgage loans underlying our real estate related securities may adversely affect our profitability.

In general, the mortgage loans backing our real estate related securities may be prepaid at any time without penalty. Prepayments on our real estate related securities result when homeowners/mortgagees satisfy (i.e., pay off) the mortgage upon selling or refinancing their mortgaged property. When we acquire a particular security, we anticipate that the underlying mortgage loans will prepay at a projected rate which, together with expected coupon income, provides us with an expected yield on such securities. If we purchase assets at a premium to par value, and borrowers prepay their mortgage loans faster than expected, the corresponding prepayments on the real estate related security may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their mortgage loans slower than expected, the decrease in corresponding prepayments on the real estate related security may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. Prepayment rates on loans are influenced by changes in mortgage and market interest rates and a variety of economic, geographic and other factors, all of which are beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment or other such risks. In periods of declining interest rates, prepayment rates on mortgage loans generally increase. If general interest rates decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the market value of our real estate related securities may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates.

With respect to Agency ARM RMBS, we intend to purchase securities that have a higher coupon rate than the prevailing market interest rates. In exchange for a higher coupon rate, we would then pay a premium over par value to acquire these securities. In accordance with GAAP, we will amortize the premiums on our Agency ARM RMBS over the life of the related securities. If the mortgage loans securing these securities prepay at a more rapid rate than anticipated, we will have to amortize our premiums on an accelerated basis which may adversely affect our profitability. Defaults on the mortgage loans underlying Agency ARM RMBS typically have the same effect as prepayments because of the underlying Agency guarantee.

Prepayments, which are the primary feature of mortgage backed securities that distinguish them from other types of bonds, are difficult to predict and can vary significantly over time. As the holder of the security, on a monthly basis, we receive a payment equal to a portion of our investment principal in a particular security as the underlying mortgages are prepaid. In general, on the date each month that principal prepayments are announced (i.e., factor day), the value of our real estate related security pledged as collateral under our repurchase agreements is reduced by the amount of the prepaid principal and, as a result, our lenders will typically initiate a margin call requiring the pledge of additional collateral or cash, in an amount equal to such prepaid principal, in order to re-establish the required ratio of borrowing to collateral value under such repurchase agreements. Accordingly, with respect to our Agency ARM RMBS, the announcement on factor day of principal prepayments is in advance of our receipt of the related scheduled payment, thereby creating a short-term receivable for us in the amount of any such principal prepayments. However, under our repurchase agreements, we may receive a margin call relating to the related reduction in value of our Agency ARM RMBS and, prior to receipt of this short-term receivable, be required to post additional collateral or cash in the amount of the principal prepayment on or about factor day, which would reduce our liquidity during the period in which the short-term receivable is outstanding. As a result, in order to meet any such margin calls, we could be forced to sell assets in order to maintain liquidity. Forced sales under adverse market conditions may result in lower sales prices than ordinary market sales made in the normal course of business. If our real estate related securities were liquidated at prices below our amortized cost (i.e., the cost basis) of such assets, we would incur losses, which could adversely affect our earnings. In addition, in order to continue to earn a return on this prepaid principal, we must reinvest it in additional real estate related securities or other assets; however, if interest rates decline, we may earn a lower return on our new investments as compared to the real estate related securities that prepay.

Prepayments may have a negative impact on our financial results, the effects of which depend on, among other things, the timing and amount of the prepayment delay on our Agency ARM RMBS, the amount of unamortized premium on our real estate related securities, the rate at which prepayments are made on our Non-Agency RMBS, the reinvestment lag and the availability of suitable reinvestment opportunities.

Our investments in RMBS may be subject to significant impairment charges, which would adversely affect our results of operations.

We will be required to periodically evaluate our investments for impairment indicators. The value of an investment is impaired when our analysis indicates that, with respect to a security, it is probable that the value of the security is other than temporarily impaired. The judgment regarding the existence of impairment indicators is based on a variety of factors depending upon the nature of the investment and the manner in which the income related to such investment was calculated for purposes of our financial statements. If we determine that an impairment has occurred, we are required to make an adjustment to the net carrying value of the investment, which would adversely affect our results of operations in the applicable period and thereby adversely affect our ability to pay dividends to our stockholders.

The lenders under our repurchase agreements may elect not to extend financing to us, which could quickly and seriously impair our liquidity.

We finance a meaningful portion of our investments in RMBS with repurchase agreements, which are short-term financing arrangements. Under the terms of these agreements, we will sell a security to a counterparty for a specified price and concurrently agree to repurchase the same security from our counterparty at a later date for a higher specified price. During the term of the repurchase agreement—which can be as short as 30 days—the counterparty will make funds available to us and hold the security as collateral. Our counterparties can also require us to post additional margin as collateral at any time during the term of the agreement. When the term of a repurchase agreement ends, we will be required to repurchase the security for the specified repurchase price, with the difference between the sale and repurchase prices serving as the equivalent of paying interest to the counterparty in return for extending financing to us. If we want to continue to finance the security with a repurchase agreement, we ask the counterparty to extend-or “roll”-the repurchase agreement for another term.

Our counterparties are not required to roll our repurchase agreements upon the expiration of their stated terms, which subjects us to a number of risks. Counterparties electing to roll our repurchase agreements may charge higher spread and impose more onerous terms upon us, including the requirement that we post additional margin as collateral. More significantly, if a repurchase agreement counterparty elects not to extend our financing, we would be required to pay the counterparty the full repurchase price on the maturity date and find an alternate source of financing. Alternate sources of financing may be more expensive, contain more onerous terms or simply may not be available. If we were unable to pay the repurchase price for any security financed with a repurchase agreement, the counterparty has the right to sell the underlying security being held as collateral and require us to compensate it for any shortfall between the value of our obligation to the counterparty and the amount for which the collateral was sold (which may be a significantly discounted price). As of March 31, 2013, we had outstanding repurchase agreements with an aggregate face amount of approximately $883.0 million to finance Non-Agency RMBS and approximately $1.1 billion to finance Agency ARM RMBS. Moreover, our repurchase agreement obligations are currently 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 in a timely manner. Finally, some of our repurchase agreements contain covenants and our failure to comply with such covenants could result in a loss of our investment.

The financing sources under our servicer advance financing facilities may elect not to extend financing to us, which could quickly and seriously impair our liquidity.

We finance a meaningful portion of our investments in servicer advances with structured financing arrangements. These arrangements are commonly of a short-term nature. These arrangements are generally accomplished by having the Buyer transfer its right to repayment for certain servicer advances it has acquired from Nationstar to a wholly owned bankruptcy remote subsidiary of the Buyer (a “Depositor”). The Buyer is generally required to continue to transfer to the related Depositor all of its rights to repayment for any particular pool of servicer advances as they arise (and are transferred from Nationstar) until the related financing arrangement is paid in full and is terminated. The related Depositor then transfers such rights to an Issuer. The Issuer then issues limited recourse notes to the financing sources backed by such rights to repayment.

The outstanding balance of servicer advances securing these arrangements is not likely to be repaid on or before the maturity date of such financing arrangements. Accordingly, we rely heavily on our financing sources to extend or refinance the terms of such financing arrangements. Our financing sources are not required to extend the arrangements upon the expiration of their stated terms, which subjects us to a number of risks. Financing sources electing to extend may charge higher interest rates and impose more onerous terms upon us, including without limitation, lowering the amount of financing that can be extended against any particular pool of servicer advances.

If a financing source is unable or unwilling to extend financing, the related Issuer be required to repay the outstanding balance of the financing on the related maturity date. Additionally, there may be substantial increases in the interest rates under a financing arrangement if the related notes are not repaid, extended or refinanced prior to the expected repayment dated, which may be before the related maturity date. If an Issuer is unable to pay the outstanding balance of the notes, the financing sources generally have the right to foreclose on the servicer advances pledged as collateral.

As of March 31, 2014, all of the notes issued under our structured servicer advance financing arrangements accrued interest at a floating rate of interest. Servicer advances are non-interest bearing assets. Accordingly, if there is an increase in prevailing interest rates and/or our financing sources increase the interest rate "margins" or "spreads," the amount of financing that we could obtain against any particular pool of servicer advances may decrease substantially and/or we may be required to obtain interest rate hedging arrangements. There is no assurance that we will be able to obtain any such interest rate hedging arrangements.

Alternate sources of financing may be more expensive, contain more onerous terms or simply may not be available. Moreover, our structured servicer advance financing arrangements are currently with a limited number of sources. If any of our sources are unable to or elected not to extend or refinance such arrangements, we may not be able to find a replacement counterparty in a timely manner.

We may not be able to finance our investments on attractive terms or at all, and financing for Excess MSRs may be particularly difficult to obtain.

The ability to finance investments with securitizations or other long-term non-recourse financing not subject to margin requirements has been more challenging since 2007 as a result of market conditions. In addition, it may be particularly challenging to securitize our investments in consumer loans, given that consumer loans are generally riskier than mortgage financing. These conditions may result in having to use less efficient forms of financing for any new investments, which will likely require a larger portion of our cash flows to be put toward making the initial investment and thereby reduce the amount of cash available for distribution to our stockholders and funds available for operations and investments, and which will also likely require us to assume higher levels of risk when financing our investments. In addition, there is no established market for financing of investments in Excess MSRs, and it is possible that one will not develop for a variety of reasons, such as the challenges with perfecting security interests in the underlying collateral.

Certain of our advance facilities mature in September 2014, and there can be no assurance that we will be able to renew these facilities on favorable terms or at all. Moreover, an increase in delinquencies with respect to the loans underlying our servicer advances could result in the need for additional financing, which may not be available to us on favorable terms or at all. If we are not able to obtain adequate financing to purchase servicer advances from Nationstar in accordance with our agreement, Nationstar could default on its obligation to fund such advances, which could result in their termination as servicer under the applicable pooling and servicing agreements and a partial or total loss of our investment in servicer advances and Excess MSRs.

The non-recourse long-term financing structures we use expose us to risks, which could result in losses to us.

We use securitization and other non-recourse long-term financing for our investments to the extent available and appropriate. In such structures, our lenders typically would have only a claim against the assets included in the securitizations rather than a general claim against us as an entity. Prior to any such financing, we would seek to finance our investments with relatively short-term facilities until a sufficient portfolio is accumulated. As a result, we would be subject to the risk that we would not be able to acquire, during the period that any short-term facilities are available, sufficient eligible assets or securities to maximize the efficiency of a securitization. We also bear the risk that we would not be able to obtain new short-term facilities or would not be able to renew any short-term facilities after they expire should we need more time to seek and acquire sufficient eligible assets or securities for a securitization. In addition, conditions in the capital markets may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets or securities. While we would intend to retain the unrated equity component of securitizations and, therefore, still have exposure to any investments included in such securitizations, our inability to enter into such securitizations may increase our overall exposure to risks associated with direct ownership of such investments, including the risk of default. Our inability to refinance any short-term facilities would also increase our risk because borrowings thereunder would likely be recourse to us as an entity. If we are unable to obtain and renew short-term facilities or to consummate securitizations to finance our investments on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price.

Risks associated with our investment in the consumer loan sector could have a material adverse effect on our business and financial results.

Our portfolio includes an investment in the consumer loan sector. Although many of the risks applicable to consumer loans are also applicable to residential real estate loans, and thus the type of risks that we have experience managing, there are nevertheless substantial risks and uncertainties associated with engaging in a new category of investment. There may be factors that affect the consumer loan sector with which we are not as familiar compared to the residential mortgage loan sector. Moreover, our underwriting assumptions for these investments may prove to be materially incorrect. It is also possible that the addition of consumer loans to our investment portfolio could divert our Manager's time away from our other investments. Furthermore, external factors, such as compliance with regulations, may also impact our ability to succeed in the consumer loan investment sector. Failure to successfully manage these risks could have a material adverse effect on our business and financial results.

The consumer loans underlying our investments are subject to delinquency and loss, which could have a negative impact on our financial results.

The ability of borrowers to repay the consumer loans underlying our investments may be adversely affected by numerous personal factors, including unemployment, divorce, major medical expenses or personal bankruptcy. General factors, including an economic downturn, high energy costs or acts of God or terrorism, may also affect the financial stability of borrowers and impair their ability or willingness to repay the consumer loans in our investment portfolio. In the event of any default under a loan in the consumer loan portfolio in which we have invested, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral securing the loan, if any, and the principal and accrued interest of the loan. In addition, our investments in consumer loans may entail greater risk than our investments in residential real estate loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. Further, repossessing personal property securing a consumer loan can present additional challenges, including locating the collateral and taking possession of it. In addition, borrowers under consumer loans may have lower credit scores. There can be no guarantee that we will not suffer unexpected losses on our investments as a result of the factors set out above, which could have a negative impact on our financial results.

The servicer of the loans underlying our consumer loan investment may not be able to accurately track the default status of senior lien loans in instances where our consumer loan investments are secured by second or third liens on real estate.

A portion of our investment in consumer loans is secured by second and third liens on real estate. When we hold the second or third lien another creditor or creditors, as applicable, holds the first and/or second, as applicable, lien on the real estate that is the subject of the security. In these situations our second or third lien is subordinate in right of payment to the first and/or second, as applicable, holder's right to receive payment. Moreover, as the servicer of the loans underlying our consumer loan portfolio is not able to track the default status of a senior lien loan in instances where we do not hold the related first mortgage, the value of the second or third lien loans in our portfolio may be lower than our estimates indicate.

The consumer loan investment sector is subject to various initiatives on the part of advocacy groups and extensive regulation and supervision under federal, state and local laws, ordinances and regulations, which could have a negative impact on our financial results.

In recent years consumer advocacy groups and some media reports have advocated governmental action to prohibit or place severe restrictions on the types of short-term consumer loans in which we have invested. Such consumer advocacy groups and media reports generally focus on the Annual Percentage Rate to a consumer for this type of loan, which is compared unfavorably to the interest typically charged by banks to consumers with top-tier credit histories. The fees charged on the consumer loans in the portfolio in which we have invested may be perceived as controversial by those who do not focus on the credit risk and high transaction costs typically associated with this type of investment. If the negative characterization of these types of loans becomes increasingly accepted by consumers, demand for the consumer loan products in which we have invested could significantly decrease. Additionally, if the negative characterization of these types of loans is accepted by legislators and regulators, we could become subject to more restrictive laws and regulations in the area.

In addition, we are, or may become, subject to federal, state and local laws, regulations, or regulatory policies and practices, including the Dodd-Frank Act (which, among other things, established the Consumer Financial Protection Bureau with broad authority to regulate and examine financial institutions), which may, amongst other things, limit the amount of interest or fees allowed to be charged on the consumer loans underlying our investments, or the number of consumer loans that customers may receive or have outstanding. The operation of existing or future laws, ordinances and regulations could interfere with the focus of our investments which could have a negative impact on our financial results.

Certain jurisdictions require licenses to purchase, hold, enforce or sell residential mortgage loans, and we may not be able to obtain and/or maintain such licenses.

Certain jurisdictions require a license to purchase, hold, enforce or sell residential mortgage loans. We currently do not hold any such licenses. In the event that any licensing requirement is applicable to us, there can be no assurance that we will obtain such licenses or, if obtained, that we will be able to maintain them. Our failure to obtain or maintain such licenses could restrict our ability to invest in loans in these jurisdictions if such licensing requirements are applicable. In lieu of obtaining such licenses, we may contribute our acquired residential mortgage loans to one or more wholly owned trusts whose trustee is a national bank, which may be exempt from state licensing requirements. We may form one or more subsidiaries to apply for certain state licenses. If these subsidiaries obtain the required licenses, any trust holding loans in the applicable jurisdictions may transfer such loans to such subsidiaries, resulting in these loans being held by a state-licensed entity. There can be no assurance that we will be able to obtain the requisite licenses in a timely manner or at all or in all necessary jurisdictions, or that the use of the trusts will reduce the requirement for licensing. In addition, even if we obtain necessary licenses, we may not be able to maintain them. Any of these circumstances could limit our ability to invest in residential mortgage loans in the future and have a material adverse effect on us.

Our determination of how much leverage to apply to our investments may adversely affect our return on our investments and may reduce cash available for distribution.

We leverage certain of our assets through a variety of borrowings. Our investment guidelines do not limit the amount of leverage we may incur with respect to any specific asset or pool of assets. The return we are able to earn on our investments and cash available for distribution to our stockholders may be significantly reduced due to changes in market conditions, which may cause the cost of our financing to increase relative to the income that can be derived from our assets.

Certain of our investments are not match funded, which may increase the risks associated with these investments.

When available, a match funding strategy mitigates the risk of not being able to refinance an investment on favorable terms or at all. However, our Manager may elect for us to bear a level of refinancing risk on a short-term or longer-term basis, as in the case of investments financed with repurchase agreements, when, based on its analysis, our Manager determines that bearing such risk is advisable or unavoidable (as is the case with our investments in servicer advances and our Agency ARM and Non-Agency RMBS portfolios). In addition, we may be unable, as a result of conditions in the credit markets, to match fund our investments. For example since the 2008 recession, non-recourse term financing not subject to margin requirements has been more difficult to obtain, which impairs our ability to match fund our investments. Moreover, we may not be able to enter into interest rate swaps. A decision not to, or the inability to, match fund certain investments exposes us to additional risks.

Furthermore, we anticipate that, in most cases, for any period during which our floating rate assets are not match funded with respect to maturity (as is the case with most of our RMBS portfolios), the income from such assets may respond more slowly to interest rate fluctuations than the cost of our borrowings. Because of this dynamic, interest income from such investments may rise more slowly than the related interest expense, with a consequent decrease in our net income. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us from these investments.

Accordingly, to the extent our investments are not match funded with respect to maturities and interest rates, we are exposed to the risk that we may not be able to finance or refinance our investments on economically favorable terms, or at all, or may have to liquidate assets at a loss.

Interest rate fluctuations and shifts in the yield curve may cause losses.

Interest rates 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. Our primary interest rate exposures relate to our investments in Excess MSRs, servicer advances, RMBS, consumer loans and any floating rate debt obligations that we may incur. Changes in interest rates, including changes in expected interest rates or "yield curves," affect our business in a number of ways. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities and hedges. Changes in the level of interest rates also can affect, among other things, our ability to acquire real estate related securities at attractive prices, the value of our real estate related securities and derivatives and our ability to realize gains from the sale of such assets. We may wish to use hedging transactions to protect certain positions from interest rate fluctuations, but we may not be able to do so as a result of market conditions, REIT rules or other reasons. In such event, interest rate fluctuations could adversely affect our financial condition, cash flows and results of operations.

In the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results.

Our ability to execute our business strategy, particularly the growth of our investment portfolio, depends to a significant degree on our ability to obtain additional capital. Our financing strategy for our real estate related securities and loans is dependent on our ability to place the debt we use to finance our investments at rates that provide a positive net spread. If spreads for such liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future financings will be severely restricted.

Interest rate changes may also impact our net book value as our real estate related securities are marked to market each quarter. Debt obligations are not marked to market. Generally, as interest rates increase, the value of our fixed rate securities decreases, which will decrease the book value of our equity.

Furthermore, shifts in the U.S. Treasury yield curve reflecting an increase in interest rates would also affect the yield required on our real estate related securities and therefore their value. For example, increasing interest rates would reduce the value of the fixed rate assets we hold at the time because the higher yields required by increased interest rates result in lower market prices on existing fixed rate assets in order to adjust the yield upward to meet the market, and vice versa. This would have similar effects on our real estate related securities portfolio and our financial position and operations to a change in interest rates generally.

Any hedging transactions that we enter into may limit our gains or result in losses.

We may use, when feasible and appropriate, derivatives to hedge a portion of our interest rate exposure, and this approach has certain risks, including the risk that losses on a hedge position will reduce the cash available for distribution to stockholders and that such losses may exceed the amount invested in such instruments. We have adopted a general policy with respect to the use of derivatives, which generally allows us to use derivatives where appropriate, but does not set forth specific policies and procedures or require that we hedge any specific amount of risk. From time to time, we may use derivative instruments, including forwards, futures, swaps and options, in our risk management strategy to limit the effects of changes in interest rates on our operations. A hedge may not be effective in eliminating all of the risks inherent in any particular position. Our profitability may be adversely affected during any period as a result of the use of derivatives.

There are limits to the ability of any hedging strategy to protect us completely against interest rate risks. When rates change, we expect the gain or loss on derivatives to be offset by a related but inverse change in the value of any items that we hedge. We cannot assure you, however, that our use of derivatives will offset the risks related to changes in interest rates. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses. In addition, our hedging strategy may limit our flexibility by causing us to refrain from taking certain actions that would be potentially profitable but would cause adverse consequences under the terms of our hedging arrangements. The REIT provisions of the Internal Revenue Code limit our ability to hedge. In managing our hedge instruments, we consider the effect of the expected hedging income on the REIT qualification tests that limit the amount of gross income that a REIT may receive from hedging. We need to carefully monitor, and may have to limit, our hedging strategy to assure that we do not realize hedging income, or hold hedges having a value, in excess of the amounts that would cause us to fail the REIT gross income and asset tests. See “Risks Related to Our Taxation as a REIT–Complying with the REIT requirements may limit our ability to hedge effectively.”

Accounting for derivatives under GAAP is extremely complicated. Any failure by us to account for our derivatives properly in accordance with GAAP in our financial statements could adversely affect our earnings. In addition, under applicable accounting standards, we may be required to treat some of our investments as derivatives, which could adversely affect our results of operations.

Maintenance of our 1940 Act exclusion imposes limits on our operations.

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the 1940 Act. We believe we will not be considered an investment company under Section 3(a)(1)(A) of the 1940 Act because we will not engage primarily, or hold ourselves out as being engaged primarily, in the business of investing, reinvesting or trading in securities. However, under Section 3(a)(1)(C) of the 1940 Act, because we are a holding company that will conduct its businesses primarily through wholly owned and majority owned subsidiaries, the securities issued by our subsidiaries that are excluded from the definition of “investment company” under Section 3(c)(1) or Section 3(c)(7) of the 1940 Act, together with any other investment securities we may own, may not have a combined value in excess of 40% of the value of our total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis (the “40% test”). For purposes of the foregoing, we currently treat our interests in our TRSs that hold our servicer advances and our subsidiaries that hold consumer loans as investment securities because these subsidiaries presently rely on the exclusion provided by Section 3(c)(7) of the 1940 Act. The 40% test under Section 3(a)(1)(C) of the 1940 Act limits the types of businesses in which we may engage through our subsidiaries. In addition, the assets we and our subsidiaries may originate or acquire are limited by the provisions of the 1940 Act and the rules and regulations promulgated under the 1940 Act, which may adversely affect our business.

If the value of securities issued by our subsidiaries that are excluded from the definition of “investment company” by Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we own, exceeds the 40% test under Section 3(a)(1)(C) of the 1940 Act (e.g., the value of our interests in the taxable REIT subsidiaries that hold servicer advances increases significantly in proportion to the value of our other assets), or if one or more of such subsidiaries fail to maintain an exclusion or exception from the 1940 Act, we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company under the 1940 Act, either of which could have an adverse effect on us and the market price of our securities. As discussed above, for purposes of the foregoing, we currently treat our interests in our TRSs that hold our servicer advances and our subsidiaries that hold consumer loans as investment securities because these subsidiaries presently rely on the exclusion provided by Section 3(c)(7) of the 1940 Act. If we or any of our subsidiaries were required to register as an investment company under the 1940 Act, the registered entity would become subject to substantial regulation with respect to capital structure (including the ability to use leverage), management, operations, transactions with affiliated persons (as defined in the 1940 Act), portfolio composition, including restrictions with respect to diversification and industry concentration, compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

Failure to maintain an exclusion would require us to significantly restructure our investment strategy. For example, because affiliate transactions are generally prohibited under the 1940 Act, we would not be able to enter into transactions with any of our affiliates if we are required to register as an investment company, and we might be required to terminate our management agreement and any other agreements with affiliates, which could have a material adverse effect on our ability to operate our business and pay distributions. If we were required to register us as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

For purposes of the foregoing, we treat our interests in certain of our wholly owned and majority owned subsidiaries, which constitutes more than 60% of the value of our adjusted total assets on an unconsolidated basis, as non-investment securities because such subsidiaries qualify for exclusion from the definition of an investment company under the 1940 Act pursuant to Section 3(c)(5)(C) of the 1940 Act (the "Section 3(c)(5)(C) exclusion"). The Section 3(c)(5)(C) exclusion is available for entities "primarily engaged" in the business of "purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." The Section 3(c)(5)(C) exclusion generally requires that at least 55% of these subsidiaries' assets must comprise qualifying real estate assets and at least 80% of each of their portfolios must comprise qualifying real estate assets and real estate-related assets under the 1940 Act. We expect each of our subsidiaries relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff or on our analyses of such guidance to determine which assets are qualifying real estate assets and real estate-related assets. However, the SEC's guidance was issued in accordance with factual situations that may be substantially different from the factual situations each of our subsidiaries may face, and much of the guidance was issued more than 20 years ago. No assurance can be given that the SEC staff will concur with the classification of each of our subsidiaries' assets. In addition, the SEC staff may, in the future, issue further guidance that may require us to re-classify some of our subsidiaries' assets for purposes of qualifying for an exclusion from regulation under the 1940 Act. For example, the SEC and its staff have not published guidance with respect to the treatment of whole pool Non-Agency RMBS for purposes of the Section 3(c)(5)(C) exclusion. Accordingly, based on our own judgment and analysis of the guidance from the SEC and its staff identifying Agency whole pool certificates as qualifying real estate assets under Section 3(c)(5)(C), we treat whole pool Non-Agency RMBS issued with respect to an underlying pool of mortgage loans in which our subsidiary relying on Section 3(c)(5)(C) holds all of the certificates issued by the pool as qualifying real estate assets. Based on our own judgment and analysis of the guidance from the SEC and its staff with respect to analogous assets, we treat Excess MSRs as real estate-related assets for purposes of satisfying the 80% test under the Section 3(c)(5)(C) exclusion. If we are required to re-classify any of our subsidiaries' assets, including those subsidiaries holding whole pool Non-Agency RMBS and/or Excess MSRs, such subsidiaries may no longer be in compliance with the exclusion from the definition of an "investment company" provided by Section 3(c)(5)(C) of the 1940 Act, and in turn, we may not satisfy the requirements to avoid falling within the definition of an "investment company" provided by Section 3(a)(1)(C). To the extent that the SEC staff publishes new or different guidance or disagrees with our analysis with respect to any assets of our subsidiaries we have determined to be qualifying real estate assets or real estate-related assets, we may be required to adjust our strategy accordingly. In addition, we may be limited in our ability to make certain investments and these limitations could result in a subsidiary holding assets we might wish to sell or selling assets we might wish to hold.

In August 2011, the SEC issued a concept release soliciting public comments on a wide range of issues relating to companies engaged in the business of acquiring mortgages and mortgage-related instruments and that rely on Section 3(c)(5)(C) of the 1940 Act. Therefore, there can be no assurance that the laws and regulations governing the 1940 Act status of REITs, or guidance from the SEC or its staff regarding the Section 3(c)(5)(C) exclusion, will not change in a manner that adversely affects our operations. If we or our subsidiaries fail to maintain an exclusion or exception from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions. In addition, if we or any of our subsidiaries were required to register as an investment company under the 1940 Act, the registered entity would become subject to substantial regulation with respect to capital structure (including the ability to use leverage), management, operations, transactions with affiliated persons (as defined in the 1940 Act), portfolio composition, including restrictions with respect to diversification and industry concentration, compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

Rapid changes in the values of our assets may make it more difficult for us to maintain our qualification as a REIT or our exclusion from the 1940 Act.

If the market value or income potential of qualifying assets for purposes of our qualification as a REIT or our exclusion from registration as an investment company under the 1940 Act declines as a result of increased interest rates, changes in prepayment rates or other factors, or the market value or income from non-qualifying assets increases, we may need to increase our investments in qualifying assets and/or liquidate our non-qualifying assets to maintain our REIT qualification or our exclusion from registration under the 1940 Act. If the change in market values or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets we may own. We may have to make investment decisions that we otherwise would not make absent the intent to maintain our qualification as a REIT and exclusion from registration under the 1940 Act.

We are subject to significant competition, and we may not compete successfully.

We are subject to significant competition in seeking investments. We compete with other companies, including other REITs, insurance companies and other investors, including funds and companies affiliated with our Manager. Some of our competitors have greater resources than we possess or have greater access to capital or various types of financing structures than are available to us, and we may not be able to compete successfully for investments or provide attractive investment returns relative to our competitors. These competitors may be willing to accept lower returns on their investments and, as a result, our profit margins could be adversely affected. Furthermore, competition for investments that are suitable for us may lead to the returns available from such investments decreasing, which may further limit our ability to generate our desired returns. We cannot assure you that other companies will not be formed that compete with us for investments or otherwise pursue investment strategies similar to ours or that we will be able to complete successfully against any such companies.

Furthermore, we currently do not have a mortgage servicing platform. Therefore, we may not be an attractive buyer for those sellers of MSRs that prefer to sell MSRs and their mortgage servicing platform in a single transaction. Since our business model does not currently include acquiring and running servicing platforms, to engage in a bid for such a business we would need to find a servicer to acquire and run the platform or we would need to incur additional costs to shut down the acquired servicing platform. The need to work with a servicer in these situations increases the complexity of such potential acquisitions, and Nationstar may be unwilling or unable to act as servicer or subservicer on any acquisitions of Excess MSRs or servicer advances we want to execute. The complexity of these transactions and the additional costs incurred by us if we were to execute future acquisitions of this type could adversely affect our future operating results.

The valuations of our assets are subject to uncertainty since most of our assets are not traded in an active market.

There is not anticipated to be an active market for most of the assets in which we will invest. In the absence of market comparisons, we will use other pricing methodologies, including, for example, models based on assumptions regarding expected trends, historical trends following market conditions believed to be comparable to the then current market conditions and other factors believed at the time to be likely to influence the potential resale price of, or the potential cash flows derived from, an investment. Such methodologies may not prove to be accurate and any inability to accurately price assets may result in adverse consequences for us. A valuation is only an estimate of value and is not a precise measure of realizable value. Ultimate realization of the market value of a private asset depends to a great extent on economic and other conditions beyond our control. Further, valuations do not necessarily represent the price at which a private investment would sell since market prices of private investments can only be determined by negotiation between a willing buyer and seller. If we were to liquidate a particular private investment, the realized value may be more than or less than the valuation of such asset as carried on our books.

Changes in accounting rules could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

As has been widely publicized, the SEC, the Financial Accounting Standards Board (the "FASB") and other regulatory bodies that establish the accounting rules applicable to us have recently proposed or enacted a wide array of changes to accounting rules. Moreover, in the future these regulators may propose additional changes that we do not currently anticipate. Changes to accounting rules that apply to us could significantly impact our business or our reported financial performance in negative ways that we cannot predict or protect against. We cannot predict whether any changes to current accounting rules will occur or what impact any codified changes will have on our business, results of operations, liquidity or financial condition.

A prolonged economic slowdown, a lengthy or severe recession, or declining real estate values could harm our operations.

We believe the risks associated with our business are more severe during periods in which an economic slowdown or recession is accompanied by declining real estate values, as was the case in 2008. Declining real estate values generally reduce the level of new mortgage loan originations, since borrowers often use increases in the value of their existing properties to support the purchase of, or investment in, additional properties. Borrowers may also be less able to pay principal and interest on the loans underlying our securities, Excess MSRs and servicer advances, if the real estate economy weakens. Further, declining real estate values significantly increase the likelihood that we will incur losses on our securities in the event of default because the value of our collateral may be insufficient to cover our basis. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect our net interest income from the assets in our portfolio, which would significantly harm our revenues, results of operations, financial condition, liquidity, business prospects and our ability to make distributions to our stockholders.

Compliance with changing regulation of corporate governance and public disclosure has and will continue to result in increased compliance costs and pose challenges for our management team.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us and, more generally, the financial services and mortgage industries. Additionally, we cannot predict whether there will be additional proposed laws or reforms that would affect us, whether or when such changes may be adopted, how such changes may be interpreted and enforced or how such changes may affect us. However, the costs of complying with any additional laws or regulations could have a material effect on our financial condition and results of operations.

Risks Related to Our Manager

We are dependent on our Manager and may not find a suitable replacement if ou