New Residential Investment Corp.
Form 10-Q
May 05, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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	10105
(Address of principal executive offices)	(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 x 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 x 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 x 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 x

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: 230,471,202 shares outstanding as of April 28, 2016.

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, Ocwen, OneMain 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 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 loan pools 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 in which we invest 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 residential mortgage 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;
- our ability to maintain our exclusion from registration under the 1940 Act and the fact that maintaining such exclusion imposes limits on our operations;
- the risks related to HLSS liabilities that we have assumed;
- the impact of current or future legal proceedings and regulatory investigations and inquiries;
- the impact of any material transactions with FIG LLC (the "Manager") or one of its affiliates, including the impact of any actual, potential or perceived conflicts of interest; and
- events, conditions or actions that might occur at Ocwen.

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 proved 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.

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
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Investments in:		
Excess mortgage servicing rights, at fair value	$ 1,547,004	$ 1,581,517
Excess mortgage servicing rights, equity method investees, at fair value	209,901	217,221
Servicer advances, at fair value(A)	7,001,004	7,426,794
Real estate securities, available-for-sale	3,441,790	2,501,881
Residential mortgage loans, held-for-investment	324,734	330,178
Residential mortgage loans, held-for-sale	633,160	776,681
Real estate owned	56,402	50,574
Consumer loans, held-for-investment(A)	1,970,565	—
Cash and cash equivalents(A)	258,622	249,936
Restricted cash	170,364	94,702
Trades receivable	1,509,016	1,538,481
Deferred tax asset, net	196,189	185,311
Other assets	253,026	239,446
	$ 17,571,777	$ 15,192,722
Liabilities and Equity		
Liabilities		
Repurchase agreements	$ 3,973,512	$ 4,043,054
Notes and bonds payable(A)	8,870,851	7,249,568
Trades payable	1,431,003	725,672
Due to affiliates	5,847	23,785
Dividends payable	106,017	106,017
Accrued expenses and other liabilities	105,551	58,046
	14,492,781	12,206,142
Commitments and Contingencies		
Equity		
Common Stock, $0.01 par value, 2,000,000,000 shares authorized, 230,471,202 and 230,471,202 issued and outstanding at March 31, 2016 and December 31, 2015, respectively	2,304	2,304
Additional paid-in capital	2,640,893	2,640,893
Retained earnings	154,519	148,800
Accumulated other comprehensive income (loss)	(12,912)	3,936
Total New Residential stockholders’ equity	2,784,804	2,795,933
Noncontrolling interests in equity of consolidated subsidiaries	294,192	190,647

Total Equity	3,078,996	2,986,580
	$17,571,777	$15,192,722

(A) New Residential's Condensed Consolidated Balance Sheets include the assets and liabilities of certain consolidated VIEs, the Buyer (Note 6) and the Consumer Loan SPVs (Note 9), which primarily hold investments in servicer advances and consumer loans, respectively, financed with notes and bonds payable. The Buyer's balance sheet is included in Note 6 and the Consumer Loan SPVs' balance sheet is included in Note 9. The creditors of the Buyer and the Consumer Loan SPVs do not have recourse to the general credit of New Residential and the assets of the Buyer and the Consumer Loan SPVs are not directly available to satisfy New Residential's obligations.

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
Interest income	$190,036	$ 84,373
Interest expense	81,228	33,979
Net Interest Income	108,808	50,394
Impairment		
Other-than-temporary impairment (OTTI) on securities	3,254	1,071
Valuation and loss provision on loans and real estate owned	6,745	977
	9,999	2,048
Net interest income after impairment	98,809	48,346
Other Income		
Change in fair value of investments in excess mortgage servicing rights	7,926	(1,761)
Change in fair value of investments in excess mortgage servicing rights, equity method investees	3,022	4,921
Change in fair value of investments in servicer advances	(31,224)	(7,669)
Gain on consumer loans investment	9,943	10,447
Gain on remeasurement of consumer loans investment	71,250	—
Gain (loss) on settlement of investments, net	(14,500)	14,767
Other income (loss), net	(14,495)	(8,410)
	31,922	12,295
Operating Expenses		
General and administrative expenses	12,081	8,560
Management fee to affiliate	10,008	5,126
Incentive compensation to affiliate	1,196	3,693
Loan servicing expense	1,731	4,891
	25,016	22,270
Income Before Income Taxes	105,715	38,371
Income tax expense (benefit)	(10,223)	(3,427)
Net Income	$115,938	$ 41,798
Noncontrolling Interests in Income of Consolidated Subsidiaries	$4,202	$ 5,823
Net Income Attributable to Common Stockholders	$111,736	$ 35,975
Net Income Per Share of Common Stock		
Basic	$0.48	$ 0.25
Diluted	$0.48	$ 0.25
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	230,471,202	141,434,905
Diluted	230,538,712	144,911,309

Dividends Declared per Share of Common Stock	$0.46	$ 0.38

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
Comprehensive income (loss), net of tax		
Net income	$115,938	$41,798
Other comprehensive income (loss)		
Net unrealized gain (loss) on securities	(19,969)	15,132
Reclassification of net realized (gain) loss on securities into earnings	3,121	(23,626)
	(16,848)	(8,494)
Total comprehensive income	$99,090	$33,304
Comprehensive income attributable to noncontrolling interests	$4,202	$5,823
Comprehensive income attributable to common stockholders	$94,888	$27,481

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(dollars in thousands, except share data)

	Common Stock							
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total New Residential Stockholders' Equity	Noncontrolling Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2015	230,471,202	$2,304	$2,640,893	$148,800	$3,936	$2,795,933	$190,647	$2,986,580
Dividends declared	—	—	—	(106,017)	—	(106,017)	—	(106,017)
SpringCastle Transaction (Note 1)	—	—	—	—	—	—	110,438	110,438
Capital contributions	—	—	—	—	—	—	—	—
Capital distributions	—	—	—	—	—	—	(11,095)	(11,095)
Comprehensive income (loss)								
Net income	—	—	—	111,736	—	111,736	4,202	115,938
Net unrealized gain (loss) on securities	—	—	—	—	(19,969)	(19,969)	—	(19,969)
Reclassification of net realized (gain) loss on securities into earnings	—	—	—	—	3,121	3,121	—	3,121
Total comprehensive income						94,888	4,202	99,090
Equity - March 31, 2016	230,471,202	$2,304	$2,640,893	$154,519	$(12,912)	$2,784,804	$294,192	$3,078,996

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
Cash Flows From Operating Activities		
Net income	$115,938	$41,798
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	(7,926)	1,761
Change in fair value of investments in excess mortgage servicing rights, equity method investees	(3,022)	(4,921)
Change in fair value of investments in servicer advances	31,224	7,669
(Gain) / loss on settlement of investments (net)	14,500	(17,701)
Loss on extinguishment of debt	—	2,934
(Gain) on remeasurement of consumer loans investment	(71,250)	—
Unrealized loss on derivative instruments	22,303	7,030
Unrealized (gain) / loss on other ABS	(268)	290
(Gain) / loss on transfer of loans to REO	(2,483)	544
(Gain) on transfer of loans to other assets	(687)	(11)
(Gain) on Excess MSR recapture agreements	(732)	(730)
Accretion and other amortization	(153,670)	(61,345)
Other-than-temporary impairment	3,254	1,071
Valuation and loss provision on loans and real estate owned	6,745	977
Deferred tax provision	(10,681)	(3,007)
Changes in:		
Restricted cash	(1,058)	1,093
Other assets	19,067	(1,838)
Due to affiliates	(17,938)	(50,959)
Accrued expenses and other liabilities	15,872	618
Other operating cash flows:		
Interest received from excess mortgage servicing rights	43,990	12,692
Interest received from servicer advance investments	50,229	23,168
Interest received from Non-Agency RMBS	29,449	8,050
Interest payments from residential mortgage loans, held-for-investment	437	—
Distributions of earnings from excess mortgage servicing rights, equity method investees	9,754	12,226
Purchases of residential mortgage loans, held-for-sale	(173,270)	—
Proceeds from sales of purchased residential mortgage loans, held-for-sale	231,390	—
Principal repayments from purchased residential mortgage loans, held-for-sale	18,186	3,178
Net cash provided by (used in) operating activities	169,353	(15,413)

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

	Three Months Ended March 31, 2016	2015
Cash Flows From Investing Activities		
Acquisition of investments in excess mortgage servicing rights	(2,022)	(23,831)
SpringCastle Transaction (Note 1), net of cash acquired	(49,943)	—
Purchase of servicer advance investments	(3,844,638)	(1,765,294)
Purchase of Agency RMBS	(1,684,194)	(1,026,525)
Purchase of Non-Agency RMBS	(314,547)	(26,649)
Purchase of residential mortgage loans	(319)	(19,032)
Purchase of derivatives	(1,355)	—
Purchase of real estate owned	(9,196)	—
Payments for settlement of derivatives	(33,553)	(25,007)
Return of investments in excess mortgage servicing rights	42,149	17,122
Return of investments in excess mortgage servicing rights, equity method investees	588	202
Principal repayments from servicer advance investments	4,267,612	1,802,188
Principal repayments from Agency RMBS	18,426	46,967
Principal repayments from Non-Agency RMBS	48,014	14,952
Principal repayments from residential mortgage loans	8,754	5,844
Proceeds from sale of residential mortgage loans	—	627,719
Proceeds from sale of Agency RMBS	1,727,673	1,060,569
Proceeds from sale of Non-Agency RMBS	38,471	389,719
Proceeds from settlement of derivatives	1,837	2,417
Proceeds from sale of real estate owned	8,142	34,930
Net cash provided by (used in) investing activities	221,899	1,116,291

Continued on next page.

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

	Three Months Ended March 31,	
	2016	2015
Cash Flows From Financing Activities		
Repayments of repurchase agreements	(5,062,857)	(2,016,777)
Margin deposits under repurchase agreements and derivatives	(106,952)	(123,289)
Repayments of notes and bonds payable	(1,894,548)	(396,125)
Payment of deferred financing fees	(5,555)	(666)
Common stock dividends paid	(106,017)	(53,745)
Borrowings under repurchase agreements	4,993,318	1,121,121
Return of margin deposits under repurchase agreements and derivatives	98,138	145,378
Borrowings under notes and bonds payable	1,713,002	482,334
Issuance of common stock	—	—
Costs related to issuance of common stock	—	—
Noncontrolling interest in equity of consolidated subsidiaries - contributions	—	—
Noncontrolling interest in equity of consolidated subsidiaries - distributions	(11,095)	(12,760)
Net cash provided by (used in) financing activities	(382,566)	(854,529)
Net Increase (Decrease) in Cash and Cash Equivalents	8,686	246,349
Cash and Cash Equivalents, Beginning of Period	249,936	212,985
Cash and Cash Equivalents, End of Period	$258,622	$459,334
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$75,690	$32,880
Cash paid during the period for income taxes	265	305
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Dividends declared but not paid	$106,017	$53,745
Reclassification resulting from the application of ASU No. 2014-11	—	85,955
Purchase of investments, primarily RMBS, settled after quarter end	1,431,003	196,000
Sale of Agency RMBS settled after quarter end	1,509,016	—
Transfer from residential mortgage loans to real estate owned and other assets	36,485	—
Non-cash contingent consideration	5,581	—
Non-cash distributions from Consumer Loan Companies	25	—
Real estate securities retained from loan securitizations	36,902	—
Remeasurement of Consumer Loan Companies noncontrolling interest	110,438	—

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
March 31, 2016
(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

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. 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 New York Stock Exchange ("NYSE") under the symbol "NRZ."

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

New Residential has entered into a management agreement (the "Management Agreement") with FIG LLC (the "Manager"), an affiliate of Fortress Investment Group LLC ("Fortress"), pursuant to which the Manager provides a management team and other professionals who are responsible for implementing New Residential's business strategy, 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, investment funds that indirectly own a majority of the outstanding interests in Nationstar Mortgage LLC ("Nationstar"), a leading residential mortgage servicer, and investment funds that own a majority of the outstanding common stock of OneMain Holdings, Inc. (formerly known as Springleaf Holdings, Inc.) (together with its subsidiaries, "OneMain"), former managing member of the Consumer Loan Companies (Note 9).

As of March 31, 2016, New Residential conducted its business through the following segments: (i) investments in excess mortgage servicing rights ("Excess MSRs"), (ii) investments in servicer advances (including the basic fee component of the related mortgage servicing rights ("MSRs")), (iii) investments in real estate securities, (iv) investments in real estate loans, (v) investments in consumer loans and (vi) corporate.

Approximately 2.4 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals as of March 31, 2016. In addition, Fortress, through its affiliates, held options relating to approximately 9.2 million shares of New Residential's common stock as of March 31, 2016.

Interim Financial Statements

The accompanying condensed consolidated financial statements and related notes of New Residential have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note 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 condensed consolidated financial statements should be read in conjunction with New Residential's consolidated financial statements for the year ended December 31, 2015 and notes thereto included in New Residential's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC"). Capitalized terms used herein, and not otherwise defined, are defined in New Residential's consolidated financial statements for the year ended December 31, 2015.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenues from Contracts with Customers (Topic 606). The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In effect, companies will be required to exercise further judgment and make more estimates prospectively. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 is effective for New Residential in the first quarter of 2018. Early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in ASU No. 2014-09. New Residential is currently evaluating the new guidance to determine the impact it may have on its condensed consolidated financial statements.

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

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. The standard: (i) requires that certain equity investments be measured at fair value, and modifies the assessment of impairment for certain other equity investments, (ii) changes certain disclosure requirements related to the fair value of financial instruments measured at amortized cost, (iii) changes certain disclosure requirements related to liabilities measured at fair value, (iv) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and (v) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for New Residential in the first quarter of 2018. Early adoption is generally not permitted. An entity should apply ASU No. 2016-01 by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. New Residential is currently evaluating the new guidance to determine the impact it may have on its condensed consolidated financial statements.

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

SpringCastle Transaction

On March 31, 2016, certain of New Residential's indirect wholly owned subsidiaries (collectively, the "NRZ SpringCastle Buyers") entered into a Purchase Agreement (the "SpringCastle Purchase Agreement") primarily with (i) certain direct or indirect wholly owned subsidiaries of OneMain (the “SpringCastle Sellers”), (ii) BTO Willow Holdings II, L.P. and Blackstone Family Tactical Opportunities Investment Partnership - NQ - ESC L.P. (together, the “Blackstone SpringCastle Buyers,” and the Blackstone SpringCastle Buyers together with the NRZ SpringCastle Buyers, collectively, the “SpringCastle Buyers”). Pursuant to the SpringCastle Purchase Agreement, the SpringCastle Sellers sold their collective 47% limited liability company interests in the Consumer Loan Companies (Note 9) to the SpringCastle Buyers for an aggregate purchase price of $111,625,000 (the “SpringCastle Transaction”).

Pursuant to the SpringCastle Purchase Agreement, the NRZ SpringCastle Buyers collectively acquired an additional 23.5% limited liability company interest in the Consumer Loan Companies (representing 50% of the limited liability company interests being sold by the SpringCastle Sellers in the SpringCastle Transaction) and the Blackstone SpringCastle Buyers acquired the other 50% of the limited liability company interests being sold in the SpringCastle Transaction. The SpringCastle Buyers collectively paid $100,462,500 of the aggregate purchase price to the SpringCastle Sellers on March 31, 2016, with the remaining $11,162,500 to be paid into an escrow account within 120 days following March 31, 2016. The NRZ SpringCastle Buyers’ obligation with respect to purchase price was, and the escrow obligation will be, 50% of the total paid, or to be paid, by the SpringCastle Buyers. The escrowed funds are expected to be held in escrow for a period of up to five years following March 31, 2016 and, subject to the terms of the SpringCastle Purchase Agreement and depending on the achievement of certain portfolio performance requirements, paid (in whole or in part) to the SpringCastle Sellers at the end of such five year period. Any portion of the escrowed funds that the SpringCastle Sellers are not entitled to receive at the end of such five year period, based on the failure to achieve certain portfolio performance requirements, will be returned to the SpringCastle Buyers. The SpringCastle Buyers are also entitled (but not required) to use the escrowed funds as a source of recovery for any indemnification payments to which they become entitled pursuant to the SpringCastle Purchase Agreement. The SpringCastle Purchase Agreement includes customary representations, warranties, covenants and indemnities.

The SpringCastle Transaction was unanimously approved by a special committee composed entirely of independent directors to which New Residential's board of directors had delegated full authority to consider, negotiate and determine whether to engage in the SpringCastle Transaction.

Following the SpringCastle Transaction, New Residential, through the NRZ SpringCastle Buyers, owns 53.5% of the limited liability company interests in the Consumer Loan Companies and the Blackstone SpringCastle Buyers, collectively with their affiliates, own the remaining 46.5% interests in the Consumer Loan Companies. OneMain will remain as servicer of the loans held by the Consumer Loan Companies and their subsidiaries immediately following the SpringCastle Transaction.

In connection with the closing of the SpringCastle Transaction, each NRZ SpringCastle Buyer entered into a Second Amended & Restated Limited Liability Company Agreement (each, a "Second A&R LLC Agreement") for each of the Consumer Loan Companies in which it acquired limited liability company interests. All of the Second A&R LLC Agreements contain substantially identical terms and conditions and designate the respective NRZ SpringCastle Buyer that is a party thereto as managing member of the applicable Consumer Loan Company. Pursuant to each Second A&R LLC Agreement, the managing member has the exclusive power and authority to manage the business and affairs of the applicable Consumer Loan Company, subject to the rights of the members to approve specified significant actions outside of the ordinary course of business and certain affiliate transactions, and subject to the other terms, conditions and limitations set forth in the Second A&R LLC Agreements. Each Second A&R LLC Agreement contains certain customary restrictions on the members' ability to transfer their interests in the applicable Consumer Loan Companies.

As a result of the SpringCastle Transaction, New Residential obtained a controlling financial interest in the Consumer Loan Companies, which triggered the application of the acquisition model in ASC No. 805, including the fair value recognition of all net assets over which control has been obtained and the remeasurement of any previously held noncontrolling interest. Based on the guidance in ASC No. 805, New Residential has consolidated all of the assets and the related liabilities of the Consumer Loan Companies assuming a gross purchase price of $237.5 million. This gross purchase price is representative of the fair value, measured in accordance with ASC No. 820, of 100% of the net assets of the Consumer Loan Companies, which was used to derive the $111.6 million purchase price for an aggregate 47.0% of the equity ownership acquired by the SpringCastle Buyers. The remeasurement of New Residential's previously held equity method investment resulted in a gain of $71.3 million, which was recorded to Gain on Remeasurement of Consumer Loans Investment.

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New Residential has performed a preliminary allocation of the purchase price to the Consumer Loans Companies' assets and liabilities, as set forth below. The final allocation of purchase price may differ from the amounts included herein. The preliminary allocation of the total consideration, following reclassifications to conform to New Residential's presentation, is as follows:

Total Consideration ($ in millions)	$237.5
Assets	
Consumer loans, held-for-investment	$1,970.6
Cash and cash equivalents	0.3
Restricted cash	74.6
Total Assets Acquired	$2,045.5
Liabilities	
Notes and bonds payable	1,803.2
Accrued expenses and other liabilities	4.8
Total Liabilities Assumed	$1,808.0
Net Assets	$237.5

The acquisition of the Consumer Loans Companies resulted in no goodwill because the total consideration transferred was equal to the fair value of the net assets acquired.

Unaudited Supplemental Pro Forma Financial Information - The following table presents New Residential's unaudited pro forma combined Interest Income and Income Before Income Taxes for the three months ended March 31, 2016 and 2015 prepared as if the SpringCastle Transaction had been consummated on January 1, 2015.

	Three Months Ended March 31,	
	2016 (unaudited)	2015 (unaudited)
Pro Forma		
Interest Income	$238,464	$ 148,263
Income Before Income Taxes	55,294	136,837
Noncontrolling Interests in Income of Consolidated Subsidiaries	17,834	24,040

The 2016 unaudited supplemental pro forma financial information has been adjusted to exclude, and the 2015 unaudited supplemental pro forma financial information has been adjusted to include, (i) the gain on remeasurement of New Residential's Consumer Loans investment of $71.3 million and (ii) approximately $1.5 million of acquisition related costs incurred by New Residential in 2016. The unaudited supplemental pro forma financial information does not include any other anticipated benefits of the SpringCastle Transaction and, accordingly, the unaudited supplemental pro forma financial information is not necessarily indicative of either future results of operations or results that might have been achieved had the SpringCastle Transaction occurred on January 1, 2015.

See Note 9 for further information on the Consumer Loan Companies and Note 11 for further information on related financing.

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2. OTHER INCOME, ASSETS AND LIABILITIES

Other income (loss), net, is comprised of the following:

	Three Months Ended March 31,	
	2016	2015
Unrealized gain (loss) on derivative instruments	$(22,303)	$(7,030)
Unrealized gain (loss) on other ABS	268	(290)
Gain (loss) on transfer of loans to REO	2,483	(544)
Gain on Excess MSR recapture agreements	732	730
Other income (loss)	4,325	(1,276)
	$(14,495)	$(8,410)

Gain (loss) on settlement of investments, net is comprised of the following:

	Three Months Ended March 31,	
	2016	2015
Gain (loss) on sale of real estate securities, net	$16,133	$24,697
Gain (loss) on sale of residential mortgage loans, net	109	20,830
Gain (loss) on settlement of derivatives	(32,633)	(22,590)
Gain (loss) on liquidated residential mortgage loans	—	400
Gain (loss) on sale of REO	151	(5,636)
Other gains (losses)	1,740	(2,934)
	$(14,500)	$14,767

Other assets and liabilities are comprised of the following:

	Other Assets			Accrued Expenses and Other Liabilities	
	March 31, 2016	December 31, 2015		March 31, 2016	December 31, 2015
Margin receivable, net	$63,273	$54,459	Interest payable	$19,988	$ 18,268
Other receivables	16,305	10,893	Accounts payable	37,826	18,650
Principal paydown receivable	822	795	Derivative liabilities (Note 10)	34,942	13,443
Receivable from government agency	75,514	68,833	Current taxes payable	2,180	1,573
Call rights	414	414	Other liabilities	10,615	6,112
Derivative assets (Note 10)	1,720	2,689		$105,551	$ 58,046
Interest receivable	38,431	36,963			
Ginnie Mae EBO servicer advance receivable, net	44,652	49,725			
Other assets	11,895	14,675			
	$253,026	$239,446			

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

	Three Months Ended March 31,	
	2016	2015
Accretion of servicer advance interest income	$78,637	$42,349
Accretion of excess mortgage servicing rights income	42,968	15,037
Accretion of net discount on securities and loans(A)	37,128	5,399
Amortization of deferred financing costs	(4,785)	(1,440)
Amortization of discount on notes and bonds payable	(278)	—
	$153,670	$61,345

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

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 management fees and incentive compensation related to the Management Agreement and (iii) corporate cash and related interest income. Securities owned by New Residential (Note 7) that are collateralized by servicer advances are included in the Servicer Advances segment. Secured corporate loans effectively collateralized by Excess MSRs are included in the Excess MSRs segment.

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

	Servicing Related Assets		Residential Securities and Loans				
	Excess MSRs	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans	Corporate	Total
Three Months Ended March 31, 2016							
Interest income	$42,968	$80,967	$45,913	$19,493	$1	$694	$190,036
Interest expense	2,934	63,075	7,484	7,390	345	—	81,228
Net interest income (expense)	40,034	17,892	38,429	12,103	(344)	694	108,808
Impairment	—	—	3,254	6,745	—	—	9,999
Other income	11,693	(27,391)	(36,461)	2,873	81,193	15	31,922
Operating expenses	232	994	461	4,334	1,604	17,391	25,016
Income (Loss) Before Income Taxes	51,495	(10,493)	(1,747)	3,897	79,245	(16,682)	105,715
Income tax expense (benefit)	—	(10,002)	—	(221)	—	—	(10,223)
Net Income (Loss)	$51,495	$(491)	$(1,747)	$4,118	$79,245	$(16,682)	$115,938
Noncontrolling interests in income (loss) of consolidated subsidiaries	$—	$4,202	$—	$—	$—	$—	$4,202
	$51,495	$(4,693)	$(1,747)	$4,118	$79,245	$(16,682)	$111,736

Net income (loss) attributable to common stockholders

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	Servicing Related Assets		Residential Securities and Loans				
	Excess MSRs	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans	Corporate	Total
March 31, 2016							
Investments	$1,756,905	$7,432,012	$3,010,782	$1,014,296	$1,970,565	$—	$15,184,560
Cash and cash equivalents	919	198,116	670	11,753	1,670	45,494	258,622
Restricted cash	1,235	94,525	—	—	74,604	—	170,364
Other assets	14	207,255	1,579,924	121,524	2,050	47,464	1,958,231
Total assets	$1,759,073	$7,931,908	$4,591,376	$1,147,573	$2,048,889	$92,958	$17,571,777
Debt	$181,602	$7,372,351	$2,616,625	$836,370	$1,837,415	$—	$12,844,363
Other liabilities	437	24,625	1,469,071	21,233	12,250	120,802	1,648,418
Total liabilities	182,039	7,396,976	4,085,696	857,603	1,849,665	120,802	14,492,781
Total equity	1,577,034	534,932	505,680	289,970	199,224	(27,844)	3,078,996
Noncontrolling interests in equity of consolidated subsidiaries	—	183,754	—	—	110,438	—	294,192
Total New Residential stockholders' equity	$1,577,034	$351,178	$505,680	$289,970	$88,786	$(27,844)	$2,784,804
Investments in equity method investees	$209,901	$—	$—	$—	$—	$—	$209,901

	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, 2015							
Interest income	$15,037	$42,349	$14,263	$12,724	$—	$—	$84,373
Interest expense	769	23,637	3,480	6,093	—	—	33,979
Net interest income (expense)	14,268	18,712	10,783	6,631	—	—	50,394
Impairment	—	—	1,071	977	—	—	2,048
Other income	3,890	(10,727)	(5,090)	13,775	10,447	—	12,295
Operating expenses	88	575	(102)	6,104	57	15,548	22,270
Income (Loss) Before Income Taxes	18,070	7,410	4,724	13,325	10,390	(15,548)	38,371
Income tax expense (benefit)	—	(3,240)	—	(187)	—	—	(3,427)
Net Income (Loss)	$18,070	$10,650	$4,724	$13,512	$10,390	$(15,548)	$41,798
Noncontrolling interests in income (loss) of consolidated subsidiaries	$—	$5,823	$—	$—	$—	$—	$5,823
Net income (loss) attributable to common stockholders	$18,070	$4,827	$4,724	$13,512	$10,390	$(15,548)	$35,975

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4. INVESTMENTS IN EXCESS MORTGAGE SERVICING RIGHTS

The following table presents activity related to the carrying value of New Residential's investments in Excess MSRs:

	Servicer			
	Nationstar	SLS[(A)]	Ocwen[(B)]	Total
Balance as of December 31, 2015	$698,304	$5,307	$877,906	$1,581,517
Purchases	—	—	—	—
Interest income	19,435	(7)	23,540	42,968
Other income	732	—	—	732
Proceeds from repayments	(37,676)	(272)	(48,191)	(86,139)
Change in fair value	3,527	(57)	4,456	7,926
Balance as of March 31, 2016	$684,322	$4,971	$857,711	$1,547,004

(A) Specialized Loan Servicing LLC ("SLS").

(B) Ocwen Loan Servicing LLC, a subsidiary of Ocwen Financial Corporation (together with its subsidiaries, including Ocwen Loan Servicing LLC, "Ocwen"), services the loans underlying the Excess MSRs and Servicer Advances acquired from HLSS.

On January 4, 2016, New Residential invested the remaining $2.0 million to complete its acquisition of a 66.7% interest in the Excess MSRs on a portfolio of Fannie Mae residential mortgage loans with an aggregate UPB of $17.2 billion. Nationstar agreed to acquire the remaining 33.3% interest in the Excess MSRs.

Nationstar, SLS or Ocwen, as applicable, as servicer, performs all servicing and advancing functions, and retains the ancillary income, servicing obligations and liabilities as the servicer of the underlying loans in each portfolio.

New Residential has entered into a "recapture agreement" with respect to each of the Excess MSR investments serviced by Nationstar and SLS, 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 or SLS, as applicable, of a loan in the original portfolio. New Residential has a similar recapture agreement with Ocwen; however, this agreement allows for Ocwen to retain the Excess MSR on recaptured loans up to a specified threshold and no payments have been made to New Residential under such arrangement to date. 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.

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

	March 31, 2016							December 31, 2015
	UPB of Underlying Mortgages	Interest in Excess MSR			Weighted Average Life Years(A)	Amortized Cost Basis(B)	Carrying Value(C)	Carrying Value(C)
		New Residential	Fortress-managed funds	Nationstar				
Agency								
Original and Recaptured Pools	$90,119,338	32.5% - 66.7%	0.0% - 40.0%	20.0% - 35.0%	5.9	$325,508	$367,004	$378,083
Recapture Agreements	—	32.5% - 66.7%	0.0% - 40.0%	20.0% - 35.0%	12.2	34,348	58,896	59,118
	90,119,338				6.5	359,856	425,900	437,201
Non-Agency(D)								
Nationstar and SLS Serviced:								
Original and Recaptured Pools	$91,277,078	33.3% - 80.0%	0.0% - 50.0%	0.0% - 33.3%	5.3	$205,633	$247,957	$250,662
Recapture Agreements	—	33.3% - 80.0%	0.0% - 50.0%	0.0% - 33.3%	12.3	13,641	15,436	15,748
Ocwen Serviced Pools	136,143,859	100.0 %	— %	— %	6.3	811,778	857,711	877,906
	227,420,937				6.2	1,031,052	1,121,104	1,144,316
Total	$317,540,275				6.3	$1,390,908	$1,547,004	$1,581,517

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

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

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

(D) Excess MSR investments in which New Residential also invested in related Servicer Advances, including the basic fee component of the related MSR as of March 31, 2016 (Note 6).

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

	Three Months Ended March 31,	
	2016	2015
Original and Recaptured Pools	$5,697	$(1,976)
Recapture Agreements	2,229	215

$7,926	$(1,761)

In the first quarter of 2016, a weighted average discount rate of 9.8% was used to value New Residential's investments in Excess MSRs (directly and through equity method investees).

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

State Concentration	Percentage of Total Outstanding Unpaid Principal Amount as of March 31, 2016		December 31, 2015	
California	26.7	%	26.7	%
Florida	8.9	%	8.9	%
New York	7.9	%	7.8	%
Texas	4.3	%	4.3	%
New Jersey	4.1	%	4.1	%
Maryland	3.8	%	3.8	%
Illinois	3.4	%	3.4	%
Virginia	3.1	%	3.1	%
Washington	2.7	%	2.7	%
Massachusetts	2.7	%	2.7	%
Other U.S.	32.4	%	32.5	%
	100.0	%	100.0	%

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

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

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

	March 31, 2016	December 31, 2015
Excess MSR assets	$404,863	$ 421,999
Other assets	14,939	12,442
Other liabilities	—	—
Equity	$419,802	$ 434,441
New Residential's investment	$209,901	$ 217,221
New Residential's ownership	50.0 %	50.0 %

	Three Months Ended March 31,	
	2016	2015
Interest income	$8,081	$11,701
Other income (loss)	(2,014)	(1,835)
Expenses	(23)	(25)
Net income	$6,044	$9,841

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New Residential's investments in equity method investees changed during the three months ended March 31, 2016 as follows:

Balance at December 31, 2015	$217,221
Contributions to equity method investees	—
Distributions of earnings from equity method investees	(9,754)
Distributions of capital from equity method investees	(588)
Change in fair value of investments in equity method investees	3,022
Balance at March 31, 2016	$209,901

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

	March 31, 2016					
	Unpaid Principal Balance	Investee Interest in Excess MSR(A)	New Residential Interest in Investees	Amortized Cost Basis(B)	Carrying Value(C)	Weighted Average Life (Years)(D)
Agency						
Original and Recaptured Pools	$70,087,028	66.7 %	50.0 %	$264,544	$336,113	5.7
Recapture Agreements	—	66.7 %	50.0 %	41,563	68,750	11.8
Total	$70,087,028			$306,107	$404,863	6.6

(A) The remaining interests are held by Nationstar.

(B) 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.

(C) 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.

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

In the first quarter of 2016, a weighted average discount rate of 9.8% was used to value New Residential's investments in Excess MSRs (directly and through equity method investees).

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

	Percentage of Total Outstanding Unpaid Principal Amount as of	
State Concentration	March 31, 2016	December 31, 2015
California	12.8 %	12.9 %
Florida	7.3 %	7.4 %

Texas	6.1	%	6.1	%
New York	5.9	%	5.8	%
Georgia	5.7	%	5.7	%
New Jersey	4.3	%	4.3	%
Illinois	4.0	%	4.0	%
Maryland	3.2	%	3.2	%
Virginia	3.2	%	3.2	%
Pennsylvania	3.1	%	3.1	%
Other U.S.	44.4	%	44.3	%
	100.0	%	100.0	%

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

6. INVESTMENTS IN SERVICER ADVANCES

In December 2013, New Residential and third-party co-investors, through a joint venture entity (Advance Purchaser LLC, the “Buyer”) consolidated by New Residential, purchased the outstanding Servicer Advances related to a portfolio of residential mortgage loans that is serviced by Nationstar and is a subset of the same portfolio of loans in which New Residential has invested in a portion of the Excess MSRs (Notes 4 and 5), including the basic fee component of the related MSRs. A taxable wholly owned subsidiary of New Residential is the managing member of the Buyer and owned an approximately 44.5% interest in the Buyer as of March 31, 2016. As of March 31, 2016, noncontrolling third-party investors, owning the remaining interest in the Buyer, have funded capital commitments to the Buyer of $389.6 million and New Residential has funded capital commitments to the Buyer of $312.7 million. The Buyer may call capital up to the commitment amount on unfunded commitments and recall capital to the extent the Buyer makes a distribution to the co-investors, including New Residential. As of March 31, 2016, the third-party co-investors and New Residential had previously funded their commitments, however the Buyer may recall $256.9 million and $206.2 million of capital distributed to the third-party co-investors and New Residential, respectively. Neither the third-party co-investors nor New Residential is obligated to fund amounts in excess of their respective capital commitments, regardless of the capital requirements of the Buyer.

The Buyer has purchased Servicer Advances from Nationstar, is required to purchase all future Servicer Advances made with respect to this portfolio of loans from Nationstar, and receives cash flows from advance recoveries and the basic fee component of the related MSRs, net of compensation paid back to Nationstar in consideration of Nationstar’s servicing activities. The compensation paid to Nationstar as of March 31, 2016 was approximately 9.3% 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 also acquired a portion of the call rights related to this portfolio of loans.

In December 2014, New Residential agreed to acquire (the “SLS Transaction”) 50% of the Excess MSRs and all of the Servicer Advances and related basic fee portion of the MSR (the “SLS Advance Fee”), and a portion of the call rights related to a portfolio of residential mortgage loans which is serviced by SLS. Fortress-managed funds acquired the other 50% of the Excess MSRs. SLS will continue to service the loans in exchange for a servicing fee of 10.75 bps times the UPB of the underlying loans and an incentive fee (the “SLS Incentive Fee”) which is based on the ratio of the outstanding Servicer Advances to the UPB of the underlying loans.

On April 6, 2015, New Residential acquired Servicer Advances and Excess MSRs in connection with the HLSS Acquisition. Ocwen will continue to service the underlying loans in exchange for a servicing fee of approximately 5.3 bps times the UPB of the underlying loans and an incentive fee which is reduced by LIBOR plus 2.75% per annum of the amount, if any, of servicer advances outstanding in excess of a defined target.

In connection with the HLSS Acquisition, New Residential acquired from Ocwen the call rights related to the mortgage loans underlying the Excess MSRs and Servicer Advances acquired from HLSS.

New Residential continues to evaluate the call rights it acquired from Nationstar, SLS and Ocwen, and its ability to exercise such rights and realize the benefits therefrom are subject to a number of risks. The actual UPB of the mortgage loans on which New Residential can successfully exercise call rights and realize the benefits therefrom may differ materially from its initial assumptions.

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.

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The following is a summary of the investments in Servicer Advances, including the right to the basic fee component of the related MSRs:

	Amortized Cost Basis	Carrying Value(A)	Weighted Average Discount Rate	Weighted Average Yield	Weighted Average Life (Years)(B)
March 31, 2016					
Servicer Advances(C)	$7,005,501	$7,001,004	5.5 %	5.3 %	4.5
As of December 31, 2015					
Servicer Advances(C)	$7,400,068	$7,426,794	5.6 %	5.5 %	4.4

(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.

(C) Excludes New Residential asset-backed securities collateralized by Servicer Advances, which have aggregate face amounts of $431.0 million and $431.0 million and aggregate carrying values of $431.0 million and $430.3 million as of March 31, 2016 and December 31, 2015, respectively. See Note 7 for details related to these securities.

	Three Months Ended March 31,	
	2016	2015
Changes in Fair Value Recorded in Other Income	$(31,224)	$(7,669)

The following is additional information regarding the Servicer Advances and related financing:

	UPB of Underlying Residential Mortgage Loans	Outstanding Servicer Advances	Servicer Advances to UPB of Underlying Residential Mortgage Loans	Face Amount of Notes and Bonds Payable	Loan-to-Value(A)		Cost of Funds(C)	
					Gross	Net(B)	Gross	Net
March 31, 2016								
Servicer Advances(D)	$212,135,668	$7,203,924	3.4 %	$6,880,413	93.9 %	92.8 %	3.4%	2.7%
December 31, 2015								
Servicer Advances(D)	$220,256,804	$7,578,110	3.4 %	$7,058,094	91.2 %	90.2 %	3.4%	2.6%

(A) Based on outstanding Servicer Advances, excluding purchased but unsettled Servicer Advances and certain deferred servicing fees ("DSF") on which New Residential receives financing. If New Residential were to include these DSF in the servicer advance balance, gross and net LTV as of March 31, 2016 would be 89.4% and 88.4%, respectively. Also excludes retained non-agency bonds with a current face amount of $175.8 million from the outstanding Servicer Advances debt. If New Residential were to sell these bonds, gross and net LTV as of March 31, 2016 would be 96.3% and 95.2%, respectively.

(B) Ratio of face amount of borrowings to par amount of servicer advance collateral, net of any general reserve.

(C) 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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(D) The following types of advances comprise the investments in Servicer Advances:

	March 31, 2016	December 31, 2015
Principal and interest advances	$2,016,073	$ 2,229,468
Escrow advances (taxes and insurance advances)	3,504,808	3,687,559
Foreclosure advances	1,683,043	1,661,083
Total	$7,203,924	$ 7,578,110

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

	Three Months Ended March 31, 2016	2015
Interest income, gross of amounts attributable to servicer compensation	$ 227,288	$ 63,357
Amounts attributable to base servicer compensation	(29,509)	(6,601)
Amounts attributable to incentive servicer compensation	(119,142)	(14,407)
Interest income from investments in Servicer Advances	$ 78,637	$ 42,349

New Residential has determined that the Buyer is a VIE. The following table presents information on the assets and liabilities related to this consolidated VIE.

	As of March 31, 2016	December 31, 2015
Assets		
Servicer advance investments, at fair value	2,263,311	$ 2,344,245
Cash and cash equivalents	31,711	40,761
All other assets	25,711	25,092
Total assets(A)	$2,320,733	$ 2,410,098
Liabilities		
Notes and bonds payable	$1,982,944	$ 2,060,347
All other liabilities	6,574	6,111
Total liabilities(A)	$1,989,518	$ 2,066,458

(A) The creditors of the Buyer do not have recourse to the general credit of New Residential and the assets of the Buyer are not directly available to satisfy New Residential’s obligations.

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

	March 31, 2016	December 31, 2015
Total Advance Purchaser LLC equity	$331,215	$ 343,640
Others' ownership interest	55.5 %	55.5 %
Others' interest in equity of consolidated subsidiary	$183,754	$ 190,647

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

	Three Months Ended March 31,	
	2016	2015
Net Advance Purchaser LLC income	$7,575	$10,496
Others' ownership interest as a percent of total[(A)]	55.5 %	55.5 %
Others' interest in net income of consolidated subsidiaries	$4,202	$5,823

(A) As a result, New Residential owned 44.5% and 44.5% of the Buyer, on average during the three months ended March 31, 2016 and 2015, respectively.

7. INVESTMENTS IN REAL ESTATE SECURITIES

Agency residential mortgage backed securities ("RMBS") are issued by a government sponsored enterprise, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Non-Agency RMBS are issued by either public trusts or private label securitization entities.

Activities related to New Residential's investments in real estate securities were as follows:

	Three Months Ended March 31, 2016 (in millions)	
	Agency	Non Agency
Purchases		
Face	$2,216.7	$1,032.1
Purchase Price	$2,300.3	$443.1
Sales		
Face	$1,632.6	$59.9
Amortized Cost	$1,673.7	$51.9
Sale Price	$1,698.3	$43.4
Gain (Loss) on Sale	$24.6	$(8.5)

As of March 31, 2016, New Residential sold and purchased $1.4 billion and $1.3 billion face amount of Agency RMBS for $1.5 billion and $1.3 billion, respectively, and purchased $0.2 billion face amount of Non-Agency RMBS for $0.1 billion, which had not yet been settled. These unsettled sales and purchases were recorded on the balance sheet on trade date as Trades Receivable and Trades Payable.

New Residential has exercised its call rights with respect to Non-Agency RMBS trusts and purchased performing and non-performing residential mortgage loans and REO contained in such trusts prior to their termination. In certain cases, New Residential sold portions of the purchased loans through securitizations, and retained bonds issued by such securitizations. In addition, New Residential received par on the securities issued by the called trusts which it owned prior to such trusts' termination. Refer to Note 8 for further details on these transactions.

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The following is a summary of New Residential's real estate securities, 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 and except for securities which New Residential elected to carry at fair value and record changes to valuation through the income statement.

	March 31, 2016												Dec 31,
			Gross Unrealized			Weighted Average							
Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gains	Losses	Carrying Value(A)	Number of Securities	Rating(B)	Coupon(C)	Yield	Life (Years)(D)	Principal Subordination(E)	Carrying Value
Agency RMBS(F) (G)	$1,450,299	$1,524,194	$531	$(1,522)	$1,523,203	39	AAA	3.39%	1.95%	6.1	N/A	$91
Non-Agency RMBS(H) (I)	4,316,034	1,928,849	21,699	(31,961)	1,918,587	280	BB-	1.70%	5.23%	7.5	11.2%	1,58
Total/ Weighted Average	$5,766,333	$3,453,043	$22,230	$(33,483)	$3,441,790	319	BBB+	2.42%	3.78%	6.9		$2,5

(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 84 bonds with a carrying value of $341.6 million which either have never been rated or for which rating information is no longer provided. For each security rated by multiple rating agencies, the lowest rating is used. New Residential used an implied AAA rating for the Agency RMBS. Ratings provided were determined by third party rating agencies, and represent the most recent credit ratings available as of the reporting date and may not be current.

(C) Excludes residual bonds, and certain other Non-Agency bonds, with a carrying value of $220.5 million and $0.0 million, respectively, for which no coupon payment is expected.

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

(E) Percentage of the amortized cost basis of securities that is subordinate to New Residential's investments, excluding interest-only bonds and servicer advance bonds.

(F) Includes securities issued or guaranteed by U.S. Government agencies such as Fannie Mae or Freddie Mac.

(G) The total outstanding face amount was $1.3 billion for fixed rate securities and $175.7 million for floating rate securities as of March 31, 2016.

(H) The total outstanding face amount was $2.4 billion (including $1.8 billion of residual and interest-only notional amount) for fixed rate securities and $1.9 billion (including $229.9 million of residual and interest-only notional amount) for floating rate securities as of March 31, 2016.

(I) Includes other ABS consisting primarily of (i) interest-only securities which New Residential elected to carry at fair value and record changes to valuation through the income statement and (ii) bonds backed by servicer advances.

			Gross Unrealized			Weighted Average					
Asset Type	Outstanding Face	Amortized Cost	Gains	Losses	Carrying Value	Number of	Rating	Coupon	Yield	Life (Years)	Principal Subordination

	Amount	Basis				Securities					
Other ABS	$1,723,191	$102,192	$6,028	$(4,412)	$103,808	16	A+	2.21 %	6.21%	5.1	N/A
Servicer Advance Bonds	$431,000	$430,754	$306	$(103)	$430,957	5	AA+	2.69 %	2.44%	0.8	N/A

Unrealized losses that are considered other-than-temporary are recognized currently in earnings. During the three months ended March 31, 2016, New Residential recorded OTTI charges of $3.3 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 its 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.

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The following table summarizes New Residential's securities in an unrealized loss position as of March 31, 2016.

		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 12 Months	$2,296,736	$1,054,378	$(3,070)	$1,051,308	$(31,030)	$1,020,278	131	B+	1.35%	5.30%	9.0
12 or More Months	202,132	166,905	(184)	166,721	(2,453)	164,268	31	AA-	2.38%	1.87%	6.7
Total/Weighted Average	$2,498,868	$1,221,283	$(3,254)	$1,218,029	$(33,483)	$1,184,546	162	BB-	1.50%	4.83%	8.6

(A) This amount represents OTTI recorded on securities that are in an unrealized loss position as of March 31, 2016.

(B) The weighted average rating of securities in an unrealized loss position for less than 12 months excludes the rating of 24 bonds which either have never been rated or for which rating information is no longer provided. The weighted average rating of securities in an unrealized loss position for 12 or more months excludes the rating of 2 bonds which either have never been rated or for which rating information is no longer provided.

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, 2016			
			Gross Unrealized Losses	
	Fair Value	Amortized Cost Basis After Impairment	Credit(A)	Non-Credit(B)
Securities New Residential intends to sell(C)	$—	$—	$—	$ —
Securities New Residential is more likely than not to be required to sell(D)	—	—	—	N/A
Securities New Residential has no intent to sell and is not more likely than not to be required to sell:				
Credit impaired securities	274,970	279,440	(3,254)	(4,470)
Non-credit impaired securities	909,576	938,589	—	(29,013)
Total debt securities in an unrealized loss position	$1,184,546	$1,218,029	$(3,254)	$ (33,483)

(A) This amount is required to be recorded as OTTI through earnings. In measuring the portion of credit losses, New Residential 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 New Residential'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, 2016.

(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.

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

	Three Months Ended March 31, 2016
Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	$6,239
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	1,276
Additions for credit losses on securities for which an OTTI was not previously recognized	1,978
Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis	—
Reduction for credit losses on securities for which no OTTI was recognized in other comprehensive income at the current measurement date	—
Reduction for securities sold during the period	(284)
Ending balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	$9,209

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

	March 31, 2016		December 31, 2015	
Geographic Location[(A)]	Outstanding Face Amount	Percentage of Total Outstanding	Outstanding Face Amount	Percentage of Total Outstanding
Western U.S.	$1,338,979	34.4 %	$1,097,609	35.3 %
Southeastern U.S.	946,470	24.3 %	758,167	24.4 %
Northeastern U.S.	757,277	19.5 %	583,366	18.8 %
Midwestern U.S.	452,917	11.7 %	335,406	10.8 %
Southwestern U.S.	382,954	9.9 %	309,236	10.0 %
Other[(B)]	6,437	0.2 %	19,189	0.7 %
	$3,885,034	100.0 %	$3,102,973	100.0 %

(A) Excludes $431.0 million face amount of bonds backed by servicer advances.
(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, 2016, excluding residual and interest-only securities, the face amount of these real estate securities was $626.2 million, with total expected cash flows of $425.3 million and a fair value of $341.7 million on the dates that New Residential purchased the respective securities.

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

	Outstanding Face Amount	Carrying Value
March 31, 2016	$1,381,005	$758,726
December 31, 2015	873,763	504,659

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

	Three Months Ended March 31, 2016
Balance at December 31, 2015	$316,521
Additions	224,428
Accretion	(18,362)
Reclassifications from (to) non-accretable difference	(13,662)
Disposals	4,855
Balance at March 31, 2016	$513,780

8. INVESTMENTS IN RESIDENTIAL MORTGAGE LOANS

Loans are accounted for based on New Residential's strategy for the loan, and on whether the loan was credit-impaired at the date of acquisition. New Residential accounts for loans based on the following categories:

- Loans Held-for-Investment:
  - Reverse Mortgage Loans
  - Performing Loans
  - Purchased Credit Deteriorated ("PCD") Loans
- Loans Held-for-Sale ("HFS")
- Real Estate Owned (REO)

The following table presents certain information regarding New Residential's residential mortgage loans outstanding by loan type, excluding REO:

	March 31, 2016									December 31, 2015
	Outstanding Face Amount	Carrying Value	Loan Count	Weighted Average Yield	Weighted Average Life (Years)(A)	Floating Rate Loans as a % of Face Amount	Loan to Value Ratio ("LTV")(B)	Weighted Avg. Delinquency(C)	Weighted Average FICO(D)	Carrying Value
Loan Type										
Reverse Mortgage Loans(E)(F)	$32,633	$18,142	122	7.4 %	4.4	19.8 %	133.5 %	65.7 %	N/A	$19,560
Performing Loans(G)	20,884	19,462	663	8.9 %	5.6	17.3 %	77.2 %	7.3 %	626	19,964
Purchased Credit Deteriorated Loans(H)	439,649	287,130	2,037	5.5 %	2.6	18.7 %	116.4 %	93.1 %	577	290,654
Total Residential Mortgage Loans, held-for-investment	$493,166	$324,734	2,822	5.8 %	2.8	18.7 %	115.9 %	87.7 %	580	$330,178

Performing Loans, held-for-sale[G]	$143,384	$151,001	1,671	3.8 %	4.7	9.6 %	58.1 %	3.7 %	665	$277,084
Non-Performing Loans, held-for-sale[H][I]	572,988	482,159	3,425	7.0 %	2.7	15.3 %	104.0 %	79.1 %	571	499,597
Total Residential Mortgage Loans, held-for-sale	$716,372	$633,160	5,096	6.3 %	3.1	14.2 %	94.8 %	64.0 %	590	$776,681

(A) The weighted average life is based on the expected timing of the receipt of cash flows.
(B) LTV refers to the ratio comparing the loan's unpaid principal balance to the value of the collateral property.
(C) Represents the percentage of the total principal balance that are 60+ days delinquent.
(D) The weighted average FICO score is based on the weighted average of information updated and provided by the loan servicer on a monthly basis.
(E) Represents a 70% participation interest that New Residential holds in a portfolio of reverse mortgage loans. The average loan balance outstanding based on total UPB is $0.4 million. Approximately 60% of these loans have reached a termination event. As a result of the termination event, each such loan has matured and the borrower can no longer make draws on these loans.
(F) FICO scores are not used in determining how much a borrower can access via a reverse mortgage loan.
(G) Includes loans that are current or less than 30 days past due at acquisition where New Residential expects to collect all contractually required principal and interest payments. Presented net of unamortized premiums of $8.7 million.

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(H) Includes loans with evidence of credit deterioration since origination where it is probable that New Residential will not collect all contractually required principal and interest payments. As of March 31, 2016, New Residential has placed all of these loans on nonaccrual status, except as described in (I) below.

(I) Includes $232.1 million UPB of Ginnie Mae EBO non-performing loans on accrual status because contractual cash flows are guaranteed by the FHA.

New Residential generally considers the delinquency status, loan-to-value ratios, and geographic area of residential mortgage loans as its credit quality indicators. Delinquency status is a primary credit quality indicator as loans that are more than 60 days past due provide an early warning of borrowers who may be experiencing financial difficulties. Current LTV ratio is an indicator of the potential loss severity in the event of default. Finally, the geographic distribution of the loan collateral also provides insight as to the credit quality of the portfolio, as factors such as the regional economy, home price changes and specific events will affect credit quality.

The table below summarizes the geographic distribution of the residential mortgage loans:

State Concentration	Percentage of Total Outstanding Unpaid Principal Amount as of March 31, 2016	December 31, 2015
New York	15.1 %	14.5 %
New Jersey	13.6 %	13.1 %
Florida	10.7 %	10.7 %
California	8.4 %	12.3 %
Texas	4.5 %	3.3 %
Illinois	4.3 %	4.3 %
Maryland	3.8 %	3.5 %
Massachusetts	3.5 %	3.3 %
Pennsylvania	3.2 %	2.8 %
Washington	3.1 %	3.2 %
Other U.S.	29.8 %	29.0 %
	100.0 %	100.0 %

New Residential has exercised its call rights with respect to the following Non-Agency RMBS trusts and purchased performing and non-performing residential mortgage loans and REO assets contained in such trusts prior to their termination. In certain cases, New Residential sold portions of the purchased loans through securitizations, and retained bonds issued by such securitizations. In addition, New Residential received par on the securities issued by the called trusts which it owned prior to such trusts' termination. The following table summarizes these transactions which occurred in 2016 (dollars in millions).

		Securities Owned Prior		Assets Acquired			Loans Sold [C]		Retained Bonds		Retained Assets [C]		
Date of Call [A]	Number of Trusts	Face Amount	Amortized Cost Basis	Loan UPB	Loan Price [B]	REO & Other	UPB	Gain (Loss)	Basis	Type	Loan UPB	Loan Price	REO & Other

	Called					Price (B)							Price
December 23, 2015	14	$61.4	$ 48.0	$309.1	$315.1	$ 3.1	$261.3	$ 2.2	$36.6	Various	$37.4	$27.4	$ 2.9
March 25, 2016	13	58.4	41.0	167.2	173.3	3.1	N/A(C)	N/A(C)	N/A(C)	N/A(C)	N/A(C)	N/A(C)	N/A(C)

(A) Any related securitization may occur on the same or a subsequent date, depending on market conditions and other factors. Except as otherwise noted in (C) below, there was one securitization associated with each call.

(B) Price includes par amount paid for all underlying mortgage loans of the trusts, plus the basis of the exercised call rights, plus advances and costs incurred (including MSR Fund Payments, as defined in Note 15) in exercising such call rights.

(C) Loans were sold through a securitization which was treated as a sale for accounting purposes. The securitization that occurred in March 2016 primarily included loans from the December 23, 2015 call, but also included previously acquired loans. The retained assets disclosed for the December 23, 2015 call are net of the related loans sold in the March 2016 securitization. No loans from the March 25, 2016 call were securitized as of March 31, 2016.

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Reverse Mortgage Loans

In February 2013, New Residential, through a subsidiary, entered into an agreement to co-invest in reverse mortgage loans. New Residential acquired a 70% participation interest in a portfolio of reverse mortgage loans. Nationstar has co-invested on a pari passu basis with New Residential in 30% of the reverse mortgage loans and is the servicer of the loans performing all servicing and advancing functions and retaining the ancillary income, servicing obligations and liabilities as the servicer.

Performing Loans

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

March 31, 2016

Days Past Due	Delinquency Status[(A)]	
Current	87.2	%
30-59	8.7	%
60-89	1.9	%
90-119[(B)]	0.1	%
120+[(C)]	2.1	%
	100.0	%

(A) Represents the percentage of the total principal balance that corresponds to loans that are in each delinquency status.
(B) Includes loans 90-119 days past due and still accruing interest because they are generally placed on nonaccrual status at 120 days or more past due.
(C) Represents nonaccrual loans.

Activities related to the carrying value of residential mortgage loans held-for-investment were as follows:

	Reverse Mortgage Loans	Performing Loans
Balance at December 31, 2015	$ 19,560	$ 19,964
Purchases/additional fundings	319	—
Proceeds from repayments	(809)	(598)
Accretion of loan discount (premium) and other amortization[(A)]	1,090	100
Provision for loan losses	(12)	(4)
Transfer of loans to other assets	(2,006)	—
Transfer of loans to real estate owned	—	—
Balance at March 31, 2016	$ 18,142	$ 19,462

(A) Includes accelerated accretion of discount on loans paid in full and on loans transferred to other assets.

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

	Reverse Mortgage Loans	Performing Loans
Balance at December 31, 2015	$ 1,553	$ 119
Provision for loan losses[(A)]	12	4
Charge-offs[(B)]	—	—
Balance at March 31, 2016	$ 1,565	$ 123

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(A) Based on an analysis of collective borrower performance, credit ratings of borrowers, loan-to-value ratios, estimated value of the underlying collateral, key terms of the loans and historical and anticipated trends in defaults and loss severities at a pool level.
(B) Loans, other than PCD loans, are generally charged off or charged down to the net realizable value of the collateral (i.e., fair value less costs to sell), with an offset to the allowance for loan losses, when available information confirms that loans are uncollectible.

Purchased Credit Deteriorated Loans

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

Activities related to the carrying value of PCD loans held-for-investment were as follows:

Balance at December 31, 2015	$290,654
Purchases/additional fundings	—
Sales	—
Proceeds from repayments	(7,233)
Accretion of loan discount and other amortization	6,315
Transfer of loans to real estate owned	(2,606)
Balance at March 31, 2016	$287,130

New Residential did not acquire any PCD loans during the three months ended March 31, 2016.

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

	Unpaid Principal Balance	Carrying Value
March 31, 2016	$439,649	$287,130
December 31, 2015	$450,229	$290,654

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

Balance at December 31, 2015	$71,063
Additions	—
Accretion	(6,315)
Reclassifications from non-accretable difference[A]	11,443
Disposals[B]	(933)
Balance at March 31, 2016	$75,258

(A) Represents a probable and significant increase in cash flows previously expected to be uncollectible.
(B) Includes sales of loans or foreclosures, which result in removal of the loan from the PCD loan pool at its carrying amount.

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Loans Held-for-Sale

Activities related to the carrying value of loans held-for-sale were as follows:

	For the Three Months Ended March 31, 2016 Loans Held-for-Sale
Balance at December 31, 2015	$ 776,681
Purchases[(A)]	173,270
Sales	(266,124)
Transfer of loans to other assets	(25,429)
Transfer of loans to real estate owned	(3,676)
Proceeds from repayments	(18,495)
Valuation provision on loans[(B)]	(3,067)
Balance at March 31, 2016	$ 633,160

(A) Represents loans acquired with the intent to sell.
(B) Represents the fair value adjustments to loans upon transfer to held-for-sale and provision recorded on certain purchased held-for-sale loans, including $2.6 million of provision related to the call transaction executed on March 25, 2016.

Real estate owned (REO)

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

	Real Estate Owned
Balance at December 31, 2015	$50,574
Purchases	9,196
Transfer of loans to real estate owned	8,285
Sales	(7,991)
Valuation provision on REO	(3,662)
Balance at March 31, 2016	$56,402

As of March 31, 2016, New Residential had non-performing residential mortgage loans that were in the process of foreclosure with an unpaid principal balance of $479.7 million.

In addition, New Residential has recognized $30.1 million in claims receivable from FHA on Ginnie Mae early buy-out (“EBO”) loans and reverse mortgage loans for which foreclosure has been completed during the three months ended March 31, 2016 and for which New Residential has made, or intends to make, a claim.

9. INVESTMENTS IN CONSUMER LOANS

In April 2013, New Residential completed, through newly formed limited liability companies (together, the “Consumer Loan Companies”), a co-investment in a portfolio of consumer loans. The portfolio included 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 acquired 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, OneMain acquired 47% and funds managed by Blackstone Tactical Opportunities Advisors L.L.C. acquired 23%. OneMain acted as the managing member of the Consumer Loan Companies. The Consumer Loan Companies initially financed approximately 73% of the original purchase price with asset-backed notes. In September 2013, the Consumer Loan Companies issued and sold additional asset-backed notes that were subordinate to the 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, OneMain became the servicer of the loans and provides all servicing and advancing functions for the portfolio.

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On October 3, 2014, the Consumer Loan Companies refinanced the outstanding asset-backed notes with an asset-backed securitization. The proceeds in excess of the refinanced debt were distributed to the respective co-investors, which reduced New Residential's basis in the consumer loans investment to $0.0 million and resulted in a gain. Subsequent to this refinancing, New Residential discontinued recording its share of the underlying earnings of the Consumer Loan Companies. During the three months ended March 31, 2016, the Consumer Loan Companies distributed $9.9 million to New Residential in excess of its basis, resulting in corresponding gains, including $0.03 million in tax withholding payments on behalf of New Residential. The tax withholding payments were considered a non-cash distribution.

On March 31, 2016, New Residential entered into the SpringCastle Transaction (Note 1). As a result, New Residential owns 53.5% of, and consolidates, the Consumer Loan Companies.

The following tables summarize the investment in Consumer Loans, held-for-investment held by New Residential:

	Unpaid Principal Balance(A)	Interest in Consumer Loan Companies	Carrying Value(B)	Weighted Average Coupon(C)	Weighted Average Yield	Weighted Average Expected Life (Years)(D)	Delinquency(E)
March 31, 2016(F)	$1,986,162	53.5 %	$1,970,565	18.3 %	9.5 %	4.2	7.0 %
December 31, 2015(G)	$2,094,904	30.0 %	$1,698,130	18.2 %	18.1 %	4.4	7.2 %

(A) Represents the balances as of February 29, 2016 and November 30, 2015, respectively.
(B) Represents the carrying value of the consumer loans held by the Consumer Loan Companies.
(C) Substantially all of the cash flows received on the loans was required to be used to make payments on the notes described above.
(D) Represents the weighted average expected timing of the receipt of expected cash flows for this investment.
(E) Represents the percentage of the total principal balance that is 30+ days delinquent. Delinquency status is the primary credit quality indicator as it provides early warning of borrowers who may be experiencing financial difficulties.
(F) Includes loans with evidence of credit deterioration since origination where it is probable that New Residential will not collect all contractually required principal and interest payments, which are accounted for as PCD loans.
(G) Held through an equity method investee at such time.

The following are the contractually required payments receivable, cash flows expected to be collected, and fair value at acquisition date for PCD loans acquired on March 31, 2016 as a result of the SpringCastle Transaction:

	Contractually Required Payments Receivable	Cash Flows Expected to be	Fair Value

		Collected	
As of Acquisition Date	$ 1,003,470	$ 541,967	$ 405,033

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The Consumer Loan Companies consolidate certain entities that issued securitized debt collateralized by the consumer loans (the "Consumer Loan SPVs"). The Consumer Loan SPVs are VIEs of which the Consumer Loan Companies are the primary beneficiaries. The following table presents information on the combined assets and liabilities related to these consolidated VIEs.

	As of March 31, 2016
Assets	
Consumer loans, held-for-investment	$1,970,565
Restricted cash	14,931
Total assets[(A)]	$1,985,496
Liabilities	
Notes and bonds payable	$1,803,192
Accounts payable and accrued expenses	4,764
Total liabilities[(A)]	$1,807,956

(A) The creditors of the Consumer Loan SPVs do not have recourse to the general credit of New Residential, and the assets of the Consumer Loan SPVs are not directly available to satisfy New Residential's obligations.

10. DERIVATIVES

As of March 31, 2016, New Residential's derivative instruments included economic hedges that were not designated as hedges for accounting purposes. 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, as well as other factors. New Residential's credit risk with respect to economic hedges 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.

As of March 31, 2016, New Residential held to-be-announced forward contract positions ("TBAs") of $2.4 billion in a short notional amount of Agency RMBS and any amounts or obligations owed by or to New Residential are subject to the right of set-off with the TBA counterparty. New Residential's net short position in TBAs was entered into as an economic hedge in order to mitigate New Residential's interest rate risk on certain specified mortgage backed securities. As of March 31, 2016, New Residential separately held TBAs of $1.1 billion in a long notional amount of Agency RMBS and any amounts or obligations owed by or to New Residential are subject to the right of setoff with the TBA counterparty. $0.2 billion of the long notional amount of Agency RMBS included TBAs purchased for which the specific securities were not identified as of March 31, 2016 and, as such, the positions were recorded as derivatives within the Accrued Expenses and Other Liabilities line on the condensed balance sheet. 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.

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

	Balance Sheet Location	March 31,	December 31, 2015

		2016	
Derivative assets			
Interest Rate Caps	Other assets	$1,720	$ 2,689
		$1,720	$ 2,689
Derivative liabilities			
TBAs	Accrued expenses and other liabilities	$7,736	$ 2,058
Interest Rate Swaps	Accrued expenses and other liabilities	27,206	11,385
		$34,942	$ 13,443

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The following table summarizes notional amounts related to derivatives:

	March 31, 2016	December 31, 2015
TBAs, short position(A)	$2,418,000	$ 1,450,000
TBAs, long position(A)	1,143,000	750,000
Interest Rate Caps(B)	2,565,000	3,400,000
Interest Rate Swaps, short positions(C)	2,444,000	2,444,000

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

(B) Caps LIBOR at 0.50% for $765.0 million of notional, at 0.75% for $1,650.0 million of notional, and at 4.00% for $150.0 million of notional. The weighted average maturity of the interest rate caps as of March 31, 2016 was 14 months.

(C) Receive LIBOR and pay a fixed rate. The weighted average maturity of the interest rate swaps as of March 31, 2016 was 22 months and the weighted average fixed pay rate was 1.20%.

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

	For the Three Months Ended March 31, 2016	2015
Other income (loss), net(A)		
TBAs	$(5,531)	$(3,554)
Interest Rate Swaps	(15,821)	(3,352)
Interest Rate Caps	(951)	(124)
	(22,303)	(7,030)
Gain (loss) on settlement of investments, net		
TBAs	(28,171)	(16,033)
Interest Rate Caps	(1,124)	—
Interest Rate Swaps	(3,338)	(6,557)
	(32,633)	(22,590)
Total gains (losses)	$(54,936)	$(29,620)

(A) Represents unrealized gains (losses).

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11. DEBT OBLIGATIONS

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

March 31, 2016									
							Collateral		
Debt Obligations/Collateral	Month Issued	Outstanding Face Amount	Carrying Value(A)	Final Stated Maturity(B)	Weighted Average Funding Cost	Weighted Average Life (Years)	Outstanding Face	Amortized Cost Basis	Carrying Value
Repurchase Agreements(C)									
Agency RMBS(D)	Various	$1,629,971	$1,629,971	Apr-16	0.70 %	0.1	$1,612,119	$1,667,876	$1,691,14
Non-Agency RMBS (E)	Various	1,490,273	1,490,273	Apr-16 to Jun-16	1.96 %	0.1	3,599,118	1,788,871	1,777,260
Residential Mortgage Loans(F)	Various	723,954	723,167	May-16 to Mar-17	2.87 %	0.6	1,119,845	886,918	884,110
Real Estate Owned(G)(H)	Various	95,983	95,878	May-16 to Mar-17	2.76 %	0.6	N/A	N/A	108,330
Consumer Loan Investment(I)	Apr-15	34,223	34,223	Apr-16	4.11 %	0.1	N/A	N/A	71,250
Total Repurchase Agreements		3,974,404	3,973,512		1.65 %	0.2			
Notes and Bonds Payable									
Secured Corporate Note(J)	May-15	182,772	181,602	Apr-17	5.69 %	1.1	89,074,745	212,250	258,422
Servicer Advances(K)	Various	6,880,413	6,868,732	Aug-16 to Aug-18	3.44 %	1.2	7,203,924	7,005,501	7,001,004
Residential Mortgage Loans(L)	Oct-15	13,786	13,786	Oct-16	3.30 %	0.5	20,801	13,914	12,809
Consumer Loans(M)	Oct-14	1,808,211	1,803,192	May-23 to Apr-34	4.14 %	3.7	1,986,162	1,951,879	1,951,879
Receivable from government agency(L)	Oct-15	3,539	3,539	—	3.30 %	0.5	N/A	N/A	5,333
Total Notes and Bonds Payable		8,888,721	8,870,851		3.63 %	1.7			
Total/ Weighted Average		$12,863,125	$12,844,363		3.02 %	1.2			

(A) Net of deferred financing costs.
(B) All debt obligations with a stated maturity of April 2016 were refinanced, extended, or repaid.
(C) These repurchase agreements had approximately $6.7 million of associated accrued interest payable as of March 31, 2016.
(D)

All of the Agency RMBS repurchase agreements have a fixed rate. Collateral amounts include approximately $1.5 billion of related trade and other receivables.

(E) All of the Non-Agency RMBS repurchase agreements have LIBOR-based floating interest rates. This includes repurchase agreements of $145.8 million on retained servicer advance bonds.

(F) All of these repurchase agreements have LIBOR-based floating interest rates.

(G) All of these repurchase agreements have LIBOR-based floating interest rates.

(H) Includes financing collateralized by receivables including claims from FHA on Ginnie Mae EBO loans for which foreclosure has been completed and for which New Residential has made or intends to make a claim on the FHA guarantee.

(I) The repurchase agreement bears interest equal to three-month LIBOR plus 3.50% and is collateralized by 56% of New Residential's interest in the Consumer Loan Companies (Note 9).

(J) The loan bears interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a margin of 5.25%. The outstanding face amount of the collateral represents the UPB of the residential mortgage loans underlying the Excess MSRs that secure this corporate note.

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(K) $2.7 billion face amount of the notes have a fixed rate while the remaining 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 1.7% to 2.2%.

(L) The note is payable to Nationstar and bears interest equal to one-month LIBOR plus 2.875%.

(M) Represents the debt assumed in the SpringCastle Transaction (Note 1), which is comprised of the following classes of asset-backed notes (collectively, the "2014-A Notes") held by third parties: $850.2 million UPB of Class A notes with a coupon of 2.7% and a stated maturity date in May 2023 (the "Class A Notes"); $427.0 million UPB of Class B notes with a coupon of 4.61% and a stated maturity date in October 2027 (the "Class B Notes"); $331.2 million UPB of Class C notes with a coupon of 5.59% and a stated maturity date in October 2033 (the "Class C Notes"); and $199.8 million UPB of Class D notes with a coupon of 6.82% and a stated maturity date in April 2034 (the "Class D Notes"). Prior to the payment date in October 2016, the redemption price for any class of the outstanding 2014-A Notes shall be the sum of (i) 100% of the outstanding principal balance of the 2014-A Notes of the applicable class to be redeemed, plus (ii) the applicable Specified Call Premium Amount (as defined below) for such 2014-A Notes, plus (iii) accrued and unpaid interest and fees in respect of such 2014-A Notes. On or after the payment date occurring in October 2016, the redemption price for any class of 2014-A Notes shall be the sum of (i) 100% of the outstanding principal balance of the 2014-A Notes of the applicable class to be redeemed, plus (ii) accrued and unpaid interest and fees in respect of such 2014-A Notes. The "Specified Call Premium Amount" on any payment date for any class of 2014-A Notes shall mean (i) in the case of Class A Notes, an amount equal to 1.00% of the outstanding principal balance of the Class A Notes to be redeemed and (ii) in the case of the Class B Notes, the Class C Notes and the Class D Notes, an amount equal to (a) the product of (1) with respect to the Class B Notes, 0.75%, with respect to the Class C Notes, 1.00% and with respect to the Class D Notes, 2.00%, times (2) the outstanding principal balance of the 2014-A Notes of such class to be redeemed on such payment date, times (3) the number of days, computed on a 30/360 basis, from and including such payment date to but excluding the payment date occurring in October 2016, divided by (b) 360.

General

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 and Consumer Loans, such collateral is not available to other creditors of New Residential.

New Residential has margin exposure on $4.0 billion of repurchase agreements as of March 31, 2016. To the extent that the value of the collateral underlying these repurchase agreements declines, New Residential may be required to post margin, which could significantly impact its liquidity.

Activities related to the carrying value of New Residential's debt obligations were as follows:

	Excess MSRs	Servicer Advances(A)	Real Estate Securities	Real Estate Loans and REO	Consumer Loans	Total
Balance at December 31, 2015	$182,978	$7,047,061	$3,017,157	$1,004,980	40,446	$11,292,622
Repurchase Agreements:						
Borrowings	—	—	4,863,459	129,859	—	4,993,318
Repayments	—	—	(4,760,372)	(296,262)	(6,223)	(5,062,857)
	—	—	—	(3)	—	(3)

Capitalized deferred financing costs, net of amortization						
Notes and Bonds Payable:						
Acquired borrowings, net of discount	—	—	—	—	1,803,192	1,803,192
Borrowings	—	1,713,002	—	—	—	1,713,002
Repayments	(1,661)	(1,890,683)	—	(2,204)	—	(1,894,548)
Discount on borrowings, net of amortization	278	—	—	—	—	278
Capitalized deferred financing costs, net of amortization	7	(648)	—	—	—	(641)
Balance at March 31, 2016	$181,602	$6,868,732	$3,120,244	$836,370	$1,837,415	$12,844,363

(A) New Residential net settles daily borrowings and repayments of the Notes and Bonds Payable on its Servicer Advances.

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Servicer Advances

On March 31, 2016, the HSART facility was paid off and, in anticipation of such pay off, New Residential increased the capacity of, and transferred the related collateral to, various existing servicer advance financing facilities. As a result, New Residential recorded $0.1 million of loss on extinguishment of debt related to a write-off of unamortized deferred financing costs.

Maturities

New Residential's debt obligations as of March 31, 2016 had contractual maturities as follows:

Year	Nonrecourse	Recourse	Total
April 1 through December 31, 2016	$ 1,547,745	$3,652,241	$5,199,986
2017	5,045,240	441,308	5,486,548
2018	368,380	—	368,380
2019	—	—	—
2020	—	—	—
2021 and thereafter	1,808,211	—	1,808,211
	$ 8,769,576	$4,093,549	$ 12,863,125

Borrowing Capacity

The following table represents New Residential's borrowing capacity as of March 31, 2016:

Debt Obligations/ Collateral	Collateral Type	Borrowing Capacity	Balance Outstanding	Available Financing
Repurchase Agreements				
Residential Mortgage Loans	Real Estate Loans and REO	$ 2,435,000	$ 819,937	$ 1,615,063
Notes and Bonds Payable				
Servicer Advances(A)	Servicer Advances	7,574,183	6,880,413	693,770
		$ 10,009,183	$ 7,700,350	$ 2,308,833

(A) New Residential's unused borrowing capacity is available if New Residential has additional eligible collateral to pledge and meets other borrowing conditions as set forth in the applicable agreements, including any applicable advance rate. New Residential pays a 0.3% fee on the unused borrowing capacity. Excludes borrowing capacity and outstanding debt for retained non-agency bonds with a current face amount of $175.8 million.

Certain of the debt obligations are subject to customary debt covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline over any 12-month period, or a 35% decline over any three-month period, as of a quarter end, and a 4:1 indebtedness to tangible net worth provision. New Residential was in compliance with all of its debt covenants as of March 31, 2016.

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12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values and fair values of New Residential's financial assets and liabilities recorded at fair value on a recurring basis, as well as other financial instruments for which fair value is disclosed, as of March 31, 2016 were as follows:

	Principal Balance or Notional Amount	Carrying Value	Fair Value			
			Level 1	Level 2	Level 3	Total
Assets						
Investments in:						
Excess mortgage servicing rights, at fair value[(A)]	$317,540,275	$1,547,004	$—	$—	$1,547,004	$1,547,004
Excess mortgage servicing rights, equity method investees, at fair value[(A)]	70,087,028	209,901	—	—	209,901	209,901
Servicer advances	7,203,924	7,001,004	—	—	7,001,004	7,001,004
Real estate securities, available-for-sale	5,766,333	3,441,790	—	1,523,203	1,918,587	3,441,790
Residential mortgage loans, held-for-investment	493,166	324,734	—	—	320,002	320,002
Residential mortgage loans, held-for-sale	716,372	633,160	—	—	641,004	641,004
Consumer loans, held-for-investment	1,986,162	1,970,565	—	—	1,970,565	1,970,565
Derivative assets	2,565,000	1,720	—	1,720	—	1,720
Cash and cash equivalents	258,622	258,622	258,622	—	—	258,622
Restricted cash	170,364	170,364	170,364	—	—	170,364
Other Assets	464,348	1,479	—	—	1,479	1,479
		$15,560,343	$428,986	$1,524,923	$13,609,546	$15,563,455
Liabilities						
Repurchase agreements	$3,974,404	$3,973,512	$—	$3,974,404	$—	$3,974,404
Notes and bonds payable	8,888,721	8,870,851	—	—	8,882,458	8,882,458
Derivative liabilities	6,005,000	34,942	—	34,942	—	34,942
		$12,879,305	$—	$4,009,346	$8,882,458	$12,891,804

(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.

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New Residential's financial assets measured at fair value on a recurring basis using Level 3 inputs changed as follows:

	Level 3					
	Excess MSRs(A)		Excess MSRs in Equity Method Investees(A)(B)			
	Agency	Non-Agency	Agency	Servicer Advances	Non-Agency RMBS	Total
Balance at December 31, 2015	$437,201	$1,144,316	$ 217,221	$7,426,794	$1,584,283	$10,809,815
Transfers(C)						
Transfers from Level 3	—	—	—	—	—	—
Transfers to Level 3	—	—	—	—	—	—
Gains (losses) included in net income						
Included in other-than-temporary impairment on securities(D)	—	—	—	—	(3,254)	(3,254)
Included in change in fair value of investments in excess mortgage servicing rights(D)	946	6,980	—	—	—	7,926
Included in change in fair value of investments in excess mortgage servicing rights, equity method investees(D)	—	—	3,022	—	—	3,022
Included in change in fair value of investments in Servicer Advances	—	—	—	(31,224)	—	(31,224)
Included in gain (loss) on settlement of investments, net	—	—	—	—	(8,490)	(8,490)
Included in other income (loss), net(D)	656	76	—	—	268	1,000
Gains (losses) included in other comprehensive income(E)	—	—	—	—	(15,837)	(15,837)
Interest income	9,622	33,346	—	78,637	34,109	155,714
Purchases, sales and repayments						
Purchases	—	—	—	3,844,638	443,139	4,287,777
Proceeds from sales	—	—	—	—	(38,168)	(38,168)
Proceeds from repayments	(22,525)	(63,614)	(10,342)	(4,317,841)	(77,463)	(4,491,785)
Balance at March 31, 2016	$425,900	$1,121,104	$ 209,901	$7,001,004	$1,918,587	$10,676,496

(A) Includes the recapture agreement for each respective pool.
(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 each 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 and realized gains (losses) recorded during the period.
(E)

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

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Investments in Excess MSRs and Excess MSRs Equity Method Investees Valuation

The following table summarizes certain information regarding the weighted average inputs used in valuing the Excess MSRs owned directly and through equity method investees as of March 31, 2016:

	Significant Inputs[(A)]			
Directly Held (Note 4)	Prepayment Speed[(B)]	Delinquency[(C)]	Recapture Rate[(D)]	Excess Mortgage Servicing Amount (bps)[(E)]
Agency				
Original Pools	10.5%	3.5 %	31.5 %	21
Recaptured Pools	7.5 %	4.8 %	20.0 %	20
Recapture Agreement	7.6 %	5.0 %	20.0 %	22
	9.8 %	3.8 %	28.8 %	21
Non-Agency[(F)]				
Nationstar and SLS Serviced:				
Original Pools	11.8%	N/A	10.3 %	14
Recaptured Pools	7.8 %	N/A	20.0 %	20
Recapture Agreement	7.5 %	N/A	19.8 %	20
Ocwen Serviced Pools	9.3 %	N/A	— %	14
	9.8 %	N/A	2.6 %	14
Total/Weighted Average--Directly Held	9.8 %	3.8 %	9.8 %	16
Held through Equity Method Investees (Note 5)				
Agency				
Original Pools	12.5%	5.8 %	35.1 %	19
Recaptured Pools	7.6 %	5.0 %	20.0 %	23
Recapture Agreement	7.7 %	5.0 %	20.0 %	23
Total/Weighted Average--Held through Investees	10.6%	5.5 %	29.2 %	21
Total/Weighted Average--All Pools	10.0%	4.1 %	13.8 %	17

(A) Weighted by fair value of the portfolio.
(B) Projected annualized weighted average lifetime voluntary and involuntary prepayment rate using a prepayment vector.
(C) Projected percentage of mortgage loans in the pool for which the borrower will miss its mortgage payments.
(D) Percentage of voluntarily prepaid loans that are expected to be refinanced by the related servicer.
(E) Weighted average total mortgage servicing amount in excess of the basic fee.
(F) For certain pools, the Excess MSR will be paid on the total UPB of the mortgage portfolio (including both performing and delinquent loans until REO). For these pools, no delinquency assumption is used.

As of March 31, 2016, a weighted average discount rate of 9.8% was used to value New Residential’s investments in Excess MSRs (directly and through equity method investees).

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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(A)	Delinquency	Mortgage Servicing Amount(B)	Discount Rate
March 31, 2016	2.3%	10.2 %	14.6 %	9.2 bps	5.5 %

(A) Projected annual weighted average lifetime voluntary and involuntary prepayment rate using a prepayment vector.
(B) Mortgage servicing amount excludes the amounts New Residential pays its servicers as a monthly servicing fee.

Real Estate Securities Valuation

As of March 31, 2016, 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)	Single Quote(B)	Total	Level
Agency RMBS	$1,450,299	$1,524,194	$1,523,203	$—	$1,523,203	2
Non-Agency RMBS(C)	4,316,034	1,928,849	1,698,040	220,547	1,918,587	3
Total	$5,766,333	$3,453,043	$3,221,243	$220,547	$3,441,790	

(A) New Residential 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. New Residential 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 it 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. New Residential 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, it 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. New Residential's investments in Agency RMBS are classified within Level 2 of the fair value hierarchy because the market for these securities is very active and market prices are readily observable.

(B) New Residential was unable to obtain quotations from more than one source on these securities. For approximately $214.7 million, the one source was the party that sold New Residential the security.

(C) Includes New Residential's investments in interest-only notes for which the fair value option for financial instruments was elected.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances, such as when there is evidence of impairment. For residential mortgage loans held-for-sale and foreclosed real estate accounted for as REO, New Residential applies the lower of cost or fair value accounting and may be required, from time to time, to record a nonrecurring fair value adjustment. The consumer loans, held-for-investment, and related notes and bonds payable were recorded at fair value on the date of the SpringCastle Transaction (Note 1), March 31, 2016.

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At March 31, 2016, assets measured at fair value on a nonrecurring basis were $2.4 billion. The $2.4 billion includes approximately $2.0 billion of consumer loans, held-for-investment, $377.4 million of residential mortgage loans held-for-sale and $25.3 million of REO. The fair value of New Residential's consumer loans, held-for-investment, and mortgage loans, held-for-sale, are estimated based on a discounted cash flow model analysis using internal pricing models and categorized within Level 3 of the fair value hierarchy. The following table summarizes the inputs used in valuing these loans as of March 31, 2016:

March 31, 2016	Fair Value and Carrying Value	Discount Rate	Weighted Average Life (Years)(A)	Prepayment Rate	CDR(B)	Loss Severity(C)
Residential Mortgage Loans						
Performing Loans	$151,001	3.8 %	4.7	6.0 %	0.9 %	37.3 %
Non-performing Loans	226,354	5.7 %	3.4	3.0 %	N/A	22.4 %
Total/Weighted Average	$377,355	4.9 %	3.9	4.2 %		28.4 %
Consumer Loans	$1,970,565	9.5 %	4.2	18.5 %	5.6 %	87.2 %

(A) The weighted average life is based on the expected timing of the receipt of cash flows.
(B) Represents the annualized rate of the involuntary prepayments (defaults) as a percentage of the total principal balance. Not applicable for PCD Loans that are not 100% in default.
(C) Loss severity is the expected amount of future realized losses resulting from the ultimate liquidation of a particular loan, expressed as the net amount of loss relative to the outstanding loan balance.

The fair value of REO is estimated using a broker's price opinion discounted based upon New Residential's experience with actual liquidation values and, therefore, is categorized within Level 3 of the fair value hierarchy. These discounts to the broker price opinion are generally 10%.

The debt assumed in the SpringCastle Transaction (Notes 1 and 11) was recorded at its fair value of $1.8 billion on March 31, 2016. The fair value was estimated based on a discounted cash flow model using both observable and unobservable inputs to estimate the amount and timing of expected cash flows, interest rates and collateral funding spreads and, therefore, is categorized within Level 3 of the fair value hierarchy.

The total change in the recorded value of assets for which a fair value adjustment was included in the Condensed Consolidated Statement of Income for the three months ended March 31, 2016 was a decrease in the net valuation allowance of approximately $3.1 million and $3.6 million for residential mortgage loans held-for-sale and REO, respectively.

Residential Mortgage Loans for Which Fair Value is Only Disclosed

The following table summarizes the inputs used in valuing residential mortgage loans as of March 31, 2016:

	Carrying Value	Fair Value	Valuation and Loss Provision/	Discount Rate	Weighted Average Life (Years)(A)	Prepayment Rate	CDR(B)	Loss Severity(C)

			(Reversal) In Current Year					
Reverse Mortgage Loans[(D)]	$18,142	$18,142	$ 12	10.0 %	4.4	N/A	N/A	8.4 %
Performing Loans	19,462	20,484	4	7.9 %	5.6	5.9 %	2.5 %	58.3 %
Non-performing Loans	542,935	545,025	N/A	5.4 %	2.5	1.5 %	N/A	13.2 %
Total/Weighted Average	$580,539	$583,651	$ 16	5.6 %	2.6			14.6 %

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

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

(C) Loss severity is the expected amount of future realized losses resulting from the ultimate liquidation of a particular loan, expressed as the net amount of loss relative to the outstanding loan balance.

(D) Carrying value and fair value represent a 70% participation interest New Residential holds in the portfolio of reverse mortgage loans.

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Derivative Valuation

New Residential enters into economic hedges including interest rate swaps, caps and TBAs, which are categorized as Level 2 in the valuation hierarchy. New Residential 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 and bonds payable are not measured at fair value. They are generally considered to be Level 2 and Level 3 in the valuation hierarchy, respectively, with significant valuation variables including the amount and timing of expected cash flows, interest rates and collateral funding spreads.

Short-term repurchase agreements and short-term notes and bonds payable have an estimated fair value equal to their carrying value due to their short duration and generally floating interest rates. Longer-term notes and bonds payable are valued based on internal models utilizing both observable and unobservable inputs.

13. EQUITY AND EARNINGS PER SHARE

Equity and Dividends

On December 10, 2015, New Residential's Board of Directors declared a fourth quarter 2015 dividend of $0.46 per common share or $106.0 million, which was paid on January 29, 2016 to stockholders of record as of December 31, 2015.

On March 22, 2016, New Residential's Board of Directors declared a first quarter 2016 dividend of $0.46 per common share or $106.0 million, which was paid on April 29, 2016 to stockholders of record as of April 4, 2016.

On January 19, 2016, New Residential announced that its Board of Directors had authorized the repurchase of up to $200 million of its common stock over the next 12 months. Repurchases may be made at any time and from time to time through open market purchases or privately negotiated transactions, pursuant to one or more plans established pursuant to Rule 10b5-1 under the Exchange Act, by means of one or more tender offers, or otherwise, in each case, as permitted by securities laws and other legal and contractual requirements. The amount and timing of the purchases, if any, will depend on a number of factors including the price and availability of New Residential's shares, trading volume, capital availability, New Residential's performance and general economic and market conditions. The share repurchase program may be suspended or discontinued at any time. No share repurchases have been made as of the date of issuance of these condensed consolidated financial statements. Repurchases may impact New Residential's financial results, including fees paid to its Manager.

Approximately 2.4 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals at March 31, 2016.

Option Plan

As of March 31, 2016, New Residential's outstanding options were summarized as follows:

	Issued Prior to 2011	Issued in 2011-2015	Total
Held by the Manager	345,720	8,874,152	9,219,872
Issued to the Manager and subsequently transferred to certain of the Manager's employees	88,280	3,067,955	3,156,235
Issued to the independent directors	—	4,000	4,000
Total	434,000	11,946,107	12,380,107

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The following table summarizes New Residential’s outstanding options as of March 31, 2016. The last sales price on the New York Stock Exchange for New Residential’s common stock in the quarter ended March 31, 2016 was $11.63 per share.

Recipient	Date of Grant/ Exercise(A)	Number of Unexercised Options	Options Exercisable as of March 31, 2016	Weighted Average Exercise Price(B)	Intrinsic Value of Exercisable Options as of March 31, 2016 (millions)
Directors	Various	4,000	4,000	$ 13.58	$ —
Manager(C)	2003 - 2007	434,000	434,000	31.36	—
Manager(C)	2011 - 2012	25,000	25,000	7.19	0.1
Manager(C)	2013	1,936,068	1,936,068	10.98	1.3
Manager(C)	2014	1,437,500	1,102,083	12.20	—
Manager(C)	2015	8,543,539	2,946,395	15.46	—
Outstanding		12,380,107	6,447,546		

(A) Options expire on the tenth anniversary from date of grant.
(B) The exercise prices are subject to adjustment in connection with return of capital dividends.
(C) The Manager assigned certain of its options to Fortress’s employees as follows:

Date of Grant	Range of Exercise Prices	Total Unexercised Inception to Date
2006-2007	$29.92 to $33.80	88,280
2013	$10.24 to $11.48	1,100,497
2014	$12.20	258,750
2015	$15.25 to $15.88	1,708,708
Total		3,156,235

The following table summarizes activity in New Residential’s outstanding options:

	Amount	Weighted Average Exercise Price
December 31, 2015 outstanding options	12,380,107	
Options granted	—	$ —
Options exercised	—	$ —
Options expired unexercised	—	
March 31, 2016 outstanding options	12,380,107	See table above

Income and Earnings Per Share

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 options. During the three months ended March 31, 2016, based on the treasury stock method, New Residential had 67,510 dilutive common stock equivalents outstanding. During the three months ended March 31, 2015, based on the treasury stock method, New Residential had 3,476,404 dilutive common stock equivalents outstanding.

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) and Consumer Loans (Note 9), as well as HLSS for the period of April 6, 2015 through October 23, 2015.

14. COMMITMENTS AND CONTINGENCIES

Litigation – Following the HLSS Acquisition (see Note 1 for related defined terms), material potential claims, lawsuits, regulatory inquiries or investigations, and other proceedings, of which New Residential is currently aware, are as follows. New Residential has not accrued losses in connection with these legal contingencies because it does not believe there is a probable and reasonably estimable loss. Furthermore, New Residential cannot reasonably estimate the range of potential loss related to these legal contingencies at this time. However, the ultimate outcome of the proceedings described below may have a material adverse effect on New Residential's business, financial position or results of operations.

In addition to the matters described below, from time to time, New Residential is or may be involved in various disputes, litigation and regulatory inquiry and investigation matters that arise in the ordinary course of business. Given the inherent unpredictability of these types of proceedings, it is possible that future adverse outcomes could have a material adverse effect on its financial results. New Residential is not aware of any unasserted claims that it believes are material and probable of assertion where the risk of loss is expected to be reasonably possible.

Three putative class action lawsuits have been filed against HLSS and certain of its current and former officers and directors in the United States District Court for the Southern District of New York entitled: (i) Oliveira v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-652 (S.D.N.Y.), filed on January 29, 2015; (ii) Berglan v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-947 (S.D.N.Y.), filed on February 9, 2015; and (iii) W. Palm Beach Police Pension Fund v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-1063 (S.D.N.Y.), filed on February 13, 2015. On April 2, 2015, these lawsuits were consolidated into a single action, which is referred to as the "Securities Action." On April 28, 2015, lead plaintiffs, lead counsel and liaison counsel were appointed in the Securities Action. On November 9, 2015, lead plaintiffs filed an amended class action complaint. On January 27, 2016, the Securities Action was transferred to the United States District Court for the Southern District of Florida and given the Index No. 16-CV-60165 (S.D. Fla.).

The Securities Action names as defendants HLSS, former HLSS Chairman William C. Erbey, HLSS Director, President, and Chief Executive Officer John P. Van Vlack, and HLSS Chief Financial Officer James E. Lauter. The Securities Action asserts causes of action under Sections 10(b) and 20(a) of the Exchange Act based on certain public disclosures made by HLSS relating to its relationship with Ocwen and HLSS's risk management and internal controls. More specifically, the consolidated class action complaint alleges that a series of statements in HLSS's disclosures were materially false and misleading, including statements about (i) Ocwen's servicing capabilities; (ii) HLSS's contingencies and legal proceedings; (iii) its risk management and internal controls; and (iv) certain related party transactions. The consolidated class action complaint also appears to allege that HLSS's financial statements for the years ended 2012 and 2013, and the first quarter ended March 30, 2014, were false and misleading based on HLSS's August 18, 2014 restatement. Lead plaintiffs in the Securities Action also allege that HLSS misled investors by failing to disclose, among other things, information regarding governmental investigations of Ocwen's business practices. Lead plaintiffs seek money damages under the Exchange Act in an amount to be proven at trial and reasonable costs, expenses, and fees. New Residential intends to vigorously defend the Securities Action and consistent therewith on February 11, 2015, defendants filed motions to dismiss the Securities Action in its entirety.

Three shareholder derivative actions have been filed in the United States District Court for the Southern District of Florida purportedly on behalf of Ocwen: (i) Sokolowski v. Erbey, et al., No. 14-CV-81601 (S.D. Fla.) (the "Sokolowski Action"); (ii) Hutt v. Erbey, et al., No. 15-CV-81709 (S.D. Fla.) (the "Hutt Action"); and (iii) Lowinger v. Erbey, et al., No. 15-CV-62628 (S.D. Fla.) (the "Lowinger Action"). On November 9, 2015, HLSS filed a motion to dismiss the Sokolowski Action. While that motion was pending, the Hutt Action, which at the time did not name HLSS as a defendant, was transferred from the Northern District of Georgia to the Southern District of Florida and the Lowinger Action, which at the time also did not name HLSS as a defendant, was filed. On January 8, 2016, the court consolidated the three actions and denied HLSS's motion to dismiss the Sokolowski complaint as moot and without prejudice to re-file a new motion to dismiss following the filing of a consolidated complaint. On March 8, 2016, plaintiffs filed their consolidated complaint. The consolidated complaint alleges, among other things, that certain of Ocwen's current and former directors and officers, including former HLSS Chairman William C. Erbey, breached their fiduciary duties to Ocwen by, among other things, causing Ocwen to enter into transactions that were harmful to Ocwen. The complaint further alleges that HLSS and others aided and abetted the alleged breaches of fiduciary duty by Mr. Erbey and the other directors and officers of Ocwen who have been named as defendants. The consolidated complaint also asserts causes of action against HLSS and others for unjust enrichment and for contribution. The lawsuit seeks money damages from HLSS in an amount to be proven at trial. New Residential intends to vigorously defend the lawsuit.

One shareholder derivative action has been filed in Florida state court in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida purportedly on behalf of Ocwen: Moncavage v. Faris, et al., No. 2015CA003244 (Fla. Palm Beach Cty. Ct.). The complaint alleges, among other things, that certain current and former Ocwen directors and officers breached their fiduciary duties to Ocwen. The complaint also alleged that HLSS and others aided and abetted the alleged breaches of fiduciary duty. The lawsuit seeks money damages from HLSS in an amount to be proved at trial. On November 9, 2015, the court entered an order staying all proceedings in the case pending further order of the Court. HLSS has not been served. If the litigation proceeds, New Residential intends to vigorously defend the lawsuit.

On March 11, 2015, plaintiff David Rattner filed a shareholder derivative action purportedly on behalf of HLSS entitled Rattner v. Van Vlack, et al., No. 2015CA002833 (Fla. Palm Beach Cty. Ct.) (the "HLSS Derivative Action"). The lawsuit names as defendants HLSS directors John P. Van Vlack, Robert J. McGinnis, Kerry Kennedy, Richard J. Lochrie, and David B. Reiner (collectively, the "Director Defendants"), New Residential Investment Corp., and Hexagon Merger Sub, Ltd. The HLSS Derivative Action alleges that the Director Defendants breached their fiduciary duties of due care, diligence, loyalty, honesty and good faith and the duty to act in the best interests of HLSS under Cayman law and claims that the Director Defendants approved a proposed merger with New Residential Investment Corp. that (i) provided inadequate consideration to HLSS's shareholders, (ii) included unfair deal protection devices, (iii) and was the result of an inadequate process due to conflicts of interest. On July 8, 2015, the complaint was voluntarily dismissed without prejudice.

New Residential is, from time to time, subject to inquiries by government entities. New Residential currently does not believe any of these inquiries would result in a material adverse effect on New Residential's business.

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, 2016, 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, 2016, if any):

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

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

Environmental Costs — As a residential real estate owner through its REO, New Residential is subject to potential environmental costs. At March 31, 2016, New Residential is not aware of any environmental concerns that would have a material adverse effect on its consolidated financial position or results of operations.

Debt Covenants — New Residential's debt obligations contain various customary debt covenants (Note 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 U.S. Internal Revenue Service (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

New Residential is party to a Management Agreement with its Manager which provides for automatically renewing one-year terms subject to certain termination rights. The Manager's performance is reviewed annually and the Management Agreement may be terminated by New Residential by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the 12 consecutive calendar months immediately preceding the termination, upon the affirmative vote of at least two-thirds of the independent directors, or by a majority vote of the holders of common stock. Pursuant to the Management Agreement, the Manager, under the supervision of New Residential's board of directors, formulates investment strategies, arranges for the acquisition of assets and associated financing, monitors the performance of New Residential's assets and provides certain advisory, administrative and managerial services in connection with the operations of New Residential.

Effective May 15, 2013, the Manager is entitled to receive a management fee in an amount equal to 1.5% per annum of New Residential's gross equity calculated and payable monthly in arrears in cash. Gross equity is generally the equity transferred by Newcastle on the date of the spin-off (Note 13), plus total net proceeds from stock offerings, plus certain capital contributions to subsidiaries, less capital distributions and repurchases of common stock.

In addition, effective May 15, 2013, the Manager is entitled to receive annual incentive compensation in an amount equal to the product of (A) 25% of the dollar amount by which (1) (a) New Residential's funds from operations before the incentive compensation, excluding funds from operations from investments in the Consumer Loan Companies and any unrealized gains or losses from mark-to-market valuation changes on investments and debt (and any deferred tax impact thereof), per share of common stock, plus (b) earnings (or losses) from the Consumer Loan Companies computed on a level-yield basis (such that the loans are treated as if they qualified as loans acquired with a discount for credit quality as set forth in ASC No. 310-30, as such codification was in effect on June 30, 2013) as if the Consumer Loan Companies had been acquired at their GAAP basis on May 15, 2013, plus earnings (or losses) from equity method investees invested in Excess MSRs as if such equity method investees had not made a fair value election, plus gains (or losses) from debt restructuring and gains (or losses) from sales of property, and plus non-routine items, minus amortization of non-routine items, in each case per share of common stock, exceed (2) an amount equal to (a) the weighted average of the book value per share of the equity transferred by Newcastle on the date of the spin-off and the prices per share of New Residential's common stock in any offerings (adjusted for prior capital dividends or capital distributions) multiplied by (b) a simple interest rate of 10% per annum, multiplied by (B) the weighted average number of shares of common stock outstanding. "Funds from operations" means net income (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and gains (or losses) from sales of property, plus depreciation on real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. Funds from operations will be computed on an unconsolidated basis. The computation of funds from operations may be adjusted at the direction of New Residential's independent directors based on changes in, or certain applications of, GAAP. Funds from operations is determined from the date of the spin-off and without regard to Newcastle's prior performance.

In addition to the management fee and incentive compensation, New Residential is responsible for reimbursing the Manager for certain expenses paid by the Manager on behalf of New Residential.

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(dollars in tables in thousands, except share data)

Due to affiliates is comprised of the following amounts:

	March 31, 2016	December 31, 2015
Management fees	$ 3,336	$ 6,671
Incentive compensation	1,196	16,017
Expense reimbursements and other	1,315	1,097
	$ 5,847	$ 23,785

Affiliate expenses and fees were comprised of:

	Three Months Ended March 31,	
	2016	2015
Management fees	$10,008	$5,126
Incentive compensation	1,196	3,693
Expense reimbursements[(A)]	125	125
Total	$11,329	$8,944

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

See Notes 4, 5, 6, 7, 8, 11, 14 and 18 for a discussion of transactions with Nationstar. As of March 31, 2016, 64.3% and 34.8% of the UPB of the loans underlying New Residential’s investments in Excess MSRs and Servicer Advances, respectively, was serviced or master serviced by Nationstar. As of March 31, 2016, a total face amount of $2.8 billion of New Residential’s Non-Agency RMBS portfolio and approximately $33.5 million of New Residential’s Agency RMBS portfolio was serviced or master serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately $11.9 billion as of March 31, 2016. New Residential holds a limited right to cleanup call options with respect to certain securitization trusts serviced or master serviced by Nationstar whereby, when the outstanding balance of the underlying mortgage loans falls below a pre-determined threshold, it can effectively purchase the underlying mortgage loans at par, plus unreimbursed servicer advances, resulting in the repayment of all of the outstanding securitization financing at par, in exchange for a 0.75% (of UPB) fee paid to Nationstar at the time of exercise. In connection with New Residential's exercise of certain of these call rights in 2014 and 2015, New Residential has made, and expects to continue to make, payments to funds managed by an affiliate of Fortress in respect of Excess MSRs held by the funds affected by the exercise of the call rights (“MSR Fund Payments”). During 2016, New Residential accrued for MSR Fund Payments in an aggregate amount of less than $0.1 million. New Residential continues to evaluate the call rights it purchased from Nationstar, and its ability to exercise such rights and realize the benefits therefrom are subject to a number of risks. The actual UPB of the mortgage loans on which New Residential can successfully exercise call rights and realize the benefits therefrom may differ materially from its initial assumptions. As of March 31, 2016, $543.5 million UPB of New Residential’s residential mortgage loans and $26.6 million of New Residential’s REO were being serviced or master serviced by Nationstar. Additionally, in the ordinary course of business, New Residential engages Nationstar to administer the termination of securitization trusts that it collapses pursuant to its call rights. As a result of these relationships, New Residential routinely has receivables from, and payables to, Nationstar, which are included in Other Assets and Accrued Expenses and Other Liabilities, respectively.

See Note 9 for a discussion of a transaction with OneMain and Note 5 regarding co-investments with Fortress-managed funds.

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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, 2016	2015
Reclassification of net realized (gain) loss on securities into earnings	Gain on settlement of investments, net	$(133)	$(24,697)
Reclassification of net realized (gain) loss on securities into earnings	Other-than-temporary impairment on securities	3,254	1,071
Total reclassifications		$3,121	$(23,626)

New Residential did not allocate any income tax expense or benefit to any component of other comprehensive income for any period presented, as no taxable subsidiary generated other comprehensive income.

17. INCOME TAXES

Income tax expense (benefit) consists of the following:

	Three Months Ended March 31, 2016	2015
Current:		
Federal	$458	$736
State and Local	—	(1,156)
Total Current Income Tax Expense (Benefit)	458	(420)
Deferred:		
Federal	(9,450)	(1,323)
State and Local	(1,231)	(1,684)
Total Deferred Income Tax Expense (Benefit)	(10,681)	(3,007)
Total Income Tax Expense (Benefit)	$(10,223)	$(3,427)

New Residential intends to qualify as a REIT for each of its tax years through December 31, 2016. 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 operates various securitization vehicles and has made certain investments, particularly its investments in Servicer Advances (Note 6) and REO (Note 8), through taxable REIT subsidiaries (“TRSs”) that are subject to regular corporate income taxes which have been provided for in the provision for income taxes, as applicable. New Residential and its subsidiaries file income tax returns with the U.S. federal government and various state and local jurisdictions beginning with the tax year ending December 31, 2013. Generally, these income tax returns will be subject to tax examinations by tax authorities for a period of three years after the date of filing.

New Residential has recorded a net deferred tax asset of approximately $196.2 million as of March 31, 2016, primarily related to basis differences in all servicer advances held by New Residential's TRSs and related net operating loss carry forwards.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. As of March 31, 2016, New Residential recorded a partial valuation allowance related to certain net operating losses and loan loss reserves as management does not believe that it is more likely than not that these deferred tax assets will be realized.

18. SUBSEQUENT EVENTS

These financial statements include a discussion of material events that have occurred subsequent to March 31, 2016 (referred to as “subsequent events”) through the issuance of these condensed consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

Corporate Activities

On March 22, 2016, New Residential’s Board of Directors declared a first quarter 2016 dividend of $0.46 per common share or $106.0 million, which was paid on April 29, 2016 to stockholders of record as of April 4, 2016.

In April 2016, New Residential entered into a $225.0 million corporate loan with Barclays Bank PLC secured by Agency Excess MSRs. The loan bears interest equal to the sum of one-month LIBOR plus 4.75% and matures in April 2018.

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

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

GENERAL

New Residential is a publicly traded REIT primarily focused on opportunistically investing in, and actively managing, investments related to residential real estate. We primarily target investments in mortgage servicing related assets and related opportunistic investments. We are externally managed and advised by an affiliate of Fortress pursuant to the Management Agreement. Our goal is to drive strong risk-adjusted returns primarily through our investments, and our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets in diverse markets, 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.

Our portfolio is currently composed of mortgage servicing related assets, Non-Agency RMBS (and associated call rights), residential mortgage loans and other opportunistic investments. Our asset allocation and target assets may change over time, depending on our 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. The residential mortgage industry continues to undergo 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 and Ocwen, 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 $3 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. As of the fourth quarter of 2015, the top 100 mortgage servicers serviced $10 trillion of mortgages, according to Inside Mortgage Finance. Of the $10 trillion, approximately 73% of these MSRs were serviced by banks as of the fourth quarter of 2015, according to Inside Mortgage Finance. We expect this number to continue to decline as banks face pressure to reduce their MSR exposure as a result of heightened capital reserve requirements under Basel III, regulatory scrutiny and a more challenging servicing environment, among other reasons. As a result, we believe an elevated volume of MSR sales is likely for some period of time.

We estimate that MSRs covering up to $500 billion of mortgages are currently for sale, which would require a capital investment of approximately $3 billion based on current pricing dynamics. We believe that non-bank servicers who are constrained by capital limitations will continue to sell MSRs, Excess MSRs or other servicing assets, such as advances. In addition, approximately $1.5 trillion of new loans are expected to be originated in 2016, according to the Mortgage Bankers Association. We believe this creates an opportunity to enter into “flow arrangements,” whereby loan originators or servicers agree to sell Excess MSRs on newly originated loans on a recurring basis (often monthly or quarterly). Given this combined dynamic, we believe $2 to $2.5 trillion of MSRs could be sold or available over the next few years. While increased competition and market conditions for more recently originated MSRs have driven prices higher recently, we believe MSRs continue to offer attractive returns. 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.

Interest rates have been volatile. In periods of rising interest rates, the rates of prepayments and delinquencies with respect to mortgage loans generally decline. Conversely, in periods of declining interest rates, the rates of prepayments and delinquencies with respect to mortgage loans generally increase. Generally, the value of our Agency 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. Moreover, the value of our Excess

MSRs is subject to a variety of factors, as described under “Risk Factors.” In the first quarter of 2016, the fair value of our direct investments in Excess MSRs and our share of the fair value of the Excess MSRs held through equity method investees increased by approximately $6.7 million in the aggregate and the weighted average discount rate of the portfolio remained unchanged at 9.8% primarily as a result of slower projected prepayment speeds and delinquencies, and an increase in projected recapture rates on some portfolios.

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

Beginning in April 2012, we began to invest in RMBS as a complement to our Excess MSR portfolio. As of the fourth quarter of 2015, 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, and the balance was Non-Agency RMBS.

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 that in many Non-Agency RMBS vehicles, there is a discrepancy between the value of the Non-Agency RMBS and the recovery value of the underlying collateral. We continue to pursue opportunities in structured transactions that enable us to realize this difference, particularly through the acquisition and execution of call rights. 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 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, collateral performance, credit spreads and market liquidity.

We do not expect changes in interest rates to have a meaningful impact on the net interest spread of our Agency and Non-Agency RMBS portfolios. Our RMBS are primarily floating rate or hybrid (i.e., fixed to floating rate) securities, which we generally finance with floating rate debt, or are economically hedged with respect to interest rates. Therefore, while rising interest rates will generally result in a higher cost of financing, they will also result in a higher coupon payable on the securities. The net interest spread on our Agency RMBS portfolio as of March 31, 2016 was 1.25%, compared to 2.15% as of December 31, 2015. This spread changed primarily as a result of lower yields from new securities purchased during the first quarter of 2016 and increased funding costs. The net interest spread on our Non-Agency RMBS portfolio as of March 31, 2016 was 3.27%, compared to 3.31% as of December 31, 2015. This spread changed primarily as a result of increased funding costs offset by higher yields from new securities purchased during the first quarter of 2016.

We hold call rights on Non-Agency residential mortgage securitizations which become exercisable once the current collateral balance reduces below a certain threshold of the original balance. We believe a call right is profitable when the aggregate underlying loan value is greater than the sum of par on the loans minus any discount from acquired bonds plus expenses, including outstanding advances, related to such exercise. Specifically, profit with respect to our call rights is generated by:

- acquiring bonds issued by the securitization at a discount, prior to initiating the call, such that the portion of the payment we make to the trust which is returned to us as bondholders when the call is exercised exceeds our purchase price for the bonds;

- re-securitizing or selling performing loans for a gain; and
- retaining distressed loans to modify or liquidate over time at a premium to our basis.

We continue to evaluate the call rights we acquired from our servicers, and our ability to exercise such rights and realize the benefits therefrom are subject to a number of risks. See “Risk Factors—Risks Related to Our Business—Our ability to exercise our cleanup call rights may be limited or delayed if a third party also possessing such cleanup call rights exercises such rights, if the related securitization trustee refuses to permit the exercise of such rights, or if a related party is subject to bankruptcy proceedings.” As interest rates increase, we expect the value of our call rights could decrease.

During 2016, we have continued to invest in the non-performing loan sector, while also opportunistically selling assets. In 2015, we made our first direct investment in REO assets. The scope of our continued investment in such assets, if any, will fluctuate depending on our assessment of relative value compared with alternative investment opportunities, as well as the volume of non-performing loans acquired as a result of calling Non-Agency residential mortgage securitizations.

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 collateral 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.

Corporate credit spreads generally tightened during the first quarter of 2016, which would generally have a favorable impact on the value of yield driven financial instruments, such as our RMBS and loan portfolio. Corporate credit spreads, while a useful market proxy, are not necessarily indicative or directly correlated to mortgage credit spreads. Collateral performance, market liquidity and other factors related specifically to certain investments within our mortgage securities and loan portfolio outweighed the corporate credit spread tightening during the first quarter at 2016 and caused the overall same store value of this portfolio to decrease slightly. 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 cash flow from 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 improve 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 investment decisions in light of prevailing market conditions. The assets in our portfolio are described in more detail below (dollars in thousands).

	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis		Carrying Value	Weighted Average Life (years)[(A)]
Investments in:						
Excess MSRs[(B)]	$387,627,303	$1,543,962	10.3	%	$1,756,905	6.3
Servicer Advances[(B)]	7,203,924	7,005,501	46.7	%	7,001,004	4.5
Agency RMBS[(C)]	1,450,299	1,524,194	10.2	%	1,523,203	6.1
Non-Agency RMBS[(C)]	4,316,034	1,928,849	12.9	%	1,918,587	7.5
Residential Mortgage Loans	1,209,538	966,205	6.4	%	957,894	3.0
Real Estate Owned	N/A	63,396	0.4	%	56,402	N/A
Consumer Loans	1,986,162	1,970,565	13.1	%	1,970,565	4.2
Total/Weighted Average		$15,002,672	100.0	%	$15,184,560	5.1
Reconciliation to GAAP total assets:						
Cash and restricted cash					428,986	
Trades receivable					1,509,016	
Deferred tax asset					196,189	
Other assets					253,026	

GAAP total assets	$17,571,777

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

Servicing Related Assets

Excess MSRs

As of March 31, 2016, we had approximately $1,756.9 million estimated carrying value of Excess MSRs (held directly and through joint ventures). As of March 31, 2016, our completed investments represent an effective 32.5% to 100.0% interest in the Excess MSRs (held either directly or through joint ventures) on pools of mortgage loans with an aggregate UPB of approximately $387.6 billion. In our capacity as owner of the Excess MSRs, 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 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 underlying our Excess MSR investments. See "—Servicer Advances" below.

Nationstar is the servicer of $249.3 billion UPB of the loans underlying our investments in Excess MSRs through March 31, 2016, and earns a basic fee in exchange for providing all servicing functions. In addition, when Nationstar sold Excess MSRs to us, it generally retained a 20.0% to 35.0% interest in the Excess MSRs and all ancillary income associated with the portfolios.

In December 2014, we agreed to acquire 50% of the Excess MSRs and all of the Servicer Advances and related basic fee portion of the MSR (the "SLS Advance Fee"), and a portion of the call rights related to a portfolio of residential mortgage loans which is serviced by SLS. Fortress-managed funds acquired the other 50% of the Excess MSRs. SLS continues to service the loans in exchange for a servicing fee of 10.75 bps times the UPB of the underlying loans and an incentive fee (the "SLS Incentive Fee") which is based on the ratio of the outstanding Servicer Advances to the UPB of the underlying loans.

On April 6, 2015, we acquired Excess MSRs and Servicer Advances in connection with the HLSS Acquisition. Ocwen continues to service the underlying loans in exchange for a servicing fee of approximately 5.3 bps times the UPB of the underlying loans and an incentive fee which is reduced by LIBOR plus 2.75% per annum of the amount, if any, of Servicer Advances outstanding in excess of a defined target.

Each of our Excess MSR investments serviced by Nationstar and SLS is subject to a recapture agreement with Nationstar. Under such recapture agreements, we are generally entitled to a pro rata interest in the Excess MSRs on any initial or subsequent refinancing by Nationstar or SLS, as applicable, 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. We have a similar recapture agreement with Ocwen; however, this agreement allows for Ocwen to retain the Excess MSR on recaptured loans up to a specified threshold and no payments have been made to us under such arrangement to date.

The tables below summarize the terms of our investments in Excess MSRs completed as of March 31, 2016.

Summary of Direct Excess MSR Investments as of March 31, 2016

			MSR Component(A)			Excess MSR	
	Initial UPB (bn)	Current UPB (bn)	Weighted Average MSR (bps)	Weighted Average Excess MSR (bps)	Interest in Excess MSR (%)	Purchase Price (mm)	Carrying Value (mm)

Agency								
Original and Recaptured Pools	$118.6	$90.1	29	bps	21	bps	32.5% - 66.7%	$457.7	$367.0
Recapture Agreements	—	—	29		22		32.5% - 66.7%	—	58.9
	118.6	90.1	29		21			457.7	425.9
Non-Agency[B]									
Nationstar and SLS Serviced:									
Original and Recaptured Pools	$148.8	$91.3	35		14		33.3% - 80.0%	$328.8	$248.0
Recapture Agreements	—	—	26		20		33.3% - 80.0%	—	15.4
Ocwen Serviced Pools	156.4	136.1	43		14		100.0%	917.1	857.7
	305.2	227.4	41		14			1,245.9	1,121.1
Total/Weighted Average	$423.8	$317.5	38	bps	16	bps		$1,703.6	$1,547.0

(A) The MSR is a weighted average as of March 31, 2016, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

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(B) Excess MSR investments in which we also invested in related servicer advances, including the basic fee component of the related MSR, as of March 31, 2016 (Note 6 to our Condensed Consolidated Financial Statements).

Summary Excess MSR Investments Through Equity Method Investees as of March 31, 2016

			MSR Component[A]					
	Initial UPB (bn)	Current UPB (bn)	Weighted Average MSR (bps)	Weighted Average Excess MSR (bps)	New Residential Interest in Investee (%)	Investee Interest in Excess MSR (%)	New Residential Effective Ownership (%)	Investee Carrying Value (mm)
Agency								
Original and Recaptured Pools	$125.2	$ 70.1	32 bps	20 bps	50.0 %	66.7 %	33.3 %	$ 336.1
Recapture Agreements	—	—	31	23	50.0 %	66.7 %	33.3 %	68.8
Total/Weighted Average	$125.2	$ 70.1	32 bps	21 bps				$ 404.9

(A) The MSR is a weighted average as of March 31, 2016, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

The following table summarizes the collateral characteristics of the loans underlying our direct Excess MSR investments as of March 31, 2016 (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]	Three Month Average CPR[C]	Three Month Average CRR[D]	Three Month Average CDR[E]	Three Month Averag Recapt Rate
Agency													
Original Pools	$324,728	$118,585,641	$81,562,463	511,404	703	4.3%	289	83	11.0%	15.3%	14.2%	1.4%	28.9%
Recaptured Loans	42,276	—	8,556,875	50,198	721	4.4%	300	21	0.3 %	6.9 %	6.4 %	0.6%	19.5%
Recapture Agreement	58,896	—	—	—	—	— %	—	—	— %	— %	— %	— %	— %
	$425,900	$118,585,641	$90,119,338	561,602	705	4.3%	290	76	9.9 %	14.5%	13.4%	1.3%	28.4%
Non-Agency[F]													
Nationstar and SLS Serviced:													
Original Pools	240,457	148,839,262	89,564,880	469,448	668	4.3%	273	122	44.8%	12.4%	8.3 %	4.5%	7.8 %
Recaptured Loans	7,499	—	1,712,198	7,714	741	4.2%	293	15	3.0 %	12.3%	12.3%	— %	19.1%
Recapture Agreement	15,436	—	—	—	—	— %	—	—	— %	— %	— %	— %	— %
Ocwen Serviced Pools[H]	857,712	156,374,134	136,143,859	913,255	640	4.6%	249	126	22.2%	8.8 %	5.3 %	3.6%	— %
	$1,121,104	$305,213,396	$227,420,937	1,390,417	647	4.6%	255	124	30.9%	9.7 %	6.1 %	3.8%	2.1 %
Total/Weighted Average	$1,547,004	$423,799,037	$317,540,275	1,952,019	659	4.5%	262	115	25.0%	10.6%	7.6 %	3.3%	9.8 %

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	Collateral Characteristics					
	Delinquency 30 Days(G)	Delinquency 60 Days(G)	Delinquency 90+ Days(G)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
Agency						
Original Pools	3.6%	1.1%	1.2%	1.8%	0.4%	0.4%
Recaptured Loans	1.3%	0.3%	0.3%	0.4%	0.1%	—%
Recapture Agreement	—%	—%	—%	—%	—%	—%
	3.4%	1.0%	1.1%	1.6%	0.4%	0.4%
Non-Agency(F)						
Nationstar and SLS Serviced:						
Original Pools	8.3%	2.1%	3.5%	9.7%	2.1%	2.6%
Recaptured Loans	1.0%	0.2%	—%	—%	—%	—%
Recapture Agreement	—%	—%	—%	—%	—%	—%
Ocwen Serviced Pools(H)	7.0%	3.7%	5.9%	9.2%	2.1%	2.2%
	7.3%	3.3%	5.3%	9.3%	2.1%	2.3%
Total/Weighted Average	6.5%	2.8%	4.5%	7.8%	1.7%	1.9%

(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) Three Month Average CPR, or the constant prepayment rate, represents the annualized rate of the prepayments during the quarter as a percentage of the total principal balance of the pool.

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

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

(F) Excess MSR investments in which we also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2016 (Note 6 to our Condensed Consolidated Financial Statements included herein).

(G) 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.

(H) Collateral characteristics related to approximately $3.4 billion of UPB are as of February 29, 2016.

The following table summarizes the collateral characteristics as of March 31, 2016 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 66.7% interest in the Excess MSRs.

	Collateral Characteristics													
	Current Carrying Amount	Original Principal Balance	Current Principal Balance	NRZ Effective Ownership %	Number of Loans	WA FICO Score(A)	WA Coupon	WA Maturity (months)	Average Loan Age (months)	Adjustable Rate Mortgage %(B)	Three Month Average CPR(C)	Three Month Average CRR(D)	Three Month Average CDR	Three Month Average Recapture Rate
Agency														
Original Pools	$246,168	$125,191,420	$57,027,438	33.3%	458,305	685	4.9%	283	96	10.5%	19.3%	16.1%	3.8%	28.7%

Recaptured Loans	89,945	—	13,116,789	33.3%	85,580	700	4.4%	300	25	0.5 %	7.3 %	7.0 %	0.5%	35.1%
Recapture Agreement	68,750	—	—	33.3%	—	—	— %	—	—	— %	— %	— %	— %	— %
Total/ Weighted Average	$404,863	$125,191,420	$70,144,227		543,885	688	4.8%	286	83	8.6 %	17.3%	14.6%	3.2%	29.3%

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	Collateral Characteristics					
	Delinquency 30 Days(F)	Delinquency 60 Days(F)	Delinquency 90+ Days(F)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
Agency						
Original Pools	4.8%	1.4 %	1.1 %	3.5 %	1.2 %	0.7 %
Recaptured Loans	2.5%	0.6 %	0.4 %	0.6 %	— %	0.1 %
Recapture Agreement	— %	— %	— %	— %	— %	— %
Total/Weighted Average	4.4%	1.3 %	0.9 %	3.0 %	0.9 %	0.6 %

(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) Three Month Average CPR, or the constant prepayment rate, represents the annualized rate of the prepayments during the quarter as a percentage of the total principal balance of the pool.

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

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

(F) 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. We made the investment through the Buyer, a joint venture entity capitalized by us and certain third-party co-investors. The Buyer acquired from Nationstar a pool of outstanding servicer advances (including deferred servicing fees) and the basic fee component of the related MSRs on a pool of Non-Agency mortgage loans. In exchange, the Buyer (i) paid the initial purchase price, and (ii) agreed to purchase future servicer advances related to the loans at par. The initial purchase price was equal to the value of the discounted cash flows from the outstanding and future advances and from the basic fee. We had previously acquired an interest in the Excess MSRs related to these loans. See above "—Our Portfolio—Servicing Related Assets—Excess MSRs."

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 rating agency approvals required for a formal change of the named servicer. In exchange for Nationstar's performance of servicing duties, the Buyer pays Nationstar the Nationstar Servicing Fee and, in the event that the aggregate cash flows from the advances and the basic fee generate the Buyer Targeted Return on the Buyer's invested equity, the Nationstar 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.

In December 2014, we acquired servicer advances from SLS, as described under "—Excess MSRs" above.

On April 6, 2015, we acquired servicer advances in connection with the HLSS Acquisition, as described under "—Excess MSRs" above.

The following is a summary of the investments in Servicer Advances, including the right to the basic fee component of the related MSRs (dollars in thousands):

	March 31, 2016					Three Months Ended March 31, 2016
	Amortized Cost Basis	Carrying Value(A)	Weighted Average Discount Rate	Weighted Average Yield	Weighted Average Life (Years)(B)	Change in Fair Value Recorded in Other Income
Servicer Advances(C)	$7,005,501	$7,001,004	5.5 %	5.3 %	4.5	$(31,224)

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(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.
(C) Excludes our asset-backed securities collateralized by Servicer Advances, which have an aggregate face amount of $431.0 million and an aggregate carrying value of $431.0 million as of March 31, 2016.

The following is additional information regarding our Servicer Advances, and related financing, as of March 31, 2016 (dollars in thousands):

					Loan-to-Value(A)		Cost of Funds(C)	
	UPB of Underlying Residential Mortgage Loans	Outstanding Servicer Advances	Servicer Advances to UPB of Underlying Residential Mortgage Loans	Face Amount of Notes and Bonds Payable	Gross	Net(B)	Gross	Net
March 31, 2016								
Servicer Advances(D)	$212,135,668	$7,203,924	3.4 %	$6,880,413	93.9 %	92.8 %	3.4%	2.7%

(A) Based on outstanding Servicer Advances, excluding purchased but unsettled Servicer Advances and certain deferred servicing fees ("DSF") on which we received financing. If we were to include these DSF in the servicer advance balance, gross and net LTV as of March 31, 2016 would be 89.4% and 88.4%, respectively. Also excludes retained non-agency bonds with a current face amount of $175.8 million from the outstanding Servicer Advances debt. If we were to sell these bonds, gross and net LTV as of March 31, 2016 would be 96.3% and 95.2%, respectively.
(B) Ratio of face amount of borrowings to par amount of Servicer Advance collateral, net of any general reserve.
(C) 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.
(D) The following types of advances comprise the investment in Servicer Advances:

	March 31, 2016
Principal and interest advances	$2,016,073
Escrow advances (taxes and insurance advances)	3,504,808
Foreclosure advances	1,683,043
Total	$7,203,924

The Buyer

We, through a wholly owned subsidiary, are the managing member of the Buyer. As of March 31, 2016, we owned an approximately 44.5% interest in the Buyer.

In the event that any member of the Buyer 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, SLS and Ocwen remain the named servicers under the applicable servicing agreements and will continue to perform all servicing duties for the related mortgage loans. The Buyer, or the related New Residential subsidiary, as applicable, has the right, but not the obligation, to become the named servicer with respect to its investments, subject to obtaining consents and rating agency approvals required for a formal change of the named servicer and, with respect to Ocwen, only after April 6, 2017. In exchange for their services, we pay Nationstar, SLS and Ocwen a monthly servicing fee representing a portion of the amounts from the purchased basic fee.

The Nationstar 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, 2016 is equal to approximately 9.3%, which is equal to (i) 2 basis points divided by (ii) the basic fee, which is 21.6 basis points on a weighted average basis as of March 31, 2016. The SLS servicing fee is equal to 10.75 bps times the UPB of the underlying loans, based on the servicing fee collections of the underlying loans. The

Ocwen servicing fee is equal to 5.3 bps times the UPB of the underlying loans, based on the servicing fee collections of the underlying loans.

Targeted Return/Incentive Fee

The Buyer Targeted Return and the Nationstar Performance Fee, with respect to Nationstar, 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 Buyer Targeted Return implements these objectives by allocating payments in respect of the purchased basic fee between the Buyer and Nationstar. The SLS Incentive Fee functions in the same fashion with respect to the SLS Transaction. Ocwen also receives a performance-based incentive fee (the "Ocwen Incentive Fee") based on the ratio of the outstanding servicer advances to the UPB of the underlying loans.

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

The Buyer 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 Buyer 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 Buyer Targeted Return.

The Nationstar Performance Fee is calculated as follows. Pursuant to a Master Servicing Rights Purchase Agreement and related Sale Supplements, Nationstar Net Collections is divided into two subsets: the "Retained Amount" and the "Surplus Amount." If the amount necessary to achieve the Buyer 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 Nationstar Performance Fee. If the amount necessary to achieve the Buyer Targeted Return is greater than the Retained Amount but less than Nationstar Net Collections, then 100% of the excess Surplus Amount is paid to Nationstar as a Nationstar Performance Fee. Nationstar Performance Fee payments were made to Nationstar in the amount of $10.2 million during the three months ended March 31, 2016.

The SLS Incentive Fee is equal to up to 4.0 bps on the UPB of the underlying loans, depending on the ratio of the outstanding servicer advances to the UPB of the underlying loans.

The Ocwen Incentive Fee payable in any month is reduced if the advance ratio exceeds a predetermined level for that month. If the advance ratio is exceeded in any month, any performance-based incentive fee payable for such month will be reduced by one-month LIBOR plus 2.75% (or 275 basis points) per annum of the amount of any such excess servicer advances.

A further discussion of the sensitivity of these incentive fees to changes in LIBOR is included below under "Quantitative and Qualitative Disclosures About Market Risk."

In addition to its direct investments in Servicer Advances, New Residential has also invested in asset-backed securities collateralized by servicer advances, which are summarized as of March 31, 2016 as follows (dollars in thousands):

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Outstanding Repurchase Agreements
Servicer Advance Bonds	$ 431,000	$ 430,754	$ 306	$ (103)	$ 430,957	$ (387,176)

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

Residential Securities and Loans

Real Estate Securities

As of March 31, 2016, we had approximately $5.8 billion face amount of real estate securities, including $1.5 billion of Agency RMBS and $4.3 billion of Non-Agency RMBS. These investments were financed with repurchase agreements with an aggregate face amount of approximately $184.2 million for Agency RMBS and approximately $1.5 billion for Non-Agency RMBS. As of March 31, 2016, a total face amount of $2.8 billion of our Non-Agency portfolio and approximately $33.5 million of our Agency portfolio was serviced or master serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately $11.9 billion as of March 31, 2016. We hold a limited right to cleanup call options with respect to certain securitization trusts serviced or master serviced by Nationstar whereby, when the outstanding balance of the underlying mortgage loans falls below a pre-determined threshold, we can effectively purchase the underlying mortgage loans at par, plus unreimbursed servicer advances, resulting in the repayment of all of the outstanding securitization financing at par, in exchange for a 0.75% (of UPB) fee paid to Nationstar at the time of exercise. We similarly hold a limited right to cleanup call options with respect to certain securitization trusts master serviced by SLS for no fee. We similarly hold a limited right to cleanup call options with respect to certain securitization trusts serviced or master serviced by Ocwen subject to a 0.5% (of UPB) fee paid to Ocwen at the time of exercise. The aggregate UPB of the underlying mortgage loans within these various securitization trusts is approximately $175.0 billion.

We continue to evaluate the call rights we acquired from each of our servicers, and our ability to exercise such rights and realize the benefits therefrom are subject to a number of risks. See “Risk Factors—Risks Related to Our Business—Our ability to exercise our cleanup call rights may be limited or delayed if a third party also possessing such cleanup call rights exercises such rights, if the related securitization trustee refuses to permit the exercise of such rights, or if a related party is subject to bankruptcy proceedings.” The actual UPB of the mortgage loans on which we can successfully exercise call rights and realize the benefits therefrom may differ materially from our initial assumptions.

We have exercised our call rights with respect to Non-Agency RMBS trusts and purchased performing and non-performing residential mortgage loans and REO contained in such trusts prior to their termination. In certain cases, we sold portions of the purchased loans through securitizations, and retained bonds issued by such securitizations. In addition, we received par on the securities issued by the called trusts which we owned prior to such trusts’ termination. Refer to Note 8 in our Condensed Consolidated Financial Statements for further details on these transactions.

As of March 31, 2016, we sold and purchased $1.4 billion and $1.3 billion face amount of Agency RMBS for $1.5 billion and $1.3 billion, respectively, and purchased $0.2 billion face amount of Non-Agency RMBS for $0.1 billion, which had not yet been settled. These unsettled sales and purchases were recorded on the balance sheet on trade date as Trades Receivable and Trades Payable.

Agency RMBS

The following table summarizes our Agency RMBS portfolio as of March 31, 2016 (dollars in thousands):

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Outstanding Repurchase Agreements
Agency ARM RMBS	$175,679	$186,369	$102	$(1,522)	$184,949	$(184,247)
Agency Specified Pools	1,274,620	1,337,825	429	—	1,338,254	—

Agency RMBS	$1,450,299	$1,524,194	$531	$(1,522)	$1,523,203	$(184,247)

(A) 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, 2016 (dollars in thousands):

						Weighted Average					
								Periodic Cap			
Months to Next Reset[(A)]	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Coupon	Margin	1st Coupon Adjustment[(B)]	Subsequent Coupon Adjustment[(C)]	Lifetime Cap[(D)]	Months to Reset[(E)]
1 - 12	26	$175,679	$186,369	100.0 %	$184,949	2.6%	1.8 %	N/A	2.0 %	8.9 %	4

(A) Of these investments, 95.6% reset based on 12-month LIBOR index, 2.4% reset based on one-month LIBOR, and 2.0% reset based on the one-year Treasury Constant Maturity Rate. After the initial fixed period, 97.6% of these securities will reset annually and 2.4% will reset semi-annually.
(B) Represents the maximum change in the coupon after the end of the fixed rate period. All securities in this category are past the first coupon adjustment.
(C) Represents the maximum change in the coupon at each reset date subsequent to the first coupon adjustment.
(D) Represents the maximum coupon on the underlying security over its life.
(E) Represents recurrent weighted average months to the next interest rate reset.

The following table summarizes the characteristics of our Agency RMBS portfolio and of the collateral underlying our Agency RMBS as of March 31, 2016 (dollars in thousands):

	Agency RMBS Characteristics						Collateral Characteristics
Vintage[(A)]	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Weighted Average Life (Years)	3 Month CPR[(B)]
Pre-2006	3	$9,282	$9,892	0.6 %	$9,745	5.8	23.3 %
2006	1	2,300	2,442	0.2 %	2,420	11.0	0.5 %
2007	3	4,942	5,092	0.3 %	5,128	7.4	2.5 %
2008	3	6,618	7,072	0.5 %	6,984	12.3	0.3 %
2009	3	14,896	15,924	1.0 %	15,590	4.2	3.5 %
2010	10	84,387	89,724	5.9 %	89,179	4.7	18.0 %
2011	1	4,426	4,426	0.3 %	4,437	5.6	3.2 %
2012 and later	15	1,323,448	1,389,622	91.2 %	1,389,720	6.2	— %
Total/Weighted Average	39	$1,450,299	$1,524,194	100.0 %	$1,523,203	6.1	1.3 %

(A) The year in which the securities were issued.
(B) Three month average constant prepayment rate.

The following table summarizes the net interest spread of our Agency RMBS portfolio as of March 31, 2016:

Net Interest Spread[(A)]	
Weighted Average Asset Yield	1.95%
Weighted Average Funding Cost	0.70%
Net Interest Spread	1.25%

(A)

The Agency RMBS portfolio consists of 12.2% floating rate securities and 87.8% fixed rate securities (based on amortized cost basis). See table above for details on rate resets of the floating rate securities.

Non-Agency RMBS

The following table summarizes our Non-Agency RMBS portfolio as of March 31, 2016 (dollars in thousands):

			Gross Unrealized			
Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gains	Losses	Carrying Value(A)	Outstanding Repurchase Agreements
Non-Agency RMBS	$4,316,034	$1,928,849	$21,699	$(31,961)	$1,918,587	$1,490,273

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

The following tables summarize the characteristics of our Non-Agency RMBS portfolio and of the collateral underlying our Non-Agency RMBS as of March 31, 2016 (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)	Weighted Average Coupon(F)
Pre 2004	CCC+	113	$225,103	$147,664	9.9 %	$151,110	9.3 %	0.8 %	6.4	2.5 %
2004	CCC	40	232,151	181,992	12.2 %	183,489	16.2 %	1.9 %	9.0	2.1 %
2005	CC	39	484,778	357,263	23.8 %	346,767	13.6 %	2.8 %	9.2	1.0 %
2006 and later	B	83	2,943,001	811,177	54.1 %	806,265	9.0 %	1.9 %	10.2	1.3 %
Total/Weighted Average	CCC+	275	$3,885,033	$1,498,096	100.0 %	$1,487,631	11.2 %	2.0 %	9.5	1.4 %

	Collateral Characteristics(A) (G)				
Vintage(B)	Average Loan Age (years)	Collateral Factor(H)	3 month CPR(I)	Delinquency(J)	Cumulative Losses to Date
Pre 2004	17.0	0.08	1.6 %	11.4 %	6.1 %
2004	11.8	0.12	5.2 %	13.8 %	8.1 %
2005	10.9	0.10	3.8 %	17.2 %	30.8 %
2006 and later	9.0	0.47	4.1 %	15.4 %	19.6 %
Total/Weighted Average	10.6	0.30	5.7 %	15.2 %	15.7 %

(A) Excludes $431.0 million face amount of bonds backed by servicer advances.
(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 84 bonds with a carrying value of $341.6 million, which either have never been rated or for which rating information is no longer provided. We had no assets that were on negative watch for possible downgrade by at least one rating agency as of March 31, 2016.
(D) The percentage of amortized cost basis of securities and residual interests that is subordinate to our investments. This excludes interest-only bonds.
(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, 2016.
(F)

Excludes residual bonds, and certain other Non-Agency bonds, with a carrying value of $220.5 million and $0.0 million, respectively, for which no coupon payment is expected.

(G) The weighted average loan size of the underlying collateral is $267.0 thousand.

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

(I) Three month average constant prepayment rate.

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

The following table summarizes the net interest spread of our Non-Agency RMBS portfolio as of March 31, 2016:

Net Interest Spread[A]	
Weighted Average Asset Yield	5.23 %
Weighted Average Funding Cost	1.96 %
Net Interest Spread	3.27 %

(A) The Non-Agency RMBS portfolio consists of 59.8% floating rate securities and 40.2% fixed rate securities (based on amortized cost basis).

Residential Mortgage Loans

As of March 31, 2016, we had approximately $1.2 billion outstanding face amount of residential mortgage loans. These investments were financed with repurchase agreements with an aggregate face amount of approximately $819.9 million and notes and bonds payable with an aggregate face amount of approximately $17.3 million. We acquired these loans through open market purchases, as well as through the exercise of call rights, as described below.

The following table presents the total residential mortgage loans outstanding by loan type at March 31, 2016 (dollars in thousands).

Loan Type	Outstanding Face Amount	Carrying Value	Loan Count	Weighted Average Yield	Weighted Average Life (Years)[A]	Floating Rate Loans as a % of Face Amount	Loan to Value Ratio ("LTV")[B]	Weighted Avg. Delinquency[C]	Weighted Average FICO[D]
Reverse Mortgage Loans[E][F]	$ 32,633	$ 18,142	122	7.4 %	4.4	19.8 %	133.5 %	65.7 %	N/A
Performing Loans[G]	20,884	19,462	663	8.9 %	5.6	17.3 %	77.2 %	7.3 %	626
Purchased Credit Deteriorated ("PCD") Loans[H]	439,649	287,130	2,037	5.5 %	2.6	18.7 %	116.4 %	93.1 %	577
Total Residential Mortgage Loans, held-for- investment	$ 493,166	$ 324,734	2,822	5.8 %	2.8	18.7 %	115.9 %	87.7 %	580
Performing Loans, held-for-sale[G]	$ 143,384	$ 151,001	1,671	3.8 %	4.7	9.6 %	58.1 %	3.7 %	665
Non-performing Loans, held-for-sale[H][I]	572,988	482,159	3,425	7.0 %	2.7	15.3 %	104.0 %	79.1 %	571
Residential Mortgage Loans, held-for-sale	$ 716,372	$ 633,160	5,096	6.3 %	3.1	14.2 %	94.8 %	64.0 %	590

(A) The weighted average life is based on the expected timing of the receipt of cash flows.
(B) LTV refers to the ratio comparing the loan's unpaid principal balance to the value of the collateral property.
(C) Represents the percentage of the total principal balance that are 60+ days delinquent.
(D) The weighted average FICO score is based on the weighted average of information updated and provided by the loan servicer on a monthly basis.
(E) Represents a 70% participation interest we hold in a portfolio of reverse mortgage loans. The average loan balance outstanding based on total UPB is $0.4 million and 60% of these loans outstanding have reached a termination

event. As a result of the termination event, each such loan has matured and the borrower can no longer make draws on these loans.

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

(G) Includes loans that are current or less than 30 days past due at acquisition where we expect to collect all contractually required principal and interest payments. Presented net of unamortized premiums of $8.7 million.

(H) Includes loans with evidence of credit deterioration since origination where it is probable that we will not collect all contractually required principal and interest payments. As of March 31, 2016, we have placed all of these loans on nonaccrual status, except as described in (I) below.

(I) Includes $232.1 million UPB of Ginnie Mae EBO non-performing loans on accrual status because contractual cash flows are guaranteed by the FHA.

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

Other

Consumer Loans

In April 2013, we completed, through newly formed limited liability companies (together, the "Consumer Loan Companies"), a co-investment in a portfolio of consumer loans. The portfolio included 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 acquired 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, OneMain, which is majority-owned by Fortress funds managed by our Manager, acquired 47% and funds managed by Blackstone Tactical Opportunities Advisors LLC acquired 23%. OneMain acts as the managing member of the Consumer Loan Companies. After a servicing transition period, OneMain became the servicer of the loans and provides all servicing and advancing functions for the portfolio. The Consumer Loan Companies initially financed approximately 73% of the original purchase price with asset-backed notes. In September 2013, the Consumer Loan Companies issued and sold additional asset-backed notes that were subordinate to the debt issued in April 2013. On October 3, 2014, the Consumer Loan Companies refinanced the outstanding asset-backed notes with an asset-backed securitization. The proceeds in excess of the refinanced debt were distributed to the respective co-investors, which reduced our basis in the consumer loans investment to $0.0 million and resulted in a gain. Subsequent to this refinancing, we have discontinued recording our share of the underlying earnings of the Consumer Loan Companies until such time as their cumulative earnings exceed their cumulative distributions.

On March 31, 2016, we entered into the SpringCastle Transaction (Note 1 to our Condensed Consolidated Financial Statements). As a result, we own 53.5% of, and consolidate, the Consumer Loan Companies.

The table below summarizes the collateral characteristics of the consumer loans as of March 31, 2016 (dollars in thousands):

	Collateral Characteristics													
	UPB(A)	Personal Unsecured Loans %	Personal Homeowner Loans %	Number of Loans	Weighted Average Original FICO Score(B)	Weighted Average Coupon	Adjustable Rate Loan %	Average Loan Age (months)	Average Expected Life (Years)	Delinquency 30 Days(C)	Delinquency 60 Days(C)	Delinquency 90+ Days(C)	CRR(D)	CDR(E)
Consumer loans, held-for-investment	$1,986,162	67.4%	32.6%	225,753	635	18.3%	11.0%	130	4.2	2.9%	1.7%	2.5%	18.5%	5.6%

(A) As of February 29, 2016.
(B) Weighted average original FICO score represents the FICO score at the time the loan was originated.
(C) 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.
(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, net of draws on revolving loans.
(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 Condensed Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from these estimates. We believe that the estimates and assumptions utilized in the preparation of the Condensed Consolidated Financial Statements are prudent and reasonable. Actual results historically have been in line with our 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.

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. We validate 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 us to ensure the changes are appropriate.

In order to evaluate the reasonableness of its fair value determinations, we engage an independent valuation firm to separately measure the fair value of our 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. We compare the range included in the opinion to the values generated by our internal models. To date, we have not made any significant valuation adjustments as a result of these fairness opinions.

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. The inputs used in estimating cash flows are generally the same as those used in estimating fair value, and are subject to the same judgments and uncertainties. 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 table summarizes the estimated change in fair value of our interests in the Excess MSRs owned directly as of March 31, 2016 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

Fair value at March 31, 2016	$1,547,004			
Discount rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$1,678,345	$1,609,898	$1,489,048	$1,435,499
Change in estimated fair value:				
Amount	$131,341	$62,894	$(57,956)	$(111,505)
%	8.5%	4.1%	(3.7)%	(7.2)%
Prepayment rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$1,680,304	$1,611,364	$1,486,828	$1,430,482
Change in estimated fair value:				
Amount	$133,300	$64,360	$(60,176)	$(116,522)
%	8.6%	4.2%	(3.9)%	(7.5)%
Delinquency rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$1,552,303	$1,549,654	$1,544,353	$1,541,702
Change in estimated fair value:				
Amount	$5,299	$2,650	$(2,651)	$(5,302)
%	0.3%	0.2%	(0.2)%	(0.3)%
Recapture rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$1,531,339	$1,539,119	$1,554,996	$1,563,098
Change in estimated fair value:				
Amount	$(15,665)	$(7,885)	$7,992	$16,094
%	(1.0)%	(0.5)%	0.5%	1.0%

The following table summarizes the estimated change in fair value of our interests in the Excess MSRs owned through equity method investees as of March 31, 2016 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

Fair value at March 31, 2016	$209,901			
Discount rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$228,138	$218,619	$201,892	$194,513
Change in estimated fair value:				
Amount	$18,237	$8,718	$(8,009)	$(15,388)
%	8.7%	4.2%	(3.8)%	(7.3)%
Prepayment rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$225,434	$217,439	$202,793	$196,087
Change in estimated fair value:				
Amount	$15,533	$7,538	$(7,108)	$(13,814)
%	7.4%	3.6%	(3.4)%	(6.6)%
Delinquency rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$213,866	$211,884	$207,918	$205,935
Change in estimated fair value:				
Amount	$3,965	$1,983	$(1,983)	$(3,966)
%	1.9%	0.9%	(0.9)%	(1.9)%
Recapture rate shift in %	-20%	-10%	10%	20%
Estimated fair value	$202,681	$206,268	$213,580	$217,306
Change in estimated fair value:				
Amount	$(7,220)	$(3,633)	$3,679	$7,405
%	(3.4)%	(1.7)%	1.8%	3.5%

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

Servicer Advances

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

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 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 because 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 our fair value determinations, we engage an independent valuation firm to separately measure the fair value of our 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 $1.0 billion per year on average over the weighted average life of the investment held as of March 31, 2016, (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 our servicers 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 fees owed to our servicers.

Real Estate Securities (RMBS)

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

We expect that any RMBS we acquire will be categorized under Level 2 or Level 3 of the GAAP hierarchy, 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. We validate 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 us 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 OTTI 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 No. 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 OTTI 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 No. 310-30, as opposed to ASC No. 325-40.

All of our other Non-Agency RMBS, those not acquired with evidence of deteriorated credit quality, fall within the scope of ASC No. 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.

Impairment of Performing 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 a 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.

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

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

Determinations of whether a loan is collectible are inherently uncertain and subject to significant judgment.

Purchased Credit Deteriorated (PCD) Loans

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

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

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

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

The estimation of future cash flows for PCD loans is subject to significant judgment and uncertainty. Actual cash flows could be materially different than our estimates.

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

Real Estate Owned (REO)

REO assets are those individual properties where the owner of the related loan receives the property in satisfaction of a debt (e.g., by taking legal title or physical possession). We recognize REO assets: (i) at the completion of the foreclosure process or upon execution of a deed in lieu of foreclosure with the borrower or (ii) when acquired. We measure REO assets at the lower of cost or fair value, with valuation changes recorded in other income. REO is illiquid in nature and its valuation is subject to significant uncertainty and judgment and is greatly impacted by local market conditions.

Consumer Loans

Prior to the SpringCastle Transaction (Note 1 to our Condensed Consolidated Financial Statements), we accounted for our investment in the Consumer Loan Companies pursuant to the equity method of accounting because we could exercise significant influence over the Consumer Loan Companies, but the requirements for consolidation were not met. Our share of earnings and losses in these equity method investees was recorded in "Earnings from investments in consumer loans, equity method investees" on the Condensed Consolidated Statements of Income. Equity method investments are included in "Investments in consumer loans, equity method investees" on the Condensed Consolidated Balance Sheets.

Subsequent to the SpringCastle Transaction, we consolidate the Consumer Loan Companies. 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.

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 and certain other interests 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 Nationstar serviced 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 March 31, 2016, we owned an approximately 44.5% 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 variable interest entity. As a result of our managing member interest, which represents a controlling financial interest, we have determined that we are the primary beneficiary and consolidate the Buyer and its wholly owned subsidiaries, and we reflect membership interests in the Buyer held by third parties as noncontrolling interests.

As a result of the SpringCastle Transaction, we have a 53.5% interest in and are the managing member of the Consumer Loan Companies. The Consumer Loan Companies were formed as joint ventures, designed by the members to share risk and rewards and provide each member with a certain level of participation in the overall management. Since formation, the Consumer Loan Companies have demonstrated their ability to finance activities without additional subordinated financial support and, based on the Second A&R LLC Agreements, were organized with substantive voting rights and the holders of the equity investment at risk, as a group, have the characteristics of a controlling financial interest. Therefore, we have determined that the Consumer Loan Companies are voting interest entities. As the holder of 53.5% of the voting equity and managing member, we have determined that we own a controlling financial interest and, as the third party investor does not possess substantive participating rights, we have consolidated the Consumer Loan Companies. We reflect the 46.5% membership interest held by the third party as a noncontrolling interest.

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 income 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 corporate level income taxes, and we would face a variety of adverse consequences. See "Risk Factors—Risks Related to Our Taxation as a REIT." We have made certain investments, particularly our investments in servicer advances, through TRSs and are subject to regular corporate income taxes on these investments.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to our Condensed Consolidated Financial Statements.

RESULTS OF OPERATIONS

The following table summarizes the changes in our results of operations for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 (dollars in thousands). Our results of operations are not necessarily indicative of future performance.

	Three Months Ended March 31,		Increase (Decrease)
	2016	2015	Amount
Interest income	$190,036	$84,373	$105,663
Interest expense	81,228	33,979	47,249
Net Interest Income	108,808	50,394	58,414
Impairment			
Other-than-temporary impairment (OTTI) on securities	3,254	1,071	2,183
Valuation and loss provision (reversal) on loans and real estate owned	6,745	977	5,768
	9,999	2,048	7,951
Net interest income after impairment	98,809	48,346	50,463
Other Income			
Change in fair value of investments in excess mortgage servicing rights	7,926	(1,761)	9,687
Change in fair value of investments in excess mortgage servicing rights, equity method investees	3,022	4,921	(1,899)
Change in fair value of investments in servicer advances	(31,224)	(7,669)	(23,555)
Gain on consumer loans investment	9,943	10,447	(504)
Gain on remeasurement of consumer loans investment	71,250	—	71,250
Gain (loss) on settlement of investments, net	(14,500)	14,767	(29,267)
Other income (loss), net	(14,495)	(8,410)	(6,085)
	31,922	12,295	19,627
Operating Expenses			
General and administrative expenses	12,081	8,560	3,521
Management fee to affiliate	10,008	5,126	4,882
Incentive compensation to affiliate	1,196	3,693	(2,497)
Loan servicing expense	1,731	4,891	(3,160)
	25,016	22,270	2,746
Income (Loss) Before Income Taxes	105,715	38,371	67,344
Income tax expense (benefit)	(10,223)	(3,427)	(6,796)
Net Income (Loss)	$115,938	$41,798	$74,140
Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries	$4,202	$5,823	$(1,621)
Net Income (Loss) Attributable to Common Stockholders	$111,736	$35,975	$75,761

Interest Income

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Interest income increased by $105.7 million, primarily attributable to incremental interest income of (i) $28.0 million from Excess MSR investments and (ii) $38.7 million from servicer advance investments, in which we made additional investments subsequent to March 31, 2015, primarily through the HLSS Acquisition. Interest income further increased by (iii) $31.6 million, largely due to an increase in the size of real estate securities portfolio and accelerated accretion on real estate securities owned in Non-Agency

RMBS trusts that were terminated upon the exercise of call rights, and (iv) $6.8 million related to interest income on real estate loans, specifically the FNMA loan pool acquired in December 2015 and the Ginnie Mae EBO loans acquired through the HLSS Acquisition.

Interest Expense

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Interest expense increased by $47.2 million primarily attributable to increases of (i) $39.5 million of interest on financings related to servicer advances primarily acquired through the HLSS Acquisition, (ii) $4.0 million of interest on repurchase agreements and financings on real estate securities in which we made additional levered investments subsequent to March 31, 2015, (iii) $2.2 million of interest on corporate loans secured by Excess MSRs issued subsequent to March 31, 2015 and (iv) $1.3 million of interest on real estate loans due to a larger portfolio during the three months ended March 31, 2016.

Other-Than-Temporary Impairment on Securities

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

The other-than-temporary impairment on securities increased by $2.2 million during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 primarily resulting from a decline in fair values on a greater portion of our Non-Agency RMBS, which we purchased with existing credit impairment, below their amortized cost basis as of March 31, 2016.

Valuation and Loss Provision (Reversal) on Loans and Real Estate Owned

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

The $5.8 million increase in the valuation and loss provision (reversal) on residential mortgage loans, held-for-sale and real estate owned resulted from an increase in impairment on loans of $2.1 million related to loans acquired through the exercise of call rights and $3.7 million of impairment on existing REO for which new broker price opinions were obtained.

Change in Fair Value of Investments in Excess Mortgage Servicing Rights

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

The change in fair value of investments in excess mortgage servicing rights increased by $9.7 million during the three months ended March 31, 2016 compared to the three months ended March 31, 2015. This increase primarily relates to mark-to-market fair value adjustments of $7.9 million during the three months ended March 31, 2016 compared to negative adjustments of $1.8 million during the three months ended March 31, 2015. The mark-to-market adjustments during the three months ended March 31, 2016 were primarily driven by slower prepayments speeds and decreased delinquency assumptions.

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

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

The change in fair value of investments in excess mortgage servicing rights, equity method investees decreased by $1.9 million during the three months ended March 31, 2016 compared to the three months ended March 31, 2015. This decrease relates to decreased mark-to-market fair value adjustments during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 due primarily to an increase in the weighted average discount rate from 9.6% to 9.8%.

Change in Fair Value of Investments in Servicer Advances

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

The change in fair value of investments in servicer advances decreased by $23.6 million during the three months ended March 31, 2016 compared to the three months ended March 31, 2015. This decrease primarily relates to asset mark-downs of $31.2 million during the three months ended March 31, 2016 compared to mark-downs of $7.6 million during the three months ended March 31, 2015. The net decrease in value during the three months ended March 31, 2016 was primarily due to a lower performance fee adjustment related to HLSS servicing advances resulting from a lower forward LIBOR curve as compared to prior projections.

The decrease in fair value of investments in servicer advances for the three months ended March 31, 2015 was primarily due to an increase in the weighted average life of the portfolio.

Gain on Consumer Loans Investment

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Gain on consumer loans investment decreased by $0.5 million as a result of slightly reduced cash distributions during the three months ended March 31, 2016 relative to March 31, 2015.

Gain on Remeasurement of Consumer Loans Investment

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Gain on remeasurement of consumer loans investment of $71.3 million represents the remeasurement of New Residential's previously held equity method investment in the Consumer Loan Companies as a result of obtaining a controlling financial interest through the SpringCastle Transaction (Note 1 to our Condensed Consolidated Financial Statements).

Gain on Settlement of Investments, Net

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Gain on settlement of investments decreased by $29.3 million, primarily related to (i) decreased gain on sale of real estate securities and residential mortgage loans of $8.6 million and $20.7 million, respectively, (ii) increased loss on settlement of derivatives of $10.0 million, and (iii) decreased gain on liquidated residential mortgage loans of $0.4 million, partially offset by (iv) decreased loss on sale of REO of $5.8 million, and (v) increased other gains of $4.7 million during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Other Income (Loss), Net

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Other income (loss), net decreased by $6.1 million, primarily attributable to (i) a $15.3 million net increase in unrealized losses on non-hedge derivative instruments, partially offset by (ii) increased unrealized gain on other ABS of $0.3 million, (iii) increased gain on transfer of loans to REO of $3.0 million, (iv) increased gain on Excess MSR recapture agreements of $0.7 million and (v) increased other income of $5.2 million during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

General and Administrative Expenses

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

General and administrative expenses increased by $3.5 million due to an increase in deal expenses, including legal deal expenses related to the SpringCastle Transaction, refinancings and the exercise of call rights.

Management Fee to Affiliate

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Management fee to affiliate increased by $4.9 million as a result of increases to our gross equity subsequent to March 31, 2015.

Incentive Compensation to Affiliate

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Incentive compensation to affiliate decreased by $2.5 million due to a decrease in our incentive compensation earnings measure resulting from the changes in the income and expense items described above, excluding any unrealized gains or losses from mark-to-market valuation changes on investments and debt, and excluding the Gain on Remeasurement of Consumer Loans Investment, during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Loan Servicing Expense

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Loan servicing expense decreased by $3.2 million due to a smaller average real estate loan portfolio in the three months ended March 31, 2016 as a result of significant loan sales completed during the three months ended March 31, 2015.

Income Tax Expense (Benefit)

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Income tax expense (benefit) increased by $6.8 million primarily due to the increase in the net deferred tax benefit resulting from changes in mark-to-market fair value adjustments on investments in servicer advances and other book to tax differences.

Noncontrolling Interests in Income of Consolidated Subsidiaries

Three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Noncontrolling interests in income of consolidated subsidiaries decreased by $1.6 million primarily due to (i) a decrease in net interest income earned on the Buyer’s levered assets as they are repaid over time, partially offset by (ii) a decrease in the change in fair value of the Buyer’s assets.

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 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 (including margins) and other operating expenses, and the repayment of borrowings and hedge obligations, as well as dividends.

Currently, our primary sources of financing are notes and bonds payable and repurchase agreements, although we have in the past and may in the future also pursue one or more other sources of financing such as securitizations and other secured and unsecured forms of borrowing. As of March 31, 2016, we had outstanding repurchase agreements with an aggregate face amount of approximately $4.0 billion to finance residential mortgage loans, real estate owned, consumer loans, Non-Agency RMBS and Agency RMBS. The financing of our entire RMBS portfolio, which generally has 30 to 90 day terms, is subject to margin calls. Under repurchase agreements, we sell a security to a counterparty and concurrently agree to repurchase the same security at a later date for a higher specified price. The sale price represents financing proceeds and the difference between the sale and repurchase prices represents interest on the financing. The price at which the security is sold generally represents the market value of the security less a discount or “haircut,” which can range broadly, for example from 3% - 4% for Agency RMBS, 10% - 50% for Non-Agency RMBS, and 5% - 53% for residential mortgage loans. During the term of the repurchase agreement, the counterparty holds the security as collateral. If the agreement is subject to margin calls, the counterparty monitors and calculates what it estimates to be the value of the collateral during the term of the agreement. If this value declines by more than a de minimis threshold, the counterparty could require us to post additional collateral (or “margin”) in order to maintain the initial haircut on the collateral. This margin is typically required to be posted in the form of cash and cash equivalents. Furthermore, we may, from time to time, be a party to derivative agreements or financing arrangements that may be subject to margin calls based on the value of such instruments. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates.

Our ability to obtain borrowings and to raise future equity capital is dependent on our ability to access borrowings and the capital markets on attractive terms. We continually monitor market conditions for financing opportunities and at any given time may be entering or pursuing one or more of the transactions described above. 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.

With respect to the next 12 months, we expect that our cash on hand, combined with our cash flow provided by operations and our ability to roll our repurchase agreements and servicer advance financings, 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 12 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 such a shortfall may occur rapidly and with little or no notice, which could limit our ability to address such a shortfall on a timely basis and could have a material adverse effect on our business.

Our cash flow provided by operations differs from our net income due to these primary factors: (i) accretion of discount or premium on our residential securities and loans, (ii) the difference between (a) accretion and unrealized gains and losses recorded with respect to our Excess MSR (direct and indirect) and servicer advance investments and (b) cash received therefrom, (iii) unrealized gains and losses on our derivatives, and recorded impairments, if any, (iv) deferred taxes, and (v) principal cash flows related to held-for-sale loans, which are characterized as operating cash flows under GAAP.

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. 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 (dollars in thousands):

March 31, 2016							Collateral		
Debt Obligations/Collateral	Month Issued	Outstanding Face Amount	Carrying Value(A)	Final Stated Maturity(B)	Weighted Average Funding Cost	Weighted Average Life (Years)	Outstanding Face	Amortized Cost Basis	Carrying Value
Repurchase Agreements(C)									
Agency RMBS(D)	Various	$1,629,971	$1,629,971	Apr-16	0.70 %	0.1	$1,612,119	$1,667,876	$1,691,14
Non-Agency RMBS (E)	Various	1,490,273	1,490,273	Apr-16 to Jun-16	1.96 %	0.1	3,599,118	1,788,871	1,777,260
Residential Mortgage Loans(F)	Various	723,954	723,167	May-16 to Mar-17	2.87 %	0.6	1,119,845	886,918	884,110
Real Estate Owned(G)(H)	Various	95,983	95,878	May-16 to Mar-17	2.76 %	0.6	N/A	N/A	108,330
Consumer Loan Investment(I)	Apr-15	34,223	34,223	Apr-16	4.11 %	0.1	N/A	N/A	71,250
Total Repurchase Agreements		3,974,404	3,973,512		1.65 %	0.2			
Notes and Bonds Payable									
Secured Corporate Note(J)	May-15	182,772	181,602	Apr-17	5.69 %	1.1	89,074,745	212,250	258,422
Servicer Advances(K)	Various	6,880,413	6,868,732	Aug-16 to Aug-18	3.44 %	1.2	7,203,924	7,005,501	7,001,004
Residential Mortgage Loans(L)	Oct-15	13,786	13,786	Oct-16	3.30 %	0.5	20,801	13,914	12,809
Consumer Loans(M)	Oct-14	1,808,211	1,803,192	May-23 to Apr-34	4.14 %	3.7	1,986,162	1,951,879	1,951,879
Receivable from government agency(L)	Oct-15	3,539	3,539	—	3.30 %	0.5	N/A	N/A	5,333
Total Notes and Bonds Payable		8,888,721	8,870,851		3.63 %	1.7			
Total/ Weighted Average		$12,863,125	$12,844,363		3.02 %	1.2			

(A) Net of deferred financing costs.

(B) All debt obligations with a stated maturity of April 2016 were refinanced, extended, or repaid.

(C) These repurchase agreements had approximately $6.7 million of associated accrued interest payable as of March 31, 2016.

(D) All of the Agency RMBS repurchase agreements have a fixed rate. Collateral amounts include approximately $1.5 billion of related trade and other receivables.

(E) All of the Non-Agency RMBS repurchase agreements have LIBOR-based floating interest rates. This includes repurchase agreements of $145.8 million on retained servicer advance bonds.

(F) All of these repurchase agreements have LIBOR-based floating interest rates.

(G) All of these repurchase agreements have LIBOR-based floating interest rates.

(H) Includes financing collateralized by receivables including claims from FHA on Ginnie Mae EBO loans for which foreclosure has been completed and for which we have made or intend to make a claim on the FHA guarantee.

(I) The repurchase agreement bears interest equal to three-month LIBOR plus 3.50% and is collateralized by 56% of our interest in the Consumer Loan Companies (Note 9 to our Condensed Consolidated Financial Statements).

(J) The loan bears interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a margin of 5.25%. The outstanding face amount of the collateral represents the UPB of the residential mortgage loans underlying the Excess MSRs that secure this corporate note.

(K) $2.7 billion face amount of the notes have a fixed rate while the remaining 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 1.7% to 2.2%.

(L) The note is payable to Nationstar and bears interest equal to one-month LIBOR plus 2.875%.

(M) Represents the debt assumed in the SpringCastle Transaction (Note 1 to our Condensed Consolidated Financial Statements), which is comprised of the following classes of asset-backed notes (collectively, the “2014-A Notes”) held by third parties: $850.2 million UPB of Class A notes with a coupon of 2.7% and a stated maturity date in May 2023 (the “Class A Notes”); $427.0 million UPB of Class B notes with a coupon of 4.61% and a stated maturity date in October 2027 (the “Class B Notes”); $331.2 million UPB of Class C notes with a coupon of 5.59% and a stated maturity date in October 2033 (the “Class C Notes”); and $199.8 million UPB of Class D notes with a coupon of 6.82% and a stated maturity date in April 2034 (the "Class D Notes"). Prior to the payment date in October 2016, the redemption price for any class of the outstanding 2014-A Notes shall be the sum of (i) 100% of the outstanding principal balance of the 2014-A Notes of the applicable class to be redeemed, plus (ii) the applicable Specified Call Premium Amount (as defined below) for such 2014-A Notes, plus (iii) accrued and unpaid interest and fees in respect of such 2014-A Notes. On or after the payment date occurring in October 2016, the redemption price for any class of 2014-A Notes shall be the sum of (i) 100% of the outstanding principal balance of the 2014-A Notes of the applicable class to be redeemed, plus (ii) accrued and unpaid interest and fees in respect of such 2014-A Notes. The "Specified Call Premium Amount" on any payment date for any class of 2014-A Notes shall mean (i) in the case of Class A Notes, an amount equal to 1.00% of the outstanding principal balance of the Class A Notes to be redeemed and (ii) in the case of the Class B Notes, the Class C Notes and the Class D Notes, an amount equal to (a) the product of (1) with respect to the Class B Notes, 0.75%, with respect to the Class C Notes, 1.00% and with respect to the Class D Notes, 2.00%, times (2) the outstanding principal balance of the 2014-A Notes of such class to be redeemed on such payment date, times (3) the number of days, computed on a 30/360 basis, from and including such payment date to but excluding the payment date occurring in October 2016, divided by (b) 360.

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.

We have margin exposure on $4.0 billion of repurchase agreements. To the extent that the value of the collateral underlying these repurchase agreements declines, we may be required to post margin, which could significantly impact our liquidity.

The following tables provide additional information regarding our short-term borrowings (dollars in thousands).

	Three Months Ended March 31, 2016			
	Outstanding Balance at March 31, 2016	Average Daily Amount Outstanding(A)	Maximum Amount Outstanding	Weighted Average Daily Interest Rate
Repurchase Agreements				
Agency RMBS	$ 1,629,971	$ 1,637,506	$ 1,683,305	0.69 %
Non-Agency RMBS	1,490,273	1,369,703	1,490,273	1.86 %
Residential Mortgage Loans	723,954	889,834	974,408	2.80 %
Real Estate Owned	95,983	87,270	97,943	3.07 %
Consumer Loans	34,223	34,569	40,446	4.10 %
Notes and Bonds Payable				
Servicer Advances	2,916,719	2,651,087	2,961,031	2.43 %
Residential Mortgage Loans	13,786	14,260	15,652	3.26 %
Real Estate Owned	3,539	3,518	3,877	3.26 %
Total/Weighted Average	$ 6,908,448	$ 6,687,747	$ 7,266,935	1.96 %

(A) Represents the average for the period the debt was outstanding.

For additional information on our debt activities, see Note 11 to our Condensed Consolidated Financial Statements.

Maturities

Our debt obligations as of March 31, 2016, as summarized in Note 11 to our Condensed Consolidated Financial Statements, had contractual maturities as follows (in thousands):

Year	Nonrecourse(A)	Recourse(B)	Total
April 1 through December 31, 2016	$ 1,547,745	$ 3,652,241	$ 5,199,986
2017	5,045,240	441,308	5,486,548
2018	368,380	—	368,380
2019	—	—	—
2020	—	—	—
2021 and thereafter	1,808,211	—	1,808,211
	$ 8,769,576	$ 4,093,549	$ 12,863,125

(A) Includes repurchase agreements and notes and bonds payable of $81.0 million and $8,688.6 million, respectively.
(B) Includes repurchase agreements and notes and bonds payable of $3,893.5 million and $200.1 million, respectively.

The weighted average differences between the fair value of the assets and the face amount of available financing for the Agency RMBS repurchase agreements (including amounts related to Trades Receivable) and Non-Agency RMBS repurchase agreements were 3.6% and 16.1%, respectively, and for Residential Mortgage Loans and Real Estate Owned were 17.7% and 15.3%, respectively, during the three months ended March 31, 2016.

Borrowing Capacity

The following table represents our borrowing capacity as of March 31, 2016 (in thousands):

Debt Obligations/ Collateral	Collateral Type	Borrowing Capacity	Balance Outstanding	Available Financing
Repurchase Agreements				
Residential Mortgage Loans	Real Estate Loans	$ 2,435,000	$ 819,937	$ 1,615,063
Notes and Bonds Payable				
Servicer Advances(A)	Servicer Advances	7,574,183	6,880,413	693,770
		$ 10,009,183	$ 7,700,350	$ 2,308,833

(A) Our unused borrowing capacity is available to us if we have additional eligible collateral to pledge and meet other borrowing conditions as set forth in the applicable agreements, including any applicable advance rate. We pay a 0.3% fee on the unused borrowing capacity. Excludes borrowing capacity and outstanding debt for retained non-agency bonds with a current face amount of $175.8 million.

Covenants

Certain of the debt obligations are subject to customary loan covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline over any 12-month period, or a 35% decline over any three-month period, as of a quarter end, and a 4:1 indebtedness to tangible net worth provision. We were in compliance with all of our debt covenants as of March 31, 2016.

Stockholders’ Equity

Common Stock

Approximately 2.4 million shares of our common stock were held by Fortress, through its affiliates, and its principals as of March 31, 2016.

As of March 31, 2016, our outstanding options corresponding to Newcastle options issued prior to 2011 had a weighted average exercise price of $31.36 and our outstanding options corresponding to Newcastle options issued in 2011, 2012 and 2013, as well as options issued by us in 2013 and thereafter, had a weighted average exercise price of $14.32. Our outstanding options as of March 31, 2016 are summarized as follows:

	March 31, 2016		
	Issued Prior to 2011	Issued in 2011 - 2015	Total
Held by the Manager	345,720	8,874,152	9,219,872
Issued to the Manager and subsequently transferred to certain of the Manager's employees	88,280	3,067,955	3,156,235
Issued to the independent directors	—	4,000	4,000
Total	434,000	11,946,107	12,380,107

On January 19, 2016, we announced that our board of directors had authorized the repurchase of up to $200 million of our common stock over the next 12 months. Repurchases may be made at any time and from time to time through open market purchases or privately negotiated transactions, pursuant to one or more plans established pursuant to Rule 10b5-1 under the Exchange Act, by means of one or more tender offers, or otherwise, in each case, as permitted by securities laws and other legal and contractual requirements. The amount and timing of the purchases, if any, will depend on a number of factors including the price and availability of our shares, trading volume, capital availability, our performance and general economic and market conditions. The share repurchase program may be suspended or discontinued at any time. No share repurchases have been made as of the filing of this report. Repurchases may impact our financial results, including fees paid to our Manager.

Accumulated Other Comprehensive Income (Loss)

During the three months ended March 31, 2016, 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, 2015	$ 3,936
Net unrealized gain (loss) on securities	(19,969)
Reclassification of net realized (gain) loss on securities into earnings	3,121
Accumulated other comprehensive income (loss), March 31, 2016	$ (12,912)

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, 2016, we recorded unrealized losses on our real estate securities primarily caused by performance, liquidity and other factors related specifically to certain investments, offset by a net tightening of credit spreads. We recorded OTTI charges of $3.3 million with respect to real estate securities and realized gains of $16.1 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 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, other differences in method of accounting, non-deductible general and administrative expenses, taxable income arising from certain modifications of debt instruments and investments held in TRSs. 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
December 31, 2015	January 2016	$ 0.46
March 31, 2016	April 2016	$ 0.46

Cash Flow

Operating Activities

Net cash flows provided by operating activities increased approximately $184.8 million for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015. Operating cash inflows for the three months ended March 31, 2016 primarily consisted of proceeds from sales and principal repayments of purchased residential mortgage loans, held-for-sale of $249.6 million, collections on receivables and other assets of $28.3 million, net interest income received of $74.8 million, distributions of earnings from equity method investees of $9.8 million, and distributions from equity method investees in excess of our basis of $9.9 million. Operating cash outflows primarily consisted of purchases of residential mortgage loans, held-for-sale of $173.3 million, incentive compensation and management fees paid to the Manager of $29.4 million, income taxes paid of $0.3 million and other outflows of approximately $5.4 million that primarily consisted of general and administrative costs.

Investing Activities

Cash flows used in investing activities were $221.9 million for the three months ended March 31, 2016. Investing activities during the three months ended March 31, 2016 consisted primarily of the acquisition of Servicer Advances, Excess MSRs, real estate securities and loans, as well as the SpringCastle Transaction, net of principal repayments from Excess MSRs, Servicer Advances, Agency RMBS, Non-Agency RMBS and loans, as well as proceeds from the sale of real estate securities and loans, and derivative cash flows.

Financing Activities

Cash flows used in financing activities were approximately $382.6 million during the three months ended March 31, 2016. Financing activities during the three months ended March 31, 2016 consisted primarily of borrowings net of repayments under debt obligations, capital distributions to noncontrolling interests in the equity of a consolidated subsidiary, and payment of dividends.

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

We have material off-balance sheet arrangements related to our non-consolidated securitizations of mortgage loans treated as sales in which we retained certain interests. We believe that these off-balance sheet structures presented the most efficient and least expensive form of financing for these assets at the time they were entered and represented the most common market-accepted method for financing such assets. Our exposure to credit losses related to these non-recourse, off-balance sheet financings is limited to $108.9 million. As of March 31, 2016, there was $1,685.2 million in total outstanding unpaid principal balance of mortgage loans underlying such securitization trusts that represent off-balance sheet financings.

We did not have any other off-balance sheet arrangements as of March 31, 2016. 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 entities described above. 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, 2016 included all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2015, 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, 2016:

- Derivatives – as described in Note 10 to our Condensed Consolidated Financial Statements, we have altered the composition of our economic hedges during the period.
- Debt obligations – as described in Note 11 and Note 18 to our Condensed Consolidated Financial Statements, we borrowed additional amounts, including borrowings to fund servicer advances and Excess MSRs, and to purchase loans and securities.

See Notes 14 and 18 to our Condensed Consolidated Financial Statements included in this report for information regarding commitments and material contracts entered into subsequent to March 31, 2016, if any. As described in Note 14, we have committed to purchase certain future servicer advances from our servicer counterparties. The actual amount of future advances is subject to significant uncertainty. However, we currently expect that net recoveries of servicer advances will exceed net fundings for the foreseeable future. This expectation is based on judgments, estimates and assumptions, all of which are subject to significant uncertainty, as further described in "—Application of Critical Accounting Policies—Servicer Advances."

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 Disclosures About Market Risk—Interest Rate Risk."

CORE EARNINGS

We have four primary variables that impact our operating performance: (i) the current yield earned on our investments, (ii) the interest expense under the debt incurred to finance our investments, (iii) our operating expenses and taxes and (iv) our realized and unrealized gains or losses, including any impairment and deferred tax, on our investments. "Core earnings" is a non-GAAP measure of our operating performance, excluding the fourth variable above and adjusting the earnings from the consumer loan investment to a level yield basis. It is used by management to evaluate our 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; (iii) non-capitalized transaction-related expenses; and (iv) deferred taxes, which are not representative of current operations.

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 transaction-related expenses, management does not view these costs as part of our core operations. Non-capitalized transaction-related expenses are generally legal and valuation service costs, as well as other professional service fees, incurred when we acquire certain investments, as well as costs associated with the acquisition and integration of acquired businesses.

In the fourth quarter of 2014, we modified our definition of core earnings to include accretion on held-for-sale loans as if they continued to be held-for-investment. Although we intend to sell such loans, there is no guarantee that such loans will be sold or that they will be sold within any expected timeframe. During the period prior to sale, we continue to receive cash flows from such loans and believe that it is appropriate to record a yield thereon. This modification had no impact on core earnings in 2014 or any prior period. In the second quarter of 2015, we modified our definition of core earnings to exclude all deferred taxes, rather than just deferred taxes related to unrealized gains or losses, because we believe deferred taxes are not representative of current operations. This modification was applied prospectively due to only immaterial impacts in prior periods. In the fourth quarter of 2015, we modified our definition of core earnings to limit accreted interest income on RMBS where we receive par upon the exercise of associated call rights based on the estimated value of the underlying collateral. We made the modification in order to be able to accrete to the lower of par or the value of the underlying collateral, in instances where the value of the underlying collateral is lower than par. We believe this amount represents the amount of accretion we would have expected to earn on such bonds had the call rights not been exercised. This modification had no impact on core earnings in prior periods.

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), (ii) non-capitalized transaction-related expenses and (iii) deferred taxes (other than those related to unrealized gains and losses). Each are excluded from core earnings and included in our incentive compensation measure (either immediately or through amortization). In addition, our incentive compensation measure does not include accretion on held-for-sale loans and the timing of recognition of income from consumer loans is different. Unlike core earnings, our incentive compensation measure is intended to reflect all realized results of operations. The Gain on Remeasurement of Consumer Loans Investment was treated as an unrealized gain for the purposes of calculating incentive compensation and was therefore excluded from such calculation.

Core earnings does not represent and should not be considered as a substitute for, or superior to, net income or as a substitute for, or superior to, cash flows from operating activities, each as determined in accordance with U.S. GAAP, and our calculation of this measure may not be comparable to similarly entitled measures reported by other companies. For a further description of the difference between cash flow provided by operations and net income, see "—Liquidity and Capital Resources" above. 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,	
	2016	2015
Net income attributable to common stockholders	$111,736	$35,975
Impairment	9,999	2,048
Other Income adjustments:		
Other Income		
Change in fair value of investments in excess mortgage servicing rights	(7,926)	1,761
Change in fair value of investments in excess mortgage servicing rights, equity method investees	(3,022)	(4,921)
Change in fair value of investments in servicer advances	31,224	7,669
Gain on consumer loans investment	(9,943)	(10,447)
Gain on remeasurement of consumer loans investment	(71,250)	—
(Gain) loss on settlement of investments, net	14,500	(14,767)
Unrealized (gain) loss on derivative instruments	22,303	7,030
(Gain) loss on transfer of loans to REO	(2,483)	544
Unrealized (gain) loss on other ABS	(268)	290
Gain on Excess MSR recapture agreements	(732)	(730)
Other (income) loss	1,528	1,276
Other Income attributable to non-controlling interests	(992)	(4,529)
Total Other Income Adjustments	(27,061)	(16,824)
Incentive compensation to affiliate	1,196	3,693
Non-capitalized transaction-related expenses	5,970	5,549
Deferred taxes	(10,681)	(3,007)
Interest income on residential mortgage loans, held-for-sale	1,912	13,435
Limit on RMBS discount accretion related to called deals	(2,649)	—
Core earnings of equity method investees:		
Excess mortgage servicing rights	4,029	5,838
Consumer loans	17,906	16,758
Core Earnings	$112,357	$63,465

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."

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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 or decreases in interest rates can nonetheless reduce our net interest income to the extent that we are not completely match funded. Furthermore, a period of changing 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 or subsequent 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 changing interest rates. See further disclosure regarding our Agency RMBS under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Our Portfolio—Real Estate Securities—Agency RMBS” for information about the reset terms and “Management’s Discussion and Analysis of Financial Conditions as Results of Operations—Liquidity and Capital Resources—Debt Obligations” for information about related debt.

We are exposed to fluctuations in forward LIBOR rates across our portfolio. For our investments in Servicer Advances, forward LIBOR rates have a direct impact on current period income recognition. Performance-based incentive fees paid to both Nationstar and Ocwen as part of our MSR purchase agreements are impacted by changes in LIBOR.

Ocwen’s performance-based incentive fee is reduced by a LIBOR-based factor if the advance ratio exceeds a predetermined level for that month. Shifts upward in projected LIBOR will increase any projected reduction in Ocwen’s incentive fee, thus increasing our share of the servicing fee. Conversely, shifts downward in projected LIBOR will decrease the projected reduction in Ocwen’s incentive fee, thus decreasing our share of the servicing fee.

Nationstar’s performance-based incentive fee is based on our target equity return. Changes in LIBOR may impact Nationstar’s ability to reach our target return. Shifts downward in projected LIBOR will decrease our projected cost of borrowings thus decreasing the share of the servicing fee we need to receive in order to obtain our target return. Conversely, shifts upward in projected LIBOR will increase our projected cost of borrowings thus increasing the share of the servicing fee we need to receive in order to obtain our target return.

We have elected to record our investments in servicer advances, including the right to the basic fee component of the related MSRs, at fair value. Therefore, any changes to our projected payments to/from our related servicers can impact the estimated future cash flows used to value the investments and the unrealized gains/losses on the investment. Changes to estimated future cash flows will also impact interest income recognized in the current period.

We may project net cash flow increases in connection with decreases in projected LIBOR, as a result of estimated savings on our future cost of borrowings outweighing estimated reductions of future retained servicing fees. However, only the asset impact would be reflected in our current period income statement.

As of March 31, 2016, an immediate 50 basis point increase in short term interest rates, based on a shift in the yield curve, would increase our cash flows by approximately $7.0 million in the next 12 months, whereas a 50 basis point decrease in short term interest rates would decrease our cash flows by approximately $2.2 million in the next 12 months, based solely on our current net floating rate exposure and assuming a static portfolio of investments (including fixed rate repurchase agreements that mature within 60 days of March 31, 2016 and assuming a LIBOR floor of 0.0%).

As of March 31, 2016, an immediate 50 basis point increase in short term interest rates, based on a shift in the yield curve, would increase our net book value by approximately $131.7 million, whereas a 50 basis point decrease in short term interest rates would decrease our net book value by approximately $129.0 million, based on the present value of estimated cash flows on a static portfolio of investments. This does not include changes in our book value resulting from potential related changes in discount rates; refer to "—Credit Spread Risk" below.

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.

Our investments are generally 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 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 fees to increase and the value of loans to decrease. To the extent we do not hedge against changes in interest rates, our balance sheet, results of operations and cash flows would be susceptible to significant volatility due to changes in the fair value of, or cash flows from, our investments 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."

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.

A further discussion on the sensitivity of our book value to changes in yields required by the marketplace on interest bearing investments is included below under "—Credit Spread Risk."

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 loans, including consumer loans. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. The price we pay to acquire certain investments will be based on, among other things, our projection of the cash flows from the related pool of loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If the fair value of Excess 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 loans could delay our expected cash flows and reduce the yield on these investments.

We seek to reduce our exposure to prepayment through the structuring of our investments. For example, in our Excess MSR investments, we seek to enter into “recapture agreements” whereby we will receive a new Excess MSR with respect to a loan that was originated by the servicer and used to repay a loan underlying an Excess MSR that we previously acquired from that same servicer. In lieu of receiving an Excess MSR with respect to the loan used to repay a prior loan, the servicer may supply a similar Excess MSR. We seek to enter into such recapture agreements in order to protect our returns in the event of a rise in voluntary prepayment rates.

Please refer to the table in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Application of Critical Accounting Policies—Excess 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 financial instruments by the market based on their credit relative to U.S. Treasuries, for fixed rate credit, or LIBOR, for floating rate credit. Excessive supply of such financial instruments combined with reduced demand will generally cause the market to require a higher yield on such financial instruments, 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 financial instruments. This widening would reduce the value of the financial instruments we hold at the time because higher required yields result in lower prices on existing financial instruments 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, 2016, a 25 basis point increase in credit spreads would decrease our net book value by approximately $77.8 million, and a 25 basis point decrease in credit spreads would increase our net book value by approximately $80.7 million, based on a static portfolio of investments, but would not directly affect our earnings or cash flow.

In an environment where spreads are tightening, if spreads tighten on the assets we purchase to a greater degree than they tighten on the liabilities we issue, our net spread will be reduced.

Credit Risk

We are subject to varying degrees of credit risk in connection with our assets. Credit risk refers to the ability of each individual borrower underlying our investments in Excess MSRs, servicer advances, securities and loans to make required interest and principal payments on the scheduled due dates. If delinquencies increase, then the amount of servicer advances we are required to make will also increase. We also invest in loans and Non-Agency RMBS which represent “first loss” pieces; in other words, they do not benefit from credit support although we believe they predominantly benefit from underlying collateral value in excess of their carrying amounts. Although we do not expect to encounter credit risk in our Agency RMBS, we do anticipate credit risk related to Non-Agency RMBS, residential mortgage loans and consumer loans.

We seek to reduce credit risk through prudent asset selection, actively monitoring our asset portfolio and the underlying credit quality of our holdings and, where appropriate and achievable, repositioning our investments to upgrade their credit quality. Our pre-acquisition due diligence and processes for monitoring performance include the evaluation of, among other things, credit and risk ratings, principal subordination, prepayment rates, delinquency and default rates, and vintage of collateral.

Liquidity Risk

The assets that comprise our asset portfolio are generally not publicly traded. A portion of these assets may be subject to legal and other restrictions on resale or otherwise be less liquid than publicly-traded securities. The illiquidity of our assets may make it difficult for us to sell such assets if the need or desire arises, including in response to changes in economic and other conditions.

ITEM 4. CONTROLS AND PROCEDURES

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 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 were effective.

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.

On March 31, 2016, the Company completed the SpringCastle Transaction. As a result, the Company’s internal control over financial reporting is being broadened to include the assets acquired, liabilities assumed and related processes. In order to broaden its internal control over financial reporting to include the assets acquired, liabilities assumed and related processes, the Company is in the process of modifying existing controls to accommodate the SpringCastle Transaction and adding controls with regards to certain new processes.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Following the HLSS Acquisition, material potential claims, lawsuits, regulatory inquiries or investigations, and other proceedings, of which we are currently aware, are as follows. We have not accrued losses in connection with these legal contingencies because management does not believe there is a probable and reasonably estimable loss. Furthermore, we cannot reasonably estimate the range of potential loss related to these legal contingencies at this time. However, the ultimate outcomes of the proceedings described below may have a material adverse effect on our business, financial position or results of operations.

In addition to the matters described below, from time to time, we are or may be involved in various disputes, litigation and regulatory inquiry and investigation matters that arise in the ordinary course of business. Given the inherent unpredictability of these types of proceedings, it is possible that future adverse outcomes could have a material adverse effect on our financial results.

Three putative class action lawsuits have been filed against HLSS and certain of its current and former officers and directors in the United States District Court for the Southern District of New York entitled: (i) Oliveira v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-652 (S.D.N.Y.), filed on January 29, 2015; (ii) Berglan v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-947 (S.D.N.Y.), filed on February 9, 2015; and (iii) W. Palm Beach Police Pension Fund v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-1063 (S.D.N.Y.), filed on February 13, 2015. On April 2, 2015, these lawsuits were consolidated into a single action, which is referred to as the “Securities Action.” On April 28, 2015, lead plaintiffs, lead counsel and liaison counsel were appointed in the Securities Action. On November 9, 2015, lead plaintiffs filed an amended class action complaint. On January 27, 2016, the Securities Action was transferred to the United States District Court for the Southern District of Florida and given the Index No. 16-CV-60165 (S.D. Fla.).

The Securities Action names as defendants HLSS, former HLSS Chairman William C. Erbey, HLSS Director, President, and Chief Executive Officer John P. Van Vlack, and HLSS Chief Financial Officer James E. Lauter. The Securities Action asserts causes of action under Sections 10(b) and 20(a) of the Exchange Act based on certain public disclosures made by HLSS relating to its relationship with Ocwen and HLSS’s risk management and internal controls. More specifically, the consolidated class action complaint alleges that a series of statements in HLSS’s disclosures were materially false and misleading, including statements about (i) Ocwen’s servicing capabilities; (ii) HLSS’s contingencies and legal proceedings; (iii) its risk management and internal controls; and (iv) certain related party transactions. The consolidated class action complaint also appears to allege that HLSS’s financial statements for the years ended 2012 and 2013, and the first quarter ended March 30, 2014, were false and misleading based on HLSS’s August 18, 2014 restatement. Lead plaintiffs in the Securities Action also allege that HLSS misled investors by failing to disclose, among other things, information regarding governmental investigations of Ocwen’s business practices. Lead plaintiffs seek money damages under the Exchange Act in an amount to be proven at trial and reasonable costs, expenses, and fees. We intend to vigorously defend the Securities Action and consistent therewith on February 11, 2015, defendants filed motions to dismiss the Securities Action in its entirety.

Three shareholder derivative actions have been filed in the United States District Court for the Southern District of Florida purportedly on behalf of Ocwen: (i) Sokolowski v. Erbey, et al., No. 14-CV-81601 (S.D. Fla.) (the “Sokolowski Action”); (ii) Hutt v. Erbey, et al., No. 15-CV-81709 (S.D. Fla.) (the “Hutt Action”); and (iii) Lowinger v. Erbey, et al., No. 15-CV-62628 (S.D. Fla.) (the “Lowinger Action”). On November 9, 2015, HLSS filed a motion to dismiss the Sokolowski Action. While that motion was pending, the Hutt Action, which at the time did not name HLSS as a defendant, was transferred from the Northern District of Georgia to the Southern District of Florida and the Lowinger Action, which at the time also did not name HLSS as a defendant, was filed. On January 8, 2016, the court consolidated the three actions and denied HLSS's motion to dismiss the Sokolowski complaint as moot and without prejudice to re-file a new motion to dismiss following the filing of a consolidated complaint. On March 8, 2016, plaintiffs filed their consolidated complaint. The consolidated complaint alleges, among other things, that certain of Ocwen's current and former directors and officers, including former HLSS Chairman William C. Erbey, breached their fiduciary duties to Ocwen by, among other things, causing Ocwen to enter into transactions that were harmful to Ocwen. The complaint further alleges that HLSS and others aided and abetted the alleged breaches of fiduciary duty by Mr. Erbey and the other directors and officers of Ocwen who have been named as defendants. The consolidated complaint also asserts causes of action against HLSS and others for unjust enrichment and for contribution. The lawsuit seeks money damages from HLSS in an amount to be proven at trial. We intend to vigorously defend the lawsuit.

One shareholder derivative action has been filed in Florida state court in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida purportedly on behalf of Ocwen: Moncavage v. Faris, et al., No. 2015CA003244 (Fla. Palm Beach Cty. Ct.). The complaint alleges, among other things, that certain current and former Ocwen directors and officers breached their fiduciary duties to Ocwen. The complaint also alleged that HLSS and others aided and abetted the alleged breaches of fiduciary duty. The lawsuit seeks money damages from HLSS in an amount to be proved at trial. On November 9, 2015, the court entered an order staying all proceedings in the case pending further order of the Court. HLSS has not been served. If the litigation proceeds, New Residential intends to vigorously defend the lawsuit.

On March 11, 2015, plaintiff David Rattner filed a shareholder derivative action purportedly on behalf of HLSS entitled Rattner v. Van Vlack, et al., No. 2015CA002833 (Fla. Palm Beach Cty. Ct.). The lawsuit names as defendants HLSS directors, New Residential Investment Corp., and Hexagon Merger Sub, Ltd. The HLSS Derivative Action alleges that the Director Defendants breached their fiduciary duties of due care, diligence, loyalty, honesty and good faith and the duty to act in the best interests of HLSS under Cayman law and claims that the Director Defendants approved a proposed merger with New Residential Investment Corp. that (i) provided inadequate consideration to HLSS's shareholders, (ii) included unfair deal protection devices, (iii) and was the result of an inadequate process due to conflicts of interest. On July 8, 2015, the complaint was voluntarily dismissed without prejudice.

New Residential is, from time to time, subject to inquiries by government entities. New Residential currently does not believe any of these inquiries would result in a material adverse effect on New Residential's business.

ITEM 1A. 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, (v) Risks Related to Our Common Stock and (vi) Risks Related to the HLSS Acquisition. However, these categories do overlap and should not be considered exclusive.

Risks Related to Our Business

We may not be able to successfully operate our business strategy or generate sufficient revenue to make or sustain distributions to our stockholders.

We cannot assure you that we will be able to successfully operate our business or implement our operating policies and strategies. 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.

The value of our investments is based on various assumptions that could prove to be incorrect and could have a negative impact on our financial results.

When we make investments, we base the price we pay and the rate of amortization of those investments on, among other things, our projection of the cash flows from the related pool of loans. We record such investments on our balance sheet at fair value, and we measure their fair value on a recurring basis. Our projections of the cash flow from our investments, and the determination of the fair value thereof, are based on assumptions about various factors, including, but not limited to:

- rates of prepayment and repayment of the underlying loans;
- potential fluctuations in prevailing interest rates;
- rates of delinquencies and defaults; and

- in the case of MSRs, recapture rates; and
- in the case of servicer advances, the amount and timing of servicer advances and recoveries.

Our assumptions could differ materially from actual results. The use of different estimates or assumptions in connection with the valuation of these investments could produce materially different fair values for such investments, 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 investments may be materially different than the fair values of such investments as reflected in our Condensed Consolidated Financial Statements as of any particular date.

With respect to our investments in Excess MSRs, interest-only RMBS, mortgage loans and consumer loans, when the related loans are prepaid as a result of a refinancing or otherwise, the related cash flows payable to us will either, in the case of interest-only

RMBS and/or Excess MSRs cease (unless, in the case of Excess MSRs, the loans are recaptured by the related servicer upon a refinancing) or we will cease to receive interest income on such investments, as applicable. Borrowers under residential mortgage loans and consumer 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 or interest-only RMBS 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 and/or interest income, as applicable, we receive from our investments, and we could ultimately receive substantially less than what we paid for such assets. Consequently, the price we pay to acquire our investments may prove to be too high if there is a significant increase in prepayment speeds.

The values of our investments are highly sensitive to changes in interest rates. Historically, the value of MSRs, which underpin the value of certain of our investments, has increased when interest rates rise and decreased when interest rates decline due to the effect of changes in interest rates on prepayment speeds. Prepayment speeds could increase in the current interest rate environment, or 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 our investments. When delinquent mortgage loans are resolved through foreclosure (or repurchased by the GSEs), the UPB of such mortgage 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, as applicable, 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. Additionally, in the case of mortgage loans, consumer loans and RMBS that we own, an increase in foreclosures could result in an acceleration of repayments, resulting in a decrease in interest income. Alternatively, increases in delinquencies and defaults could also adversely affect our investments in RMBS, mortgage loans and/or consumer loans if and to the extent that losses are suffered on mortgage loans, consumer loans or, in the case of RMBS, the mortgage loans underlying such RMBS. Accordingly, if delinquencies are significantly greater than expected, the estimated fair value of these investments 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. We are not party to any similar recapture arrangements with respect to mortgage loans or consumer loans that we own.

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 our current recapture agreements is stated in the table in Note 12 to our Condensed Consolidated Financial Statements included herein. In our investment in servicer advances, we are not entitled to the cash flows from recaptured loans.

Servicer advances may not be recoverable or may take longer to recover than we expect, which could cause us to fail to achieve our targeted return on our investment in servicer advances.

We have agreed (in the case of Nationstar, together with certain third-party investors) to purchase from certain of our servicers 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 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 the related servicing agreement provided for a "general collections backstop," from collections on other mortgage loans to which such servicing agreement relates. The rate and timing of payments on servicer advances and 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 one of our servicers 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, mortgaged property or 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, according to information made available to us, Nationstar and Ocwen have each recovered more than 99% of the advances that they have made. While we do not expect recovery rates to vary materially during the term of our investments, 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, Non-Agency RMBS and residential mortgage loans is dependent on the satisfactory performance of servicing obligations by the related 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 Excess MSRs is subject to all of the terms and conditions of the applicable Servicing Guidelines. Servicing Guidelines generally provide for the possibility of termination of the contractual rights of the servicer in the absolute discretion of the owner of the mortgages being serviced (or a majority of the bondholders of a residential mortgage backed securitization). 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 mortgage owners (or bondholders) terminate 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 of a servicer by mortgage owners (or bondholders) would take effect across all mortgages of such mortgage owners (or bondholders) 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 mortgage owners (or bondholders) terminate such servicer. Nationstar and Ocwen are the servicers of most of the loans underlying our investments in Excess MSRs and servicer advances, and Nationstar and Ocwen are 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, Ocwen and OneMain, and are subject to other counterparty concentration and default risks." As a result, we could be materially and adversely affected if Nationstar, Ocwen or any other servicer of the loans underlying our investments is unable to adequately carry out its duties as a result of:

- 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 in the ordinary course of business, 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 ("NY DFS"), in connection with Nationstar's recent growth, certain operational issues alleged in complaints from certain New York consumers. Other servicers, including Ocwen, have experienced heightened regulatory scrutiny, and Nationstar could be adversely affected by the market's perception that Nationstar could experience similar regulatory issues. See "—Ocwen has been and is subject to certain federal and state regulatory matters" for more information on heightened regulatory scrutiny of Ocwen.

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 any of our servicers or subservicers fails to adequately perform its 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 one of our servicers from which we are obligated to purchase servicer advances is required by the applicable Servicing Guidelines to make advances in excess of amounts that we or, in the case of Nationstar, the co-investors, are willing or able to fund, such servicer 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 such servicer. 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, and could lead to civil and criminal liability, loss of licensing, damage to our reputation and litigation, 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 Ratings Services (“S&P”), Moody’s Investors Service (“Moody’s”) and Fitch Ratings (“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 materially and adversely affect us. See "—A bankruptcy of any of our mortgage servicers could materially and adversely affect us."

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."

Ocwen has been and is subject to certain federal and state regulatory matters.

Ocwen, a public company, has announced that, on December 19, 2013, Ocwen reached an agreement, which was approved by consent judgment by the U.S. District Court for the District of Columbia on February 26, 2014, involving the Consumer Financial Protection Bureau, various state attorneys general and other agencies that regulate the mortgage servicing industry. According to Ocwen's disclosure, the key elements of the settlement are as follows:

- A commitment by Ocwen to service loans in accordance with specified servicing guidelines and to be subject to oversight by an independent national monitor for three years;
- A payment of $127.3 million to a consumer relief fund to be disbursed by an independent administrator to eligible borrowers. In May 2014, Ocwen satisfied this obligation with regard to the consumer relief fund, $60.4 million of which is the responsibility of former owners of certain servicing portfolios acquired by Ocwen, pursuant to indemnification and loss sharing provisions in the applicable agreements; and
- A commitment by Ocwen to continue its principal forgiveness modification programs to delinquent and underwater borrowers, including underwater borrowers at imminent risk of default, in an aggregate amount of at least $2.0 billion over three years from the date of the consent order. Ocwen will only receive credit towards its $2.0 billion commitment for principal reductions that satisfy various criteria set forth in the settlement. If Ocwen fails to fulfill its $2.0 billion commitment before the deadline, Ocwen will be required to pay a cash penalty in an amount equal to the unmet commitment amount, unless the parties to the settlement negotiate an extension or other modification of the terms of the commitment.

On December 22, 2014, Ocwen announced that it had reached a settlement agreement with the NY DFS related to investigations into Ocwen's mortgage servicing practices in New York. According to Ocwen's disclosure, the key elements of the settlement are as follows:

- Payment of $100 million to the NY DFS to be used by the State of New York for housing, foreclosure relief and community redevelopment programs;
- Payment of $50 million as restitution to certain New York borrowers;
- Installation of a NY DFS Operations Monitor to monitor and assess the adequacy and effectiveness of Ocwen's operations for a period of two years, which may be extended another 12 months at the option of the NY DFS;
- Requirements that Ocwen will not share any common officers or employees with any related party and will not share risk, internal audit or vendor oversight functions with any related party;
- Requirements that certain Ocwen employees, officers and directors be recused from negotiating or voting to approve certain transactions with a related party;
- Resignation of Ocwen's Chairman of the Board from the Board of Directors of Ocwen and at related companies, including HLSS; and
- Restrictions on Ocwen's ability to acquire new MSRs.

On January 23, 2015, Ocwen announced that it had reached a settlement with the California Department of Business Oversight (the “CA DBO”) in relation to an administrative action dated October 3, 2014 in California. According to Ocwen’s disclosure, the key elements of the settlement are as follows:

- Payment of $2.5 million;
- Engagement of an independent auditor to assess Ocwen’s compliance with laws and regulations impacting California’ borrowers for a period of at least two years; and
- Prevention of Ocwen from acquiring additional MSRs for loans secured in the State of California until the CA DBO is satisfied that Ocwen can satisfactorily respond to the requests for information and documentation made in the course of a regulatory exam.

Regulatory action against Ocwen could increase our financing costs or operating expenses, reduce our revenues or otherwise materially adversely affect our business, financial condition, results of operations and liquidity. Ocwen may be subject to additional federal and state regulatory matters in the future that could materially and adversely affect the value of our investments because we rely heavily on Ocwen to achieve our investment objectives and have no direct ability to influence its performance.

We have significant counterparty concentration risk in Nationstar, Ocwen and OneMain, 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.

A majority of our co-investments in Excess MSRs and servicer advances related to loans serviced by Nationstar or Ocwen. If Nationstar or Ocwen 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, a large portion of the loans underlying our Non-Agency RMBS are serviced by Nationstar or Ocwen. We closely monitor Nationstar's and Ocwen'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 and Ocwen that enable us to monitor their 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 our servicers' performance, and our diligence cannot prevent, and may not even help us anticipate, the termination of any such servicers' servicing agreement.

Furthermore, Nationstar and Ocwen are 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.

None of our servicers have an 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 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 any applicable servicer or subservicer breaches any of its obligations under the related servicing agreements, including, without limitation, any failure of such servicer to perform its servicing and advancing functions in accordance with the terms of such servicing agreements. If any 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, Ocwen 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 our servicer or subservicer to satisfy various covenants and tests can result in an amortization event and/or an event of default. We have no direct ability to control our servicer or subservicer's compliance with those covenants and tests. Failure of our servicer or subservicer to satisfy any such covenants or tests could result in a partial or total loss on our investment.

In addition, Ocwen is a party to substantially all financing agreements with subsidiaries of HLSS acquired by us in the HLSS Acquisition (including the servicer advance facilities). Our ability to obtain financing for the assets of those acquired subsidiaries is dependent on Ocwen's agreement to be a party to its financing agreements. If Ocwen does not agree to be a party to these financing agreements for any reason, we may not be able to obtain financing on favorable terms or at all. Breaches and other events with respect to Ocwen (including, without limitation, failure of Ocwen to satisfy certain financial tests) could cause certain or all of the financing, in respect of assets acquired from HLSS to become due and payable prior to maturity. Our ability to obtain financing on such assets is dependent on Ocwen's ability to satisfy various tests under such financing arrangements. We will be dependent on Ocwen as the servicer of the mortgage loans with respect to which we are entitled to the basic fee component, and Ocwen's servicing practices may impact the value of certain of our assets. We may be adversely impacted:

- By regulatory actions taken against Ocwen;
- By a default by Ocwen under its debt agreements;
- By further downgrades in Ocwen's servicer rating;
- If Ocwen fails to ensure its servicer advances comply with the terms of its Pooling and Servicing Agreements ("PSAs");
- If Ocwen were terminated as servicer under certain PSAs;
- If Ocwen becomes subject to a bankruptcy proceeding; or
- If Ocwen fails to meet its obligations or is deemed to be in default under the indenture governing notes issued under any servicer advance facility with respect to which Ocwen is the servicer.

In addition, the consumer loans in which we have invested are serviced by OneMain. If OneMain 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 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.

A bankruptcy of any of our mortgage servicers could materially and adversely affect us.

If Nationstar, Ocwen or any of our other mortgage servicers becomes subject to a bankruptcy proceeding, we could be materially and adversely affected, and you could suffer losses, as discussed below.

A sale of Excess MSRs, servicer advances or other asset, including loans, could be re-characterized as a pledge of such assets in a bankruptcy proceeding.

We believe that a mortgage servicer's transfer to us of Excess MSRs, servicer advances and any other asset transferred pursuant to a related purchase agreement, including loans, constitutes a sale of such assets, in which case such assets would not be part of such servicer's bankruptcy estate. The servicer (as debtor-in-possession in the bankruptcy proceeding), a bankruptcy trustee appointed in such servicer's bankruptcy proceeding, or any other party in interest, however, might assert in a bankruptcy proceeding that Excess MSRs, servicer advances or any other assets transferred to us pursuant to the related purchase agreement were not sold to us but were instead pledged to us as security for such servicer's obligation to repay amounts paid by us to the servicer pursuant to the related purchase agreement. If such assertion were successful, all or part of the Excess MSRs, servicer advances or any other asset transferred to us pursuant to the related purchase agreement would constitute property of the bankruptcy estate of such servicer, and our rights against the servicer would be those of a secured creditor with a lien on such assets. Under such circumstances, cash proceeds generated from our collateral would constitute "cash collateral" under the provisions of the U.S. bankruptcy laws. Under U.S. bankruptcy laws, the servicer could not use our cash collateral without either (a) our consent or (b) approval by the bankruptcy court, subject to providing us with "adequate protection" under the U.S. bankruptcy laws. In addition, under such circumstances, an issue could arise as to whether certain of these assets generated after the commencement of the bankruptcy proceeding would constitute after-acquired property excluded from our lien pursuant to the U.S. bankruptcy laws.

If such a recharacterization occurs, the validity or priority of our security interest in the Excess MSRs, servicer advances or other assets could be challenged in a bankruptcy proceeding of such servicer.

If the purchases pursuant to the related purchase agreement are recharacterized as secured financings as set forth above, we nevertheless created and perfected security interests with respect to the Excess MSRs, servicer advances and other assets that we may have purchased from such servicer by including a pledge of collateral in the related purchase agreement and filing financing statements in appropriate jurisdictions. Nonetheless, our security interests may be challenged and ruled unenforceable, ineffective or subordinated by a bankruptcy court. If this were to occur, then the servicer’s obligations to us with respect to purchased Excess MSRs, servicer advances and other assets would be deemed unsecured obligations, payable from unencumbered assets to be shared among all of such servicer’s unsecured creditors. In addition, even if the security interests are found to be valid and enforceable, if a bankruptcy court determines that the value of the collateral is less than such servicer’s underlying obligations to us, the difference between such value and the total amount of such obligations will be deemed an unsecured “deficiency” claim and the same result will occur with respect to such unsecured claim. In addition, even if the security interest is found to be valid and enforceable, such servicer would have the right to use the proceeds of our collateral subject to either (a) our consent or (b) approval by the bankruptcy court, subject to providing us with “adequate protection” under U.S. bankruptcy laws. Such servicer also would have the ability to confirm a chapter 11 plan over our objections if the plan complied with the “cramdown” requirements under U.S. bankruptcy laws.

Payments made by a servicer to us could be voided by a court under federal or state preference laws.

If one of our mortgage servicers were to file, or to become the subject of, a bankruptcy proceeding under the United States Bankruptcy Code or similar state insolvency laws, and our security interest is declared unenforceable, ineffective or subordinated, payments previously made by a servicer to us pursuant to the related purchase agreement may be recoverable on behalf of the bankruptcy estate as preferential transfers. A payment could constitute a preferential transfer if a court were to find that the payment was a transfer of an interest of property of such servicer that:

- Was made to or for the benefit of a creditor;
- Was for or on account of an antecedent debt owed by such servicer before that transfer was made;
- Was made while such servicer was insolvent (a company is presumed to have been insolvent on and during the 90 days preceding the date the company’s bankruptcy petition was filed);
- Was made on or within 90 days (or if we are determined to be a statutory insider, on or within one year) before such servicer’s bankruptcy filing;
- Permitted us to receive more than we would have received in a Chapter 7 liquidation case of such servicer under U.S. bankruptcy laws; and
- Was a payment as to which none of the statutory defenses to a preference action apply.

If the court were to determine that any payments were avoidable as preferential transfers, we would be required to return such payments to such servicer’s bankruptcy estate and would have an unsecured claim against such servicer with respect to such returned amounts.

Payments made to us by such servicer, or obligations incurred by it, could be voided by a court under federal or state fraudulent conveyance laws.

The mortgage servicer (as debtor-in-possession in the bankruptcy proceeding), a bankruptcy trustee appointed in such servicer’s bankruptcy proceeding, or another party in interest could also claim that such servicer’s transfer to us of Excess MSRs, servicer advances or other assets or such servicer’s agreement to incur obligations to us under the related purchase agreement was a fraudulent conveyance. Under U.S. bankruptcy laws and similar state insolvency laws, transfers made or obligations incurred could be voided if such servicer, at the time it made such transfers or incurred such obligations: (a) received less than reasonably equivalent value or fair consideration for such transfer or incurrence and (b) either (i) was insolvent at the time of, or was rendered insolvent by reason of, such transfer or incurrence; (ii) was engaged in, or was about to engage in, a business or transaction for which the assets remaining with such servicer were an unreasonably small capital; or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature. If any transfer or incurrence is determined to be a fraudulent conveyance, Ocwen or Nationstar, as the case may be, (as debtor-in-possession in the bankruptcy proceeding) or a bankruptcy trustee on such servicer's behalf would be entitled to recover such transfer or to avoid the obligation previously incurred.

Any purchase agreement pursuant to which we purchase Excess MSRs, servicer advances or other assets, including loans, could be rejected in a bankruptcy proceeding of one of our mortgage servicers.

The mortgage servicer (as debtor-in-possession in the bankruptcy proceeding) or a bankruptcy trustee appointed in such servicer's bankruptcy proceeding could seek to reject the related purchase agreement and thereby terminate such servicer's obligation to service the Excess MSRs, servicer advances and any other asset transferred pursuant to such purchase agreement, and terminate our right to acquire additional assets under such purchase agreement and our right to require such servicer to use commercially reasonable efforts to transfer servicing. If the bankruptcy court approved the rejection, we would have a claim against such servicer for any damages from the rejection.

A bankruptcy court could stay a transfer of servicing to another servicer.

Our ability to require a mortgage servicer to use commercially reasonable efforts to transfer servicing rights to a new servicer would be subject to the automatic stay in such servicer's bankruptcy proceeding. To enforce this right, we would have to seek relief from the bankruptcy court to lift such stay, and there is no assurance that the bankruptcy court would grant this relief.

The Subservicing Agreement could be rejected in a bankruptcy proceeding.

If one of our mortgage servicers were to file, or to become the subject of, a bankruptcy proceeding under the United States Bankruptcy Code or similar state insolvency laws, such servicer (as debtor-in-possession in the bankruptcy proceeding) or the bankruptcy trustee could reject its subservicing agreement with us and terminate such servicer's obligation to service the Excess MSRs, servicer advances or loans in which we have an investment. Any claim we have for damages arising from the rejection of a subservicing agreement would be treated as a general unsecured claim for purposes of distributions from such servicer's bankruptcy estate.

Our mortgage servicers could discontinue servicing.

If one of our mortgage servicers were to file or to become the subject of a bankruptcy proceeding under the United States Bankruptcy Code, such servicer could be terminated as servicer (with bankruptcy court approval) or could discontinue servicing, in which case there is no assurance that we would be able to continue receiving payments and transfers in respect of the Excess MSRs, servicer advances and other assets purchased under the related purchase agreement. Even if we were able to obtain the servicing rights, because we do not and in the future may not have the employees, servicing platforms, or technical resources necessary to service mortgage loans, we would need to engage an alternate subservicer (which may not be readily available on acceptable terms or at all) or negotiate a new subservicing agreement with such servicer, which presumably would be on less favorable terms to us. Any engagement of an alternate subservicer by us would require the approval of the related RMBS trustees.

The automatic stay under the United States Bankruptcy Code may prevent the ongoing receipt of servicing fees or other amounts due.

Even if we are successful in arguing that we own the Excess MSRs, servicer advances and other assets, including loans, purchased under the related purchase agreement, we may need to seek relief in the bankruptcy court to obtain turnover and payment of amounts relating to such assets, and there may be difficulty in recovering payments in respect of such assets that may have been commingled with other funds of such servicer.

A bankruptcy of any of our servicers defaults our advance financing facilities and negatively impacts our ability to continue to purchase servicer advances.

If any of our servicers were to file or to become the subject of a bankruptcy proceeding, it will result in an event of default under certain of our advance financing facilities that would terminate the revolving period of such facilities. In this scenario, our advance financing facilities would not have the ability to continue funding the purchase of servicer advances under the related purchase agreement. Notwithstanding this inability to fund, such servicer may try to force us to continue making such purchases. If it is determined that we are in breach of our obligation to purchase servicer advances, any claims that we may have against such servicer may be subject to offset against claims such servicer may have against us by reason of this breach.

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 basis points 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.

We do not have legal ownership of our acquired mortgage servicing rights.

We do not have legal ownership of the MSRs related to the transactions contemplated by the purchase agreements pursuant to which we acquire advances, and are subject to increased risks as a result of the servicer continuing to own the mortgage servicing rights. The validity or priority of our interest in the underlying mortgage servicing could be challenged in a bankruptcy proceeding of the servicer, and the related purchase agreement could be rejected in such proceeding. Any of the foregoing events might have a material adverse effect on our business, financial condition, results of operations and liquidity.

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 may 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;
- the ability of securities dealers to make markets in relevant securities and loans;
- 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, at various points in time, 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. While market conditions have generally improved since 2008, they could deteriorate as a result of a variety of factors beyond our control with adverse effects to our financial condition.

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 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, 2016, 24.3% of the total UPB of the residential mortgage loans underlying our Excess MSRs was secured by properties located in California, which are particularly susceptible to natural disasters such as fires, earthquakes and mudslides, and 8.7% was secured by properties located in Florida. As of March 31, 2016, 34.4% of the collateral securing our Non-Agency RMBS was located in the Western U.S., 24.3% was located in the Southeastern U.S., 19.5% was located in the Northeastern U.S., 11.7% was located in the Midwestern U.S. and 9.9% was located in the Southwestern U.S. We were unable to obtain geographical information for 0.2% of the collateral. As a result of this concentration, we may be more susceptible to adverse developments in those markets than if we owned a more geographically diverse portfolio. 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 (in certain cases, together with third-party co-investors) are required to purchase from Nationstar, Ocwen and our other servicers, advances on certain loan pools. While a mortgage loan is in foreclosure, servicers 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 our servicers are 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, Ocwen and our other servicers, 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 the related servicer if servicer advances exceed pre-determined amounts, those fee reductions may not be sufficient to cover the expenses resulting from longer foreclosure timelines.

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.

A failure by any or all of the members of Buyer 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.

Buyer has agreed to purchase all future arising servicer advances from Nationstar under certain residential mortgage servicing agreements. Buyer relies, in part, on its members to make committed capital contributions in order to pay the purchase price for future servicing advances. A failure by any or all of the members to make such 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 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 as well as available market liquidity, 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, 2016, 59.8% of our Non-Agency RMBS Portfolio consisted of floating rate securities and 40.2% consisted of fixed rate securities, and 12.2% of our Agency RMBS portfolio consisted of floating rate securities and 87.8% consisted of fixed rate securities, based on the amortized cost basis of all securities (including the amortized cost basis of interest-only and residual classes). 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. 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/mortgagors 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 RMBS, we may purchase securities that have a higher or lower 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 would amortize the premiums on our Agency RMBS over the life of the related securities. If the mortgage loans securing these securities prepay at a more rapid rate than anticipated, we would have to amortize our premiums on an accelerated basis which may adversely affect our profitability. As compensation for a lower coupon rate, we would then pay a discount to par value to acquire these securities. In accordance with GAAP, we would accrete any discounts on our Agency RMBS over the life of the related securities. If the mortgage loans securing these securities prepay at a slower rate than anticipated, we would have to accrete our discounts on an extended basis which may adversely affect our profitability. Defaults on the mortgage loans underlying Agency 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 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 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 RMBS, the amount of unamortized premium or discount 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 the lending 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, 2016, we had outstanding repurchase agreements with an aggregate face amount of approximately $1.5 billion to finance Non-Agency RMBS and approximately $1.6 billion to finance Agency RMBS and related trade receivables. 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 or may have or take positions adverse 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 purchaser of such servicer advances, which is a subsidiary of the Company, transfer our right to repayment for certain servicer advances we have acquired from one of our mortgage servicers to one of our wholly owned bankruptcy remote subsidiaries (a "Depositor"). We are generally required to continue to transfer to the related Depositor all of our rights to repayment for any particular pool of servicer advances as they arise (and are transferred from one of our mortgage servicers) 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, including, but not limited to, due to legal or regulatory matters applicable to us or our mortgage servicers, the related Issuer will 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, 2016, certain 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 counterparties. 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.

Many of our servicer advance financing arrangements are provided by financial institutions with whom we have substantial relationships. Some of our servicer advance financing arrangements entail the issuance of term notes to capital markets investors with whom we have little or no relationships or the identities of which we may not be aware and, therefore, we have no ability to control or monitor the identity of the holders of such term notes. Holders of such term notes may have or may take positions - for example, “short” positions in our stock or the stock of our servicers - that could be benefited by adverse events with respect to us or our servicers. If any holders of term notes allege or assert noncompliance by us or the related servicer under our advance financing arrangements in order to realize such benefits, we or our servicers, or our ability to maintain advance financing on favorable terms, could be materially and adversely affected.

We may not be able to finance our investments on attractive terms or at all, and financing for Excess MSRs or servicer advances 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. 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 may mature in the short term, 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 our servicers in accordance with the applicable agreement, any such servicer could default on its obligation to fund such advances, which could result in its 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.

The final Basel FRTB Ruling, which raised capital charges for bank holders of ABS, CMBS and Non-Agency MBS beginning in 2019, could adversely impact available trading liquidity and access to financing.

In January 2006, the Basel Committee on Banking Supervision released a finalized framework for calculating minimum capital requirements for market risk, which will take effect in January 2019. In the final proposal, capital requirements would overall be meaningfully higher than current requirements, but are less punitive than the previous December 2014 proposal. However, each country's specific regulator may codify the rules differently. Under the framework, capital charges on a bond are calculated based on three components: default, market and residual risk. Implementation of the final proposal could impose meaningfully higher capital charges on dealers compared with current requirements, and could reduce liquidity in the securitized products market.

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 we invest in 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 we invest in 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 Wall Street Reform and Consumer Protection Act (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 we invest in, 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.

A significant portion of the residential mortgage loans that we acquire are, or may become, sub-performing loans, non-performing loans or REO assets, which increases our risk of loss.

We acquire distressed residential mortgage loans where the borrower has failed to make timely payments of principal and/or interest. As part of the residential mortgage loan portfolios we purchase, we also may acquire performing loans that are or subsequently become sub-performing or non-performing, meaning the borrowers fail to timely pay some or all of the required payments of principal and/or interest. Under current market conditions, it is likely that some of these loans will have current loan-to-value ratios in excess of 100%, meaning the amount owed on the loan exceeds the value of the underlying real estate.

The borrowers on sub-performing or non-performing loans may be in economic distress and may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due. Borrowers may also face difficulties with refinancing such loans, including due to reduced availability of refinancing alternatives and insufficient equity in their homes to permit them to refinance. Increases in mortgage interest rates would exacerbate these difficulties. We may need to foreclose on collateral securing such loans, and the foreclosure process can be lengthy and expensive. Furthermore, REO assets (i.e., real estate owned by the lender upon completion of the foreclosure process) are relatively illiquid, and we may not be able to sell such REO assets on terms acceptable to us or at all.

Even though we typically pay less than the amount owed on these loans to acquire them, if actual results differ from our assumptions in determining the price we paid to acquire such loans, we may incur significant losses. Any loss we incur may be significant and could materially and adversely affect us.

Certain jurisdictions require licenses to purchase, hold, enforce or sell residential mortgage loans and/or MSRs, 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 and/or MSRs. We currently hold some but not all 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. With respect to mortgage loans, 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 have formed 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 or MSRs 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.

A significant portion 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 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 us. 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. For purposes of the foregoing, we currently treat our SLS-serviced 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 generally treat our interests in our SLS-serviced 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 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 compete 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, Ocwen and our other servicers 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 because 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.

Stockholder or other litigation against HLSS and/or us could result in the payment of damages and/or may materially and adversely affect our business, financial condition, results of operations and liquidity.

Transactions, such as the HLSS Acquisition, often give rise to lawsuits by stockholders or other third parties. Stockholders may, among other things, assert claims relating to the parties' mutual agreement to terminate the Agreement and Plan of Merger (the "HLSS Initial Merger Agreement"). Stockholders may also assert claims relating to the fact that HLSS no longer owns any significant assets other than the cash received from us in the HLSS Acquisition and any cash proceeds it received pursuant to its sale of our common stock. The defense or settlement of any lawsuit or claim regarding the HLSS Acquisition may materially and adversely affect our business, financial condition, results of operations and liquidity. Further, such litigation could be costly and could divert our time and attention from the operation of the business.

On May 22, 2015, a purported stockholder of the Company, Chester County Employees' Retirement Fund, filed a class action and derivative action in the Delaware Court of Chancery purportedly on behalf of all stockholders and the Company, titled Chester County Employees' Retirement Fund v. New Residential Investment Corp., et al., C.A. No. 11058-VCMR. On October 30, 2015, plaintiff filed an Amended Complaint. The lawsuit names the Company, our directors, our Manager, Fortress and Fortress Operating Entity I LP as defendants, and alleges breaches of fiduciary duties by the Company, our directors, our Manager, Fortress and Fortress Operating Entity I LP in connection with the HLSS Acquisition. The lawsuit also seeks declaratory judgment, among other things, as to the applicability of Article Twelfth of the Company's Certificate of Incorporation and as to the validity of the release of claims of the Company's stockholders related to the termination of the HLSS Initial Merger Agreement. The Amended Complaint seeks declaratory relief, equitable relief and damages. On December 11, 2015, defendants filed a motion to dismiss the Amended Complaint, which has been fully briefed. The Company intends to vigorously defend against the lawsuit.

We may be unable to successfully integrate the acquired assets and assumed liabilities.

Achieving the anticipated benefits of the HLSS Acquisition is subject to a number of uncertainties, including, without limitation, whether we are able to integrate HLSS's assets and manage the assumed liabilities efficiently. HLSS depends on Ocwen for significant accounting and operational support, which could exacerbate the difficulties associated with acquiring these assets and impair our ability to produce accurate financial information on a timely basis, as required by the SEC. It is possible that the integration process could take longer than anticipated and could result in additional and unforeseen expenses, the disruption of our ongoing business, processes and systems, or inconsistencies in standards, controls, procedures, practices and policies, any of which could adversely affect our ability to achieve the anticipated benefits of the HLSS Acquisition. There may be increased risk due to integrating the assets into our financial reporting and internal control systems. Difficulties in adding the assets into our business could also result in the loss of contract counterparties or other persons with whom we or HLSS conduct business and potential disputes or litigation with contract counterparties or other persons with whom we or HLSS conduct business. We could also be adversely affected by any issues attributable to either company's operations that arise or are based on events or actions that occurred prior to the closing of the HLSS Acquisition. The integration process is subject to a number of uncertainties, and no assurance can be given that the anticipated benefits will be realized in their entirety or at all or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect our future business, financial condition, operating results and cash flows.

We are responsible for certain of HLSS's contingent and other corporate liabilities.

Under the HLSS Acquisition Agreement, we have assumed and are responsible for the payment of HLSS's contingent and other corporate liabilities of: (i) liabilities for litigation relating to, arising out of or resulting from certain lawsuits in which HLSS is named as the defendant, (ii) HLSS's tax liabilities, (iii) HLSS's corporate liabilities, (iv) generally any actions with respect to the HLSS Acquisition brought by any third party and (v) payments under contracts. We currently cannot estimate the amount we may ultimately be responsible for as a result of assuming substantially all of HLSS's contingent and other corporate liabilities. The amount for which we are ultimately responsible may be material and have a material adverse effect on our business, financial condition, results of operations and liquidity. In addition, certain claims and lawsuits may require significant costs to defend and resolve and may divert management's attention away from other aspects of operating and managing our business, each of which could materially and adversely affect our business, financial condition, results of operations and liquidity.

In August 2014, HLSS restated its consolidated financial statements for the quarter ended March 31, 2014, and for the years ended December 31, 2013 and 2012, including the quarterly periods within those years, to correct the valuation and the related effect on amortization of its Notes Receivable-Rights to MSRs that resulted from a material weakness in its internal control over financial reporting.

On March 23, 2015, HLSS received a subpoena from the SEC requesting that it provide information concerning communications between HLSS and certain investment advisors and hedge funds. The SEC also requested documents relating to HLSS's structure, certain governance documents and any investigations or complaints connected to trading in HLSS's securities. We are cooperating with the SEC in this matter.

Three shareholder derivative actions have been filed in the United States District Court for the Southern District of Florida purportedly on behalf of Ocwen: (i) Sokolowski v. Erbey, et al., No. 14-CV-81601 (S.D. Fla.) (the "Sokolowski Action"); (ii) Hutt v. Erbey, et al., No. 15-CV-81709 (S.D. Fla.) (the "Hutt Action"); and (iii) Lowinger v. Erbey, et al., No. 15-CV-62628 (S.D. Fla.) (the "Lowinger Action"). On November 9, 2015, HLSS filed a motion to dismiss the Sokolowski Action. While that motion was pending, the Hutt Action, which at the time did not name HLSS as a defendant, was transferred from the Northern District of Georgia to the Southern District of Florida and the Lowinger Action, which at the time also did not name HLSS as a defendant, was filed. On January 8, 2016, the court consolidated the three actions and denied HLSS's motion to dismiss the Sokolowski complaint as moot and without prejudice to re-file a new motion to dismiss following the filing of a consolidated complaint. On March 8, 2016, plaintiffs filed their consolidated complaint. The consolidated complaint alleges, among other things, that certain of Ocwen's current and former directors and officers, including former HLSS Chairman William C. Erbey, breached their fiduciary duties to Ocwen by, among other things, causing Ocwen to enter into transactions that were harmful to Ocwen. The complaint further alleges that HLSS and others aided and abetted the alleged breaches of fiduciary duty by Mr. Erbey and the other directors and officers of Ocwen who have been named as defendants. The consolidated complaint also asserts causes of action against HLSS and others for unjust enrichment and for contribution. The lawsuit seeks money damages from HLSS in an amount to be proven at trial. We intend to vigorously defend the lawsuit.

One shareholder derivative action has been filed in Florida state court in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida purportedly on behalf of Ocwen: Moncavage v. Faris, et al., No. 2015CA003244 (Fla. Palm Beach Cty. Ct.). The complaint alleges, among other things, that certain current and former Ocwen directors and officers breached their fiduciary duties to Ocwen. The complaint also alleged that HLSS and others aided and abetted the alleged breaches of fiduciary duty. The lawsuit seeks money damages from HLSS in an amount to be proved at trial. On November 9, 2015, the court entered an order staying all proceedings in the case pending further order of the Court. HLSS has not been served. If the litigation proceeds, New Residential intends to vigorously defend the lawsuit.

Three putative class action lawsuits have been filed against HLSS and certain of its current and former officers and directors in the United States District Court for the Southern District of New York entitled: (i) Oliveira v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-652 (S.D.N.Y.), filed on January 29, 2015; (ii) Berglan v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-947 (S.D.N.Y.), filed on February 9, 2015; and (iii) W. Palm Beach Police Pension Fund v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-1063 (S.D.N.Y.), filed on February 13, 2015. On April 2, 2015, these lawsuits were consolidated into a single action, which is referred to as the "Securities Action." On April 28, 2015, lead plaintiffs, lead counsel and liaison counsel were appointed in the Securities Action. On November 9, 2015, lead plaintiffs filed an amended class action complaint. On January 27, 2016, the Securities Action was transferred to the United States District Court for the Southern District of Florida and given the Index No. 16-CV-60165 (S.D. Fla.).

The Securities Action names as defendants HLSS, former HLSS Chairman William C. Erbey, HLSS Director, President and Chief Executive Officer John P. Van Vlack, and HLSS Chief Financial Officer James E. Lauter. The Securities Action asserts causes of action under Sections 10(b) and 20(a) of the Exchange Act based on certain public disclosures made by HLSS relating to its relationship with Ocwen and HLSS's risk management and internal controls. More specifically, the consolidated class action complaint alleges that a series of statements in HLSS's disclosures were materially false and misleading, including statements about (i) Ocwen's servicing capabilities; (ii) HLSS's contingencies and legal proceedings; (iii) its risk management and internal controls; and (iv) certain related party transactions. The consolidated class action complaint also appears to allege that HLSS's financial statements for the years ended 2012 and 2013, and the first quarter ended March 30, 2014, were false and misleading based on HLSS's August 18, 2014 restatement. Lead plaintiffs in the Securities Action also allege that HLSS misled investors by failing to disclose, among other things, information regarding governmental investigations of Ocwen's business practices. Lead plaintiffs seek money damages under the Exchange Act in an amount to be proven at trial and reasonable costs, expenses, and fees. We intend to vigorously defend the Securities Action and consistent therewith on February 11, 2015, defendants filed motions to dismiss the Securities Action in its entirety.

On March 11, 2015, plaintiff David Rattner filed a shareholder derivative action purportedly on behalf of HLSS entitled Rattner v. Van Vlack, et al., No. 2015CA002833 (Fla. Palm Beach Cty. Ct.) (the "HLSS Derivative Action"). The lawsuit names as defendants HLSS directors John P. Van Vlack, Robert J. McGinnis, Kerry Kennedy, Richard J. Lochrie, and David B. Reiner (collectively, the "Director Defendants"), New Residential Investment Corp., and Hexagon Merger Sub, Ltd. The HLSS Derivative Action alleges that the Director Defendants breached their fiduciary duties of due care, diligence, loyalty, honesty and good faith and the duty to act in the best interests of HLSS under Cayman law and claims that the Director Defendants approved a proposed merger with New Residential Investment Corp. that (i) provided inadequate consideration to HLSS's shareholders, (ii) included unfair deal protection devices, and (iii) was the result of an inadequate process due to conflicts of interest. On July 8, 2015, the complaint was voluntarily dismissed without prejudice.

Refer to “Risk Factors—Risks Related to Our Business—Stockholder or other litigation against HLSS and/or us could result in the payment of damages and/or may materially and adversely affect our business, financial condition results of operations and liquidity” for a description of the Chester County Employees’ Retirement Fund litigation.

We cannot guarantee that we will not receive further regulatory inquiries or be subject to litigation regarding the subject matter of the subpoenas or matters relating thereto, or that existing inquires, or, should they occur, any future regulatory inquiries or litigation, will not consume internal resources, result in additional legal and consulting costs or negatively impact our stock price.

We could be materially and adversely affected by events, conditions or actions that might occur at HLSS or Ocwen.

HLSS acquired assets and assumed liabilities could be adversely affected as a result of events or conditions that occurred or existed before the closing of the HLSS Acquisition. Adverse changes in the assets or liabilities we have acquired or assumed, respectively, as part of the HLSS Acquisition, could occur or arise as a result of actions by HLSS or Ocwen, legal or regulatory developments, including the emergence or unfavorable resolution of pre-acquisition loss contingencies, deteriorating general business, market, industry or economic conditions, and other factors both within and beyond the control of HLSS or Ocwen. We are subject to a variety of risks as a result of our dependence on mortgage servicers such as Nationstar and Ocwen, including, without limitation, the potential loss of all of the value of our Excess MSRs in the event that the servicer of the underlying loans is terminated by the mortgage loan owner or RMBS bondholders. A significant decline in the value of HLSS assets or a significant increase in HLSS liabilities we have acquired could adversely affect our future business, financial condition, cash flows and results of operations. HLSS is subject to a number of other risks and uncertainties, including regulatory investigations and legal proceedings against HLSS, and others with whom HLSS conducted and conducts business. Moreover, any insurance proceeds received with respect to such matters may be inadequate to cover the associated losses. Ocwen disclosed in its Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 that it received a subpoena from the SEC “requesting production of various documents relating to its business dealings from Altisource Portfolio Solutions, S.A., HLSS, Altisource Asset Management Corporation and Altisource Residential Corporation and the interests of its directors and executive officers in these companies.” Ocwen subsequently disclosed in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 that it received an additional subpoena from the SEC related to an amendment to its Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2014. Ocwen subsequently disclosed in its Annual Report on Form 10-K for the year ended December 31, 2014 that it received a further subpoena from the SEC requesting certain documents related to Ocwen’s agreement with Southwest Business Corporation and related to former HLSS and Ocwen Chairman William C. Erbey’s approvals for specifically enumerated board actions. Ocwen subsequently settled these investigations with the SEC in January 2016. Ocwen also disclosed that it received a letter from the SEC staff dated February 10, 2015 informing it that the SEC was conducting an investigation relating to mortgage loan servicer use of collection agents and requesting voluntary production of documents and information. Adverse developments at Ocwen, including liquidity issues, ratings downgrades, defaults under debt agreements, servicer rating downgrades, failure to comply with the terms of PSAs, termination under PSAs, Ocwen bankruptcy proceedings and additional regulatory issues and settlements, could have a material adverse effect on us. See “—We rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.”

Our ability to borrow may be adversely affected by the suspension or delay of the rating of the notes issued under the NRART facility and the existing “HSART II facility” or other future advance facilities by the credit agency providing the ratings.

All or substantially all of the notes issued under the NRZ Advance Receivables Trust 2015-ON1 ("NRART") facility and the HLSS Servicer Advance Receivables Trust II ("HSART II facility") are rated by one rating agency and we may sponsor advance facilities in the future that are rated by credit agencies. The related agency may suspend rating notes backed by servicer advances at any time. Rating agency delays may result in our inability to obtain timely ratings on new notes, which could adversely impact the availability of borrowings or the interest rates, advance rates or other financing terms and adversely affect our results of operations and liquidity. Further, if we are unable to secure ratings from other agencies, limited investor demand for unrated notes could result in further adverse changes to our liquidity and profitability.

A downgrade of certain of the notes issued under the NRART facility and HSART II facility or other future advance facilities would cause such notes to become due and payable prior to their expected repayment date/maturity date, which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Regulatory scrutiny regarding foreclosure processes could lengthen foreclosure timelines, which could increase advances and materially and adversely affect our business, financial condition, results of operations and liquidity.

When a mortgage loan is in foreclosure, the servicer is generally required to continue to advance delinquent principal and interest to the securitization trust and to also make advances for delinquent taxes and insurance and foreclosure costs and the upkeep of vacant property in foreclosure to the extent we determine that such amounts are recoverable. These 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, lengthen the time it takes for reimbursement of such advances and increase the costs incurred during the foreclosure process. In addition, advance financing facilities generally contain provisions that 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 need to be funded from the related servicer's own capital. Such increases in foreclosure timelines could increase the need for capital to fund servicer advances, which would increase our interest expense, delay the collection of interest income or servicing fee revenue until the foreclosure has been resolved and, therefore, reduce the cash that we have available to pay our operating expenses or to pay dividends. According to Ocwen's public disclosures, on April 28, 2014, Ocwen received a letter from the staff of the New York Regional Office of the SEC informing Ocwen that the SEC was conducting an investigation relating to Ocwen and making a request for voluntary production of documents and information relating to the April 22, 2014 surrender of certain options to purchase its common stock by William C. Erbey, its former Executive Chairman, including the 2007 Equity Incentive Plan and the related option grant and surrender documents. On June 12, 2014, Ocwen received a subpoena from the SEC requesting production of various documents relating to its business dealings with HLSS, Altisource Portfolio Solutions, S.A., Altisource Asset Management Corporation and Altisource Residential Corporation and the interests of its directors and executive officers in these companies. Ocwen has also disclosed that it received an additional subpoena from the SEC related to its amendments to its Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2014. Ocwen subsequently disclosed in its Annual Report on Form 10-K for the year ended December 31, 2014 that it received a further subpoena from the SEC requesting certain documents related to Ocwen's agreement with Southwest Business Corporation and related to former HLSS and Ocwen Chairman William C. Erbey's approvals for specifically enumerated board actions, and that it received a letter from the SEC staff dated February 10, 2015 informing it that the SEC was conducting an investigation relating to mortgage loan servicer use of collection agents and requesting voluntary production of documents and information.

Certain of our servicers have triggered termination events or events of default under some PSAs underlying the MSRs with respect to which we are entitled to the basic fee component or Excess MSRs, and the parties to the related securitization transactions could enforce their rights against such servicer as a result.

If a servicer termination event or event of default occurs under a PSA, the servicer may be terminated without any right to compensation for its loss from the trustee for the securitization trust, other than the right to be reimbursed for any outstanding servicer advances as the related loans are brought current, modified, liquidated or charged off. So long as we are in compliance with our obligations under our servicing agreements and purchase agreements, if a servicer is terminated as servicer, we may have the right to receive an indemnification payment from such servicer, even if such termination related to servicer termination events or events of default existing at the time of any transaction with such servicer. If one of our servicers is terminated as servicer under a PSA, we will lose any investment related to such servicer's MSRs. If such servicer is terminated as servicer with respect to a PSA and we are unable to enforce our contractual rights against such servicer or if such servicer is unable to make any resulting indemnification payments to us, if any such payment is due and payable, it may have a material adverse effect on our financial condition, results of operations, ability to make distributions, liquidity and financing arrangements, including our advance financing facilities, and may make it more difficult for us to acquire additional MSRs in the future.

During February and March 2015, Ocwen received two notices of servicer termination affecting four separate PSAs related to MSRs related to the transactions contemplated by the Ocwen Purchase Agreement. Ocwen could be subject to further terminations as a result of its failure to maintain required minimum servicer ratings, which could have an adverse effect on our business, financing activities, financial condition and results of operations.

On January 23, 2015, Gibbs & Bruns LLP, on behalf of its clients, issued a press release regarding the notices of nonperformance provided to various trustees in relation to Ocwen’s servicing practices under 119 residential mortgage-backed securities trusts. Of these transactions, 90 relate to agreements for MSRs related to the transactions contemplated by the Ocwen Purchase Agreement. It is possible that Ocwen could be terminated for other servicing agreements related to such MSRs.

On January 29, 2015, Moody’s downgraded Ocwen’s SQ assessment from SQ3+ to SQ3- as a primary servicer of subprime residential loans and as a special servicer of residential mortgage loans. During February 2015, Fitch Ratings downgraded Ocwen’s residential primary servicer rating for subprime products from “RPS3” to “RPS4” and, in February 2016, upgraded such rating to “RPS3-.” During February 2015, Morningstar also downgraded Ocwen’s residential primary servicer rating from “MOR RS2” to

"MOR RS3." On June 18, 2015, S&P downgraded Ocwen's ratings as a residential mortgage prime, subprime, special, and subordinate-lien servicer from "average" to "below average." On October 1, 2015, S&P downgraded Ocwen's master servicer rating to "below average."

The performance of loans that we acquired in the HLSS Acquisition may be adversely affected by the performance of parties who service or subservice these mortgage loans.

HLSS and its subsidiaries acquired by us in the HLSS Acquisition contracted with third parties for the servicing of the mortgage loans in its early buy-out ("EBO") portfolio. The performance of this portfolio and our ability to finance this portfolio are subject to risks associated with inadequate or untimely servicing. If our servicers or subservicers commit a material breach of their obligations as a servicer, we may be subject to damages if the breach is not cured within a specified period of time following notice. In addition, we may be required to indemnify an investor or our lenders against losses from any failure of our servicer or subservicer to perform the servicing obligations properly. Poor performance by a servicer or subservicer may result in greater than expected delinquencies and foreclosures and losses on our mortgage loans. A substantial increase in our delinquency or foreclosure rate or the inability to process claims in accordance with Ginnie Mae or FHA guidelines could adversely affect our ability to access the capital and secondary markets for our financing needs.

Servicing issues in the portfolio of loans that was acquired in the HLSS Acquisition could adversely impact our claims against FHA insurance and result in our reliance on servicer indemnifications which could increase losses.

We will rely on HLSS's servicers (including Ocwen) to service our Ginnie Mae EBO loans in a manner that supports our ability to make claims to the FHA for shortfalls on these loans. If servicing issues result in the curtailment of FHA insurance claims, we will only have recourse against the servicer for any shortfall. If the servicer is unable to make indemnification payments owed to us under this circumstance, we could incur losses.

Our borrowings collateralized by loans require that we make certain representations and warranties that, if determined to be inaccurate, could require us to repurchase loans or cover losses.

Our financing facilities require us to make certain representations and warranties regarding the loans that collateralize the borrowings. Although we perform due diligence on the loans that we acquire, certain representations and warranties that we make in respect of such loans may ultimately be determined to be inaccurate. In the event of a breach of a representation or warranty, we may be required to repurchase affected loans, make indemnification payments to certain indemnified parties or address any claims associated with such breach. Further, we may have limited or no recourse against the seller from whom we purchased the loans. Such recourse may be limited due to a variety of factors, including the absence of a representation or warranty from the seller corresponding to the representation provided by us or the contractual expiration thereof.

Representations and warranties made by us in our loan sale agreements may subject us to liability.

In March 2015, HLSS sold reperforming loans to an unrelated third party and transferred mortgages into a trust in exchange for cash. We may be liable to purchasers under the related sale agreement for any breaches of representations and warranties made by HLSS at the time the applicable loans are sold. Such representations and warranties may include, but are not limited to, issues such as the validity of the lien; the absence of delinquent taxes or other liens; the loans compliance with all local, state and federal laws and the delivery of all documents required to perfect title to the lien. If the purchaser is successful in asserting their claim for recourse, it could adversely affect the availability of financing under loan financing facilities or otherwise adversely impact our results of operations and liquidity. From time to time we sell residential mortgage loans pursuant to loan sale agreements. The risks describe in this paragraph relate to any such sale as well.

Our ability to exercise our cleanup call rights may be limited or delayed if a third party contests our ability to exercise our cleanup call rights, if the related securitization trustee refuses to permit the exercise of such rights, or if a related party is subject to bankruptcy proceedings.

Certain servicing contracts permit more than one party to exercise a cleanup call-meaning the right of a party to collapse a securitization trust by purchasing all of the remaining loans held by the securitization trust pursuant to the terms set forth in the applicable servicing agreement. While the servicers from which we acquired our cleanup call rights (or other servicers from which our servicers acquired MSRs) may be named as the party entitled to exercise such rights, certain third parties may also be permitted to exercise such rights. If any such third party exercises a cleanup call, we could lose our ability to exercise our cleanup call right and, as a result, lose the ability to generate positive returns with respect to the related securitization transaction. In addition, another party could impair our ability to exercise our cleanup call rights by contesting our rights (for example, by claiming that they hold the exclusive cleanup call right with respect to the applicable securitization trust). Moreover, because the ability to exercise a cleanup call right is governed by the terms of the applicable servicing agreement, any ambiguous or conflicting language regarding the exercise of such rights in the agreement may make it more difficult and costly to exercise a cleanup call right. Furthermore, certain servicing contracts provide cleanup call rights to a servicer currently subject to bankruptcy proceedings from which our servicers have acquired MSRs. While, notwithstanding the related bankruptcy proceedings, it is possible that we will be able to exercise the related cleanup calls within our desired time frame, our ability to exercise such rights may be significantly delayed or impaired by the applicable securitization trustee or bankruptcy estate or any additional steps required because of the bankruptcy process. Finally, many of our call rights are not currently exercisable and may not become exercisable for a period of years. As a result, our ability to realize the benefits from these rights will depend on a number of factors at the time they become exercisable many of which are outside our control, including interest rates, conditions in the capital markets and conditions in the residential mortgage market.

New Residential’s subsidiary New Residential Mortgage LLC is or may become subject to significant state and federal regulations.

A subsidiary of NRZ, New Residential Mortgage LLC (“NRM”), is currently in the process of obtaining applicable qualifications, licenses and approvals to own agency and non-agency MSRs in the United States and certain other jurisdictions. As a result of NRM’s current and expected approvals, NRM is or may in the future become subject to extensive and comprehensive regulation under federal, state and local laws in the United States. These laws and regulations may in the future significantly affect the way that NRM does business, and may subject NRM and New Residential to additional costs and regulatory obligations, which could impact our financial results.

NRM’s business may become subject to increasing regulatory oversight and scrutiny in the future as it continues seeking and obtaining state and agency approvals to hold MSRs, which may lead to regulatory investigations or enforcement, including both formal and informal inquiries, from various state and federal agencies as part of those agencies' oversight of the mortgage servicing business. An adverse result in governmental investigations or examinations or private lawsuits, including purported class action lawsuits, may adversely affect NRM’s and our financial results or result in serious reputational harm. In addition, a number of participants in the mortgage servicing industry have been the subject of purported class action lawsuits and regulatory actions by state regulators, and other industry participants have been the subject of actions by state Attorneys General.

Risks Related to Our Manager

We are dependent on our Manager and may not find a suitable replacement if our Manager terminates the Management Agreement.

None of our officers or other senior individuals who perform services for us is an employee of New Residential. Instead, these individuals are employees of our Manager. Accordingly, we are completely reliant on our Manager, which has significant discretion as to the implementation of our operating policies and strategies, to conduct our business. We are subject to the risk that our Manager will terminate the Management Agreement and that we will not be able to find a suitable replacement for our Manager in a timely manner, at a reasonable cost or at all. Furthermore, we are dependent on the services of certain key employees of our Manager whose compensation is partially or entirely dependent upon the amount of incentive or management compensation earned by our Manager and whose continued service is not guaranteed, and the loss of such services could adversely affect our operations.

There are conflicts of interest in our relationship with our Manager.

Our Management Agreement with our Manager was not negotiated between unaffiliated parties, and its terms, including fees payable, although approved by the independent directors of New Residential as fair, may not be as favorable to us as if they had been negotiated with an unaffiliated third party.

There are conflicts of interest inherent in our relationship with our Manager insofar as our Manager and its affiliates—including investment funds, private investment funds, or businesses managed by our Manager, including Newcastle, Nationstar and OneMain —invest in real estate related securities, consumer loans and Excess MSRs and servicer advances and whose investment objectives overlap with our investment objectives. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles. Certain members of our board of directors and employees of our Manager who are our officers also serve as officers and/or directors of these other entities. For example, we have some of the same directors and officers as Newcastle. Although we have the same Manager, we may compete with entities affiliated with our Manager or Fortress, including Newcastle, for certain target assets. From time to time, affiliates of Fortress focus on investments in assets with a similar profile as our target assets that we may seek to acquire. These affiliates may have meaningful purchasing capacity, which may change over time depending upon a variety of factors, including, but not limited to, available equity capital and debt financing, market conditions and cash on hand. Fortress has two funds primarily focused on investing in Excess MSRs with approximately $0.7 billion in capital commitments in aggregate. We have broad investment guidelines, and we have and may co-invest with Fortress funds or portfolio companies of private equity funds managed by our Manager (or an affiliate thereof) in a variety of investments. We also may invest in securities that are senior or junior to securities owned by funds managed by our Manager. Fortress funds generally have a fee structure similar to ours, but the fees actually paid will vary depending on the size, terms and performance of each fund. Fortress had approximately $70.6 billion of assets under management as of March 31, 2016.

Our Management Agreement with our Manager generally does not limit or restrict our Manager or its affiliates from engaging in any business or managing other pooled investment vehicles that invest in investments that meet our investment objectives. Our Manager intends to engage in additional real estate related management and real estate and other investment opportunities in the future, which may compete with us for investments or result in a change in our current investment strategy. In addition, our certificate of incorporation provides that if Fortress or an affiliate or any of their officers, directors or employees acquire knowledge of a potential transaction that could be a corporate opportunity, they have no duty, to the fullest extent permitted by law, to offer such corporate opportunity to us, our stockholders or our affiliates. In the event that any of our directors and officers who is also a director, officer or employee of Fortress or its affiliates acquires knowledge of a corporate opportunity or is offered a corporate opportunity, provided that this knowledge was not acquired solely in such person’s capacity as a director or officer of New Residential and such person acts in good faith, then to the fullest extent permitted by law such person is deemed to have fully satisfied such person’s fiduciary duties owed to us and is not liable to us if Fortress or its affiliates pursues or acquires the corporate opportunity or if such person did not present the corporate opportunity to us.

The ability of our Manager and its officers and employees to engage in other business activities, subject to the terms of our Management Agreement with our Manager, may reduce the amount of time our Manager, its officers or other employees spend managing us. In addition, we may engage (subject to our investment guidelines) in material transactions with our Manager or another entity managed by our Manager or one of its affiliates, including Newcastle, Nationstar and OneMain which may include, but are not limited to, certain financing arrangements, purchases of debt, co-investments in Excess MSRs, consumer loans, servicer advances and other assets that present an actual, potential or perceived conflict of interest. It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction, litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential, actual or perceived conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation, which could materially adversely affect our business in a number of ways, including causing an inability to raise additional funds, a reluctance of counterparties to do business with us, a decrease in the prices of our equity securities and a resulting increased risk of litigation and regulatory enforcement actions.

The management compensation structure that we have agreed to with our Manager, as well as compensation arrangements that we may enter into with our Manager in the future (in connection with new lines of business or other activities), may incentivize our Manager to invest in high risk investments. In addition to its management fee, our Manager is currently entitled to receive incentive compensation. In evaluating investments and other management strategies, the opportunity to earn incentive compensation may lead our Manager to place undue emphasis on the maximization of earnings, including through the use of leverage, at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative than lower-yielding investments. Moreover, because our Manager receives compensation in the form of options in connection with the completion of our common equity offerings, our Manager may be incentivized to cause us to issue additional common stock, which could be dilutive to existing stockholders. In addition, our Manager’s management fee is not tied to our performance and may not sufficiently incentivize our Manager to generate attractive risk-adjusted returns for us.

It would be difficult and costly to terminate our Management Agreement with our Manager.

It would be difficult and costly for us to terminate our Management Agreement with our Manager. The Management Agreement may only be terminated annually upon (i) the affirmative vote of at least two-thirds of our independent directors, or by a vote of the holders of a simple majority of the outstanding shares of our common stock, that there has been unsatisfactory performance by our Manager that is materially detrimental to us or (ii) a determination by a simple majority of our independent directors that the management fee payable to our Manager is not fair, subject to our Manager's right to prevent such a termination by accepting a mutually acceptable reduction of fees. Our Manager will be provided 60 days' prior notice of any termination and will be paid a termination fee equal to the amount of the management fee earned by the Manager during the 12-month period preceding such termination. In addition, following any termination of the Management Agreement, our Manager may require us to purchase its right to receive incentive compensation at a price determined as if our assets were sold for their fair market value (as determined by an appraisal, taking into account, among other things, the expected future value of the underlying investments) or otherwise we may continue to pay the incentive compensation to our Manager. These provisions may increase the effective cost to us of terminating the Management Agreement, thereby adversely affecting our ability to terminate our Manager without cause.

Our directors have approved broad investment guidelines for our Manager and do not approve each investment decision made by our Manager. In addition, we may change our investment strategy without a stockholder vote, which may result in our making investments that are different, riskier or less profitable than our current investments.

Our Manager is authorized to follow broad investment guidelines. Consequently, our Manager has great latitude in determining the types and categories of assets it may decide are proper investments for us, including the latitude to invest in types and categories of assets that may differ from those in which we currently invest. Our directors will periodically review our investment guidelines and our investment portfolio. However, our board does not review or pre-approve each proposed investment or our related financing arrangements. In addition, in conducting periodic reviews, the directors rely primarily on information provided to them by our Manager. Furthermore, transactions entered into by our Manager may be difficult or impossible to unwind by the time they are reviewed by the directors even if the transactions contravene the terms of the Management Agreement. In addition, we may change our investment strategy, including our target asset classes, without a stockholder vote.

Our investment strategy may evolve in light of existing market conditions and investment opportunities, and this evolution may involve additional risks depending upon the nature of the assets in which we invest and our ability to finance such assets on a short or long-term basis. Investment opportunities that present unattractive risk-return profiles relative to other available investment opportunities under particular market conditions may become relatively attractive under changed market conditions and changes in market conditions may therefore result in changes in the investments we target. Decisions to make investments in new asset categories present risks that may be difficult for us to adequately assess and could therefore reduce our ability to pay dividends on our common stock or have adverse effects on our liquidity, results of operations or financial condition. A change in our investment strategy may also increase our exposure to interest rate, foreign currency, real estate market or credit market fluctuations and expose us to new legal and regulatory risks. In addition, a change in our investment strategy may increase our use of non-match-funded financing, increase the guarantee obligations we agree to incur or increase the number of transactions we enter into with affiliates. Our failure to accurately assess the risks inherent in new asset categories or the financing risks associated with such assets could adversely affect our results of operations, liquidity and financial condition.

Our Manager will not be liable to us for any acts or omissions performed in accordance with the Management Agreement, including with respect to the performance of our investments.

Pursuant to our Management Agreement, our Manager will not assume any responsibility other than to render the services called for thereunder in good faith and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager, its members, managers, officers and employees will not be liable to us or any of our subsidiaries, to our board of directors, or our or any subsidiary's stockholders or partners for any acts or omissions by our Manager, its members, managers, officers or employees, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement. We shall, to the full extent lawful, reimburse, indemnify and hold our Manager, its members, managers, officers and employees and each other person, if any, controlling our Manager harmless of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including attorneys' fees) in respect of or arising from any acts or omissions of an indemnified party made in good faith in the performance of our Manager's duties under our Management Agreement and not constituting such indemnified party's bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement.

Our Manager's due diligence of investment opportunities or other transactions may not identify all pertinent risks, which could materially affect our business, financial condition, liquidity and results of operations.

Our Manager intends to conduct due diligence with respect to each investment opportunity or other transaction it pursues. It is possible, however, that our Manager's due diligence processes will not uncover all relevant facts, particularly with respect to any assets we acquire from third parties. In these cases, our Manager may be given limited access to information about the investment and will rely on information provided by the target of the investment. In addition, if investment opportunities are scarce, the process for selecting bidders is competitive, or the timeframe in which we are required to complete diligence is short, our ability to conduct a due diligence investigation may be limited, and we would be required to make investment decisions based upon a less thorough diligence process than would otherwise be the case. Accordingly, investments and other transactions that initially appear to be viable may prove not to be over time, due to the limitations of the due diligence process or other factors.

The ownership by our executive officers and directors of shares of common stock, options, or other equity awards of OneMain, Nationstar, and other entities either owned by Fortress funds managed by affiliates of our Manager or managed by our Manager may create, or may create the appearance of, conflicts of interest.

Some of our directors, officers and other employees of our Manager hold positions with OneMain, Nationstar, and other entities either owned by Fortress funds managed by affiliates of our Manager or managed by our Manager and own such entities' common stock, options to purchase such entities' common stock or other equity awards. Such ownership may create, or may create the appearance of, conflicts of interest when these directors, officers and other employees are faced with decisions that could have different implications for such entities than they do for us.

Risks Related to the Financial Markets

We do not know what impact the Dodd-Frank Act will have on our business.

On July 21, 2010, the U.S. enacted the Dodd-Frank Act. The Dodd-Frank Act affects almost every aspect of the U.S. financial services industry, including certain aspects of the markets in which we operate. The Dodd-Frank Act imposes new regulations on us and how we conduct our business. As we describe in more detail below, it affects our business in many ways but it is difficult at this time to know exactly how or what the cumulative impact will be.

First, generally the Dodd-Frank Act strengthens the regulatory oversight of securities and capital markets activities by the SEC and empowers the newly-created Consumer Financial Protection Bureau to enforce laws and regulations for consumer financial products and services. It requires market participants to undertake additional record-keeping activities and imposes many additional disclosure requirements for public companies.

Moreover, the Dodd-Frank Act contains a risk retention requirement for all asset-backed securities. We issue many asset-backed securities. In October 2014, final rules were promulgated by a consortium of regulators implementing the final credit risk retention requirements of Section 941(b) of the Dodd-Frank Act. Under these "Risk Retention Rules," sponsors of both public and private securitization transactions or one of their majority owned affiliates are required to retain at least 5% of the credit risk of the assets collateralizing such securitization transactions. These regulations generally prohibit the sponsor or its affiliate from directly or indirectly hedging or otherwise selling or transferring the retained interest for a specified period of time, depending on the type of asset that is securitized. Beginning December 2015, sponsors securitizing residential mortgages must comply with the Risk Retention Rules beginning in December 2015, while sponsors securitizing other types of assets will be required to comply with such rules beginning in December 2016. The Risk Retention Rules provide for limited exemptions for certain types of assets, however, these exemptions may be of limited use under our current market practices. In any event, compliance with these new Risk Retention Rules has increased and will likely continue to increase the administrative and operational costs of asset securitization.

Further, the Dodd-Frank Act imposes mandatory clearing and exchange-trading requirements on many derivatives transactions (including formerly unregulated over-the-counter derivatives) in which we may engage. In addition, the Dodd-Frank Act is expected to increase the margin requirements for derivatives transactions that are not subject to mandatory clearing requirements, which may impact our activities. The Dodd-Frank Act also creates new categories of regulated market participants, such as "swap-dealers," "security-based swap dealers," "major swap participants" and "major security-based swap participants," and subjects or may subject these regulated entities to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements that will give rise to new administrative costs.

Also, under the Dodd-Frank Act, financial regulators belonging to the Financial Stability Oversight Council are required to name financial institutions that are deemed to be systemically important to the economy and which may require closer regulatory supervision. Such systemically important financial institutions, or "SIFIs," may be required to operate with greater safety margins, such as higher levels of capital, and may face further limitations on their activities. The determination of what constitutes a SIFI is evolving, and in time SIFIs may include large investment funds and even asset managers. There can be no assurance that we will not be deemed to be a SIFI and thus subject to further regulation.

Even if certain of the new requirements of the Dodd-Frank Act are not directly applicable to us, they may still increase our costs of entering into transactions with the parties to whom the requirements are directly applicable. For instance, the new exchange-trading and trade reporting requirements may lead to reductions in the liquidity of derivative transactions, causing higher pricing or reduced availability of derivatives, or the reduction of arbitrage opportunities for us, which could adversely affect the performance of certain of our trading strategies. Importantly, many key aspects of the changes imposed by the Dodd-Frank Act will continue to be established by various regulatory bodies and other groups over the next several years. As a result, we do not know how significantly the Dodd-Frank Act will affect us. It is possible that the Dodd-Frank Act could, among other things, increase our costs of operating as a public company, impose restrictions on our ability to securitize assets and reduce our investment returns on securitized assets.

We do not know what impact certain U.S. government programs intended to stabilize the economy and the financial markets will have on our business.

In recent years, the U.S. government has taken a number of steps to attempt to strengthen the financial markets and U.S. economy, including direct government investments in, and guarantees of, troubled financial institutions as well as government-sponsored programs such as the Term Asset-Backed Securities Loan Facility program and the Public Private Investment Partnership Program. The U.S. government continues to evaluate or implement an array of other measures and programs intended to help improve U.S. financial and market conditions. While conditions appear to have improved relative to the depths of the global financial crisis, it is not clear whether this improvement is real or will last for a significant period of time. It is not clear what impact the government's future actions to improve financial and market conditions will have on our business. We may not derive any meaningful benefit from these programs in the future. Moreover, if any of our competitors are able to benefit from one or more of these initiatives, they may gain a significant competitive advantage over us.

The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between these agencies and the U.S. government, may adversely affect our business.

The payments we receive on the Agency securities in which we invest depend upon a steady stream of payments by borrowers on the underlying mortgages and the fulfillment of guarantees by GSEs. Ginnie Mae is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the U.S. Fannie Mae and Freddie Mac are GSEs, but their guarantees are not backed by the full faith and credit of the U.S. Government.

In response to the deteriorating financial condition of Fannie Mae and Freddie Mac and the credit market disruption beginning in 2007, Congress and the U.S. Treasury undertook a series of actions to stabilize these GSEs and the financial markets, generally. The Housing and Economic Recovery Act of 2008 was signed into law on July 30, 2008, and established the FHFA, with enhanced regulatory authority over, among other things, the business activities of Fannie Mae and Freddie Mac and the size of their portfolio holdings. On September 7, 2008, FHFA placed Fannie Mae and Freddie Mac into federal conservatorship and, together with the U.S. Treasury, established a program designed to boost investor confidence in Fannie Mae's and Freddie Mac's debt and Agency securities.

As the conservator of Fannie Mae and Freddie Mac, the FHFA controls and directs the operations of Fannie Mae and Freddie Mac and may (1) take over the assets of and operate Fannie Mae and Freddie Mac with all the powers of the stockholders, the directors and the officers of Fannie Mae and Freddie Mac and conduct all business of Fannie Mae and Freddie Mac; (2) collect all obligations and money due to Fannie Mae and Freddie Mac; (3) perform all functions of Fannie Mae and Freddie Mac which are consistent with the conservator's appointment; (4) preserve and conserve the assets and property of Fannie Mae and Freddie Mac; and (5) contract for assistance in fulfilling any function, activity, action or duty of the conservator.

Those efforts resulted in significant U.S. Government financial support and increased control of the GSEs.

The U.S. Federal Reserve (the "Fed") announced in November 2008 a program of large-scale purchases of Agency securities in an attempt to lower longer-term interest rates and contribute to an overall easing of adverse financial conditions. Subject to specified investment guidelines, the portfolios of Agency securities purchased through the programs established by the U.S. Treasury and the Fed may be held to maturity and, based on mortgage market conditions, adjustments may be made to these portfolios. This flexibility may adversely affect the pricing and availability of Agency securities that we seek to acquire during the remaining term of these portfolios.

There can be no assurance that the U.S. Government's intervention in Fannie Mae and Freddie Mac will be adequate for the longer-term viability of these GSEs. These uncertainties lead to questions about the availability of and trading market for, Agency securities. Accordingly, if these government actions are inadequate and the GSEs defaulted on their guaranteed obligations, suffered losses or ceased to exist, the value of our Agency securities and our business, operations and financial condition could be materially and adversely affected.

Additionally, because of the financial problems faced by Fannie Mae and Freddie Mac that led to their federal conservatorships, many policymakers have been examining the value of a federal mortgage guarantee and the appropriate role for the U.S. government in providing liquidity for mortgage loans. In June 2013, legislation titled "Housing Finance Reform and Taxpayer Protection Act of 2013" was introduced in the U.S. Senate; in July 2013, legislation titled "Protecting American Taxpayers and Homeowners Act of 2013" was introduced in the U.S. House of Representatives. The bills differ in many respects, but both require the wind-down of the GSEs. Other bills have been introduced that change the GSEs' business charters and eliminate the entities. We cannot predict whether or when the introduced legislation, the amended legislation or any future legislation may be enacted. Such legislation could materially and adversely affect the availability of, and trading market for, Agency securities and could, therefore, materially and adversely affect the value of our Agency securities and our business, operations and financial condition.

Legislation that permits modifications to the terms of outstanding loans may negatively affect our business, financial condition, liquidity and results of operations.

The U.S. government has enacted legislation that enables government agencies to modify the terms of a significant number of residential and other loans to provide relief to borrowers without the applicable investor's consent. These modifications allow for outstanding principal to be deferred, interest rates to be reduced, the term of the loan to be extended or other terms to be changed in ways that can permanently eliminate the cash flow (principal and interest) associated with a portion of the loan. These modifications are currently reducing, or in the future may reduce, the value of a number of our current or future investments, including investments in mortgage backed securities and Excess MSRs. As a result, such loan modifications are negatively affecting our business, results of operations, liquidity and financial condition. In addition, certain market participants propose reducing the amount of paperwork required by a borrower to modify a loan, which could increase the likelihood of fraudulent modifications and materially harm the U.S. mortgage market and investors that have exposure to this market. Additional legislation intended to provide relief to borrowers may be enacted and could further harm our business, results of operations and financial condition.

Risks Related to Our Taxation as a REIT

Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Compliance with these requirements must be carefully monitored on a continuing basis. Monitoring and managing our REIT compliance has become challenging due to the increased size and complexity of the assets in our portfolio, a meaningful portion of which are not qualifying REIT assets. There can be no assurance that our Manager's personnel responsible for doing so will be able to successfully monitor our compliance or maintain our REIT status.

Our failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to our stockholders.

We intend to operate in a manner intended to qualify us as a REIT for U.S. federal income tax purposes. Our ability to satisfy the asset tests depends upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we do not obtain independent appraisals. See "—Risks Related to our Business—The valuations of our assets are subject to uncertainty since most of our assets are not traded in an active market," and "—Risks Related to Our Business—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." Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of one or more of our investments (such as TBAs) may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements. Accordingly, there can be no assurance that the U.S. Internal Revenue Service ("IRS") will not contend that our investments violate the REIT requirements.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and distributions to stockholders would not be deductible by us in computing our taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of, and trading prices for, our stock. See also "—Our failure to qualify as a REIT would cause our stock to be delisted from the NYSE."

Unless entitled to relief under certain provisions of the Internal Revenue Code, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we initially ceased to qualify as a REIT. The rule against re-electing REIT status following a loss of such status would also apply to us if Newcastle failed to qualify as a REIT for its taxable years ending on or before December 31, 2014, and we are treated as a successor to Newcastle for U.S. federal income tax purposes. Although, Newcastle has (i) represented in the separation and distribution agreement that it entered into with us on April 26, 2013 (the "Separation and Distribution Agreement") that it has no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT and (ii) covenanted in the Separation and Distribution Agreement 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 us to fail to qualify as a REIT under the successor REIT rule referred to above), no assurance can be given that such representation and covenant would prevent us from failing to qualify as a REIT. Although, in the event of a breach, we may be able to seek damages from Newcastle, there can be no assurance that such damages, if any, would appropriately compensate us. In addition, if Newcastle were to fail to qualify as a REIT despite its reasonable best efforts, we would have no claim against Newcastle.

Our failure to qualify as a REIT would cause our stock to be delisted from the NYSE.

The NYSE requires, as a condition to the listing of our shares, that we maintain our REIT status. Consequently, if we fail to maintain our REIT status, our shares would promptly be delisted from the NYSE, which would decrease the trading activity of such shares. This could make it difficult to sell shares and would likely cause the market volume of the shares trading to decline.

If we were delisted as a result of losing our REIT status and desired to relist our shares on the NYSE, we would have to reapply to the NYSE to be listed as a domestic corporation. As the NYSE's listing standards for REITs are less onerous than its standards for domestic corporations, it would be more difficult for us to become a listed company under these heightened standards. We might not be able to satisfy the NYSE's listing standards for a domestic corporation. As a result, if we were delisted from the NYSE, we might not be able to relist as a domestic corporation, in which case our shares could not trade on the NYSE.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to qualify as a REIT.

We enter into financing arrangements that are structured as sale and repurchase agreements pursuant to which we nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings that are secured by the assets sold pursuant thereto. We believe that, for purposes of the REIT asset and income tests, we should be treated as the owner of the assets that are the subject of any such sale and repurchase agreement, notwithstanding that those agreements generally transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we might fail to qualify as a REIT.

The failure of our Excess MSRs to qualify as real estate assets or the income from our Excess MSRs to qualify as mortgage interest could adversely affect our ability to qualify as a REIT.

We have received from the IRS a private letter ruling substantially to the effect that our Excess MSRs represent interests in mortgages on real property and thus are qualifying “real estate assets” for purposes of the REIT asset test, which generate income that qualifies as interest on obligations secured by mortgages on real property for purposes of the REIT income test. The ruling is based on, among other things, certain assumptions as well as on the accuracy of certain factual representations and statements that we and Newcastle have made to the IRS. If any of the representations or statements that we have made in connection with the private letter ruling, are, or become, inaccurate or incomplete in any material respect with respect to one or more Excess MSR investments, or if we acquire an Excess MSR investment with terms that are not consistent with the terms of the Excess MSR investments described in the private letter ruling, then we will not be able to rely on the private letter ruling. If we are unable to rely on the private letter ruling with respect to an Excess MSR investment, the IRS could assert that such Excess MSR investments do not qualify under the REIT asset and income tests, and if successful, we might fail to qualify as a REIT.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

Dividends payable to domestic stockholders that are individuals, trusts, and estates are generally taxed at reduced tax rates. Dividends payable by REITs, however, generally are not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock. In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to non-REIT corporate dividends, which could affect the value of our real estate assets negatively.

REIT distribution requirements could adversely affect our liquidity and our ability to execute our business plan.

We generally must distribute annually at least 90% of our REIT taxable income, excluding any net capital gain, in order for corporate income tax not to apply to earnings that we distribute. We intend to make distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Internal Revenue Code. Certain of our assets, such as our investment in consumer loans, generate substantial mismatches between taxable income and available cash. As a result, the requirement to distribute a substantial portion of our net taxable income could cause us to: (i) sell assets in adverse market conditions; (ii) borrow on unfavorable terms; (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt; or (iv) make taxable distributions of our capital stock or debt securities in order to comply with REIT requirements. Further, amounts distributed will not be available to fund investment activities. If we fail to obtain debt or equity capital in the future, it could limit our ability to satisfy our liquidity needs, which could adversely affect the value of our common stock.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

Based on IRS guidance concerning the classification of Excess MSRs, we intend to treat our Excess MSRs as ownership interests in the interest payments made on the underlying mortgage loans, akin to an “interest only” strip. Under this treatment, for purposes of determining the amount and timing of taxable income, each Excess MSR is treated as a bond that was issued with original issue discount on the date we acquired such Excess MSR. In general, we will be required to accrue original issue discount based on the constant yield to maturity of each Excess MSR, and to treat such original issue discount as taxable income in accordance with the applicable U.S. federal income tax rules. The constant yield of an Excess MSR will be determined, and we will be taxed, based on a prepayment assumption regarding future payments due on the mortgage loans underlying the Excess MSR. If the mortgage loans underlying an Excess MSR prepay at a rate different than that under the prepayment assumption, our recognition of original issue discount will be either increased or decreased depending on the circumstances. Thus, in a particular taxable year, we may be required to accrue an amount of income in respect of an Excess MSR that exceeds the amount of cash collected in respect of that Excess MSR. Furthermore, it is possible that, over the life of the investment in an Excess MSR, the total amount we pay for, and accrue with respect to, the Excess MSR may exceed the total amount we collect on such Excess MSR. No assurance can be given that we will be entitled to a deduction for such excess, meaning that we may be required to recognize “phantom income” over the life of an Excess MSR.

Other debt instruments that we may acquire, including consumer loans, may be issued with, or treated as issued with, original issue discount. Those instruments would be subject to the original issue discount accrual and income computations that are described above with regard to Excess MSRs.

We may acquire debt instruments in the secondary market for less than their face amount. The discount at which such debt instruments are acquired may reflect doubts about their ultimate collectability rather than current market interest rates. The amount of such discount will nevertheless generally be treated as “market discount” for U.S. federal income tax purposes. Accrued market discount is reported as income when, and to the extent that, any payment of principal of the debt instrument is made. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

In addition, we may acquire debt instruments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding instrument are “significant modifications” under the applicable U.S. Treasury regulations, the modified instrument will be considered to have been reissued to us in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified instrument exceeds our adjusted tax basis in the unmodified instrument, even if the value of the instrument or the payment expectations have not changed. Following such a taxable modification, we would hold the modified loan with a cost basis equal to its principal amount for U.S. federal tax purposes.

Finally, in the event that any debt instruments acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, we may be required to accrue interest income with respect to debt instruments at the stated rate regardless of whether corresponding cash payments are received or are ultimately collectible. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectible, the utility of that deduction could depend on our having taxable income of an appropriate character in that later year or thereafter.

In any event, if our investments generate more taxable income than cash in any given year, we may have difficulty satisfying our annual REIT distribution requirement.

We may be unable to generate sufficient cash from operations to pay our operating expenses and to pay distributions to our stockholders.

As a REIT, we are generally required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and not including net capital losses) each year to our stockholders. To qualify for the tax benefits accorded to REITs, we intend to make distributions to our stockholders in amounts such that we distribute all or substantially all of our net taxable income, subject to certain adjustments, although there can be no assurance that our operations will generate sufficient cash to make such distributions. Moreover, our ability to make distributions may be adversely affected by the risk factors described herein. See also "—Risks Related to our Common Stock—We have not established a minimum distribution payment level, and we cannot assure you of our ability to pay distributions in the future."

The stock ownership limit imposed by the Internal Revenue Code for REITs and our certificate of incorporation may inhibit market activity in our stock and restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Internal Revenue Code, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the last half of each taxable year after our first taxable year. Our certificate of incorporation, with certain exceptions, authorizes our board of directors to take the actions that are necessary and desirable to preserve our qualification as a REIT. Stockholders are generally restricted from owning more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock, or 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of capital stock. Our board may grant an exemption in its sole discretion, subject to such conditions, representations and undertakings as it may determine in its sole discretion. These ownership limits could delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Moreover, if a REIT distributes less than 85% of its ordinary income, 95% of its capital gain net income plus any undistributed shortfall from the prior year (the "Required Distribution") to its stockholders during any calendar year (including any distributions declared by the last day of the calendar year but paid in the subsequent year), then it is required to pay an excise tax on 4% of any shortfall between the Required Distribution and the amount that was actually distributed. Any of these taxes would decrease cash available for distribution to our stockholders. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through TRSs. Such subsidiaries will be subject to corporate level income tax at regular rates and the payment of such taxes would reduce our return on the applicable investment. Currently, we hold some of our investments in TRSs, including servicer advances, and we may contribute other non-qualifying investments, such as our investment in consumer loans, to a TRS in the future.

Complying with the REIT requirements may negatively impact our investment returns or cause us to forgo otherwise attractive opportunities, liquidate assets or contribute assets to a TRS.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. As a result of these tests, we may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, forgo otherwise attractive investment opportunities, liquidate assets in adverse market conditions or contribute assets to a TRS that is subject to regular corporate federal income tax. Our ability to acquire and hold Excess MSRs, interests in consumer loans, servicer advances and other investments is subject to the applicable REIT qualification tests, and we may have to hold these interests through TRSs, which would negatively impact our returns from these assets. In general, compliance with the REIT requirements may hinder our ability to make and retain certain attractive investments.

Complying with the REIT requirements may limit our ability to hedge effectively.

The existing REIT provisions of the Internal Revenue Code may substantially limit our ability to hedge our operations because a significant amount of the income from those hedging transactions is likely to be treated as non-qualifying income for purposes of both REIT gross income tests. In addition, we must limit our aggregate income from non-qualified hedging transactions, from our provision of services and from other non-qualifying sources, to less than 5% of our annual gross income (determined without regard to gross income from qualified hedging transactions).

As a result, we may have to limit our use of certain hedging techniques or implement those hedges through TRSs. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur or could increase the cost of our hedging activities. If we fail to comply with these limitations, we could lose our REIT qualification for U.S. federal income tax purposes, unless our failure was due to reasonable cause, and not due to willful neglect, and we meet certain other technical requirements. Even if our failure were due to reasonable cause, we might incur a penalty tax. See also "—Risks Related to Our Business—Any hedging transactions that we enter into may limit our gains or result in losses."

Distributions to tax-exempt investors may be classified as unrelated business taxable income.

Neither ordinary nor capital gain distributions with respect to our stock nor gain from the sale of stock should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

- part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as unrelated business taxable income if shares of our stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income;
- part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the stock; and
- to the extent that we are (or a part of us, or a disregarded subsidiary of ours, is) a "taxable mortgage pool," or if we hold residual interests in a real estate mortgage investment conduit ("REMIC"), a portion of the distributions paid to a tax exempt stockholder that is allocable to excess inclusion income may be treated as unrelated business taxable income.

The "taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

We may enter into securitization or other financing transactions that result in the creation of taxable mortgage pools for U.S. federal income tax purposes. As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we would generally not be adversely affected by the characterization of a securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax exempt "disqualified organizations," such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we could incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we might reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Moreover, we may be precluded from selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

Uncertainty exists with respect to the treatment of TBAs for purposes of the REIT asset and income tests, and the failure of TBAs to be qualifying assets or of income/gains from TBAs to be qualifying income could adversely affect our ability to qualify as a REIT.

We purchase and sell Agency RMBS through TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise. In a dollar roll transaction, we exchange an existing TBA for another TBA with a different settlement date. There is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property (including interests in real property and interests in mortgages on real property) or other qualifying income for purposes of the 75% gross income test. For a particular taxable year, we would treat such TBAs as qualifying assets for purposes of the REIT asset tests, and income and gains from such TBAs as qualifying income for purposes of the 75% gross income test, to the extent set forth in an opinion from Skadden, Arps, Slate, Meagher & Flom LLP substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a TBA should be treated as ownership of the underlying Agency RMBS, and (ii) for purposes of the 75% REIT gross income test, any gain recognized by us in connection with the settlement of such TBAs should be treated as gain from the sale or disposition of the underlying Agency RMBS. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS would not successfully challenge the conclusions set forth in such opinions. In addition, it must be emphasized that any opinion of Skadden, Arps, Slate, Meagher & Flom LLP would be based on various assumptions relating to any TBAs that we enter into and would be conditioned upon fact-based representations and covenants made by our management regarding such TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge any conclusions of Skadden, Arps, Slate, Meagher & Flom LLP, we could be subject to a penalty tax or we could fail to qualify as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

The tax on prohibited transactions will limit our ability to engage in transactions that would be treated as prohibited transactions for U.S. federal income tax purposes.

Net income that we derive from a “prohibited transaction” is subject to a 100% tax. The term “prohibited transaction” generally includes a sale or other disposition of property (including mortgage loans, but other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of our trade or business. We might be subject to this tax if we were to dispose of or securitize loans or Excess MSRs in a manner that was treated as a prohibited transaction for U.S. federal income tax purposes.

We intend to conduct our operations so that no asset that we own (or are treated as owning) will be treated as, or as having been, held-for-sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. As a result, we may choose not to engage in certain sales of loans or Excess MSRs at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us. In addition, whether property is held “primarily for sale to customers in the ordinary course of a trade or business” depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held-for-sale to customers, or that we can comply with certain safe-harbor provisions of the Internal Revenue Code that would prevent such treatment. The 100% prohibited transaction tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to prevent prohibited transaction characterization.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT.

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in us. The U.S. federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in U.S. federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

Liquidation of assets may jeopardize our REIT qualification or create additional tax liability for us.

To qualify as a REIT, we must comply with requirements regarding the composition of our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

Risks Related to our Common Stock

There can be no assurance that the market for our stock will provide you with adequate liquidity.

Our common stock began trading (on a when issued basis) on the NYSE on May 2, 2013. There can be no assurance that an active trading market for our common stock will be sustained in the future, and the market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control. These factors include, without limitation:

- a shift in our investor base;
- our quarterly or annual earnings, or those of other comparable companies;
- actual or anticipated fluctuations in our operating results;
- changes in accounting standards, policies, guidance, interpretations or principles;
- announcements by us or our competitors of significant investments, acquisitions or dispositions;
- the failure of securities analysts to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- market performance of affiliates and other counterparties with whom we conduct business;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations; and
- general economic conditions.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the trading price of our common stock.

Sales or issuances of shares of our common stock could adversely affect the market price of our common stock.

Sales of substantial amounts of shares of our common stock in the public market, or the perception that such sales might occur, could adversely affect the market price of our common stock. The issuance of our common stock in connection with property, portfolio or business acquisitions or the exercise of outstanding options or otherwise could also have an adverse effect on the market price of our common stock. We have an effective registration statement on file to sell common stock in public offerings.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and stock price.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. We have made investments through joint ventures, such as our investment in consumer loans, and accounting for such investments can increase the complexity of maintaining effective internal control over financial reporting. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we had previously believed that internal controls were effective. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm will not be able to certify as to the effectiveness of our internal control over financial reporting. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in our share price and impairing our ability to raise capital.

Your percentage ownership in us may be diluted in the future.

Your percentage ownership in us may be diluted in the future because of equity awards that we expect will be granted to our Manager, to the directors, officers and employees of our Manager who perform services for us, and to our directors, officers and employees, as well as other equity instruments such as debt and equity financing. We have adopted a Nonqualified Stock Option and Incentive Award Plan, as amended (the “Plan”), which provides for the grant of equity-based awards, including restricted stock, options, stock appreciation rights (“SARs”), performance awards, tandem awards and other equity-based and non-equity based awards, in each case to our Manager, to the directors, officers, employees, service providers, consultants and advisor of our Manager who perform services for us, and to our directors, officers, employees, service providers, consultants and advisors. We reserved 15,000,000 shares of our common stock for issuance under the Plan. On the first day of each fiscal year beginning during the ten-year term of the Plan and in and after calendar year 2014, that number will be increased by a number of shares of our common stock equal to 10% of the number of shares of our common stock newly issued by us during the immediately preceding fiscal year (and, in the case of fiscal year 2013, after the effective date of the Plan). In connection with any offering of our common stock, we will issue to our Manager options relating to shares of our common stock, representing 10% of the number of shares being offered. Our board of directors may also determine to issue options to the Manager that are not subject to the Plan, provided that the number of shares relating to any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to NYSE rules.

We may incur or issue debt or issue equity, which may negatively affect the market price of our common stock.

We may in the future incur or issue debt or issue equity or equity-related securities. In the event of our liquidation, lenders and holders of our debt and holders of our preferred stock (if any) would receive a distribution of our available assets before common stockholders. Any future incurrence or issuance of debt would increase our interest cost and could adversely affect our results of operations and cash flows. We are not required to offer any additional equity securities to existing common stockholders on a preemptive basis. Therefore, additional issuances of common stock, directly or through convertible or exchangeable securities (including limited partnership interests in our operating partnership), warrants or options, will dilute the holdings of our existing common stockholders and such issuances, or the perception of such issuances, may reduce the market price of our common stock. Any preferred stock issued by us would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common stockholders. Because our decision to incur or issue debt or issue equity or equity-related securities in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, nature or success of our future capital raising efforts. Thus, common stockholders bear the risk that our future incurrence or issuance of debt or issuance of equity or equity-related securities will adversely affect the market price of our common stock.

We have not established a minimum distribution payment level, and we cannot assure you of our ability to pay distributions in the future.

We intend to make quarterly distributions of our REIT taxable income to holders of our common stock out of assets legally available therefor. We have not established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this report. Any distributions will be authorized by our board of directors and declared by us based upon a number of factors, including actual results of operations, liquidity and financial condition, restrictions under Delaware law or applicable financing covenants, our taxable income, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, our operating expenses and other factors our directors deem relevant. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions in the future.

Furthermore, while we are required to make distributions in order to maintain our REIT status (as described above under "—Risks Related to our Taxation as a REIT—We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay distributions to our stockholders"), we may elect not to maintain our REIT status, in which case we would no longer be required to make such distributions. Moreover, even if we do elect to maintain our REIT status, we may elect to comply with the applicable requirements by, after completing various procedural steps, distributing, under certain circumstances, a portion of the required amount in the form of shares of our common stock in lieu of cash. If we elect not to maintain our REIT status or to satisfy any required distributions in shares of common stock in lieu of cash, such action could negatively affect our business, results of operations, liquidity and financial condition as well as the price of our common stock. No assurance can be given that we will pay any dividends on shares of our common stock in the future.

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We may in the future choose to pay dividends in our own stock, in which case you could be required to pay income taxes in excess of the cash dividends you receive.

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

It is unclear whether and to what extent we will be able to pay taxable dividends in cash and stock in later years. Moreover, various aspects of such a taxable cash/stock dividend are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/stock dividends have not been met.

An increase in market interest rates may have an adverse effect on the market price of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell shares of our common stock is our distribution rate as a percentage of our share price relative to market interest rates. If the market price of our common stock is based primarily on the earnings and return that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions will likely affect the market price of our common stock. For instance, if market interest rates rise without an increase in our distribution rate, the market price of our common stock could decrease as potential investors may require a higher distribution yield on our common stock or seek other securities paying higher distributions or interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay distributions.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the trading price of our common stock.

Our certificate of incorporation, bylaws and Delaware law contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the raider and to encourage prospective acquirers to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include, among others:

- a classified board of directors with staggered three-year terms;
- provisions regarding the election of directors, classes of directors, the term of office of directors, the filling of director vacancies and the resignation and removal of directors for cause only upon the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote thereon;
- provisions regarding corporate opportunity only upon the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote thereon;
-

- removal of directors only for cause and only with the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote in the election of directors;
- our board of directors to determine the powers, preferences and rights of our preferred stock and to issue such preferred stock without stockholder approval;
- advance notice requirements applicable to stockholders for director nominations and actions to be taken at annual meetings;
- a prohibition, in our certificate of incorporation, stating that no holder of shares of our common stock will have cumulative voting rights in the election of directors, which means that the holders of a majority of the issued and outstanding shares of common stock can elect all the directors standing for election; and
- a requirement in our bylaws specifically denying the ability of our stockholders to consent in writing to take any action in lieu of taking such action at a duly called annual or special meeting of our stockholders.

Public stockholders who might desire to participate in these types of transactions may not have an opportunity to do so, even if the transaction is considered favorable to stockholders. These anti-takeover provisions could substantially impede the ability of public stockholders to benefit from a change in control or a change in our management and board of directors and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium.

ERISA may restrict investments by plans in our common stock.

A plan fiduciary considering an investment in our common stock should consider, among other things, whether such an investment is consistent with the fiduciary obligations under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), including whether such investment might constitute or give rise to a prohibited transaction under ERISA, the Internal Revenue Code or any substantially similar federal, state or local law and, if so, whether an exemption from such prohibited transaction rules is available.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
2.1	Separation and Distribution Agreement dated April 26, 2013, between New Residential Investment Corp. and Newcastle Investment Corp. (incorporated by reference to Amendment No. 6 of New Residential Investment Corp.'s Registration Statement on Form 10, filed April 29, 2013)
2.2	Purchase Agreement, among the Sellers listed therein, HSBC Finance Corporation and SpringCastle Acquisition LLC, dated March 5, 2013 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed March 11, 2013)
2.3	Master Servicing Rights Purchase Agreement between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
2.4	Sale Supplement (Shuttle 1) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
2.5	Sale Supplement (Shuttle 2) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
2.6	Sale Supplement (First Tennessee) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
2.7	Agreement and Plan of Merger, dated as of February 22, 2015, by and among New Residential Investment Corp., Hexagon Merger Sub, Ltd. and Home Loan Servicing Solutions, Ltd. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on February 24, 2015)
2.8	Termination Agreement, dated as of April 6, 2015, by and among New Residential Investment Corp., Home Loan Servicing Solutions, Ltd. and Hexagon Merger Sub Ltd. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on April 10, 2015)
2.9	Share and Asset Purchase Agreement, dated as of April 6, 2015, by and among New Residential Investment Corp., HLSS Advances Acquisition Corp., HLSS MSR-EBO Acquisition LLC and Home Loan Servicing Solutions, Ltd. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on April 10, 2015)
2.10	Purchase Agreement, dated as of March 31, 3016, by and among SpringCastle Holdings, LLC, Springleaf Acquisition Corporation, Springleaf Finance, Inc., NRZ Consumer LLC, NRZ SC America LLC, NRZ SC Credit Limited, NRZ SC Finance I LLC, NRZ SC Finance II LLC, NRZ SC Finance III LLC, NRZ SC Finance IV LLC, NRZ SC Finance V LLC, BTO Willow Holdings II, L.P. and Blackstone Family Tactical Opportunities Investment Partnership - NQ - ESC L.P., and solely with respect to Section 11(a) and Section 11(g), NRZ SC America Trust 2015-1, NRZ SC Credit Trust 2015-1, NRZ SC Finance Trust 2015-1, and BTO Willow Holdings, L.P.

3.1	Amended and Restated Certificate of Incorporation of New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed May 3, 2013)
3.2	Amended and Restated Bylaws of New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed May 3, 2013)
3.3	Amendment to Amended and Restated Certificate of Incorporation of New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on October 17, 2014)
4.1	Indenture, dated as of August 28, 2015, by and among NRZ Advance Receivables Trust 2015-ON1, Deutsche Bank National Trust Company, Ocwen Loan Servicing, LLC, HLSS Holdings, LLC, Credit Suisse AG, New York Branch and New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015)
4.2	Series 2015-T1 Indenture Supplement, dated as of August 28, 2015, to the Indenture, dated as of August 28, 2015, by and among NRZ Advance Receivables Trust 2015-ON1, Deutsche Bank National Trust Company, Ocwen Loan Servicing, LLC, HLSS Holdings, LLC, Credit Suisse AG, New York Branch and New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015)

Exhibit Number	Exhibit Description
4.3	Series 2015-T2 Indenture Supplement, dated as of August 28, 2015, to the Indenture, dated as of August 28, 2015, by and among NRZ Advance Receivables Trust 2015-ON1, Deutsche Bank National Trust Company, Ocwen Loan Servicing, LLC, HLSS Holdings, LLC, Credit Suisse AG, New York Branch and New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015)
4.4	Series 2015-VF1 Indenture Supplement, dated as of August 28, 2015, to the Indenture, dated as of August 28, 2015, by and among NRZ Advance Receivables Trust 2015-ON1, Deutsche Bank National Trust Company, Ocwen Loan Servicing, LLC, HLSS Holdings, LLC, Credit Suisse AG, New York Branch and New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015)
4.5	Amendment No. 1, dated as of November 24, 2015, to the Series 2015-VF1 Indenture Supplement, dated as of August 28, 2015, to the Indenture, dated as of August 28, 2015, by and among NRZ Advance Receivables Trust 2015-ON1, Deutsche Bank National Trust Company, Ocwen Loan Servicing, LLC, HLSS Holdings, LLC, Credit Suisse AG, New York Branch and New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2015)
4.6	Amendment No. 2, dated as of March 22, 2016, to the Series 2015-VF1 Indenture Supplement, dated as of August 28, 2015, to the Indenture, dated as of August 28, 2015, by and among NRZ Advance Receivables Trust 2015-ON1, Deutsche Bank National Trust Company, Ocwen Loan Servicing, LLC, HLSS Holdings, LLC, Credit Suisse AG, New York Branch and New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed March 24, 2016)
4.7	Series 2015-T3 Indenture Supplement, dated as of November 24, 2015, to the Indenture, dated as of August 28, 2015, by and among NRZ Advance Receivables Trust 2015-ON1, Deutsche Bank National Trust Company, Ocwen Loan Servicing, LLC, HLSS Holdings, LLC, Credit Suisse AG, New York Branch and New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Annual Report on Form 10-K,for the annual period ended December 31, 2015)
4.8	Series 2015-T4 Indenture Supplement, dated as of November 24, 2015, to the Indenture, dated as of August 28, 2015, by and among NRZ Advance Receivables Trust 2015-ON1, Deutsche Bank National Trust Company, Ocwen Loan Servicing, LLC, HLSS Holdings, LLC, Credit Suisse AG, New York Branch and New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2015)
4.9	Series 2014-A Indenture dated as of October 3, 2014, by and among SpringCastle America Funding, LLC, SpringCastle Credit Funding, LLC, and SpringCastle Finance Funding, LLC, as co-issuers, Wilmington Trust, National Association, as loan trustee, Springleaf Finance, Inc., as servicer, Wells Fargo Bank, National Association, as paying agent and note registrar, and U.S. Bank National Association, as indenture trustee
10.1	Third Amended and Restated Management and Advisory Agreement between New Residential Investment Corp. and FIG LLC, dated May 7, 2015 (incorporated by reference to New Residential Investment Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015)

10.2	Form of Indemnification Agreement by and between New Residential Investment Corp. and its directors and officers (incorporated by reference to Amendment No. 3 of New Residential Investment Corp.'s Registration Statement on Form 10, filed March 27, 2013)
10.3	New Residential Investment Corp. Nonqualified Stock Option and Incentive Award Plan (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed May 3, 2013)
10.4	Amended and Restated New Residential Investment Corp. Nonqualified Stock Option and Incentive Plan, adopted as of November 4, 2014 (incorporated by reference to New Residential Investment Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014)
10.5	Investment Guidelines (incorporated by reference to Amendment No. 4 of New Residential Investment Corp.'s Registration Statement on Form 10, filed April 9, 2013)
10.6	Excess Servicing Spread Sale and Assignment Agreement, by and between Nationstar Mortgage LLC and NIC MSR I LLC, dated December 8, 2011 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2011)
10.7	Excess Spread Refinanced Loan Replacement Agreement, by and between Nationstar Mortgage LLC and NIC MSR I LLC, dated December 8, 2011 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2011)

Exhibit Number	Exhibit Description
10.8	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR IV LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed May 15, 2012)
10.9	Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR V LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed May 15, 2012)
10.10	Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VI LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed May 15, 2012)
10.11	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VII, LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed May 15, 2012)
10.12	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR III LLC, dated May 31, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 6, 2012)
10.13	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR III LLC, dated May 31, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 6, 2012)
10.14	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.15	Amended and Restated Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.16	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.17	Amended and Restated Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.18	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.19	

	Amended and Restated Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.20	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR V LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed July 5, 2012)
10.21	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR IV LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed July 5, 2012)
10.22	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VI LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed July 5, 2012)
10.23	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VII LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed July 5, 2012)
10.24	Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR VIII LLC, dated December 31, 2012 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)

Exhibit Number	Exhibit Description
10.25	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR VIII LLC, dated December 31, 2012 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)
10.26	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and MSR IX LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)
10.27	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and MSR IX LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)
10.28	Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR X LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)
10.29	Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR X LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)
10.30	Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR XI LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)
10.31	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR XI LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)
10.32	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XII LLC, dated January 6, 2013, (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)
10.33	Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XII LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)
10.34	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XIII LLC, dated January 6, 2013, (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)
10.35	Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XIII LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, for the annual period ended December 31, 2012)

10.36	Interim Servicing Agreement, among the Interim Servicers listed therein, HSBC Finance Corporation, as Interim Servicer Representative, HSBC Bank USA, National Association, SpringCastle America, LLC, SpringCastle Credit, LLC, SpringCastle Finance, LLC, Wilmington Trust, National Association, as Loan Trustee, and SpringCastle Finance LLC, as Owner Representative (incorporated by reference to Amendment No. 4 to New Residential Investment Corp.'s Registration Statement on Form 10, filed April 9, 2013)
10.37	Second Amended and Restated Limited Liability Company Agreement of SpringCastle Acquisition LLC, dated March 31, 2016
10.38	Registration Rights Agreement, dated as of April 6, 2015, by and between New Residential Investment Corp and Home Loan Servicing Solutions, Ltd. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on April 10, 2015)
10.39	Services Agreement, dated as of April 6, 2015, by and between HLSS Advances Acquisition Corp. and Home Loan Servicing Solutions, Ltd. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on April 10, 2015)
10.40	Receivables Sale Agreement, dated as of August 28, 2015, by and among Ocwen Loan Servicing, LLC, HLSS Holdings, LLC and NRZ Advance Facility Transferor 2015-ON1 LLC (incorporated by reference to New Residential Investment Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015)
10.41	Receivables Pooling Agreement, dated as of August 28, 2015, by and between NRZ Advance Facility Transferor 2015-ON1 LLC and NRZ Advance Receivables Trust 2015-ON1 (incorporated by reference to New Residential Investment Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015)

Exhibit Number	Exhibit Description
31.1	Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

* Furnished electronically herewith.

The following second amended and restated limited liability company agreements of the Consumer Loan Companies are substantially identical in all material respects, except as to the parties thereto and the initial capital contributions required under each agreement, to the Second Amended and Restated Limited Liability Company Agreement of SpringCastle Acquisition LLC that is filed as Exhibit 10.37 hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

- Second Amended and Restated Limited Liability Company Agreement of SpringCastle America, LLC, dated as of March 31, 2016.
- Second Amended and Restated Limited Liability Company Agreement of SpringCastle Credit, LLC, dated as of March 31, 2016.
- Second Amended and Restated Limited Liability Company Agreement of SpringCastle Finance, LLC, dated as of March 31, 2016.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

NEW RESIDENTIAL INVESTMENT CORP.

By: /s/ Michael Nierenberg
Michael Nierenberg
Chief Executive Officer and President
(Principal Executive Officer)

May 4, 2016

By: /s/ Nicola Santoro, Jr.
Nicola Santoro, Jr.
Chief Financial Officer and Treasurer
(Principal Financial Officer)

May 4, 2016

By: /s/ Jonathan R. Brown
Jonathan R. Brown
Chief Accounting Officer
(Principal Accounting Officer)

May 4, 2016