Mr. Cooper Group Inc.
Form 10-K
March 11, 2019

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

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
o 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: 001-35449

Mr. Cooper Group Inc.
(Exact name of registrant as specified in its charter)

Delaware	91-1653725
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8950 Cypress Waters Blvd, Coppell, TX	75019
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (469) 549-2000
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value per share	The Nasdaq Stock Market
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
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 o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12(b)-2 of the Exchange Act (check one)

Large Accelerated Filer o	Accelerated Filer x	
Non-Accelerated Filer o	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. o

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

Number of shares of common stock, $0.01 par value, outstanding as of February 28, 2019 was 90,832,802.

As of June 29, 2018 (the last business day of the registrant’s most recently completed second fiscal quarter), the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $282,435,564 based on the closing sales price of $1.34 as reported on the Nasdaq Stock Market.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the Company’s fiscal year-end, are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

MR. COOPER GROUP INC.
ANNUAL REPORT ON FORM 10-K
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GLOSSARY OF INDUSTRY TERMS

This glossary defines some of the industry terms that we use herein and does not represent a complete list of all defined terms used.

Advance Facility. A secured financing facility backed by a pool of mortgage servicing advance receivables made by a servicer to a certain pool of mortgage loans.

Agency and Government Conforming Loan. A mortgage loan that meets all requirements (loan type, maximum amount, LTV ratio and credit quality) for purchase by Fannie Mae, Freddie Mac, or insured by the FHA, USDA or guaranteed by the VA.

Asset-Backed Securities (ABS). A financial security whose income payments and value is derived from and collateralized (or “backed”) by a specified pool of underlying receivables or other financial assets.

Base Servicing Fee. The servicing fee retained by the servicer, expressed in basis points, in an excess MSR arrangement in exchange for the provision of servicing functions on a portfolio of mortgage loans, after which the servicer and the co-investment partner share the excess fees on a pro rata basis.

Direct-to-consumer Originations. A type of mortgage loan origination pursuant to which a lender markets refinancing and purchase money mortgage loans directly to selected consumers through telephone call centers, the Internet or other means.

Conventional Mortgage Loans. A mortgage loan that is not guaranteed or insured by the FHA, the VA or any other government agency. Although a conventional loan is not insured or guaranteed by the government, it can still follow the guidelines of GSEs and be sold to the GSEs.

Correspondent Originations. A type of mortgage loan origination pursuant to which a company purchases closed mortgage loans from correspondent lenders, such as community banks, credit unions, mortgage brokers and independent mortgage bankers.

Credit-Sensitive Loan. A mortgage loan with certain characteristics such as low borrower credit quality, relaxed original underwriting standards and high LTV, which we believe indicates that the mortgage loan presents an elevated credit risk.

Delinquent Loan. A mortgage loan that is 30 or more days past due from its contractual due date.

Department of Veterans Affairs (VA). The VA is a cabinet-level department of the U.S. federal government, which guarantees certain home loans for qualified borrowers.

Excess Servicing Fees. In an excess MSR arrangement, the servicing fee cash flows on a portfolio of mortgage loans after payment of the base servicing fee.

Excess Spread. MSRs with a co-investment partner where the servicer receives a base servicing fee and the servicer and co-investment partner share the excess servicing fees. This co-investment strategy reduces the required upfront capital from the servicer when purchasing or investing in MSRs.

Federal National Mortgage Association (Fannie Mae or FNMA). FNMA was federally chartered by Congress in 1938 to support liquidity, stability, and affordability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold. Fannie Mae buys mortgage loans from lenders and resells them as mortgage backed securities in the secondary mortgage market.

Federal Housing Administration (FHA). The FHA is a U.S. federal government agency within the Department of Housing and Urban Development (HUD). It provides mortgage insurance on loans made by FHA-approved lenders in compliance with FHA guidelines throughout the United States.

Federal Housing Finance Agency (FHFA). A U.S. federal government agency that is the regulator and conservator of Fannie Mae and Freddie Mac and the regulator of the 12 Federal Home Loan Banks.

Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC). Freddie Mac was chartered by Congress in 1970 to stabilize the nation's residential mortgage markets and expand opportunities for homeownership and affordable rental housing. Freddie Mac participates in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities for investment and by issuing guaranteed mortgage-related securities.

Government National Mortgage Association (Ginnie Mae or GNMA). GNMA is a self financing, wholly-owned U.S. Government corporation within HUD. Ginnie Mae guarantees the timely payment of principal and interest on MBS backed by federally insured or guaranteed loans - mainly loans insured by the FHA or guaranteed by the VA. Ginnie Mae securities are the only MBS to carry the full faith and credit guarantee of the U.S. federal government.

Government-Sponsored Enterprise (GSE). Certain entities established by the U.S. Congress to provide liquidity, stability and affordability in residential housing. These agencies are Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks.

Home Affordable Modification Program (HAMP). A U.S. federal government program designed to help eligible homeowners avoid foreclosure through mortgage loan modifications. Participating servicers may be entitled to receive financial incentives in connection with loan modifications they enter into with eligible borrowers and subsequent success fees to the extent that a borrower remains current in any agreed upon loan modification.

Home Affordable Refinance Program (HARP). A U.S. federal government program designed to help eligible homeowners refinance their existing mortgage loans. The mortgage must be owned or guaranteed by a GSE, originated during a defined time period, and applicants must be up-to-date on their mortgage payments but unable to obtain refinancing because the value of their homes has declined.

Interest Rate Lock Commitments (IRLC). Agreements under which the interest rate and the maximum amount of the mortgage loan are set prior to funding the mortgage loan.

Loan Modification. Temporary or permanent modifications to the interest rate, amortization period and term of the borrower's original mortgage loan. Loan modifications are usually made to loans that are in default, or in imminent danger of defaulting.

Loan-to-Value Ratio (LTV). The UPB of a mortgage loan as a percentage of the total appraised or market value of the property that secures the loan. An LTV over 100% indicates that the UPB of the mortgage loan exceeds the value of the property.

Loss Mitigation. The range of servicing activities provided by a servicer in an attempt to minimize the losses suffered by the owner of a defaulted mortgage loan. Loss mitigation techniques include short-sales, deed-in-lieu of foreclosures and loan modifications, among other options.

Mortgage-Backed Securities (MBS). A type of asset-backed security that is secured by a group of mortgage loans.

Mortgage Servicing Right (MSR). The right and obligation to service a loan or pool of loans and to receive a servicing fee as well as certain ancillary income. MSRs may be bought and sold, resulting in the transfer of loan servicing obligations. MSRs are designated as such when the benefits of servicing the loans are expected to adequately compensate the servicer for performing the servicing.

Mortgage Servicing Liability (MSL). The right and obligation to service a loan or pool of loans and to receive a servicing fee as well as certain ancillary income. MSLs may be bought and sold, resulting in the transfer of loan servicing obligations. MSLs are designated as such when the benefits of servicing the loans are not expected to adequately compensate the servicer for performing the servicing.

Non-Conforming Loan. A mortgage loan that does not meet the standards of eligibility for purchase or securitization by Fannie Mae, Freddie Mac or Ginnie Mae.

Originations. The process through which a lender provides a mortgage loan to a borrower.

Prepayment Speed. The rate at which voluntary mortgage prepayments occur or are projected to occur. The statistic is calculated on an annualized basis and expressed as a percentage of the outstanding principal balance.

Primary Servicer. The servicer that owns the right to service a mortgage loan or pool of mortgage loans. This differs from a subservicer, which has a contractual agreement with the primary servicer to service a mortgage loan or pool of mortgage loans in exchange for a subservicing fee.

Prime Mortgage Loan. Generally, a high-quality mortgage loan that meets the underwriting standards set by Fannie Mae or Freddie Mac and is eligible for purchase or securitization in the secondary mortgage market. Prime Mortgage loans generally have lower default risk and are made to borrowers with excellent credit records and a monthly income at least three to four times greater than their monthly housing expenses (mortgage payments plus taxes and other debt payments) as well as significant other assets. Mortgages not classified as prime mortgage loans are generally called either sub-prime or Alt-A.

Private Label Securitizations. Securitizations that do not meet the criteria set by Fannie Mae, Freddie Mac or Ginnie Mae.

Real Estate Owned (REO). Property acquired by the servicer on behalf of the owner of a mortgage loan or pool of mortgage loans, usually through foreclosure or a deed-in-lieu of foreclosure on a defaulted loan. The servicer or a third party real estate management firm is responsible for selling the REO. Net proceeds of the sale are returned to the owner of the related loan or loans. In most cases, the sale of REO does not generate enough to pay off the balance of the loan underlying the REO, causing a loss to the owner of the related mortgage loan.

Refinancing. The process of working with existing borrowers to refinance their mortgage loans. By refinancing loans for borrowers we currently service, we retain the servicing rights, thereby extending the longevity of the servicing cash flows.

Reverse Mortgage. A reverse mortgage, also referred to as a home equity conversion mortgage, enables seniors to borrow against the value of their home, and no payment of principal or interest is required until the death of the borrower or the sale of the home.

Servicing. The performance of contractually specified administrative functions with respect to a mortgage loan or pool of mortgage loans. Duties of a servicer typically include, among other things, collecting monthly payments, maintaining escrow accounts, providing periodic monthly statements to the borrower and monthly reports to the loan owners or their agents and managing insurance. A servicer is generally compensated with a specific fee outlined in the contract established prior to the commencement of the servicing activities.

Servicing Advances. In the course of servicing loans, servicers are required to make advances that are reimbursable from collections on the related mortgage loan or pool of loans. There are typically three types of servicing advances: P&I advances, T&I Advances and Corporate Advances. (i) P&I advances cover scheduled payments of principal and interest that have not been timely paid by borrowers. P&I Advances serve to facilitate the cash flows paid to holders of securities issued by the residential MBS trust. The servicer is not the insurer or guarantor of the MBS and thus has the right to cease the advancing of P&I, when the servicer deems the next advance nonrecoverable. (ii) T&I advances pay specified expenses associated with the preservation of a mortgaged property or the liquidation of defaulted mortgage loans, including but not limited to property taxes, insurance premiums or other property-related expenses that have not been timely paid by borrowers in order for the lien holder to maintain its interest in the property. (iii) Corporate advances pay costs, fees and expenses incurred in foreclosing upon, preserving defaulted loans and selling REO, including attorneys' and other professional fees and expenses incurred in connection with foreclosure and liquidation or other legal proceedings arising in the course of servicing the defaulted mortgage loans. Servicing advances are reimbursed to the servicer if and when the borrower makes a payment on the underlying mortgage loan at the time the loan is modified or upon liquidation of the underlying mortgage loan. The types of servicing advances that a servicer must make are set forth in its servicing agreement with the owner of the mortgage loan or pool of mortgage loans. In some instances, a servicer is allowed to cease Servicing Advances, if those advances will not be recoverable from the property securing the loan.

Subservicing. Subservicing is the process of outsourcing the duties of the primary servicer to a third party servicer. The third party servicer performs the servicing responsibilities for a fee and makes servicing advances, which are subsequently reimbursed by the primary servicer. The Servicer is contractually liable to the owner of the loans for the activities of the subservicer.

Unpaid Principal Balance (UPB). The amount of principal outstanding on a mortgage loan or a pool of mortgage loans. UPB is used together with the servicing fees and ancillary income as a means of estimating the future revenue stream for a servicer.

Warehouse Facility. A type of facility used to temporarily finance mortgage loan originations. Pursuant to a warehouse facility, a loan originator typically agrees to transfer to a counterparty certain mortgage loans against the transfer of funds by the counterparty, with a simultaneous agreement by the counterpart to transfer the loans back to the originator at a date certain, or on demand, against the transfer of funds from the originator.

PART I.

Item 1. Business

The disclosures set forth in this item are qualified by Item 1A. Risk Factors and the section captioned "Caution Regarding Forward-Looking Statements" in Item 1. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

OVERVIEW

Mr. Cooper Group Inc., including our consolidated subsidiaries (collectively, "Mr. Cooper", the "Company", "we", "us" or "our"), earns fees through the delivery of servicing, origination and transaction based services related primarily to single-family residences throughout the United States.

Mr. Cooper, which was previously known as WMIH Corp. ("WMIH"), is a corporation duly organized and existing under the laws of the State of Delaware since May 11, 2015. On July 31, 2018, Wand Merger Corporation, a wholly-owned subsidiary of WMIH ("Merger Sub"), merged with and into Nationstar Mortgage Holdings Inc. ("Nationstar"), with Nationstar continuing as a wholly-owned subsidiary of WMIH (the "Merger"). Prior to the Merger, WMIH had limited operations other than its reinsurance business that operated in runoff mode and focused on identifying and consummating an accretive acquisition transaction across a broad array of industries, with a primary focus on the financial institutions sector. As a result of the Merger, shares of Nationstar common stock were delisted from the New York Stock Exchange. Following the Merger closing, the combined company traded on NASDAQ under the ticker symbol "WMIH" until October 10, 2018, when WMIH changed its name to "Mr. Cooper Group Inc." and its ticker symbol to "COOP."

We are one of the largest residential loan servicers in the United States. In addition, we operate an integrated residential loan origination platform with a primary focus on customer retention and an array of complementary services related to the purchase and disposition of residential real estate.

Our success ultimately depends on working with customers, investors and regulators to deliver quality, compliant solutions that foster and preserve home ownership. Customers include most residential real estate market participants including homeowners, homebuyers, home sellers, investors and real estate agents. Investors primarily include government sponsored entities ("GSE") such as the Federal National Mortgage Association ("Fannie Mae" or "FNMA") and the Federal Home Loan Mortgage Corp ("Freddie Mac" or "FHLMC"), investors in private-label securitizations, the Government National Mortgage Association ("Ginnie Mae" or "GNMA"), as well as organizations owning mortgage servicing rights ("MSR") which engage us to subservice. We are regulated both at the Federal and individual state levels.

BUSINESS SEGMENTS

We conduct our operations through three operating segments: Servicing, Originations and Xome®.

"Predecessor" financial information in the Business Segments relates to Nationstar, and "Successor" financial information relates to Mr. Cooper. The financial results for the years ended December 31, 2017 and 2016 reflect the results of the Predecessor entity for that time period. With respect to the year ended December 31, 2018, we have presented our results on a "combined" basis by combining the results of the Predecessor for the seven months ended July 31, 2018 with the results of the Successor for the five months ended December 31, 2018. Although the separate financial results of the Predecessor for the seven months ended July 31, 2018 and the Successor for the five months ended December 31, 2018 are each separately presented under generally accepted accounting principles ("GAAP") in the United States, the combined results reported reflect non-GAAP financial measures, because a different basis of accounting was used with respect to the financial results for the Predecessor as compared to the financial results of the Successor. We have not provided a reconciliation of the financial metrics reflected under the "combined" basis as such reconciliation cannot be provided without unreasonable effort as a result of this accounting variance.

Servicing

As of December 31, 2018, we served approximately 3.3 million customers with an aggregate unpaid principal balance ("UPB") of approximately $548 billion. We are the largest non-bank servicer and third largest residential mortgage servicer in the United States according to Inside Mortgage Finance in the fourth quarter of 2018. During 2018, on a combined basis, we boarded $121 billion UPB of loans with $60 billion of UPB related to subservicing.

We service loans on behalf of investors or owners of the underlying mortgages, and because we do not generally hold loans for investment purposes, our loss exposure is limited to investor guidelines regarding the servicing of delinquent loans. We have exposure to credit risk to the extent we are required to make servicing advances or in certain circumstances, with Federal Housing Administration (“FHA”), U.S. Department of Agriculture (“USDA”) or Department of Veterans Affairs (“VA”) loans. Servicing consists of collecting loan payments, remitting principal and interest payments to investors, managing escrow funds for the payment of mortgage-related expenses, such as taxes and insurance, performing loss mitigation activities on behalf of investors and otherwise administering our mortgage loan servicing portfolio.

The chart below sets forth the portfolio mix between serviced, subserviced and reverse loans as of December 31, 2016, 2017 and 2018.

Forward servicing
We own the right to service loans owned by investors, which typically result from bulk acquisitions, flow agreements, or the sale and securitization of loans we originate. Where we own the right to service loans, we recognize an MSR asset in our consolidated financial statements and have elected to mark this portfolio to fair value each quarter. Servicing activities for owned MSRs include the collection and recording of mortgage payments, the administration of mortgage escrow accounts, negotiations of workouts and modifications and, if necessary, conducting or managing the foreclosure (real estate owned or “REO”) on behalf of investors or other servicers. We primarily generate recurring revenue through contractual fees earned from our MSRs, which are a stated percentage of the UPB of current performing loans earning interest income on float related to collecting and remitting payments and ancillary revenues (e.g., modification fees, late fees, incentive fees). As the MSR owner, we are, in several instances, obligated to make servicing advances to fund scheduled principal, interest, tax and insurance payments when the mortgage loan borrower has failed to make the scheduled payments and to cover foreclosure costs and various other items that are required to preserve the assets being serviced. These servicer advance obligations require significant capital and liquidity in order to fund the advances until we are contractually authorized to reimburse ourselves for the advances from the loan investor.

Servicing revenues are intended to cover the costs and operating risks associated with MSR ownership, which include carrying costs associated with advances to pay taxes, insurance and foreclosure costs and also include costs incurred as a result of potential operational errors.

Subservicing

We service loans on behalf of our clients who own the underlying servicing rights. In these cases, since we do not own the right to service the loan, we do not recognize an asset in our consolidated financial statements. We primarily generate revenue based upon a stated fee per loan that varies based on the loan’s delinquency status. Subservicing fee revenue is generally less than the servicing fee received by the owner of the MSR; however, subservicing loans reduces the interest rate exposure and related revenue volatility from MSR fair value changes and eliminates compensating interest expense and payoff-related costs. As a subservicer, we may be obligated to make servicing advances; however, advances and other incurred costs are generally lower compared to owned MSR portfolios, and recovery times are substantially faster, often within the following month. Capital requirements for subservicing arrangements are lower than for owned MSRs. Additionally, our exposure to foreclosure-related costs and losses is generally limited in our subservicing relationships as those risks are retained by the owner of the MSR.

In 2018, we continued to expand our subservicing portfolio by boarding $60 billion UPB of subservicing, which contributed approximately 50% of the total UPB boarded during 2018, on a combined basis. We believe the expansion of subservicing operations allows us to leverage the scale of our technology and labor capital to provide cost effective servicing to customers while limiting the use of cash resources, thereby producing a higher return on equity. Certain subservicing agreements also provide a flow of new loans to help replenish and grow our own serviced portfolio.

Reverse servicing

Included within owned MSRs are the rights to service reverse residential mortgage loans acquired from third parties through our Champion Mortgage® brand. Our reverse portfolio includes loans in Ginnie Mae and private-label securitizations, as well as unsecuritized reverse loans held by investors, such as Fannie Mae. A servicing fee is earned based on the stated service fee rate or net interest margin of home equity conversion mortgage (“HECM”) backed securities of the reverse portfolio. As a servicer, we are required to fund advances on the reverse loans up to the maximum claim amount. These advances include borrower draws and advances to cover taxes, insurance, mortgage insurance premiums and interest payments. Recovery of advances and collection of servicing fees generally occurs upon a transfer of ownership in the underlying collateral. Due to the structure of reverse mortgages, we securitize substantially all draws on reverse mortgage loans through the Ginnie Mae II MBS program or through private-label securitizations. Our reverse portfolio accounted for 5.2% of our total servicing UPB as of December 31, 2018.

The majority of loans we serviced are for GSEs, followed by Ginnie Mae and private-label investors in mortgage securitization transactions. The chart below sets forth the composition of our servicing portfolio ending UPB by investor group as of December 31, 2016, 2017 and 2018.

Our servicing portfolio includes both conventional residential mortgage loans and home equity conversion loans, referred to as “forward” and “reverse” loans, respectively. Although we own the mortgage servicing rights for the majority of these loans, we also act as master servicer on certain portfolios and subservicer on certain portfolios for which the servicing rights are owned by a third party.

Focus on the Customer

We are focused on providing quality service to our customers and building strong, lasting relationships. For each loan we service, we utilize a customer-centric model designed to increase borrower performance and to decrease borrower delinquencies. Keys to this model include frequent borrower interactions and utilization of multiple loss mitigation strategies particularly in the early stages of default. We train our customer service representatives to find solutions that work for homeowners when circumstances allow. We believe this commitment to continued home ownership helps preserve neighborhoods and home values and improves asset performance for our investors.

We are highly experienced in loan modifications and aim to avoid foreclosures. Between 2010 and 2013, the Predecessor acquired distressed portfolios from banks who were not equipped to service such highly delinquent portfolios. The unprecedented levels of delinquencies and defaults of residential real estate loans after the financial crisis at that time required varying degrees of loss mitigation activities. We have made, and continue to make, significant efforts to help borrowers remain in their homes and view foreclosure typically as a last result. In 2018, our customer outreach initiatives resulted in 7,467 Home Affordable Refinance Program (“HARP”) refinancings and modifications, on a combined basis, resulting in cost savings to customers averaging $1,295 per year. These initiatives contributed to lower loan delinquency rates exceeding 60 days from 3.4% in 2017 to 2.2% in 2018. Our special servicing capabilities, coupled with our acquisition and transfer of conventional MSRs and subservicing, have resulted in a decline in delinquency rates in our portfolio.

The mortgage experience is often complex, but we aim to take a leadership role in the industry by putting customers first and preserving homeownership. We have strengthened the composition of our leadership team and altered incentive programs over the past four years to emphasize the importance of teamwork, compliance and a customer-centric approach. In 2018, we launched a design thinking initiative to develop mobile-friendly solutions that reimagine the experience of homeownership for customers.

Originations
Our Originations segment provides refinance opportunities to our existing servicing customers through our direct-to-consumer platform and purchases loans from originators through our correspondent channel. According to Inside Mortgage Finance, we were the 16th largest overall mortgage loan originator, funding $21 billion for the year ended December 31, 2018, on a combined basis. We generate revenue through gain-on-sale and fees associated with originating and selling mortgage loans sourced through our direct-to-consumer and correspondent channels. We originate and purchase conventional mortgage loans conforming to the underwriting standards of the GSEs, which we collectively refer to as Agency loans. We also originate and purchase government-insured mortgage loans, which are insured by the FHA, VA and USDA.

We believe our integrated origination platform provides us with competitive advantages, including an organic source of servicing assets at attractive returns. The platform also serves as a loss mitigation solution for servicing clients and customers by offering refinancing options to borrowers thereby allowing them to lower their monthly payments which in turn may lower their risk of defaulting.

We utilize warehouse facilities to fund originated loans. After we sell originated mortgage loans to secondary market investors, we generally retain the servicing rights on mortgage loans sold. The mortgage loans are typically sold within 30 days of origination in order to both mitigate credit risk and minimize the capital required. The majority of our mortgage loans were sold to, or were sold pursuant to, programs sponsored by Fannie Mae, Freddie Mac or Ginnie Mae.

We are committed to providing our customers with the tools and resources they need to be successful in today’s marketplace. We are focused on increasing conversion rates (i.e., recapture) on our existing servicing portfolio and expanding our correspondent channel through growing our third-party origination businesses. We have continued to diversify our origination business in order to be successful in multiple market scenarios by offering different products. We believe we can originate these products profitably and with acceptable levels of risk. We expect to continue to make investments towards acquiring new customers through various outbound marketing initiatives and expanding the purchase recapture business by focusing on existing customers who are looking to purchase a new home.

The chart below sets forth the originations funded volume for the years ended December 31, 2016, 2017 and 2018.
Direct-to-Consumer Channel
We originate loans directly with borrowers through our direct-to-consumer channel. This channel utilizes our call centers and our originations websites to reach our existing 3.3 million servicing customers who may benefit from a new mortgage. Depending on borrower eligibility, we will refinance existing loans into conventional, government or non-Agency products. Through lead campaigns and direct marketing, the direct-to-consumer channel seeks to convert leads into loans in a cost-efficient manner. We earn an upfront fee for processing the loan application which covers the costs of securing the loan application and underwriting.

Our direct-to-consumer channel represented 48.1% of our mortgage originations for the year ended December 31, 2018, on a combined basis. The Predecessor direct-to-consumer channel represented 66.3% and 69.9% of mortgage originations for the years ended December 31, 2017 and 2016, respectively. Pull through adjusted lock volume for this channel totaled $9.7 billion in 2018 on a combined basis, and $11.3 billion and $13.7 billion in 2017 and 2016 for the Predecessor, respectively.

Correspondent Channel
We purchase closed mortgage loans from community banks, credit unions, mortgage brokers and independent mortgage bankers. We primarily generate revenue from the receipt of underwriting fees from correspondents earned on a per-unit loan basis, as well as the gain on sale of loans sold into the secondary market.

Our correspondent channel represented 51.9% of our mortgage originations for the year ended December 31, 2018. The Predecessor correspondent channel represented 33.7% and 30.1% of mortgage originations for the years ended December 31, 2017 and 2016, respectively. Pull through adjusted lock volume for this channel totaled $10.5 billion in 2018 on a combined basis, and $6.4 billion and $6.7 billion in 2017 and 2016 for the Predecessor, respectively.

Xome

The Xome (pronounced "Zome") segment is a leading provider of technology and data-enhanced solutions to banks, non-banks, investment companies, and GSEs engaged in the origination, investment, and/or servicing of mortgage loans, as well as to home buyers, home sellers, real estate professionals mortgage professionals, and real estate investors. Today our business is primarily generated through clients in the mortgage refinance and servicing sectors; however, we plan to grow non-default and non-refinance transactions through a variety of strategies and offerings tailored to the needs of clients outside these core segments.

Xome's operations are comprised of Exchange, Services and Data/Technology.

Exchange is a national technology-enabled platform that manages and sells residential properties through our Xome.com website. This platform leverages our proprietary auction technology and was designed to increase transparency, reduce fraud risk and provide better execution for property sales as evidenced by generally higher sales price and lower average days to sell compared to traditional sales. In the last three years, on a combined basis, Xome Exchange has sold approximately 40,000 properties. Core services include traditional non-distressed sales, REO auctions, short sales and foreclosure trustee sales.

Services connects the major touch points of the real estate transactions process by providing title, escrow, collateral valuation and field services for purchase, refinance and default transactions. We continue to serve existing third-party customers and capture refinance and default transactions generated by our Servicing and Originations segments. Over the last three years, on a combined basis, Xome Services has completed approximately 945,000 title and close orders, 809,000 collateral valuation orders and 433,000 property reports. In 2018, we acquired Assurant Mortgage Solutions, which drove significant growth in third-party revenues.

Data/Technology contains a diversified set of businesses including Xome Analytics (primarily multiple listing service ("MLS") data and analytics). Quantarium (artificial intelligence powered valuation and other real estate data and analytics), and Xome Signings (technology enabled notary services). Xome Analytics provides aggregation, standardization and licensing for one of the nation's largest set of MLS, public records and neighborhood demographic data. Quantarium is an artificial intelligence company which has developed a sophisticated machine based property valuation model and built one of the largest real estate data lakes in the US. Quantarium serves clients in both the mortgage and real estate sectors.

2019 Core Initiatives

Below are our core initiatives for 2019.

- Improve profitability, as measured by return on tangible common equity
- Improve predictability and consistency of results by reducing the sensitivity of the Company's financial results to interest rates
- Reduce the Company's financial leverage
- Improve the Company's efficiency by implementing cost-savings programs in all segments including corporate overhead
- Continue to improve service quality to our customers and maintain a low level of complaints
- Expand production volumes through continued improvements in our ability to recapture refinances of existing customers and enhancements to our correspondent and wholesale channels, including integrating the acquisition of Pacific Union Financial, LLC, which was completed in February 2019
- Continue to grow our servicing portfolio
- Improve Xome's profitability by expanding third-party relationships, cutting costs and integrating the acquisition of Assurant Mortgage Solutions

Competition

Our Servicing segment primarily competes against large financial institutions and non-bank servicers. Some of our biggest competitors are large banks, which include Wells Fargo Home Mortgage, Chase Home Finance and Bank of America. Non-bank servicers continue to play an increasingly important role in the mortgage industry, and we compete with companies such as Quicken Loans, Freedom Mortgage, Ocwen Financial Corporation, Ditech Financial and PennyMac Financial Services among others.

The subservicing market in which we operate is also highly competitive. We compete with non-bank servicers, such as Cenlar FSB, Dovenmuehle Mortgage, Inc. and LoanCare, and we face competition related to subservicing pricing and service delivery. Our competitive position is also dependent on our continued ability to demonstrate compliance with local, state, federal and investor regulations or requirements and to improve technology and processes while controlling our costs to maintain competitive pricing. Finally, we manage the risk of declining subservicing units due to payoffs by entering into new arrangements and executing our portfolio retention initiatives to grow our subservicing portfolio.

Our Originations segment competes based on product offerings, rates, fees and customer service. In recent years, more restrictive loan underwriting standards and the widespread elimination of certain non-conforming mortgage products throughout the industry have resulted in a more homogeneous product offering, which has increased competition across the industry for mortgage originations. The industry is also presented with heightened challenges and costs associated with the increasingly complex regulatory compliance environment.

Many of our Originations competitors are commercial banks or savings institutions. These financial institutions typically have access to greater financial resources, have more diverse funding sources with lower funding costs, are less reliant on the sale of mortgage loans into the secondary markets to maintain their liquidity, and may be able to participate in government programs in which we are unable to participate because we are not a state or federally chartered depository institution, all of which places us at a competitive disadvantage.

Our primary competitive strength flows from our ability to market our products to our existing servicing portfolio. Our origination capabilities also provide a significant advantage compared to other subservicers. Our Originations segment is highly dependent on our customer relationships. Many smaller and mid-sized financial institutions may find it difficult to compete in the mortgage industry due to the significant market share of the largest competitors, along with the continual need to invest in technology in order to reduce operating costs while maintaining compliance with more restrictive underwriting standards and dynamic regulatory requirements. Our ability to win new clients and maintain existing customers is largely driven by the level of customer service we provide and our ability to comply and adapt to an increasingly complex regulatory environment.

Competitive factors in the Xome segment include the quality and timeliness of our services, the size and competence of our network of vendors, the breadth of the services we offer, the quality of the technology-based application or service and pricing. Based on our knowledge of the industry and competitors, we also believe that no single competitor offers the range of solutions we are able to offer.

The industry verticals in which the Xome segment engages are highly competitive and generally consist of a few national companies, as well as a large number of regional, local and in-house providers, resulting in a fragmented market with disparate service offerings. Our Exchange unit competes with national and regional third-party service providers and in-house servicing operations of large mortgage lenders and servicers. We also compete with companies providing online real estate auction services and real estate brokerage firms. Our Data/Technology unit competes with data processing and software development companies and in-house technology and software operations of other loan servicers. In addition, our customers retain multiple providers and continuously evaluate our performance against various other competitors.

Employees

As of December 31, 2018, we had approximately 8,500 employees, none of which were subject to a collective bargaining agreement. We believe our future success will depend, in part, on our continuing ability to attract, hire and retain skilled and experienced personnel.

Additional Information

To learn more about Mr. Cooper Group Inc., please visit our website at www.mrcoopergroup.com. From time to time, we use our website as a channel of distribution of material company information. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (“Exchange Act”) available free of charge under the Investor Information section of our website as soon as reasonably practicable after we electronically file the reports with, or furnish them to, the Securities and Exchange Commission (“SEC”). Our reports, proxy and information statements and other information filed electronically with the SEC can also be accessed at www.sec.gov.

Our website also provides access to reports filed by our directors, executive officers and certain significant stockholders pursuant to Section 16 of the Exchange Act. In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics, and charters for the standing committees of our Board of Directors are available on our website. Any information on our website is not incorporated by reference into this Annual Report on Form 10-K.

CAUTIONS REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the U.S. federal securities laws. These forward-looking statements include, without limitation, statements concerning plans, objectives, goals, projections, strategies, core initiatives, future events or performance, and underlying assumptions and other statements, which are not statements of historical facts. When used in this discussion, the words “anticipate,” “appears,” “believe,” “foresee,” “intend “should,” “expect,” “estimate,” “project,” “plan,” “may,” “could,” “will,” “are likely” and similar expressions are intended to i forward-looking statements. These statements involve predictions of our future financial condition, performance, plans and strategies, and are thus dependent on a number of factors including, without limitation, assumptions and data that may be imprecise or incorrect. Specific factors that may impact performance or other predictions of future actions have, in many but not all cases, been identified in connection with specific forward-looking statements. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances, and we are under no obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

A number of important factors exist that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- our ability to maintain or grow the size of our servicing portfolio;
- our ability to maintain or grow our originations volume;
- our ability to recapture voluntary prepayments related to our existing servicing portfolio;
- our shift in the mix of our servicing portfolio to subservicing, which is highly concentrated;
- delays in our ability to collect or be reimbursed for servicing advances;
- our ability to obtain sufficient liquidity and capital to operate our business;
- changes in prevailing interest rates;
- our ability to finance and recover costs of our reverse servicing operations;
- our ability to successfully implement our strategic initiatives;
- our ability to realize anticipated benefits of the Merger and other acquisitions, including Assurant;
- our ability to use net operating loss carryforwards and other tax attributes;
- changes in our business relationships or changes in servicing guidelines with Fannie Mae, Freddie Mac and Ginnie Mae;
- Xome’s ability to compete in highly competitive markets;
- our ability to pay down debt;
- our ability to manage legal and regulatory examinations and enforcement investigations and proceedings, compliance requirements and related costs;
- our ability to prevent cyber intrusions and mitigate cyber risks; and
- our ability to maintain our licenses and other regulatory approvals

All of these factors are difficult to predict, contain uncertainties that may materially affect actual results and may be beyond our control. New factors emerge from time to time, and it is not possible for our management to predict all such factors or to assess the effect of each such new factor on our business. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and any of these statements included herein may prove to be inaccurate. Given the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved. Please refer to Item 1A, Risk Factors and Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations sections of this report for further information on these and other factors affecting our business.

Item 1A. Risk Factors

You should carefully consider the following risk factors together with all of the other information included in this report, including the financial statements and related notes, when deciding to invest in us. The risks and uncertainties described below could materially adversely affect our business, financial condition and results of operations in future periods and are not the only risks facing our Company. Additional risks not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations in future periods.

Financial Reporting, Credit and Liquidity Risks

We may be unable to obtain sufficient capital to operate our business.
Our financing strategy includes the use of significant leverage because, in order to make servicing advances and fund originations, we require liquidity in excess of our equity, capital and that generated by our operations. Accordingly, our ability to finance our operations depends on our ability to secure financing on acceptable terms and to renew and/or replace existing financings as they expire. These financings may not be available on acceptable terms or at all. If we are unable to obtain these financings, we may need to raise the funds we require in the capital markets or through other means, any of which may increase our cost of funds.

We are generally required to renew a significant portion of our debt financing arrangements each year, which exposes us to refinancing and interest rate risks. Our ability to refinance existing debt and borrow additional funds is affected by a variety of factors including:

- the available liquidity in the credit markets;
- prevailing interest rates;
- an event of default, a negative ratings action by a rating agency and limitations imposed on us under the indentures governing our current debt that contain restrictive covenants and borrowing conditions that may limit our ability to raise additional debt;
- the strength of the lenders from which we borrow; and
- limitations on borrowings on advance facilities imposed by the amount of eligible collateral pledged, which may be less than the borrowing capacity of the advance facility.

If we are unable to obtain sufficient capital on acceptable terms for any of the foregoing reasons, this could adversely affect our business, financial condition and results of operations.

Our substantial indebtedness may limit our financial and operating activities and our ability to incur additional debt to fund future needs.
As of December 31, 2018, the aggregate principal amount of our unsecured senior notes was $2,498. Although we and our subsidiaries have substantial indebtedness, we believe we have the ability to incur additional indebtedness in the future, subject to the limitations contained in the agreements governing our indebtedness. These agreements generally restrict us and our restricted subsidiaries from incurring additional indebtedness; however, these restrictions are subject to important exceptions and qualifications. If we incur additional debt, the related risks could be magnified and could limit our financial and operating activities.

Our current and any future indebtedness could:

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal and interest on our current indebtedness and any indebtedness we may incur in the future, thereby reducing the funds available for other purposes;
- make it more difficult for us to satisfy and comply with our obligations with respect to the unsecured senior notes;
- subject us to increased sensitivity to increases in prevailing interest rates;
- place us at a competitive disadvantage to competitors with relatively less debt in economic downturns, adverse industry conditions or catastrophic external events; or
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions.

In addition, our substantial level of indebtedness could limit our ability to obtain financing or additional financing on acceptable terms to fund future acquisitions, working capital, capital expenditures, debt service requirements, general corporate and other purposes, which could have a material adverse effect on our business and financial condition. Our liquidity needs could vary significantly and may be affected by general economic conditions, industry trends, performance and many other factors outside of our control. Our substantial obligations could have other important consequences. For example, our failure to comply with the restrictive covenants in the agreements governing our indebtedness, which limit our ability to incur liens, to incur debt and to sell assets, could result in an event of default that, if not cured or waived, could harm our business or prospects and could result in our bankruptcy.

Our earnings may decrease because of changes in prevailing interest rates.
Our profitability is directly affected by changes in prevailing interest rates. The following are certain material risks we face related to changes in interest rates:

Servicing:

- a decrease in interest rates may increase prepayment speeds which may lead to (i) increased amortization expense; (ii) decrease in servicing fees; and (iii) decrease in the value of our MSRs;

- an increase in interest rates, together with an increase in monthly payments when an adjustable mortgage loan's interest rate adjusts upward from an initial fixed rate or a low introductory rate, may cause increased delinquency, default and foreclosure. Increased mortgage defaults and foreclosures may adversely affect our business as they increase our expenses and reduce the number of mortgages we service;

Originations:

- an increase in interest rates could adversely affect our loan originations volume because refinancing an existing loan would be less attractive for homeowners and qualifying for a purchase money loan may be more difficult for consumers;

- an increase in interest rates could also adversely affect our production margins due to increased competition among originators;

Xome:

- a substantial and sustained increase in prevailing interest rates could adversely affect the loan origination volumes of Xome's clients since refinancing and purchase loans would be less attractive to borrowers, which would in turn adversely impact Xome Services' valuation and title order volume;

- an increase in interest rates could adversely affect Xome Exchange's property sales, particularly non-distressed sales, as financing may become less attractive to borrowers;

Other:

- an increase in interest rates would increase the cost of servicing our outstanding debt, including our ability to finance servicing advances and loan originations and for borrowing for acquisitions; and

- a decrease in interest rates could reduce our earnings from our custodial deposit accounts.

Any of the foregoing could adversely affect our business, financial condition and results of operations.

We use financial models that rely heavily on estimates in determining the fair value of certain assets and liabilities, such as MSRs and excess spread, and if our estimates or assumptions prove to be incorrect, it may affect our earnings.
We use internal financial models that utilize, wherever possible, market participant data to value certain of our assets, including our MSRs, newly originated loans held for sale and MSR financing liabilities for purposes of financial reporting. These models are complex and use asset-specific collateral data and market inputs for interest and discount rates. In addition, the modeling requirements of MSRs are complex because of the high number of variables that drive cash flows associated with MSRs. Even if the general accuracy of our valuation models is validated, valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of the models. In determining value for MSRs we make certain assumptions, many of which are beyond our control, including, among other things:

- the rates of prepayment and repayment within the underlying pools of mortgage loans;
- projected rates of delinquencies, defaults and liquidations;
- future interest rates;
- our cost to service the loans;
- ancillary revenues; and
- amounts of future servicing advances.

If these assumptions or relationships prove to be inaccurate, if market conditions change or if errors are found in our models, the value of certain assets may decrease or the value of certain liabilities could increase, which could impact our ability to satisfy minimum net worth covenants and borrowing conditions in our debt agreements and adversely affect our business, financial condition or results of operations.

We may not realize all of the anticipated benefits of strategic transactions, including the Merger, other previous or potential acquisitions and dispositions.
Our ability to realize the anticipated benefits of the Merger, the Assurant Mortgage Solutions acquisition or other previous or potential acquisitions, including the acquisition of assets, will depend, in part, on our ability to scale-up to appropriately service these assets and integrate the businesses of the acquired companies with our business.

The risks associated with acquisitions include, among others:

- unknown or contingent liabilities;
- unanticipated issues in integrating information, management style, controls and procedures, servicing practices, communications and other systems including information technology systems;
- unanticipated incompatibility of purchasing, logistics, marketing and administration methods;
- not retaining key employees or clients; and
- inaccuracy of valuation and/or operating assumptions supporting our purchase price.

In the event that we acquire a platform, we may elect to operate this platform in addition to our current platform for a period of time or indefinitely. Individually or collectively, these transactions could substantially increase the UPB, or alter the composition of our portfolio of mortgage loans that we service or have an otherwise significant impact on our business. Additionally, we may make potentially significant acquisitions which could expose us to greater risks than we currently experience in servicing our current portfolio and adversely affect our business, financial condition and results of operations.

The risks associated with disposition include, among other things:

- difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner;
- destabilization of the applicable operations;
- loss of key personnel;

- ability to obtain necessary governmental or regulatory approvals;
- post-disposal disputes and indemnification obligations;
- access by purchasers to certain of our systems and tools during transition periods;
- the migration of data and separation of systems; and
- data privacy matters

We can provide no assurances that we will enter into any such agreements or as to the timing of any potential strategic transactions. The strategic transaction process may disrupt our business including diverting management's attention from ongoing business concerns. We also may not realize all of the anticipated benefits of potential future strategic transactions, which could adversely affect our business, financial condition and results of operations.

We may not be able to fully utilize our net operating loss ("NOL") and other tax carry forwards.
As of December 31, 2012, we had U.S. federal NOLs of approximately $7.5 billion, of which approximately $6.0 billion was allocated to the portion of 2012 after the ownership change described below, that, if unused, will begin to expire in 2031. We believe that, as of December 31, 2018, we had federal NOLs of approximately $6.3 billion, of which $6.1 billion were not subject to limitation under Section 382 ("Section 382") of the United States Internal Revenue Code of 1986, as amended (the "Code"). Our ability to utilize NOLs and other tax carry forwards to reduce taxable income in future years could be limited for various reasons, including if projected future taxable income is insufficient to recognize the full benefit of such NOL carry forwards prior to their expiration and/or the Internal Revenue Service ("IRS") challenges that a transaction or transactions were concluded with the principal purpose of evasion or avoidance of Federal income tax. There can be no assurance that we will have sufficient taxable income in later years to enable us to use the NOLs before they expire, or that the IRS will not challenge the use of all or any portion of the NOLs. Although we have certain transfer restrictions in place under our Certificate of Incorporation, our Board could issue additional shares of stock or permit or effect future conversions, amendments or redemptions of our stock, which, depending on their magnitude, could result in ownership changes that would trigger the imposition of additional limitations on the utilization of our NOLs under Sections 382 and 383 of the Code. In an attempt to minimize the likelihood of an additional ownership change occurring, our Certificate of Incorporation contains transfer restrictions limiting the acquisition (and disposition) of our stock or any other instrument treated as stock for purposes of Section 382 by persons or group of persons treated as a single entity under Treasury Regulation Section 1.382-3 owning (actually or constructively), or who would own as a result of the transaction, 4.75% of the total value of our stock (including any other interests treated as stock for purposes of Section 382). Nevertheless, it is possible that we could undergo an ownership change, either by events within or outside of the control of our Board, e.g., indirect changes in the ownership of persons owning 5% of our stock. Moreover, approximately 130,000 shares of our common stock are held in escrow in an account created for the benefit of holders of disputed equity interests in connection with WMIH's emergence from bankruptcy. A subsequent release or transfer of the stock potentially could result in an ownership change at that time. In the event of a subsequent ownership change, all or part of the NOLs from 2012 and subsequent years that were not previously subject to limitations under Section 382 could also become subject to an annual limitation. Section 384 may also apply in the event of an ownership change resulting from an acquisition, which would limit the utilization of our NOLs to only certain income or gains generated from assets owned subsequent to the acquisition.

The IRS could challenge the amount, timing and/or use of our NOL carry forwards.
The amount of our NOL carry forwards has not been audited or otherwise validated by the IRS. Among other things, the IRS could challenge whether an ownership change occurred with the Merger, as well as the amount, the timing

and/or our use of our NOLs. Any such challenge, if successful, could significantly limit our ability to utilize a portion or all of our NOL carry forwards. In addition, calculating whether an ownership change has occurred within the meaning of Section 382 is subject to inherent uncertainty, both because of the complexity of applying Section 382 and because of limitations on a publicly-traded company's knowledge as to the ownership of, and transactions in, its securities. Therefore, the calculation of the amount of our utilizable NOL carry forwards could be changed as a result of a successful challenge by the IRS or as a result of new information about the ownership of, and transactions in, our securities.

Possible changes in legislation could negatively affect our ability to use the tax benefits associated with our NOL carry forwards.
The rules relating to U.S. federal income taxation are periodically under review by persons involved in the legislative and administrative rulemaking processes, by the IRS and by the U.S. Department of the Treasury, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes, including decreases in the tax rate. Future revisions in U.S. federal tax laws and interpretations thereof could adversely impact our ability to use some or all of the tax benefits associated with our NOL carry forwards.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates.
In our Originations segment, we use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. We may hedge MSRs in certain rate environments. The nature and timing of hedging transactions influence the effectiveness of these strategies. Poorly designed strategies, improperly executed and documented transactions or inaccurate assumptions could increase our risks and losses. In addition, hedging strategies involve transaction and other costs. Our hedging strategies and the derivatives that we use may not be able to adequately offset the risks of interest rate volatility, and our hedging transactions may result in or magnify losses. Furthermore, interest rate derivatives may not be available on favorable terms or at all, particularly during economic downturns. Any of the foregoing risks could adversely affect our business, financial condition and results of operations.

We have third-party credit and servicer risks which could have a material adverse effect on our business, liquidity, financial condition and results of operation.
Consumer Credit Risk: We provide representations and warranties to purchasers and insurers of the loans that we sell that typically are in place for the life of the loan. In the event of a breach of these representations and warranties, we may be required to repurchase a mortgage loan or indemnify the purchaser, and any subsequent loss on the mortgage loan may be borne by us. Our loss estimates are affected by factors both internal and external in nature, including, level of loan sales, as well as to whom the loans are sold, the expectation of credit loss on repurchases and indemnifications, our success rate at appealing repurchase demands, our ability to recover any losses from third parties, the overall economic condition in the housing market, the economic condition of borrowers, the political environment at investor agencies and the overall U.S. and world economies. Many of the factors are beyond our control and may lead to judgments that are susceptible to change. In adverse market conditions, loans may decrease in value due to an increase in delinquencies, borrower defaults and non-payments. In addition, property values may experience losses at liquidation due to extensions in foreclosure and REO sales timelines as well as home price depreciation.

Counterparty Credit Risk: We are exposed to counterparty credit risk in the event of non-performance by counterparties to various agreements. Although certain credit facilities and warehouse lines are committed, we may experience a disruption in operations due to a lender withholding a funding of a borrowing requested on the respective credit facility.

Prior Servicer Risk: We service mortgage loans under guidelines set forth by regulatory agencies and GSEs. Failure to meet stipulations of the servicing guidelines can result in the assessment of fines and loss of reimbursement of loan related advances, expenses, interest and servicing fees. When the servicing of a portfolio is assumed either through purchase of servicing rights or through a subservicing arrangement, various loans in the acquired portfolio may have been previously serviced in a manner that will contribute towards our not meeting certain servicing guidelines. If not recovered from a prior servicer, such events frequently lead to the eventual realization of a loss to us. The recovery process against a prior servicer can be prolonged based upon the time required by us to meet minimum loss deductibles under the indemnification provisions in our agreements with the prior servicer and for the time requirements by the prior servicer to review underlying loss events and our request for indemnification. The amounts ultimately recovered from prior servicers may differ from our estimated recoveries recorded based on the prior servicer’s interpretation of responsibility for loss, which could lead to our realization of additional losses.

Correspondent Risk: With the recent acquisition of Pacific Union Financial LLC, we have increased our Correspondent Lending Channel whereby we purchase closed loans from Correspondent Lenders. The failure of these Correspondent Lenders to comply with any applicable laws, regulations and rules may subject us to monetary penalties or other losses. Although we have controls and procedures designed to assess areas of risk with respect to these acquired loans, including, without limitation, diligence regarding compliance with underwriting guidelines and applicable laws or regulations, we may not detect every violation of law by these Correspondent Lenders.

Any of the above could adversely affect our business, liquidity, financial condition and results of operations.

Operational Risks

Servicing

A significant increase in delinquencies for the loans we own and service could have a material impact on our revenues, expenses and liquidity and on the valuation of our MSRs.

- Revenue. An increase in delinquencies will result in lower revenue for loans we service for GSEs and Ginnie Mae because we only collect servicing fees from GSEs and Ginnie Mae for performing loans. Additionally, while increased delinquencies generate higher ancillary revenues, including late fees, these fees do not offset the higher cost to service a delinquent loan and are not likely to be recoverable in the event that the loan is liquidated. In addition, an increase in delinquencies reduces cash held in collections and other accounts and lowers the interest income we receive.

- Expenses. An increase in delinquencies will result in a higher cost to service due to the increased time and effort required to collect payments from delinquent borrowers and an increase in interest expense as a result of an increase in our advancing obligations.

- Liquidity. An increase in delinquencies could also negatively impact our liquidity because of an increase in servicing advances resulting in an increase in borrowings under advance facilities and/or insufficient financing capacity to fund increases in advances.

- Valuation of MSRs. We base the price we pay for MSRs on, among other things, our projections of the cash flows from the related pool of mortgage loans. Our expectation of delinquencies is a significant assumption underlying those cash flow projections. If delinquencies were significantly greater than expected, the estimated fair value of our MSRs could be diminished. If the estimated fair value of MSRs is reduced, we would record a loss which would adversely impact our ability to satisfy minimum net worth covenants and borrowing conditions in our debt agreements which could have a negative impact on our financial results.

An increase in delinquency rates could therefore adversely affect our business, financial condition and results of operations.

We may not be able to adjust to operational changes in a timely manner to sustain profitability.

We may enter into arrangements with investors or other counterparties to subservice loans or provide services in areas that are new to us. We perform due diligence procedures to evaluate the feasibility of such ventures or transactions prior to their execution. The achievement of expected returns is often dependent on attainment of certain operating assumptions, such as lower operating costs or attainment of key performance metrics. To the extent we are unfamiliar with investors and/or risks assumed, or to the extent we have not demonstrated past proven performance on the operating metrics, we may not be able to adjust costs or achieve the desired operating metrics in a timely manner that will allow the return on investment as planned, which could expose us to significant financial loss.

We may not be able to maintain or grow our business if we do not acquire MSRs or enter into additional subservicing agreements on favorable terms.

Our servicing portfolio is subject to “run off,” meaning that mortgage loans serviced by us may be prepaid prior to maturity or repaid through standard amortization of principal. As a result, our ability to maintain the size of our servicing portfolio depends on our ability to acquire the right to service additional pools of residential mortgages, enter into additional subservicing agreements or to originate additional mortgages. We have also shifted the mix of our servicing portfolio to a greater mix of subserviced loans. While we expect this strategy to have longer-term benefits, in the short-term since subservicing revenues are earned on a fee per loan basis, this shift in our servicing portfolio to subservicing could reduce our revenue and earnings. In addition, we may not be able to maintain our pipeline of subservicing opportunities.

The Federal Housing Finance Agency ("FHFA") could enact more stringent requirements on the GSEs, or other federal or state agencies may enact additional requirements that are more stringent regarding the purchase or sale of MSRs. Additionally, if we do not comply with our seller/servicer obligations, the investors may not consent to approve future transfers of MSRs.

If we do not acquire MSRs or enter into additional subservicing agreements on terms favorable to us, our business, financial condition and results of operations could be adversely affected.

Some of the loans we service are higher risk loans, which are more expensive to service than conventional mortgage loans.
Some of the mortgage loans we service are higher risk loans, meaning that the loans are to less credit worthy borrowers, delinquent or for properties the value of which has decreased. These loans are more expensive to service because they require more frequent interaction with customers and greater monitoring and oversight. Additionally, in connection with the ongoing mortgage market reform and regulatory developments, servicers of higher risk loans are subject to increased scrutiny by state and federal regulators and will experience higher compliance and regulatory costs, which could result in a further increase in servicing costs. We may not be able to pass along any of the additional expenses we incur in servicing higher risk loans to our servicing clients. The greater cost of servicing higher risk loans, which may be further increased through regulatory reform, consent decrees or enforcement, could adversely affect our business, financial condition and results of operations.

We are required to make servicing advances that can be subject to delays in recovery or may not be recoverable in certain circumstances.
Forward Mortgage Servicing Rights: During any period in which a borrower is not making payments, we are required under most of our servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for investors, pay property taxes and insurance premiums, legal expenses and other protective advances. We also advance funds to maintain, repair and market real estate properties on behalf of investors. As home values change, we may have to reconsider certain of the assumptions underlying our decisions to make advances, and in certain situations our contractual obligations may require us to make certain advances for which we may not be reimbursed. In addition, when a mortgage loan serviced by us defaults or becomes delinquent, the repayment to us of the advance may be delayed until the mortgage loan is repaid or refinanced or liquidation occurs.

We have sold to a joint venture capitalized by certain entities formed and managed by New Residential and certain third-party investors the rights to mortgage servicing rights and servicer advances related to certain loan pools. In connection with these transactions, New Residential purchased the equity of wholly-owned special purpose subsidiaries of Mr. Cooper Group that issued limited recourse funding to finance the advances. We continue to service these loans. In the event that New Residential receives requests for advances in excess of amounts that they or their co-investors are willing or able to fund, we are obligated to fund these advance requests. Since we have transferred the related advance facilities to New Residential, we may have to obtain other sources of financing which may not be available. Our inability to fund these advances could result in a termination event under the applicable servicing agreement, an event of default under the advance facilities and a breach of our purchase agreement with New Residential. Our inability to fund these advance requests could adversely affect our business, financial condition and results of operations.

Reverse Mortgages: As a reverse mortgage servicer, we are also responsible for funding draws due to borrowers in a timely manner, remitting to investors interest accrued and paying for interest shortfalls. Advances on reverse mortgages are typically greater than advances on forward residential mortgages. They are typically recovered upon weekly or monthly reimbursement or from securitizations in the market. In the event we receive requests for advances in excess of amounts we are able to fund, we may not be able to fund these advance requests, which could materially and adversely affect our business operations. A delay in our ability to collect an advance may adversely affect our liquidity, and our inability to be reimbursed for an advance could adversely affect our business, financial condition and results of operations.

Our counterparties may terminate our servicing rights and subservicing contracts.
The owners of the loans we service and the primary servicers of the loans we subservice may, under certain circumstances, terminate our MSRs or subservicing contracts, respectively.

Agency Servicing: We are party to seller/servicer agreements and/or subject to guidelines and regulations (collectively, seller/servicer obligations) with both of the GSEs, FHA and Ginnie Mae. As is standard in the industry, under the terms of these seller/servicer agreements, the agencies have the right to terminate us as servicer of the loans we service on their behalf at any time and also have the right to cause us to sell the MSRs to a third party. These seller/servicer obligations include financial covenants that include capital requirements related to tangible net worth. To the extent that these capital requirements are not met, the applicable agency may suspend or terminate these agreements, which would prohibit us from further servicing these specific types of mortgage loans or being an approved servicer. If we are unable to meet these capital requirements, this could adversely affect our business, financial condition and results of operations.

Subservicing: Our subservicing portfolio is highly concentrated with a small number of parties who may elect to transfer their subservicing relationship to other counterparties or may go out of business. As of December 31, 2018, 96% of our subservicing portfolio is with four counterparties. Under our subservicing contracts, the primary servicers for which we conduct subservicing activities have the right to terminate our subservicing contracts with or without cause, with limited notice and with no termination fee upon a change of control. For example, we realized a decline in our subservicing portfolio of $47 billion in UPB in the fourth quarter of 2017 due to the termination of a subservicing agreement when the servicer of record sold its ownership interest and the new owner did not retain us as subservicer. Entering into additional subservicing contracts will expose us to similar risks with new counterparties.

If our servicing rights or subservicing contracts are terminated on a material portion of our servicing portfolio, this could adversely affect our business, financial condition and results of operations.

We service reverse mortgages, which subjects us to additional risks and could have a material adverse effect on our business, liquidity, financial condition and results of operations.

The reverse mortgage business is subject to substantial risks, including market, credit, interest rate, liquidity, operational, reputational and legal risks. Loan defaults on reverse mortgages leading to foreclosures may occur if borrowers fail to maintain their property, fail to pay taxes or home insurance premiums, die or fail to occupy their property for 12 consecutive months. Higher than anticipated foreclosures could result in increased losses. We use financial models that rely heavily on estimates to forecast loss exposure related to certain reverse mortgage assets and liabilities. These models are complex and use asset specific collateral data and market inputs for mortality, interest rates and prepayments. In addition, the models use investor and state required time lines for certain default related activities. Even if the general accuracy of our loss models is validated, loss estimates are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of the models. If these assumptions or relationships prove to be inaccurate or if market conditions change, the actual loss experience could be higher than modeled. Additionally, we could become subject to negative reputational risk in the event that loan defaults on reverse mortgages lead to foreclosures or evictions of elderly homeowners.

We could have a downgrade in our servicer ratings.

Standard & Poor’s and Fitch rate us as a residential loan servicer. Favorable ratings from these agencies are important to the conduct of our loan servicing business. Downgrades in servicer ratings could:

- adversely affect our ability to finance servicing advances and maintain our status as an approved servicer by Fannie Mae, Freddie Mac, Ginnie Mae, and other investors;
- lead to the early termination of existing advance facilities and affect the terms and availability of advance facilities that we may seek in the future;
- cause our termination as servicer in our servicing agreements that require that we maintain specified servicer ratings; and
- further impair our ability to consummate future servicing transactions.

Any of the above could adversely affect our business, financial condition and results of operations.

Originations

We may not be able to maintain the volumes in our loan originations business, which would adversely affect our ability to replenish our servicing business.

The volume of loans funded within our loan originations business is subject to multiple factors, including changes in interest rates and availability of government programs. Volume in our originations business is based in large part on the refinancing of existing mortgage loans that we service, which is highly dependent on interest rates and other macroeconomic factors. Our loan origination volume may decline if interest rates increase, if government programs terminate and are not replaced with similar programs or if we cannot replace this volume with other loan origination channels such as Correspondent, new customer acquisitions or purchase money loans. If we are unable to maintain our loan originations volume, our business, financial condition and results of operations could be adversely affected.

We may be required to indemnify or repurchase loans we sold, or will sell, if these loans fail to meet certain criteria or characteristics or under other circumstances.
The indentures governing our securitized pools of loans and our contracts with purchasers of our whole loans contain provisions that require us to indemnify or repurchase the related loans under certain circumstances. While our contracts vary, they contain provisions that require us to repurchase loans if:

- our representations and warranties concerning loan quality and loan circumstances are inaccurate, including representations concerning the licensing of a mortgage broker;

- we fail to secure adequate mortgage insurance within a certain period after closing;

- a mortgage insurance provider denies coverage;

- we fail to comply, at the individual loan level or otherwise, with regulatory requirements in the current dynamic regulatory environment; or

- the borrower fails to make certain initial loan payments due to the purchaser.

We are subject to repurchase claims and may continue to receive claims in the future. If we are required to indemnify or repurchase loans that we originate or have previously originated and sell or securitize that result in losses that exceed our reserve, this could adversely affect our business, financial condition and results of operations.

We are highly dependent upon loan programs administered by Fannie Mae, Freddie Mac, the Federal Housing Administration, the Department of Veterans Affairs, the US Department of Agriculture and Ginnie Mae (collectively, the "Agencies") to generate revenues through mortgage loan sales to institutional investors.
There are various legislative and Trump administration proposals which deal with GSE reform, including winding down the GSEs and reducing or eliminating over time the role of the GSEs in guaranteeing mortgages and providing funding for mortgage loans, as well as proposals to implement reforms relating to borrowers, lenders and investors in the mortgage market, including reducing the maximum size of loans that the GSEs can guarantee, phasing in a minimum down payment requirement for borrowers, improving underwriting standards and increasing accountability and transparency in the securitization process. Thus, the long-term future of the GSEs is still in doubt.

Our ability to generate revenues through mortgage loan sales to institutional investors depends to a significant degree on programs administered by the Agencies that facilitate the issuance of mortgage-backed securities in the secondary market. These Agencies play a critical role in the residential mortgage industry, and we have significant business relationships with many of them. Almost all of the conforming loans we originate qualify under existing standards for inclusion in guaranteed mortgage securities backed by one of these Agencies. We also derive other material financial benefits from these relationships, including the assumption of credit risk on loans included in such mortgage securities in exchange for our payment of guarantee fees and the ability to avoid certain loan inventory finance costs through streamlined loan funding and sale procedures. If it is not possible for us to complete the sale or securitization of certain of our mortgage loans due to changes in Agency programs, we may lack liquidity under our mortgage financing facilities to continue to fund mortgage loans, and our revenues and margins on new loan originations would be materially and negatively impacted.

Any discontinuation of, or significant reduction in, the operation of these Agencies or any significant adverse change in the level of activity in the secondary mortgage market or the underwriting criteria of these Agencies could materially and adversely affect our business, liquidity, financial position and results of operations.

Xome

Xome participates in highly competitive markets and pressure from existing and new companies could adversely affect Xome's businesses.

The markets for Xome's services are very competitive, and Xome's success depends on its ability to continue to attract additional customers, consumers and real estate professionals to its offerings including exchange, services, and data/technology. Any of Xome's future or existing competitors may introduce different products that provide solutions similar to our own but with either better user interfaces, branding and marketing resources, or at a lower price. In addition, the time and expense associated with switching from Xome's competitors' services and technologies to ours, and the reluctance of loan servicers or originators to add new vendors in light of declining revenues or economics in their sectors for the past 2 years may limit Xome's growth. If we are unable to continue to innovate and grow our market share or the number of end-users of Xome's offerings, we may not remain competitive or may face downward pricing pressures, and our business and financial performance could suffer. Furthermore, in the Business to Business area, Xome may not be able to attract and retain clients who view themselves as Mr. Cooper's competitors due to perceived conflict of interest concerns.

Xome may be accused of infringing intellectual property rights of third parties.

Third parties may assert claims against Xome, asserting that Xome's content, website processes or software applications infringe their intellectual property rights. For example, Xome is currently a defendant in a proceeding where the plaintiff alleges that Xome misappropriated plaintiff's intellectual property for the purpose of replicating plaintiff's products. If any infringement claim is successful, Xome may be required to pay substantial damages, obtain a license from the third party or be prohibited from using content that incorporates the challenged intellectual property, which could materially and adversely affect our business, liquidity, financial position and results of operations.

Xome is subject to extensive government regulation at the federal, state and local levels, and any failure to comply with existing or new regulations may adversely impact us, our clients and our results of operations.

Xome is subject to licensing and regulation as a real estate broker, auctioneer, appraisal management company, title agent and/or insurance agent in a number of states and may be subject to new licensing and regulation as it expands service offerings. Xome is subject to audits and examinations that are conducted by federal and state regulatory authorities and, as a vendor, is also subject to similar audit requirements imposed on its clients, including us. Our employees and subsidiaries may be required to be licensed by various state licensing authorities for the particular type of service provided and to participate in regular background checks, fingerprinting requirements and continuing education programs. We may incur significant ongoing costs to comply with governmental regulations, and new laws and regulations may be adopted that prohibit us from engaging Xome as a vendor, which could adversely affect our business, financial condition and results of operations.

Xome's revenue from clients in the mortgage and real estate industries is affected by the strength of the economy and the housing market generally, including the volume of real estate transactions.

Real estate markets are subject to fluctuations, due to factors such as the relative relationship of supply to demand, the availability of alternative investment products, the unemployment rate, real wage increases, inflation and the general economic environment. An economic slowdown or recession, in addition to other non-economic factors such as an excess supply in properties, a change in consumer preferences towards rental properties or declining consumer confidence in the economy, could have a material adverse effect on values of residential real estate properties. The volume of mortgage origination, mortgage refinancing and residential real estate transactions is highly variable. The level of real estate transactions is primarily affected by the average price of real estate sales, the availability of funds to finance purchases, mortgage interest rates, consumer confidence in the economy and general economic factors affecting the real estate markets. Reductions in these transaction volumes could have a material adverse effect on Xome's business, financial condition and results of operations.

We could have, appear to have or be alleged to have conflicts of interest with Xome.

Xome provides services to us which could create, appear to create or be alleged to create conflicts of interest. By obtaining services from a subsidiary, there is risk of possible claims of collusion or claims that such services are not provided by Xome upon market terms. We have adopted policies, procedures and practices, and engage and procedures that are designed to identify and address conflicts of interest. In addition, we undertake practices to identify and deal with potential or actual conflicts. Further, we have engaged an independent third party to conduct a pricing study in an attempt to ensure that the fees charged are customary and reasonable. However, there can be no assurance that such measures will be effective in eliminating all conflicts of interest or that third parties will refrain from making such allegations. Appropriately identifying and dealing with conflicts of interest is complex and difficult, and our reputation, which is one of our most important assets, could be damaged and the willingness of counterparties to enter into transactions with us may be affected if we fail, or appear to fail, to identify, disclose and deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or regulatory enforcement actions.

Strategic

We may not be successful in implementing certain strategic initiatives.

Certain strategic initiatives, which are designed to improve our results of operations and drive long-term stockholder value, include:

- attracting new customers through our purchase money loan originations channel which will require expanded products, technologies, teams and multi-channel marketing campaigns;
- focusing on originations product expansion and profitable new growth platforms;
- increasing third-party business at Xome;
- integrating Assurant Mortgage Solutions into Xome;
- increasing efficiencies while improving the customer experience; and
- balancing disciplined UPB growth while meeting and delivering target unit economics.

There is no assurance that we will be able to successfully implement these strategic initiatives, that we will be able to realize all of the projected benefits of our plans or that we will be able to compete successfully in new markets and our efforts may be more expensive and time consuming than we expect, which could adversely affect our business, financial condition and results of operations.

Other Risks

Technology failures or cyber-attacks against us or our vendors could damage our business operations, and new laws and regulations could increase our costs.

The financial services industry as a whole is characterized by rapidly changing technologies, and system disruptions and failures caused by fire, power loss, telecommunications failures, system misuse, unauthorized intrusion (cyber-attack), computer viruses and disabling devices, natural disasters and other similar events may interrupt or delay our ability to provide services to our borrowers. As a part of conducting business, we receive, transmit and store a large volume of personally identifiable information and other user data. Additionally, Xome is highly dependent on information technology networks and systems to securely process, transmit and store sensitive electronic information. Cybersecurity risks for the financial services industry have increased significantly in recent years due to new technologies, the reliance on technology to conduct financial transactions and the increased sophistication of organized crime and hackers. Those parties also may attempt to misrepresent personal or financial information to obtain loans or other financial products from us or attempt to fraudulently induce employees, customers, or other users of our systems to disclose confidential information in order to gain access to our data or that of our customers. We and others in our industry are regularly the subject of attempts by attackers to gain unauthorized access to our networks, systems, and data, or to obtain, change, or destroy confidential data (including personal identifying information of individuals) through a variety of means, including computer viruses, malware, phishing and other attack vectors. These attacks may result in unauthorized individuals obtaining access to our confidential information or that of our customers, or otherwise accessing, damaging, or disrupting our systems or infrastructure. In addition, to access our products and services, including our Home Intelligence app, our customers may use personal smartphones, tablet PCs, and other mobile devices that are beyond our control systems. Third parties with which we do business or that facilitate our business activities or vendors that provide services or security solutions for our operations could also be sources of operational risk and information security risk to us, including from cyber-attacks, information breaches or loss, breakdowns, disruptions or failures of their own systems or infrastructure, or any deficiencies in the performance of their responsibilities. Security breaches, acts of vandalism and developments in computer intrusion capabilities could cause our financial, accounting, data processing or other operating systems and facilities to fail to operate properly or become disabled and could result in a compromise or breach of the technology that we or our vendors use to protect our borrowers' personal information and transaction data.

Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate or implement effective preventive measures against all internal and external security breaches, especially because the techniques used change frequently, are becoming more sophisticated and are not recognized until launched, and because security attacks can originate from a wide variety of sources. These risks may increase in the future as we continue to increase our reliance on telecommunication technologies (including mobile devices), the internet and use of web-based product offerings.

While we have implemented policies and procedures designed to help mitigate cybersecurity risks and cyber intrusions, there can be no assurance that any such cyber intrusions, whether external or internal, will not occur or, if they do occur, that they will be adequately addressed. A successful penetration or circumvention of the security of our or our vendors' systems or a defect in the integrity of our or our vendors' systems or cybersecurity could cause serious negative consequences for our business, including significant disruption of our operations, misappropriation of our confidential information or that of our customers, or damage to our computers or operating systems and to those of our customers and counterparties. Any of the foregoing events could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure and harm to our reputation, all of which could adversely affect our business, financial condition and results of operations. Additionally, while we have obtained insurance to cover us against certain cybersecurity risks and information theft, there can be no guarantee that all losses will be covered or that the insurance limits will be sufficient to cover such losses.

In addition, increasing attention is being paid by the media, regulators and legislators to matters relating to cybersecurity, and regulators and legislators may enact laws or regulations regarding cybersecurity. For example, the New York Department of Financial Services has adopted regulations that are far-ranging in scope, including not only specific technical safeguards but also requirements regarding governance, incident planning, data management and system testing. New laws and regulations could result in significant compliance costs, which may adversely affect our cash flows and net income.

Our capital investments in technology may not achieve anticipated returns.
Our business is becoming increasingly reliant on technology investments, and the returns on these investments are less predictable. We are currently making, and will continue to make, significant technology investments to support our service offering, implement improvements to our customer-facing technology and evolve our information processes, and computer systems to more efficiently run our business and remain competitive and relevant to our customers. These technology initiatives might not provide the anticipated benefits or may provide them on a delayed schedule or at a higher cost. We must monitor and choose the right investments and implement them at the right pace. Failing to make the best investments, or making an investment commitment significantly above or below our needs, could result in the loss of our competitive position and adversely impact our financial condition or results of operations.

We and our vendors have operations in India and/or the Philippines that could be adversely affected by changes in political or economic stability or by government policies.
We, including Xome, currently have operations located in India, and we have reduced our costs by contracting with certain third parties with operations in India and in the Philippines. These countries are subject to relatively higher degrees of political and social instability and may lack the infrastructure to withstand political unrest or natural disasters. The political or regulatory climate in the United States, or elsewhere, also could change so that it would not be lawful or practical for us to use international operations in the manner in which we currently use them. If we or our vendors had to curtail or cease operations in these countries and transfer some or all of these operations to another geographic area, we would incur significant transition costs as well as higher future overhead costs that could materially and adversely affect our results of operations. In many foreign countries, particularly in those with developing economies, it may be common to engage in business practices that are prohibited by laws and regulations applicable to us, such as The Foreign Corrupt Practices Act of 1977, as amended ("FCPA"). Any violations of the FCPA or local anti-corruption laws by us, our subsidiaries or our local agents could have an adverse effect on our business and reputation and result in substantial financial penalties or other sanctions.

Our vendor relationships subject us to a variety of risks.
We have significant vendors that, among other things, provide us with financial, technology and other services to support our businesses. With respect to vendors engaged to perform activities required by the applicable servicing criteria, we assess compliance with the applicable servicing criteria for the applicable vendor (or in certain cases

require vendors to provide their own assessments and attestations) and are required to have procedures in place to provide reasonable assurance that the vendor’s activities comply in all material respects with servicing criteria applicable to the vendor. In the event that a vendor’s activities do not comply with the servicing criteria, it could negatively impact our servicing agreements. In addition, if our current vendors were to stop providing services to us on acceptable terms, including as a result of one or more vendor bankruptcies, we may be unable to procure alternatives from other vendors in a timely and efficient manner and on acceptable terms, or at all. Further, we may incur significant costs to resolve any such disruptions in service and this could adversely affect our business, financial condition and results of operations.

Our risk management policies and procedures may not be effective.
Our risk management framework seeks to mitigate risk and appropriately balance risk and return. We have established policies and procedures intended to identify, monitor and manage the types of risk to which we are subject, including credit risk, market and interest rate risk, liquidity risk, cyber risk, regulatory, legal and reputational risk. Although we have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future, these policies and procedures, as well as our risk management techniques such as our hedging strategies, may not be fully effective. There may also be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated. As regulations and markets in which we operate continue to evolve, our risk management framework may not always keep sufficient pace with those changes. If our risk management framework does not effectively identify or mitigate our risks, we could suffer unexpected losses and could be materially adversely affected.

Our business could suffer if we fail to attract, or retain, highly skilled employees and changes in our executive management team may be disruptive to our business.
Our future success will depend on our ability to identify, hire, develop, motivate and retain highly qualified personnel for all areas of our organization. Trained and experienced personnel in the mortgage industry are in high demand and may be in short supply. Many of the companies with which we compete for experienced employees are large banks who have greater resources than we have and may be able to offer more attractive terms of employment. In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them. We may not be able to attract, develop and maintain an adequate skilled workforce necessary to operate our businesses and labor expenses may increase as a result of a shortage in the supply of qualified personnel. If we are unable to attract and retain such personnel, we may not be able to take advantage of acquisitions and other growth opportunities that may be presented to us and this could materially affect our business, financial condition and results of operations.

Additionally, the experience of our executive management team is a valuable asset to us. Our executive management team has significant experience in the residential loan originations and servicing industry and would be difficult to replace. Disruptions in management continuity could result in operational or administrative inefficiencies and added costs, which could adversely impact our results of operations and stock price, and may make recruiting for future management positions more difficult or costly.

Negative public opinion could damage our reputation and adversely affect our business.
Reputational risk, or the risk to our business, earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending and debt collection practices, foreclosures or evictions of elderly homeowners who default on reverse mortgages, technology failures, corporate governance, and actions taken by government regulators and community organizations in response to those activities. Negative public opinion can also result from media coverage, whether accurate or not. Additionally, the proliferation of social media websites as well as the personal use of social media by our employees and others, including personal blogs and social network profiles, also may increase the risk that negative, inappropriate or unauthorized information may be posted or released publicly that could harm our reputation or have other negative consequences, including as a result of our employees interacting with our customers in an unauthorized manner in various social media outlets. Negative public opinion can adversely affect our ability to attract and retain customers, trading counterparties and employees and can expose us to litigation and regulatory action.

Lapses in disclosure controls and procedures or internal control over financial reporting could materially and adversely affect our operations, profitability or reputation.
Our disclosure controls and procedures may not be effective in every circumstance. Similarly, we may experience a material weakness or significant deficiency in internal control over financial reporting. Any lapses or deficiencies may materially and adversely affect our business and results of operations or financial condition, restrict our ability to

access the capital markets, require us to spend significant resources to correct the lapses or deficiencies, expose us to regulatory or legal proceedings, subject us to fines, penalties or judgments, harm our reputation, or otherwise cause a decline in investor confidence.

Regulatory and Legal Risks

We operate within a highly regulated industry on a federal, state and local levels and our business results are significantly impacted by the laws and regulations to which we are subject, as well as scrutiny from governmental or regulatory agencies.
As a national mortgage services firm, we are subject to extensive, complex and comprehensive regulation under federal, state and local laws in the United States, as well as governmental scrutiny from regulators and law enforcement agencies. These laws, regulations and governmental inquiries can significantly affect the way that we do business, can restrict the scope of our existing businesses, limit our ability to expand our product offerings or to pursue acquisitions, or can make our costs to service or originate loans higher, which could impact our financial results.

Regulatory requirements or changes to existing requirements that the Consumer Financial Protections Bureau (“CFPB”) or other federal or state agencies, including HUD and the FCC, may promulgate could require changes in our business, result in increased compliance and operational costs and impair the profitability of such business. For example, the CFPB adopted rules effective in August 2017 and April 2018 regarding mortgage servicing practices which required significant modifications and enhancements to our mortgage servicing processes and systems. Additionally, the CFPB issued a rule, effective in January 2018, amending Regulation C of the Home Mortgage Disclosure Act (“HMDA”) that greatly expands the scope of data required to be collected and reported for every loan application from approximately 23 to 48 data elements. These new requirements for gathering and submitting large amounts of data regarding loan applications to regulators and the public is complex. Thus, any inadvertent errors in our gathering or reporting the data could result in fines or penalties being levied by the CFPB or other regulators against us. In addition, the authority of state attorneys general to bring actions to enforce federal consumer protection legislation, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”), could be expanded and we could be subject to additional state lawsuits and enforcement actions, thereby further increasing our legal and compliance costs. The cumulative effect of these changes could result in a material impact on our earnings. The implementation of the originations and servicing rules by the CFPB and the CFPB’s continuing examinations of our business, including Xome, could increase our regulatory compliance burden and associated costs and place restrictions on our operations, which could in turn adversely affect our business, financial condition and results of operations.

We could be subject to additional regulatory requirements or changes under the Dodd-Frank Act beyond those currently proposed, adopted or contemplated. There also continues to be discussion of potential GSE reform which would likely affect markets for mortgages and mortgage securities in ways that cannot be predicted. In addition, FHFA initiatives may be implemented by the GSEs that could materially affect the market for conventional and/or government insured loans.

In addition, under the Trump Administration, a level of heightened uncertainty exists with respect to the future of the Dodd-Frank Act and the CFPB. We cannot predict the specific legislative or executive actions that may result or what actions state regulators or enforcement agencies might take in response to changes to the federal regulatory environment. Such actions could impact the industry generally, could impact our relationships with other regulators and could limit our ability to reach acceptable resolution with the CFPB or other regulatory or enforcement agencies on outstanding investigations, examinations or reviews. Any changes in our current regulatory environment could create uncertainty and result in increasing legal and compliance costs.

Individual states have also been active, as have other regulatory organizations such as the Multi-State Mortgage Committee, as well as various state Attorneys General. We also believe there has been a shift among certain regulators towards a broader view of the scope of regulatory oversight responsibilities with respect to mortgage originators and servicers. In addition to their traditional focus on consumer protection laws, licensing and examination matters, certain regulators have begun to make observations, recommendations or demands with respect to such areas as corporate governance, safety and soundness, and risk and compliance management.

Certain regulators took steps to block the acquisition of MSRs by one of our competitors. It is possible that we could become subject to similar actions with respect to our acquisition of MSRs or other key business operations such as entering into subservicing contracts, which could adversely affect our business, financial condition and results of operations.

We are subject to numerous legal proceedings, federal, state or local governmental examinations and enforcement investigations. Some of these matters are highly complex and slow to develop, and results are difficult to predict or estimate.
Legal Proceedings: We are routinely and currently involved in a significant number of legal proceedings concerning matters that arise in the ordinary course of our business. There is no assurance that the number of legal proceedings will not increase in the future, including certified class or mass actions. These legal proceedings range from actions involving a single plaintiff to putative class action lawsuits with potentially tens of thousands of class members. These actions and proceedings are generally based on alleged violations of consumer protection, securities, employment, contract, tort, common law fraud and numerous other laws, including, but not limited to, the Equal Credit Opportunity Act, Fair Debt Collection Practices Act, Fair Credit Reporting Act, Real Estate Settlement Procedures Act, National Housing Act, Homeowners Protection Act, Servicemember's Civil Relief Act, Telephone Consumer Protection Act, Truth in Lending Act, Financial Institutions Reform, Recovery, and Enforcement Act of 1989, unfair, deceptive or abusive acts or practices in violation of the Dodd-Frank Act, the Securities Act of 1933, the Securities Exchange Act of 1934, the Home Mortgage Disclosure Act, the Bankruptcy Code, False Claims Act and Making Home Affordable loan modification programs (while MHA programs have ended, claims may continue to arise). Additionally, along with others in our industry, we are subject to repurchase and indemnification claims and may continue to receive claims in the future, regarding alleged breaches of representations and warranties relating to the sale of mortgage loans, the placement of mortgage loans into securitization trusts or the servicing of mortgage loans securitizations. We are also subject to legal actions or proceedings related to loss sharing and indemnification provisions of our various acquisitions. Certain of the pending or threatened legal proceedings include claims for substantial compensatory, punitive and/or, statutory damages or claims for an indeterminate amount of damages.

Litigation and other proceedings may require that we pay settlement costs, legal fees, damages, including punitive damages, penalties or other charges, or be subject to injunctive relief affecting our business practices, any or all of which could adversely affect our financial results. In particular, ongoing and other legal proceedings brought under federal or state consumer protection statutes may result in a separate fine for each violation of the statute, which, particularly in the case of class action lawsuits, could result in damages substantially in excess of the amounts we earned from the underlying activities and that could have a material adverse effect on our liquidity, financial position and results of operations. The costs of responding to the investigations can be substantial.

Regulatory Matters: Our business is subject to extensive examinations, investigations and reviews by various federal, state and local governmental, regulatory and enforcement agencies. We have historically had and continue to have a number of open investigations with these agencies. We are currently the subject of various governmental or regulatory investigations, subpoenas, examinations and inquiries related to our residential loan servicing and origination practices, bankruptcy and collections practices, our financial reporting and other aspects of our businesses. These matters include investigations by the CFPB, the SEC, the Executive Office of the United States Trustees, the Office of the Special Inspector General for the Troubled Asset Relief Program, the Department of Justice, the U.S. Department of Housing and Urban Development, the multistate coalition of mortgage banking regulators, and various State Attorneys General. Several large mortgage originators or servicers have been subject to similar matters, which have resulted in the payment of fines and penalties, changes to business practices and the entry of consent decrees or settlements. The trend of large settlements with governmental entities may adversely affect the outcomes for other financial institutions, including us. We continue to manage our response to each matter, but it is not possible for us to confidently or reliably predict the outcome of any of them, including predicting any possible losses resulting from any judgments or fines, which can lead to substantial disparities between legal reserves and subsequent settlements or penalties.

We continue to progress towards resolution of certain legacy regulatory matters involving examination findings in prior years for alleged violations of certain laws related to our business practices. We have been in discussions with the multi-state committee of mortgage banking regulators and various State Attorneys General concerning a potential resolution of their investigation. We are continuing to cooperate with all parties. In connection with these discussions, the Company previously recorded an accrual. These discussions may not result in a settlement of the matter; furthermore, any such settlement may exceed the amount accrued as of December 31, 2018. Moreover, if the discussions do not result in a settlement, the regulators and State Attorneys General may seek to exercise their enforcement authority through litigation or other proceedings and seek injunctive relief, damages, restitution and civil monetary penalties, which could have a material adverse effect on our business, reputation, financial condition and results of operations.

Further, on April 24, 2018, the CFPB notified us that, in accordance with the CFPB's discretionary Notice and Opportunity to Respond and Advise ("NORA") process, the CFPB's Office of Enforcement is considering whether to recommend that the CFPB take enforcement action against us, alleging violations of the Real Estate Settlement Procedures Act, the Consumer Financial Protection Act, and the Homeowners Protection Act, which stems from a 2014 examination. The purpose of a NORA letter is to provide a party being investigated an opportunity to present its position to the CFPB before an enforcement action may be recommended or commenced. The CFPB may seek to exercise its enforcement authority through settlement, administrative proceedings or litigation and seek injunctive relief, damages, restitution and civil monetary penalties, which could have a material adverse effect on our business, reputation, financial condition and results of operations. Similarly, while we are in discussions with regard to the status and various issues arising in the investigation by the Executive Office of the United States Trustees, we cannot predict the outcome of this investigation or whether they will exercise their enforcement authority through a settlement or other proceeding in which they seek to impose additional remedial measures or other financial sanctions, which could have a material adverse effect on our business, reputation, financial condition and results of operation.

Responding to these matters requires us to devote substantial legal and regulatory resources, resulting in higher costs and lower net cash flows. Adverse results in any of these matters could further increase our operating expenses and reduce our revenues, require us to change business practices, limit our ability to grow and otherwise materially and adversely affect our business, reputation, financial condition or results of operation. To the extent that an examination or other regulatory engagement reveals a failure by us to comply with applicable law, regulation or licensing requirement this could lead to (i) loss of our licenses and approvals to engage in our businesses, (ii) damage to our reputation in the industry and loss of client relationships, (iii) governmental investigations and enforcement actions, (iv) administrative fines and penalties and litigation, (v) civil and criminal liability, including class action lawsuits, and actions to recover incentive and other payments made by governmental entities, (vi) enhanced compliance requirements, (vii) breaches of covenants and representations under our servicing, debt or other agreements, (viii) inability to raise capital and (ix) inability to execute on our business strategy. Any of these occurrences could further increase our operating expenses and reduce our revenues, require us to change business practices and procedures and limit our ability to grow or otherwise materially and adversely affect our business, reputation, financial condition or results of operation.

Moreover, regulatory changes resulting from the Dodd-Frank Act, other regulatory changes such as the CFPB having its own examination and enforcement authority and the "whistleblower" provisions of the Dodd-Frank Act and guidance on whistleblowing programs issued by the NYDFS could further increase the number of legal and regulatory enforcement proceedings against us. In addition, while we take numerous steps to prevent and detect employee misconduct, such as fraud, employee misconduct cannot always be deterred or prevented and could subject us to additional liability.

We establish reserves for pending or threatened legal proceedings when it is probable that a liability has been incurred and the amount of such loss can be reasonably estimated. Legal proceedings are inherently uncertain, and our estimates of loss are based on judgments and information available at that time. Our estimates may change from time to time for various reasons, including factual or legal developments in these matters. There cannot be any assurance that the ultimate resolution of our litigation and regulatory matters will not involve losses, which may be material, in excess of our recorded accruals or estimates of reasonably probable losses.

There are numerous federal, state and local laws and regulations in the mortgage industry.
Federal, state and local governments have recently proposed or enacted numerous laws, regulations and rules related to mortgage loans. Due to the highly regulated nature of the residential mortgage industry, we are required to comply with a wide array of federal, state and local laws and regulations that regulate, among other things, the manner in which we conduct our servicing, originations and ancillary business and the fees we may charge. These regulations directly impact our business and require constant compliance, which includes enhancing our compliance program,

procedures and controls, monitoring and internal and external audits. A failure in maintaining an effective compliance program or a material failure to comply with any of these laws or regulations could subject us to lawsuits or governmental actions, which could materially adversely affect our business, financial condition and results of operations.

In addition, there continue to be changes in legislation and licensing, which require technology changes and additional implementation costs for loan originators. We expect legislative changes will continue in the foreseeable future, which may increase our operating expenses.

Furthermore, there continue to be changes in state laws that are adverse to mortgage servicers that increase costs and operational complexity of our business and impose significant penalties for violation. Any of these changes in law could adversely affect our business, financial condition and results of operations.

Unlike competitors that are national banks, we are subject to state licensing and operational requirements that result in substantial compliance costs.
Because we are not a depository institution, we do not benefit from a federal exemption to state mortgage banking, loan servicing or debt collection licensing and regulatory requirements. We must comply with state licensing requirements and varying compliance requirements in all 50 states and the District of Columbia, and we are sensitive to regulatory changes that may increase our costs through stricter licensing laws, disclosure laws or increased fees or that may impose conditions to licensing that we or our personnel are unable to meet. In addition, we are subject to periodic examinations by state regulators, which can result in refunds to borrowers of certain fees earned by us, and we may be required to pay substantial penalties imposed by state regulators due to compliance errors. Future state legislation and changes in existing regulation may significantly increase our compliance costs or reduce the amount of ancillary revenues, including late fees that we may charge to borrowers. This could make our business cost-prohibitive in the affected state or states and could materially affect our business.

Our business would be adversely affected if we lose our licenses.
Our operations are subject to regulation, supervision and licensing under numerous federal, state and local statutes, ordinances and regulations. In most states in which we operate, a regulatory agency regulates and enforces laws relating to mortgage servicing companies and mortgage originations companies such as us as well as regulating our ancillary service providers. These rules and regulations generally provide for licensing as a mortgage servicing company, mortgage originations company or third-party debt default specialist, title insurance agency, appraisal management company, licensed auctioneer, and other similar types of requirements as to the form and content of contracts and other documentation, licensing of our employees and employee hiring background checks, licensing of independent contractors with which we contract, restrictions on certain practices, disclosure and record-keeping requirements and enforcement of borrowers' rights. We are subject to periodic examination by state regulatory authorities.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable federal, state and local laws, rules, regulations and ordinances. We may not be able to maintain all requisite licenses and permits, and the failure to satisfy those and other regulatory requirements could result in a default under our servicing or other agreements and have a material adverse effect on our operations. The states that currently do not provide extensive regulation of our businesses may later choose to do so, and if such states so act, we may not be able to obtain or maintain all requisite licenses and permits. The failure to satisfy those and other regulatory requirements could result in a default under our servicing agreements and have a material adverse effect on our operations. Furthermore, the adoption of additional, or the revision of existing, rules and regulations could adversely affect our business, financial condition and results of operations.

We may incur increased litigation costs and related losses if a court overturns a foreclosure or if a loan we are servicing becomes subordinate to a Home Owners Association lien.
We may incur costs if we are required to, or if we elect to, execute or re-file documents or take other action in our capacity as a servicer in connection with pending or completed foreclosures. In addition, if a court rules that the lien of a Homeowners Association takes priority over the lien we service, we may incur legal liabilities and costs to defend such actions. If a court dismisses or overturns a foreclosure because of errors or deficiencies in the foreclosure process, we may have liability to the loan owner, a borrower, title insurer or the purchaser of the property sold in foreclosure. These costs and liabilities may not be legally or otherwise reimbursable to us, particularly to the extent they relate to securitized mortgage loans. A significant increase in litigation costs could adversely affect our liquidity, and our inability to be reimbursed for an advance could adversely affect our business, financial condition and results of operations.

Residential mortgage foreclosure proceedings in certain states have been delayed due to lack of judicial resources and legislation, all of which could have a negative effect on our ability to liquidate loans timely and slow the recovery of

advances and thus impact our earnings or liquidity.
In some states, such as New York, our industry has faced, and may continue to face, increased delays and costs caused by state law and local court rules and processes. In addition, California and Nevada have enacted Homeowner's Bill of Rights legislation to establish complex mandatory loss mitigation practices for homeowners which cause delays in foreclosure proceedings. Delays in foreclosure proceedings could also require us to make additional servicing advances by drawing on our servicing advance facilities, or delay the recovery of advances, all or any of which could materially affect our earnings and liquidity and increase our need for capital.

Risks Related to the Owning our Stock

Our common stock, and any other instruments treated as stock for purposes of Section 382, including the Series A Preferred Stock, are subject to transfer restrictions under our Certificate of Incorporation which, if not complied with, could result in the forfeiture of such stock and related distributions.

Our Certificate of Incorporation contains significant transfer restrictions in relation to the transfer of our common stock and any other instruments treated as stock for purposes of Section 382 (including the Series A Preferred Stock). These transfer restrictions have been adopted in order to minimize the likelihood that we will be deemed to have an "ownership change" within the meaning of Section 382 that could limit our ability to utilize our NOLs under and in accordance with regulations promulgated by the IRS.

In particular, without the approval of our Board, (i) no person or group of persons treated as a single entity under Treasury Regulation Section 1.382-3 will be permitted to acquire, whether directly or indirectly, and whether in one transaction or a series of related transactions, any of our common stock or any other instrument treated as stock for purposes of Section 382, to the extent that after giving effect to such purported acquisition (a) the purported acquirer or any other person by reason of the purported acquirer's acquisition would become a Substantial Holder (as defined below), or (b) the percentage stock ownership of a person that, prior to giving effect to the purported acquisition, is already a Substantial Holder would be increased; and (ii) no Substantial Holder may dispose, directly or indirectly, of any class of stock or any other instrument treated as stock for purposes of Section 382. A "Substantial Holder" is a person that owns (as determined for purposes of Section 382) at least 4.75% of the total value of our stock, including any instrument treated as stock for purposes of Section 382.

Because of the complexity of applying Section 382, and because the determination of ownership for purposes of Section 382 does not correspond to SEC beneficial ownership reporting on Schedules 13D and 13G, holders and potential acquirers of our securities should consult with their legal and tax advisors prior to making any acquisition or disposition of our securities. Pursuant to Article VIII of our Certificate of Incorporation, the Board has the sole power to determine compliance with the transfer restrictions, and we cannot assure you that the Board will concur with any conclusions reached by any holder of our securities or their respective advisors, and/or approve or ratify any proposed acquisitions or dispositions of our securities. Under Article VIII, Section 3(b), of our Certificate of Incorporation, if the Board determines that a Prohibited Transfer (as defined in our Certificate of Incorporation) has occurred, such Prohibited Transfer shall, to the fullest extent permitted by law, be void ab initio and have no legal effect, and upon written demand by us, the Purported Transferee (as defined in our Certificate of Incorporation) shall disgorge or cause to be disgorged our securities, together with any dividends or distributions received, with respect to such securities.

Anti-takeover provisions in our Certificate of Incorporation and Amended and Restated Bylaws ("Bylaws") and under Delaware law, as well as certain existing contractual arrangements, make a third-party acquisition of us difficult.
Our Certificate of Incorporation, including Article VIII thereof, and Bylaws, as well as certain contractual arrangements with KKR, contain provisions that make it difficult for a third party to acquire us, even if doing so might be deemed beneficial by or stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

Affiliates of KKR own a substantial amount of equity interests in us, and have other substantial interests in us and agreements with us, and may have conflicts of interest with us or the other holders of our capital stock.
As of February 15, 2019, affiliates of KKR held shares of our stock representing approximately 17% of our voting power on an as-converted basis. Affiliates of KKR are parties to the Investment Agreement and the Investor Rights Agreement. As a result, affiliates of KKR may have substantial influence over our decisions to enter into any corporate transaction, including with respect to any acquisition, and may have the ability to prevent any transaction that requires the approval of stockholders regardless of whether other holders of our capital stock believe that any such transactions are in their own best interests. KKR will not provide oversight of or have control over or be involved with the investment activities or other operations of the Company.

Neither KKR nor its director appointees are required to present us with investment opportunities and may pursue them separately or otherwise compete with us.

Our Certificate of Incorporation provides that we renounce our interest or expectancy in any corporate opportunity in which KKR or its director appointees seek to participate unless such opportunity (i) was first presented to KKR's director appointees solely in their capacity as directors of the Company or (ii) is identified by KKR or its director appointees solely through the disclosure of information by or on behalf of us.

Additionally, KKR is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us or that compete with us for acquisitions. KKR may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. In addition, KKR's interest in its portfolio companies could impact our ability to pursue acquisition opportunities.

The market price of our common stock may decrease, and you may lose all or part of your investment.
The market price of our common stock could decrease, and you may not be able to resell your shares at or above the price at which your shares were acquired. Those fluctuations could be based on various factors, including:

- our operating performance and the performance of our competitors and fluctuations in our operating results;

- macro economic trends, including changes in interest rates and economic growth and unemployment;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in earnings estimates or recommendations by research analysts who follow us or other companies in our industry;
- global, national or local economic, legal and regulatory factors unrelated to our performance;
- announcements of negative news by us or our competitors, such as announcements of poorer than expected results of operations, data breaches or significant litigation;
- actual or anticipated variations in our or our competitors' operating results, and our or our competitors' growth rates;
- failure by us or our competitors to meet analysts' projections or guidance we or our competitors may give the market;
- changes in laws or regulations, or new interpretations or applications of laws and regulations, that are applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the departure of key personnel;
- the number of shares publicly traded;
- the converted Series B preferred stockholders selling their shares; and
- other developments affecting us, our industry or our competitors.

In addition, in recent years the stock market has experienced significant price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations have often been unrelated or disproportionate to the operating performance of those companies. These broad market fluctuations, as well as general economic, political and market conditions such as recessions or interest rate changes, may cause declines in the market price of our common stock, and you may not realize any return on your investment in us and may lose some or all of your investment.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table sets forth information relating to our primary facilities at December 31, 2018. In addition to the facilities listed in the table below, we also lease small offices throughout the United States.

Location	Owned/Leased	Square Footage
Principal executive office:		
Coppell, Texas – Corporate Headquarter	Leased	175,585
Business operations and support offices:		
Lewisville, Texas[(1)]	Leased	321,648
Irving, Texas[(2)]	Leased	292,988
Chandler, Arizona[(3)]	Leased	163,473
Santa Ana, California[(2)]	Leased	152,827
Chennai, India[(4)]	Leased	114,619
Coraopolis, Pennsylvania[(5)]	Leased	54,900
Irvine, California[(2)]	Leased	50,228
Longview, Texas[(3)]	Leased	45,856
Omaha, Nebraska[(5)]	Leased	44,096
Austin, Texas[(5)]	Leased	39,318
Highlands Ranch, Colorado[(3)]	Leased	31,375
Indianapolis, Indiana[(5)]	Leased	25,171
Newport Beach, California[(5)]	Leased	23,886
North Richland Hills, Texas[(5)]	Leased	23,046
Palm Bay, Florida[(5)]	Leased	20,207

(1) Primarily supports our Servicing and Xome segments
(2) Primarily supports our Originations segment
(3) Primarily supports our Servicing segment
(4) Primarily supports our Xome segment and NSM Corporate functions
(5) Primarily supports our Xome segment

We believe that our facilities are adequate for our current requirements and are being appropriately utilized. We periodically review our space requirements, and we believe we will be able to acquire new space and facilities as and when needed on reasonable terms. We also look to consolidate and dispose of facilities we no longer need, as and when appropriate.

Item 3. Legal Proceedings

We are a state licensed, non-bank mortgage lender, servicer and ancillary services provider. From time to time, we and our subsidiaries are involved in a number of legal proceedings, including, but not limited to, judicial, arbitration, regulatory and governmental proceedings relating to matters that arise in connection with the conduct of our business. These legal proceedings are generally based on alleged violations of federal, state and local laws and regulations governing our mortgage servicing and lending activities including, without limitation, consumer protection laws, but may also include alleged violations of securities, employment, contract, tort, common law fraud and other laws. Legal proceedings include open and pending examinations, information gathering requests and investigations by governmental, regulatory and enforcement agencies as well as litigation in judicial forums and arbitration proceedings.

Our business is subject to extensive examinations, investigations and reviews by various federal, state and local governmental, regulatory and enforcement agencies. We have historically had and continue to have a number of open investigations with these agencies. We continue to receive governmental and regulatory requests for information, subpoenas, examinations and other inquiries. We are currently the subject of various governmental or regulatory investigations, subpoenas, examinations and inquiries related to our residential loan servicing and origination practices, bankruptcy and collections practices, financial reporting and other aspects of our businesses. These matters include investigations by the Consumer Financial Protection Bureau (the "CFPB"), the Securities and Exchange Commission, the Executive Office of the United States Trustees, the Department of Justice, the Office of the Special Inspector General for the Troubled Asset Relief Program, the U.S. Department of Housing and Urban Development, the multi-state coalition of mortgage banking regulators and various State Attorneys General. These specific matters and other pending or potential future investigations, subpoenas, examinations or inquiries may lead to administrative, civil or criminal proceedings or settlements and possibly result in remedies including fines, penalties, restitution, or alterations in our business practices and in additional expenses and collateral costs. We are cooperating fully in these matters.

For example, we continue to progress towards resolution of certain legacy regulatory matters involving examination findings in prior years for alleged violations of certain laws related to our business practices. We have been in discussions with the multi-state committee of mortgage banking regulators and various State Attorneys General concerning a potential resolution of their investigation. We are continuing to cooperate with all parties. These discussions may not result in a settlement of the matter; furthermore, any such settlement may exceed the amount accrued as of December 31, 2018. Moreover, if the discussions do not result in a settlement, the regulators and State Attorneys General may seek to exercise their enforcement authority through litigation or other proceedings and seek injunctive relief, damages, restitution and civil monetary penalties, which could have a material adverse effect on our business, reputation, financial condition and results of operations.

Further, on April 24, 2018, the CFPB notified us that, in accordance with the CFPB’s discretionary Notice and Opportunity to Respond and Advise (NORA) process, the CFPB’s Office of Enforcement is considering whether to recommend that the CFPB take enforcement action against us, alleging violations of the Real Estate Settlement Procedures Act, the Consumer Financial Protection Act, and the Homeowners Protection Act, which stems from a 2014 examination. The purpose of a NORA letter is to provide a party being investigated an opportunity to present its position to the CFPB before an enforcement action may be recommended or commenced. The CFPB may seek to exercise its enforcement authority through settlement, administrative proceedings or litigation and seek injunctive relief, damages, restitution and civil monetary penalties, which could have a material adverse effect on our business, reputation, financial condition and results of operations. Similarly, while we are in discussions with regard to the status and various issues arising in the investigation by the Executive Office of the United States Trustees, we cannot predict the outcome of this investigation or whether they will exercise their enforcement authority through a settlement or other proceeding in which they seek to impose additional remedial measures or other financial sanctions, which could have a material adverse effect on our business, reputation, financial condition and results of operation. We believe it is premature to predict the potential outcome or to estimate any potential financial impact in connection with any potential enforcement action or settlement arising from either of the CFPB or United States Trustees matters. We have not recorded an accrual related to these matters as of December 31, 2018 as we do not believe that the possible loss or range of loss arising from any such action is estimable at this time. We are continuing to cooperate with the CFPB and the Executive Office of the United States Trustees.

In addition, we are a defendant in a class action proceeding originally filed in state court in March 2012, and then removed to the United States District Court for the Eastern District of Washington under the caption Laura Zamora Jordan v. Nationstar Mortgage LLC. The suit was filed on behalf of a class of Washington borrowers and challenges property preservation measures we took, as loan servicer, after the borrowers defaulted and our vendors determined that the borrowers had vacated or abandoned their properties. The case raises claims for (i) common law trespass, (ii) statutory trespass, and (iii) violation of Washington’s Consumer Protection Act, and seeks recovery of actual, statutory, and treble damages, as well as attorneys’ fees and litigation costs. On July 25, 2018, we entered into a settlement agreement to resolve this matter. The parties are currently seeking approval of the settlement from the court. The Company is pursuing reimbursement of the settlement payment from the owners of the loans it serviced, but there can be no assurance that the Company will prevail with any claims for reimbursement.

We are a defendant in a proceeding filed on January 2, 2018 in the U.S. District Court for the Northern District of California under the caption Collateral Analytics LLC v. Nationstar Mortgage LLC et al. The plaintiff alleges that we and certain affiliated entities misappropriated plaintiff's intellectual property for the purpose of replicating plaintiff's products. The case raises federal and state law claims for misappropriation of trade secrets and breach of contract and seeks an award of actual damages, unjust enrichment, lost profits and/or a reasonable royalty, exemplary damages and injunctive relief preventing further misuse or disclosure of plaintiff's intellectual property. We believe we have meritorious defenses and will vigorously defend ourselves in this matter.

We are also a defendant in a proceeding filed on October 23, 2015 in the U.S. District Court for the Central District of California under the caption Alfred Zaklit and Jessy Zaklit, individually and on behalf of all others similarly situated v. Nationstar Mortgage LLC et al. The plaintiff alleges that we improperly recorded telephone calls without the knowledge or consent of borrowers in violation of the California Penal Code. On July 24, 2017, the court certified a class comprised of California borrowers who, from October 2014 to May 2016, participated in outbound telephone conversations with our employees who recorded the conversations without first informing the borrowers that the conversations were being recorded. The class seeks statutory damages and attorney's fees. On September 10, 2018, we reached an agreement in principal to settle this matter, and the parties are currently seeking approval of the settlement from the court.

Responding to these matters requires us to devote substantial resources, resulting in higher costs and lower net cash flows. Adverse results in any of these matters could further increase our operating expenses and reduce our revenues, require us to change business practices and limit our ability to grow and otherwise materially and adversely affect our business, reputation, financial condition or results of operation.

Item 4. Mine Safety Disclosures

Not applicable.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Stockholders

Our common stock has been traded on the Nasdaq Stock Market under the ticker symbol "COOP" since October 10, 2018. From September 28, 2015 until October 9, 2018, WMIH's common stock had traded under the ticker symbol "WMIH".

As of February 28, 2019, there were 2,776 stockholders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

Dividends

We have not declared or paid cash dividends on our common stock, and we currently do not expect to declare or pay any cash dividends in the foreseeable future. The timing and amount of any future dividends, if any, will be determined by the Board of Directors and will depend, among other factors, upon our earnings, financial condition, cash requirements, the capital requirements of subsidiaries and investment opportunities at the time any such transaction is considered.

Issuer Purchases of Equity Securities

We did not make any repurchases of our shares during the fourth quarter of 2018.

Performance Graph

The following graph shows a comparison of the cumulative total stockholder return for our common stock, as adjusted for the 1-for-12 reverse stock split that occurred in October 2018, and the S&P 500 Index from December 31, 2013 through December 31, 2018. In addition, the following graph shows the cumulative returns of an index of two peer companies selected by us for the period from December 31, 2013 through December 31, 2017 and the S&P SmallCap 600 Financials Index for the period from January 1, 2018 through December 31, 2018. The peer group is comprised of the following companies: MGIC Investment Corporation and Radian Group Inc. We changed to the S&P SmallCap 600 Financials Index for 2018 because our business significantly changed upon the completion of the Merger with Nationstar on July 31, 2018. This data assumes an investment of $100 on December 31, 2013.

Comparative results for Mr. Cooper (formerly WMIH) common stock, the S&P 500 Index, the peer group (from 2013 through 2017) and the S&P SmallCap 600 Financials Index (for 2018) are presented below.

	December 31,					
	2013	2014	2015	2016	2017	2018
Mr. Cooper (formerly WMIH)	$ 100	$ 73	$ 92	$ 55	$ 30	$ 34
S&P 500 Index	100	111	111	121	145	136
Peer Group (2013 through 2017) and S&P Small Cap 600 Financials Index (2018)	100	104	101	126	141	136

Item 6. Selected Financial Data

The table below presents, as of and for the dates indicated, our selected historical consolidated financial information. Note that the selected consolidated statement of operations data for the Successor's five months ended December 31, 2018, and the Predecessor's seven months ended July 31, 2018 and years ended December 31, 2017 and 2016, and the Successor's selected consolidated balance sheet data at December 31, 2018 and the Predecessor's selected consolidated balance sheet data at December 31, 2017 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The Predecessor's selected consolidated statement of operations and comprehensive income data and other financial data for the years ended December 31, 2015 and 2014 and the selected consolidated balance sheet data at December 31, 2016, 2015 and 2014 have been derived from the Predecessor's audited consolidated financial statements that are not included in this Annual Report. The Successor's and Predecessor's historical results are not necessarily indicative of future performance or results of operations. The following financial data should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data.

	Successor	Predecessor			
	As of December 31, 2018	As of December 31,			
		2017	2016	2015	2014
Consolidated Balance Sheet Data: (amounts in millions)					
Cash and cash equivalents	$ 242	$ 215	$ 489	$ 613	$ 299
Mortgage servicing rights	3,676	2,941	3,166	3,367	2,961
Advances and other receivables, net	1,194	1,706	1,749	2,412	2,545
Reverse mortgage interests, net	7,934	9,984	11,033	7,514	2,453
Mortgage loans held for sale	1,631	1,891	1,788	1,430	1,278
Total assets	16,973	18,036	19,593	16,617	11,113
Unsecured senior notes, net	2,459	1,874	1,990	2,026	2,159
Advance facilities, net	595	855	1,096	1,640	1,902
Warehouse facilities, net	2,349	3,285	2,421	1,890	1,573
Other nonrecourse debt, net	6,795	8,014	9,631	6,666	1,768
Total liabilities	15,028	16,314	17,910	14,850	9,888
Total stockholders' equity	1,945	1,722	1,683	1,767	1,224

	Successor	Predecessor				
	For the Period August 1 - December 31, 2018	For the Period January 1 - July 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Consolidated Statement of Operations and Comprehensive Income Data: (amounts in millions, except for earnings per share data)						
Total revenues	$ 594	$1,196	$ 1,650	$ 1,915	$ 1,989	$ 1,973
Total expenses	707	945	1,475	1,644	1,688	1,358
Total other income (expense), net	(24)	(49)	(131)	(242)	(247)	(329)
(Loss) income before income tax (benefit) expense	(137)	202	44	29	54	286
Less: Income tax (benefit) expense	(1,021)	48	13	13	11	65
Net income	884	154	31	16	43	221
Less: Net income (loss) attributable to non-controlling interests	—	—	1	(3)	4	—
Net income attributable to Successor/Predecessor	884	154	30	19	39	221
Less: Undistributed earnings attributable to participating stockholders	8	—	—	—	—	—
Net income attributable to participating stockholders	876	154	30	19	39	221
Change in value of designated cash flow hedges, net of tax	—	—	—	—	—	(2)
Total comprehensive income	$ 876	$154	$ 30	$ 19	$ 39	$ 219
Earnings per share data:						
Basic	$ 9.65	$1.57	$ 0.31	$ 0.19	$ 0.38	$ 2.47
Diluted	$ 9.54	$1.55	$ 0.30	$ 0.19	$ 0.37	$ 2.45
Other Financial Data:						
Net cash provided by / (used in):						
Operating activities	$ 1,251	$2,294	$ 1,359	$ 972	$ 398	$ 1,080
Investing activities	(250)	(162)	(6)	(3,738)	(5,567)	233
Financing activities	(2,063)	(2,111)	(1,655)	2,698	5,483	(1,456)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the information contained in our consolidated financial statements, including the notes thereto. The following discussion contains, in addition to the historical information, forward-looking statements that include risks and uncertainties (see discussion of "Forward-Looking Statements" included elsewhere in this Annual Report on Form 10-K). Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those factors set forth under Item 1A. Risk Factors and elsewhere in this Annual Report on Form 10-K. All dollar amounts presented herein are in millions, except per share data and other key metrics, unless otherwise noted.

OVERVIEW

We are an integrated servicer, originator and provider of transaction based services for residential mortgages in the United States. Our operations are conducted through three segments: Servicing, Originations and Xome. Our Servicing segment performs activities for originated and purchased loans and acts as a subservicer for certain clients that own the underlying servicing rights. Our Originations segment originates, purchases and sells mortgage loans. Our Xome segment offers technology and data enhanced solutions to home buyers, home sellers and real estate professionals.

Servicing: Expansion of Subservicing
Our Servicing segment significantly grew our servicing portfolio by boarding $121 billion UPB of loans in 2018, on a combined basis, and ended 2018 with $548 billion UPB of loans. Our corporate strategy has been to position our Servicing segment to be less capital intensive and to have more fee-based revenue streams. Subservicing UPB contributed 50% of UPB boarded during 2018.

Originations: Channel Expansion
Our Originations segment generated $21 billion of volume at a profitable margin. Despite the challenges faced by a rising interest rate environment, our Originations segment achieved a total recapture rate of 25% and expanded volume in the correspondent and purchase recapture channels.

Xome: Growing Third-Party Revenues and Acquisition of Assurant Mortgage Solutions
Our Xome segment continued to focus on the expansion of third-party opportunities across the exchange, title, valuation and field services businesses as well as the integration and transformation of the acquired Assurant Mortgage Solutions business. Xome has dramatically shifted to third-party business since its acquisition of Assurant Mortgage Solutions in August 2018. On a combined basis, 43% of revenues in Xome segment were generated from third parties in 2018. The number of clients also grew significantly with the addition of Assurant Mortgage Solutions' approximately 560 active clients.

2018 Highlights

Provided below are highlights with respect to each of our operating segments, on a combined basis.

Servicing

- Boarded approximately $121,000 UPB including $60,000 subservicing UPB
- Improved delinquency rate, measured as loans that are 60 or more days behind in payments, to 2.2%
- Provided approximately 59,800 solutions to our mortgage servicing customers, reflecting our continued commitment to foster and preserve homeownership

Originations

Funded 97,252 loans totaling $21,201, which included $9,688 related to retaining customers from our servicing portfolio
Achieved a recapture rate of 25%

Xome

- Expanded third-party revenues to 43% driven primarily in our exchange and title and close businesses, as well as through acquisition of Assurant Mortgage Solutions title, valuations, and field services businesses
- Sold 10,872 properties and completed 1,072,534 Xome service orders
- Acquired Assurant Mortgage Solutions for $38 in cash with additional consideration dependent on the achievement of certain future performance targets. The acquisition expands Xome's footprint and grows its third-party client portfolio across its valuation, title and field services businesses.

Liquidity and Capital Resources

Cash and cash equivalents totaled $242 as of December 31, 2018 compared to the Predecessor's cash and cash equivalents of $215 as of December 31, 2017. As of December 31, 2018, we had $1,686 collateral pledged against the MSR facilities, of which we could borrow up to $455. Generally, these facilities can be increased or decreased to align with our cash requirements. In addition, we had total equity of $1,945 as of December 31, 2018 compared to the Predecessor's total equity of $1,722 as of December 31, 2017. In 2018, our operating activities provided cash totaling $1,251. We continue to maintain a capital position with ratios exceeding current regulatory guidelines and believe we have sufficient liquidity to conduct our business. We closely monitor our liquidity position and ongoing funding requirements, and regularly monitor and project cash flow to minimize liquidity risk.

We have pursued a capital-light strategy, including the sale of advances, excess financing and the expansion of our subservicing portfolio. The execution on this strategy has allowed us to add incremental margin servicing with limited capital. The combination of subservicing and improvement in portfolio performance is expected to raise our return on equity and assets and deliver improving cash flows.

Our operating cash flow is primarily impacted by the receipt of servicing fees, changes in our servicing advance balances, the level of new loan production and the timing of sales and securitizations of forward and reverse mortgage loans. To the extent we sell MSRs, we accelerate the recovery of the related advances. Operating efficiencies have served to mitigate and limit losses incurred in the servicing of our portfolios, and responsive cost containment measures have allowed us to quickly adjust cost structures with changes in revenue volumes.

We have sufficient warehouse capacity to support our operating segments, including anticipated growth. As of December 31, 2018, total available borrowing capacity was $7,640, of which $4,695 was unused.

RESULTS OF OPERATIONS

Basis of Presentation

"Predecessor" financial information in the MD&A relates to Nationstar, and "Successor" relates to Mr. Cooper.

The financial results for the years ended December 31, 2017 and 2016 reflect the results of the Predecessor entity for those time periods. With respect to the year ended December 31, 2018, the Company has separately provided the financial results of the Predecessor for the period from January 1, 2018 through July 31, 2018, and the financial results of the Successor for the period from August 1, 2018 through December 31, 2018, which, in each case, are presented under GAAP.

The below presentation also includes a "Combined" column that combines the Predecessor and Successor results referenced above with respect to the year ended December 31, 2018. Although the separate financial results of the Predecessor for the seven months ended July 31, 2018 and the financial results of the Successor for the five months ended December 31, 2018 are each presented under GAAP, the results reported in the “Combined” column reflect non-GAAP financial measures, because a different basis of accounting was used with respect to the financial results for the Predecessor as compared to the financial results of the Successor. The Company has not provided a reconciliation of the financial metrics reflected under the “Combined” column as such reconciliation cannot be provided without unreasonable effort as a result of this accounting variance.

The Company believes that non-GAAP financial measures should be considered in addition to, and not a substitute for, financial information prepared in accordance with GAAP. The Company presents non-GAAP financial measures in reporting its financial results to provide additional and supplemental disclosure to evaluate operating results. In particular, the Company believes that providing this “Combined” information is useful as a supplement to its standard GAAP financial presentation as it significantly enhances the period-over-period comparability of the Company’s financial results. In addition, management of the Company uses this “Combined” presentation to evaluate the Company’s ongoing operations and for internal planning and forecasting purposes.

Consolidated and Segment Results

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 1. Consolidated Operations	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Revenues - operational	$ 758	$ 1,000	$ 1,758	$ 1,810	$ (52)	(3)%
Revenues - Mark-to-market	(164)	196	32	(160)	192	120 %
Total revenues	594	1,196	1,790	1,650	140	8 %
Expenses	707	945	1,652	1,475	177	12 %
Other income (expense), net	(24)	(49)	(73)	(131)	58	44 %
(Loss) income before income tax expense	(137)	202	65	44	21	48 %
Less: Income tax (benefit) expense	(1,021)	48	(973)	13	(986)	(7,585)%
Net income	884	154	1,038	31	1,007	3,248 %
Less: Income attributable to non-controlling interests	—	—	—	1	(1)	(100)%
Net income attributable to Successor/Predecessor	$ 884	$ 154	$ 1,038	$ 30	$ 1,008	3,360 %
Effective tax rate[2]	742.4 %	23.8 %		28.9 %		
Income (loss) before income tax expense (benefit) by operating and non-operating segments:						
Servicing	$ (12)	$ 285	$ 273	$ 76	$ 197	259 %
Originations	32	62	94	153	(59)	(39)%
Xome	(1)	35	34	53	(19)	(36)%
Corporate and other	(156)	(180)	(336)	(238)	(98)	41 %
Consolidated (loss) income before income tax expense (benefit)	$ (137)	$ 202	$ 65	$ 44	$ 21	48 %

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.
(2) Effective tax rate is calculated using whole numbers.

On a combined basis, income before income tax expense increased to $65 in 2018 from $44 in 2017 primarily due to an increase in revenues, partially offset by an increase in expenses. The increase in revenues on a combined basis was primarily driven by favorable mark-to-market (“MTM”) revenue adjustments in 2018 as a result of the higher interest rate environment. Operational revenues, on a combined basis, decreased primarily due to a shift in channel mix from direct-to-consumer to correspondent mix volume in Originations. On a combined basis, expenses increased in 2018 compared to 2017 primarily as a result of expenses related to the Nationstar acquisition and Xome’s acquisition of Assurant Mortgage Solutions. Consolidated other income (expense), net, on a combined basis, improved primarily due to a decline in compensating interest expense in Servicing in 2018 as compared to 2017.

On a combined basis, we had income tax benefit for the year ended December 31, 2018 primarily due to the release of the valuation allowance associated with the net operating losses of WMIH. For the same period ended in 2017, the Predecessor had income tax expense. The effective tax rates for the five months ended December 31, 2018 and seven months ended July 31, 2018 were 742.4% and 23.8%, respectively, as compared to the effective tax rate of 28.9% for the year ended December 31, 2017. The significant increase in the effective tax rate in the five months ended December 31, 2018 was primarily due to the release of the valuation allowance.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 1.1. Consolidated Operations	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Revenues - operational	$1,810	$2,092	$(282)	(13)%
Revenues - Mark-to-market	(160)	(177)	17	(10)%
Total revenues	1,650	1,915	(265)	(14)%
Expenses	1,475	1,644	(169)	(10)%
Other income (expense), net	(131)	(242)	111	(46)%
Income before income tax expense	44	29	15	52 %
Less: Income tax expense	13	13	—	— %
Net income	31	16	15	94 %
Less: Income (loss) attributable to non-controlling interests	1	(3)	4	(133)%
Net income attributable to Predecessor	$30	$19	$11	58 %
Effective tax rate[(1)]	28.9 %	45.2 %		
Income (loss) before income tax expense (benefit) by operating and non-operating segments:				
Servicing	$76	$24	$52	217 %
Originations	153	215	(62)	(29)%
Xome	53	69	(16)	(23)%
Corporate and other	(238)	(279)	41	(15)%
Consolidated income before income tax expense (benefit)	$44	$29	$15	52 %

(1) Effective tax rate is calculated using whole numbers.

Despite a decrease in total revenues, net income increased to $31 in 2017 from $16 in 2016 primarily due to a decrease in expenses and other income (expense), net. The decline in revenues was driven by a decrease in servicing fees from mortgage servicing rights, offset by an increase in subservicing fees and more favorable MTM revenue adjustments over the year. Revenues also declined due to lower locked originations volume as a result of the higher interest rate environment (the 10-Year Treasury, as measured by the average over the respective year, increased from 1.8% in 2016 to 2.3% in 2017) and due to lower sales volumes of Xome's real estate title services. MTM revenue improved in 2017 as compared to 2016, primarily due to greater stability of interest rates.

Consolidated expenses decreased to $1,475 in 2017 compared to $1,644 in 2016. Volume declines in both the Predecessor's Originations and Xome segments, partially offset by an increase in subservicing, contributed to the decrease in consolidated expenses. Continued focus on efficiency improvements and lower TILA RESPA Integrated Disclosure ("TRID") led to the decreased expenses in the Predecessor's Originations segment. A decline in direct vendor costs and in system transaction related fees as the Predecessor migrated its operations onto its own proprietary technology in its Xome segment contributed to the decline in Xome's expenses.

In 2017, consolidated other income (expense), net improved as compared to 2016, primarily due to an increase in reverse mortgage interest income. The increase in reverse mortgage interest income was a result of an expansion of the reverse mortgage portfolio in December 2016. In addition, as of December 31, 2017, $27 of accretion was recorded in reverse mortgage interest income for the discount associated with the reverse mortgage portfolio acquired in December 2016.

In 2017, income tax expense stayed consistent as compared to 2016, despite the impact of new tax legislation in the United States. The effective tax rates for 2017 and 2016 were 28.9% and 45.2%, respectively. The effective tax rate for 2017 decreased primarily due to the impact of the U.S. Tax Cuts and Jobs Act (the "Tax Reform Act") that was enacted on December 22, 2017. The Tax Reform Act significantly revised the U.S. corporate income tax regime by lowering the U.S. corporate tax rate from 35% to 21%, imposing a one-time transition tax on deemed repatriated earnings of foreign subsidiaries, creating new taxes on certain foreign sourced earnings, as well as other changes.

Segment Results

Revenues related to inter-segment services are recorded based on estimated market value. Expenses are allocated to individual segments either based on the estimated value of services performed, total revenue contributions, personnel headcount or the equity invested in each segment. Expenses for consolidated back-office operations and general overhead expenses such as executive administration and accounting are not allocated to the business segments.

Servicing Segment

We service both forward and reverse loan portfolios. Our forward loan portfolios include loans for which we own the legal title to the servicing rights and also include loans where we act as the subservicer for which title to the servicing rights is owned by third parties. Our Mr. Cooper® and Champion Mortgage® brands together service approximately 3.3 million customers with an outstanding principal balance of approximately $548 billion. As of December 31, 2018, the outstanding principal balance consisted of approximately $519 billion in forward servicing, $224 billion of which was subservicing, and $28 billion in reverse servicing. The following describes the various components of our servicing portfolio.

Forward Servicing - Servicing revenues related to forward MSR portfolios include base, incentive and other servicing fees. Forward MSR portfolios are recorded at fair value, and revenues are adjusted to reflect the change in the fair value each reporting period. Fair value consists of both credit sensitive MSRs, primarily acquired through bulk acquisitions, and interest rate sensitive MSRs, primarily acquired through flow transactions generated from our origination activities. The fair value of interest rate sensitive MSR portfolios is typically correlated to interest rates such that when interest rates rise, the value of the servicing portfolio also increases primarily as a result of expected lower prepayments, and the value would decrease if interest rates fell. The value of credit sensitive MSRs are less influenced by movement in interest rates and more influenced by changes in loan performance factors which impact involuntary prepayment speeds and delinquency rates.

Subservicing - Subservicing revenues are earned on a fee per loan basis and are recognized as the services are delivered. Subservicing consists of forward residential mortgage loans we service on behalf of others who are MSR or mortgage owners. We have limited advance obligations, and no subservicing assets are recorded in our consolidated financial statements as the value of the servicing rights and the related obligations are not considered in excess of or less than customary fees that would be received for such services.

Reverse Servicing - Although we do not originate reverse mortgage loans, we service acquired reverse mortgage portfolios. An MSR or MSL is recorded for acquired servicing rights associated with unsecuritized portfolios and securitized portfolios where we have less than 100% participating interests. We also service reverse mortgage portfolios that have been securitized into GNMA securities. The total amounts of the securitized loan assets and related financing liabilities are recorded within the consolidated financial statements as reverse mortgage interests and nonrecourse debt because the securitization transactions do not qualify for sale accounting treatment. Reverse MSRs and MSLs are recorded at fair value upon acquisition and carried at amortized cost in subsequent periods. Reverse Mortgage Interests, related debt, MSRs and MSLs are reflected at fair values as of the acquisition date (July 31, 2018) and will continue to be carried at the adjusted, amortized cost in subsequent periods, including the five months ended December 31, 2018. We earn servicing fee income on all reverse mortgages. Fees associated with reverse MSRs and MSLs are recorded to servicing revenue, whereas fees associated with reverse mortgage interests are recorded to interest income. The interest income accrued for reverse mortgage HECM loans and the interest expense accrued for the respective HMBS are recorded in other income (expense). Accretion of the purchase price discount on certain portfolios and discount associated with the re-valuation performed at the acquisition date is recorded to other income (expense).

The following tables set forth the results of operations from the Servicing segment.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 2. Servicing Operations	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Revenues						
Operational	$ 464	$ 656	$ 1,120	$ 1,168	$ (48)	(4)%
Amortization	(64)	(112)	(176)	(242)	(66)	(27)%
Mark-to-market	(164)	196	32	(160)	192	120 %
Total revenues	236	740	976	766	210	27 %
Expenses	303	474	777	691	86	12 %
Total other income (expenses), net	55	19	74	1	73	7,300 %
Income (loss) before income tax expense (benefit)	$ (12)	$ 285	$ 273	$ 76	$ 197	259 %

[1] Refer to Basis of Presentation section for discussion on presentation of combined results.

On a combined basis, income before income taxes increased to $273 in 2018 from $76 in 2017 due to an increase in total revenues and an improvement in other income (expenses), net. Total revenues on a combined basis increased in 2018 primarily due to favorable MTM revenue adjustments and lower amortization revenue as compared to 2017. The MTM revenue on a combined basis improved as a result of the higher interest rate environment in 2018. Amortization on a combined basis decreased in 2018 compared to 2017 due to a decline in prepayments driven by the higher interest rate environment. The increase in income before income taxes was offset by an increase of $86 in expenses. Expenses on a combined basis for 2018 increased primarily due to an increase in salaries, wages and benefits due to the expansion of the servicing portfolio and refined modeling method which led to an update to reverse MSL. Total other income (expenses), net improved primarily as a result of a decline in interest expense related to MSR financing, improved interest income and lower compensating interest expense.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 2.1 Servicing Operations	Predecessor Year Ended December 31, 2017	2016	$ Change	% Change
Revenues				
Operational	$1,168	$1,244	$ (76)	(6)%
Amortization	(242)	(314)	(72)	(23)%
Mark-to-market	(160)	(177)	17	10 %
Total revenues	766	753	13	2 %
Expenses	691	634	57	9 %
Total other income (expenses), net	1	(95)	96	101 %
Income before income tax expense	$76	$24	$ 52	217 %

Income before income taxes increased to $76 in 2017 from $24 in 2016 due to an increase in total revenues and an improvement in other income (expenses), net. Total revenues increased as a result of improved mark-to-market and lower amortization revenue in 2017 as compared to 2016. MTM revenue improved in 2017 as compared to 2016 as a result of a decreased impact from changes in interest rates. Operational revenues decreased in 2017 primarily as a result of the decrease in base servicing fees due to a decline in the forward MSR portfolio, partially offset by an increase in subservicing fees from the significant growth of the subservicing portfolio in 2017. Amortization in 2017 decreased as compared to 2016 due to lower MSR holdings and a decline in prepayments driven by a higher interest rate environment. Total other income (expenses), net improved primarily as a result of the accretion associated with the purchase price discount related to the reverse portfolio acquisition in December 2016. Expenses for 2017 increased primarily due to higher reserves established for its reverse mortgage portfolio, as the Predecessor refined its method to estimate losses from a pool-level view to a loan-level view based on characteristics of individual loans. In addition, there were one-time expenses related to migration of call centers onshore and organizational restructuring costs.

During the third quarter of 2017, a number of natural disasters occurred, including hurricanes and wildfires. As a result, the Predecessor offered a number of investor-approved initiatives to provide relief to impacted homeowners. These initiatives included waiving late fees, providing forbearances and delaying foreclosures. The Predecessor initiated a variety of customer outreach campaigns to communicate options to its customers. During the fourth quarter of 2017, the Predecessor completed 18,250 forbearances and began reinstating foreclosures per investor guidelines.

The following table provides a rollforward of our forward servicing portfolio UPB, including loans subserviced for others.

Table 3. Forward Servicing and Subservicing Portfolio UPB Rollforward	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Balance - beginning of year	$465,819	$473,256	$434,295	$367,800
Additions:				
Originations	8,936	12,327	19,421	20,194
Acquisitions	82,559	25,987	155,226	129,061
Deductions:				
Dispositions	(10,140)	(1,877)	(51,839)	(1,625)
Principal reductions and other	(7,837)	(11,240)	(17,893)	(14,399)
Voluntary reductions[1]	(18,131)	(29,172)	(58,191)	(56,960)
Involuntary reductions[2]	(1,689)	(3,241)	(7,245)	(9,546)
Net changes in loans serviced by others	(150)	(221)	(518)	(230)
Balance - end of year	$519,367	$465,819	$473,256	$434,295

(1) Voluntary reductions are related to loan payoffs by customers.
(2) Involuntary reductions refer to loan chargeoffs.

During the seven months ended July 31, 2018, the Predecessor's forward servicing and subservicing portfolio's UPB decreased primarily due to loan run-off and reductions out-pacing the boarding of loans generated from originations and acquisitions. During the five months ended December 31, 2018, our forward servicing and subservicing portfolio's UPB increased due to increased boarding of loans generated from acquisitions and portfolio growth from our subservicing clients.

The following table provides the composition of revenues for the Servicing segment.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 4. Servicing - Revenues	Successor For the Period August 1 - December 31, 2018		Predecessor For the Period January 1 - July 31, 2018		Combined[1]		Predecessor Year ended December 31, 2017		$ Change		% Change	
	Amt	bps[2]	Amt	bps[2]	Amt	bps[2]	Amt	bps[2]	Amt	bps[2]	Amt	bps[2]
Forward MSR Operational Revenue												
Base servicing fees	$367	17	$501	17	$868	17	$899	18	$(31)	(1)	(3)%	(6)%
Modification fees[3]	8	—	21	1	29	1	41	1	(12)	—	(29)%	—%
Incentive fees[3]	5	—	13	—	18	—	33	—	(15)	—	(45)%	—%
Late payment fees[3]	29	2	45	2	74	2	82	2	(8)	—	(10)%	—%
Other ancillary revenues[3]	40	2	63	2	103	2	154	3	(51)	(1)	(33)%	(33)%
Total forward MSR operational revenue	449	21	643	22	1,092	22	1,209	24	(117)	(2)	(10)%	(8)%
Base subservicing fee and other subservicing revenue[3]	67	3	87	2	154	3	131	3	23	—	18%	—%
Reverse servicing fees	16	1	37	1	53	1	58	1	(5)	—	(9)%	—%
Total servicing fee revenue	532	25	767	25	1,299	26	1,398	28	(99)	(2)	(7)%	(7)%
MSR financing liability costs	(20)	(1)	(33)	(1)	(53)	(1)	(72)	(2)	(19)	(1)	26%	50%
Excess spread payments - principal	(48)	(2)	(78)	(3)	(126)	(2)	(158)	(3)	(32)	(1)	20%	33%
Total operational revenue	464	22	656	21	1,120	23	1,168	23	(48)	—	(4)%	—%
Amortization												
Forward MSR amortization	(128)	(6)	(190)	(7)	(318)	(6)	(399)	(8)	(81)	(2)	20%	25%
Excess spread accretion	53	2	78	3	131	3	161	3	(30)	—	(19)%	—%
Reverse MSL accretion[4]	15	1	—	—	15	—	—	—	15	—	100%	—%
Reverse MSR amortization	(4)	—	—	—	(4)	—	(4)	—	—	—	—%	—%
Total amortization	(64)	(3)	(112)	(4)	(176)	(3)	(242)	(5)	(66)	(2)	(27)%	(40)%
Mark-to-Market Adjustments												
MSR MTM[5]	(153)	(7)	295	10	142	3	(163)	(3)	305	6	(187)%	(200)%
Excess spread / financing MTM	(11)	(1)	(99)	(3)	(110)	(2)	3	—	(113)	(2)	(3,767)%	(100)%
Total MTM adjustments	(164)	(8)	196	7	32	1	(160)	(3)	192	4	(120)%	133%
Total revenues - Servicing	$236	11	$740	24	$976	21	$766	15	$210	6	27%	40%

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.
(2) Calculated basis points ("bps") are as follows: Annualized $ amount/Total Average UPB X 10000.

(3) Certain ancillary and other non-base fees related to subservicing operations are separately presented as other subservicing revenues.

(4) The Predecessor recorded MSL accretion within reverse servicing fees, whereas the Successor has elected to record MSL accretion within Amortization, net of accretion.

(5) MSR MTM includes fair value adjustments on MSR, excess spread financing and MSR financing liabilities. The amount of MSR MTM reflected is net of negative modeled cash flows which have been transferred to reserves on advances and other receivables. The negative modeled cash flows relate to advances and other receivables associated with inactive and liquidated loans that are no longer part of the MSR portfolio. These negative modeled cash flows totaled $25 for the five months ended December 31, 2018. These negative modeled cash flows for the Predecessor totaled $38 and $72 for the seven months ended July 31, 2018 and the year ended December 31, 2017, respectively.

Forward - On a combined basis, base servicing fee revenue decreased in 2018 as compared to 2017 primarily due to the decline of the forward MSR portfolio's UPB. The decline in base servicing fees per average forward UPB to 17 bps in 2018 on a combined basis from 18 bps in 2017 was a result of an increase in the subservicing portfolio relative to the forward MSR portfolio. Improvement in delinquency rates as of December 31, 2018 resulted in lower modification fees and incentive fees on a combined basis in 2018 as compared to 2017. Other ancillary revenues on a combined basis decreased in 2018 compared to 2017 primarily due to lower gains on the redelivery of reperforming GNMA loans driven by higher interest rates.

MSR prepayment and scheduled amortization on a combined basis decreased in 2018 primarily due to a decline in the UPB associated with the forward MSR portfolio and lower prepayments driven by increased interest rates.

Subservicing - Subservicing fees on a combined basis increased in 2018 due to the significant expansion of the subservicing portfolios as compared to 2017.

Reverse - On a combined basis, servicing fees on reverse MSR portfolios in 2018 decreased compared to 2017 primarily due to portfolio runoff.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 4.1 Servicing - Revenues	Predecessor Year Ended December 31,							
	2017		2016		$ Change		% Change	
	Amounts	bps[1]	Amounts	bps[1]	Amounts	bps[1]	Amounts	bps[1]
Forward MSR Operational Revenue								
Base servicing fees	$899	18	$1,001	24	$(102)	(6)	(10)%	(25)%
Modification fees[2]	41	1	85	2	(44)	(1)	(52)%	(50)%
Incentive fees[2]	33	—	28	1	5	(1)	18 %	(100)%
Late payment fees[2]	82	2	81	2	1	—	1 %	— %
Other ancillary revenues[2]	154	3	240	6	(86)	(3)	(36)%	(50)%
Total forward MSR operational revenue	1,209	24	1,435	35	(226)	(11)	(16)%	(31)%
Base subservicing fee and other subservicing revenue[2]	131	3	50	1	81	2	162 %	200 %
Reverse servicing fees	58	1	57	2	1	(1)	2 %	(50)%
Total servicing fee revenue	1,398	28	1,542	38	(144)	(10)	(9)%	(26)%
MSR financing liability costs	(72)	(2)	(100)	(2)	(28)	—	(28)%	— %
Excess spread payments - principal	(158)	(3)	(198)	(5)	(40)	(2)	(20)%	(40)%
Total operational revenue	1,168	23	1,244	31	(76)	(8)	(6)%	(26)%
Amortization								
Forward MSR amortization	(399)	(8)	(513)	(13)	(114)	(5)	(22)%	(38)%
Excess spread accretion	161	3	200	5	(39)	(2)	(20)%	(40)%
Reverse MSR amortization	(4)	—	(1)	—	3	—	300 %	— %
Total amortization	(242)	(5)	(314)	(8)	(72)	(3)	(23)%	(38)%
Mark-to-Market Adjustments								
MSR MTM[3]	(163)	(3)	(195)	(5)	32	2	16 %	40 %
Excess spread / financing MTM	3	—	18	1	(15)	(1)	(83)%	(100)%
Total MTM adjustments	(160)	(3)	(177)	(4)	17	1	10 %	25 %
Total revenues - Servicing	$766	15	$753	19	$13	(4)	2 %	(21)%

(1) Calculated basis points ("bps") are as follows: Annual $ amount/Total Average UPB X 10000.

(2) Certain ancillary and other non-base fees related to subservicing operations are separately presented as other subservicing revenues.

(3) MSR MTM includes fair value adjustments on MSR, excess spread financing and MSR financing liabilities. The amount of MSR MTM reflected is net of negative modeled cash flows which have been transferred to reserves on advances and other receivables. The negative modeled cash flows relate to advances and other receivables associated with inactive and liquidated loans that are no longer part of the MSR portfolio. In 2017 and 2016, these negative modeled cash flows for the Predecessor totaled $72 and $81, respectively.

Forward - Due to the decline of the forward servicing portfolio's average UPB, base servicing fee revenue decreased in 2017 as compared to 2016. The decline in base servicing fees per average forward UPB to 18 bps in 2017 from 24 bps in 2016 was a result of an increase in the subservicing portfolio relative to the forward MSR portfolio. In addition, other ancillary revenues decreased in 2017 compared to 2016 due to a nonrecurring gain of approximately $20 in 2016 from the sale of reverse mortgage loans acquired in March 2016 from the execution of a clean-up call option on a reverse mortgage loan trust, as well as a $13 decrease from the elimination of web payment fees in 2017.

MSR prepayment and scheduled amortization decreased in 2017 primarily due to a decline in the UPB associated with the forward MSR portfolio and lower prepayments driven by increased interest rates. Despite an overall increase in interest rates in 2017, total mark-to-market revenue decreased due to greater stability of interest rates in 2017 as compared to 2016.

Subservicing - Subservicing fees increased in 2017 due to the significant expansion of the subservicing portfolios, resulting in an increase in the average UPB of subserviced portfolios of $119 billion compared to 2016. A total UPB of $95 billion was boarded in the second half of 2016 associated with the commencement with two significant subservicing contracts. Another significant subservicing contract was executed in January 2017, of which $105 billion UPB was boarded in 2017. The increase in subservicing UPB was partially offset by the deboarding of $47 billion UPB in the fourth quarter of 2017 related to the termination of a subservicing agreement.

Reverse - Servicing fees on reverse MSR portfolios in 2017 increased compared to 2016 due to the growth in the Predecessor's reverse mortgage portfolio from the December 2016 acquisition of $9,305 UPB of Fannie Mae reverse mortgage loans, partially offset by the run-off in the legacy portfolios.

Table 5. Servicing Portfolio - Unpaid Principal Balances	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Average UPB				
Forward MSRs - fair value	$ 282,806	$ 279,520	$ 298,511	$ 326,477
Subservicing and other[(1)]	203,341	187,407	170,131	50,965
Reverse loans - amortized cost	29,837	33,380	36,700	28,457
Total average UPB	$ 515,984	$ 500,307	$ 505,342	$ 405,899

	Successor December 31, 2018	Predecessor December 31, 2017	December 31, 2016
Ending UPB			
Forward MSRs - fair value			
Agency	$ 229,108	$ 202,868	$ 227,062
Non-agency	66,373	78,512	85,014
Total MSRs - fair value	295,481	281,380	312,076
Subservicing and other[(1)]			
Agency	208,607	183,519	110,848
Non-agency	15,279	8,357	11,371
Total subservicing and other	223,886	191,876	122,219
Reverse loans - amortized cost			
MSR	3,940	9,395	10,351
MSL	16,538	15,729	17,574
Securitized loans	7,937	9,988	11,015
Total reverse portfolio serviced	28,415	35,112	38,940
Total ending UPB	$ 547,782	$ 508,368	$ 473,235

(1) Subservicing and other includes (i) loans we service for others, (ii) residential mortgage loans originated but have yet to be sold and (iii) agency REO balances for which we own the mortgage servicing rights.

Key Metrics

The table below presents the number of modifications and workout units with our serviced portfolios.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 6. Forward Loan Modifications and Workout Units	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	Amount Change	% Change
Modifications and workout units:						
HAMP modifications	5	38	43	7,205	(7,162)	(99)%
Non-HAMP modifications	13,120	16,828	29,948	23,557	6,391	27 %
Workouts	7,066	22,700	29,766	44,467	(14,701)	(33)%
Total modification and workout units	20,191	39,566	59,757	75,229	(15,472)	(21)%

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

On a combined basis, total modifications and workouts during 2018 decreased compared to 2017 primarily due to a decrease in repayment plans related to natural disasters that occurred in the fourth quarter of 2017. In addition, HAMP modifications decreased in 2018 as compared to 2017 due to the expiration of the HAMP program on December 31, 2016. Borrowers who had requested assistance, or to whom an offer of assistance had been extended, had until September 30, 2017 to finalize their modification. Partially offsetting the decrease in HAMP modifications and workouts was an increase in Non-HAMP modifications on a combined basis primarily due to a higher volume of natural disaster-related Non-HAMP modifications.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 6.1. Forward Loan Modifications and Workout Units	Predecessor Year Ended December 31, 2017	 2016	Amount Change	% Change
Modifications and workout units:				
HAMP modifications	7,205	15,525	(8,320)	(54)%
Non-HAMP modifications	23,557	23,280	277	1 %
Workouts	44,467	24,072	20,395	85 %
Total modification and workout units	75,229	62,877	12,352	20 %

Total modifications and workouts during 2017 increased compared to 2016 due to a significant increase in workouts resulting from a high number of repayment plans in the fourth quarter of 2017 related to the disaster relief programs. HAMP modifications decreased in 2017 as compared to 2016 due to the expiration of the HAMP program.

The overall performance of borrowers within the servicing portfolio continued to improve as reflected in the table below.

Table 7. Key Performance Metrics - Forward Servicing and Subservicing Portfolio[1]	Successor December 31, 2018	Predecessor December 31, 2017	December 31, 2016
Loan count	3,133,784	3,039,495	2,637,254
Average loan amount[2]	$165,748	$155,608	$164,818
Average coupon - credit sensitive[3]	4.9 %	4.7 %	4.7 %
Average coupon - interest sensitive[3]	4.2 %	4.2 %	4.2 %
60+ delinquent (% of loans)[4]	2.2 %	3.4 %	4.7 %
90+ delinquent (% of loans)[4]	1.9 %	2.8 %	4.2 %
120+ delinquent (% of loans)[4]	1.7 %	2.4 %	3.9 %
Total prepayment speed (12-month constant pre-payment rate)	9.1 %	12.7 %	16.9 %

(1) Characteristics and key performance metrics of our servicing portfolio exclude UPB and loan counts acquired but not yet boarded and currently serviced by others.
(2) Loan amount is presented in whole dollar amounts.
(3) The weighted average coupon amounts for our credit and interest sensitive pools presented in the table above are only reflective of our owned forward MSR portfolio that is reported at fair value.
(4) Loan delinquency is based on the current contractual due date of the loan. In the case of a completed loan modification, delinquency is based on the modified due date of the loan.

Delinquency is a significant assumption in determining the mark-to-market adjustment and is a key indicator of MSR portfolio performance. Delinquent loans contribute to lower MSR values due to higher costs to service loans and increased carrying costs of advances. We continued to experience decreasing delinquency rates in 2018, which helped to preserve the value of MSRs.

Servicer Ratings

We participate in ratings reviews with nationally recognized ratings agencies for our mortgage servicing operations. The attainment of favorable ratings is important to maintaining strong relationships with our customers and compliance with provisions in servicing and debt agreements. The table below sets forth our most recent ratings for our servicing operations.

Table 8. Servicer Ratings	Successor Fitch	Predecessor S&P	Predecessor Moody’s
Rating date	November 2018	January & February 2018	March 2019
Residential	RPS2-	Above Average	Not Rated
Master Servicer	RMS2+	Above Average	SQ2
Special Servicer	RSS2-	Above Average	Not Rated
Subprime Servicer	RPS2-	Above Average	Not Rated

Fitch Rating Scale of 1 (Highest Performance) to 5 (Low/No Proficiency)
S&P’s Rating Scale of Strong to Weak
Moody’s Rating Scale of SQ1 (Strong Ability/Stability) to SQ5 (Weak Ability/Stability)

Servicing Expenses

The table below summarizes expenses in the Servicing segment.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 9. Servicing - Expenses	Successor For the Period August 1 - December 31, 2018		Predecessor For the Period January 1 - July 31, 2018		Combined[1]		Predecessor Year ended December 31, 2017		$ Change		% Change	
	Amt	bps	Amt	bps	Amt	bps	Amt	bps	Amt	bps	Amt	bps
Salaries, wages and benefits	$ 131	6	$ 175	6	$ 306	6	$ 290	6	$ 16	—	6 %	—%
General and administrative												
Servicing support fees	59	3	71	2	130	3	134	3	(4)	—	(3)%	—%
Corporate and other general and administrative expenses	66	3	80	3	146	3	127	3	19	—	15 %	—%
Foreclosure and other liquidation related expenses	38	2	133	4	171	3	117	2	54	1	46 %	50%
Depreciation and amortization	9	—	15	—	24	—	23	—	1	—	4 %	—%
Total general and administrative expenses	172	8	299	9	471	9	401	8	70	1	17 %	13%
Total expenses - Servicing	$ 303	14	$ 474	15	$ 777	15	$ 691	14	$ 86	1	12 %	7%

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

On a combined basis, total expenses increased in 2018 as compared to 2017 primarily due to an increase in foreclosure and other liquidation related expenses. Foreclosure and other liquidation related expenses increased primarily as a result of a refined modeling method which led to an update to reverse MSL. Salaries, wages and benefits on a combined basis increased in 2018 primarily due to the expansion of the servicing portfolio. In addition, on a combined basis, corporate and other general and administrative expenses increased primarily as a result of expenses related to our initiative to increase operational efficiencies and enhance overall customer experience.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 9.1. Servicing - Expenses	Predecessor Year Ended December 31,							
	2017		2016		$ Change		% Change	
	Amount	bps	Amount	bps	Amount	bps	Amount	bps
Salaries, wages and benefits	$290	6	$265	7	$25	(1)	9 %	(14)%
General and administrative								
Servicing support fees	134	3	147	4	(13)	(1)	(9)%	(25)%
Corporate and other general and administrative expenses	127	3	136	3	(9)	—	(7)%	—%
Foreclosure and other liquidation related expenses	117	2	63	2	54	—	86 %	—%
Depreciation and amortization	23	—	23	—	—	—	— %	—%
Total general and administrative expenses	401	8	369	9	32	(1)	9 %	(11)%
Total expenses - Servicing	$691	14	$634	16	$57	(2)	9 %	(13)%

Expenses increased in 2017 primarily due to an increase in salaries, wages and benefits, which can be attributed to the significant expansion of the Predecessor's subservicing portfolio in 2017 and a decrease in offshore positions. In 2017, the Predecessor also launched its own reverse mortgage servicing platform and terminated its existing contract with the subservicer, which resulted in an increase in staff for activities previously performed by the subservicer of its reverse mortgage portfolio. In addition, staffing increased as a result of the boarding of loans related to the December 2016 acquisition in its reverse mortgage servicing platform. General and administrative expenses increased in 2017 due to an increase in foreclosure and other liquidation expenses, offset by a decrease in servicing support fees, and corporate and other general and administrative expenses. Cost containment measures, as well as continued performance improvement in its forward mortgage loan portfolio evidenced by lower delinquencies and the closure of its Buffalo, New York facility in August 2017, contributed to the decrease in corporate and other general and administrative expenses. The increase in foreclosure and other liquidation related expenses was primarily due to its reverse servicing portfolio. The Predecessor evaluated its reserve provision based on portfolio performance characteristics. During 2017, reserves increased based on the determination that there were additional potential losses association with claims and other receivables, as well as growth in the Predecessor's reverse mortgage portfolio due to the December 2016 acquisition.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 10. Servicing - Other Income (Expense), Net	Successor For the Period August 1 - December 31, 2018		Predecessor For the Period January 1 - July 31, 2018		Combined[1]		Predecessor Year ended December 31, 2017		$ Change		% Change	
	Amt	bps	Amt	bps	Amt	bps	Amt	bps	Amt	bps	Amt	bps
Reverse mortgage interest income	$206	10	$274	9	$480	9	$490	9	$(10)	—	(2)%	— %
Other interest income	16	1	14	1	30	1	37	1	(7)	—	(19)%	— %
Interest income	222	11	288	10	510	10	527	10	(17)	—	(3)%	— %
Reverse mortgage interest expense	(147)	(6)	(221)	(7)	(368)	(7)	(382)	(7)	(14)	—	(4)%	— %
Advance interest expense	(13)	(1)	(19)	(1)	(32)	(1)	(35)	(1)	(3)	—	(9)%	— %
Other interest expense	(13)	(1)	(28)	(1)	(41)	(1)	(106)	(2)	(65)	1	(61)%	(50)%
Interest expense	(173)	(8)	(268)	(9)	(441)	(9)	(523)	(10)	(82)	1	(16)%	(10)%
Other income (expense)	6	—	(1)	—	5	—	(3)	—	8	—	(267)%	— %
Total other income (expense), net - Servicing	$55	3	$19	1	$74	1	$1	—	$73	1	7,300 %	100 %
Weighted average cost - advance facilities	4.1 %		3.9 %		4.0 %		3.1 %		0.9 %		29 %	
Weighted average cost - excess spread financing	8.8 %		8.8 %		8.8 %		8.9 %		(0.1)%		(1)%	

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

On a combined basis, total other income (expense), net improved in 2018 as compared to 2017 primarily due to a decrease in interest expense. Interest expense on a combined basis declined primarily as a result of lower compensating interest expense, decreased interest expense related to lower MSR financing and improved banking relationships. In addition, on a combined basis, reverse mortgage interest expense decreased in 2018 due to a significant decline in reverse mortgage interest as compared to 2017. Other income (expense) on a combined basis improved in 2018 primarily due to the gain on sale of MSR. Partially offsetting the improvement in total other income (expense) was a decrease in interest income on a combined basis in 2018 due to the decline in reverse mortgage interest.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 10.1. Servicing - Other Income (Expense), Net	Predecessor Year Ended December 31, 2017		2016		$ Change		% Change	
	Amounts	bps	Amounts	bps	Amt	bps	Amt	bps
Reverse mortgage interest income	$490	9	$344	9	$146	—	42 %	— %
Other interest income	37	1	3	—	34	1	1,133 %	100%
Interest income	527	10	347	9	180	1	52 %	11 %
Reverse mortgage interest expense	(382)	(7)	(269)	(7)	113	—	42 %	— %
Advance interest expense	(35)	(1)	(53)	(1)	(18)	—	(34)%	— %
Other interest expense	(106)	(2)	(120)	(3)	(14)	1	(12)%	33 %
Interest expense	(523)	(10)	(442)	(11)	81	1	18 %	9 %
Other expense	(3)	—	—	—	(3)	—	(100)%	— %
Total other income (expense), net - Servicing	$1	—	$(95)	(2)	$96	2	101 %	100%
Weighted average cost - advance facilities	3.1 %		2.8 %		0.3 %		10.7 %	
Weighted average cost - excess spread financing	8.9 %		8.9 %		— %		— %	

Reverse mortgage interest income and expense increased in 2017 as compared to 2016, primarily due to growth of the reverse mortgage portfolio in December 2016 with the acquisition of $3,691 UPB of securitized reverse mortgage loans and HMBS notes, along with the discount accretion associated with the purchase discount on this acquired portfolio. Other interest income significantly increased due to rising interest rates coupled with improved interest income derived from various banking relationships. Advance interest expense declined in 2017 due to the reduction of advances in 2016, which were primarily associated with sales of the related MSR, as well as portfolio performance. See Note 4, Mortgage Servicing Rights and Related Liabilities for further details related to servicing fees.

Serviced Portfolio and Liabilities

Table 11. Serviced Portfolios and Related Liabilities	Successor December 31, 2018			Predecessor December 31, 2017		
	UPB	Carrying Amount	Weighted Avg. Coupon	UPB	Carrying Amount	Weighted Avg. Coupon
Forward MSRs						
Agency	$229,108	$3,027	4.5 %	$202,868	$2,251	4.5 %
Non-agency	66,373	638	4.8 %	78,512	686	4.6 %
Total forward MSRs - fair value	295,481	3,665	4.5 %	281,380	2,937	4.5 %
Subservicing and other[1]						
Agency	208,607	N/A	N/A	183,519	N/A	N/A
Non-agency	15,279	N/A	N/A	8,357	N/A	N/A
Total subservicing and other	223,886	N/A	N/A	191,876	N/A	N/A
Reverse portfolio - amortized cost						
MSR	3,940	11	N/A	9,395	4	N/A
MSL	16,538	(71)	N/A	15,729	(41)	N/A
Securitized loans	7,937	7,934	N/A	9,988	9,984	N/A
Total reverse portfolio serviced	28,415	7,874	N/A	35,112	9,947	N/A
Total servicing portfolio unpaid principal balance	$547,782	$11,539	N/A	$508,368	$12,884	N/A

(1) Subservicing and other amounts include loans we service for others, residential mortgage loans originated but have yet to be sold, and agency REO balances for which we own the mortgage servicing rights.

We assess whether acquired portfolios are more credit sensitive or interest sensitive in nature on the date of acquisition. We consider numerous factors in making this assessment, with the primary factors consisting of the overall portfolio delinquency characteristics, portfolio seasoning and residential mortgage loan composition. Interest rate sensitive portfolios typically consist of single-family conforming residential forward mortgage loans serviced for GSEs or other third-party investors. Credit sensitive portfolios primarily consist of higher delinquency single-family non-conforming residential forward mortgage loans in private-label securitizations.

Table 12. Fair Value MSR Valuation	Successor December 31, 2018			Predecessor December 31, 2017		
	UPB	Carrying Amount	bps	UPB	Carrying Amount	bps
MSRs - Fair Value						
Credit sensitive	$135,752	$ 1,495	110	$167,605	$ 1,572	94
Interest sensitive	159,729	2,170	136	113,775	1,365	120
Total MSRs - fair value	$295,481	$ 3,665	124	$281,380	$ 2,937	104

As of December 31, 2018, when measuring the fair value of the portfolio as a basis point of the unpaid principal balance, our credit sensitive pool increased in value compared to the Predecessor’s December 31, 2017 credit sensitive pool due to improved portfolio performance as evidenced by lower delinquency and foreclosure rates. The fair value of the portfolio as a basis point of our interest sensitive portfolio increased compared to the Predecessor’s December 31, 2017 fair value due to lower prepayment speeds resulting from a higher interest rate environment.

The following table provides information on the fair value of our owned forward MSR portfolio.

Table 13. MSRs - Fair Value, Roll Forward	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Predecessor Year ended December 31, 2017
Fair value - beginning of period	$ 3,413	$2,937	$ 3,160
Additions:			
Servicing resulting from mortgage loans sold	120	162	203
Purchases of servicing rights	479	144	66
Dispositions:			
Sales and cancellation of servicing assets[1]	(111)	4	(60)
Changes in fair value:			
Due to changes in valuation inputs or assumptions used in the valuation model:			
Credit sensitive	(78)	203	(32)
Interest sensitive	(45)	127	(69)
Other changes in fair value:			
Scheduled principal payments	(39)	(45)	(81)
Disposition of negative MSRs and other[2]	14	27	68
Prepayments			
Voluntary prepayments			
Credit sensitive	(36)	(71)	(168)
Interest sensitive	(37)	(54)	(105)
Involuntary prepayments			
Credit sensitive	(7)	(12)	(28)
Interest sensitive	(8)	(9)	(17)
Fair value - end of period	$ 3,665	$3,413	$ 2,937

(1) Amount for the seven months ended July 31, 2018 was related to the sale of nonperforming loans, which had a negative MSR value.

(2) Amounts primarily represent negative fair values reclassified from the MSR asset to reserves as underlying loans are removed from the MSR and other reclassification adjustments.

The following table sets forth the weighted average assumptions in estimating the fair value of MSRs.

Table 14. MSRs - Fair Value	Successor December 31, 2018	Predecessor December 31, 2017
Credit Sensitive MSRs		
Discount rate	11.3 %	11.4 %
Weighted average prepayment speeds	11.8 %	15.2 %
Weighted average life of loans	6.4 years	5.7 years
Interest Sensitive MSRs		
Discount rate	9.3 %	9.2 %
Weighted average prepayment speeds	10.0 %	10.7 %
Weighted average life of loans	7.0 years	6.7 years

The discount rate for credit sensitive and interest sensitive MSRs as of December 31, 2018 remained consistent compared to December 31, 2017. The weighted average life of loans for both credit and interest sensitive MSRs increased as a result of decreased weighted average prepayment speeds, which were attributable to higher interest rates period over period.

The discount rate is used to determine the present value of estimated future net servicing income, which is based on the required rate of return market investors would expect for an asset with similar risk characteristics. The discount rate is determined through review of recent market transactions as well as comparing the discount rate to those utilized by third-party valuation specialists.

Total prepayment speeds represent the annual rate at which borrowers are forecasted to repay their mortgage loan principal, which includes estimates for both voluntary and involuntary borrower liquidations. The expected weighted-average life represents the total years we expect to service the MSR.

Excess Spread Financing

As further disclosed in Note 4, Mortgage Servicing Rights and Related Liabilities and Note 23, Transactions with Affiliates, we have entered into sale and assignment agreements treated as financing arrangements whereby the acquirer has the right to receive a specified percentage of the excess cash flow generated from an MSR.

The servicing fees associated with an MSR can be segregated into (i) a base servicing fee and (ii) an excess servicing fee. The base servicing fee, along with ancillary income and other revenues, is designed to cover costs incurred to service the specified pool plus a reasonable margin. The remaining servicing fee is considered excess. We sell a percentage of the excess fee, as a method for efficiently financing acquired MSRs and the purchase of loans. These financings have been provided by New Residential and third parties associated with funds and accounts under management of BlackRock Financial Management, Inc. and Värde Partners, Inc.

Excess spread financings are recorded at fair value, and the impact of fair value adjustments on future revenues and capital resources varies primarily due to (i) prepayment speeds and (ii) our ability to recapture prepayments through the origination platform. In Note 4, Mortgage Servicing Rights and Related Liabilities, the range of assumptions and sensitivities related to the measurement of the excess spread financing liability as of December 31, 2018 and 2017 is disclosed.

The following table sets forth the change in the excess spread liability and the related weighted average assumptions for the years ended December 31, 2018 and 2017.

Table 15. Excess Spread Financing	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Year ended December 31, 2017
Fair value - beginning of period	$ 1,039	$996	$ 1,214
Additions:			
New financings	255	70	—
Deductions:			
Repayments of debt	(38)	(3)	(23)
Settlements of principal balances	(77)	(105)	(207)
Changes in fair value:			
Credit sensitive	23	73	16
Interest sensitive	(18)	8	(4)
Fair value - end of period	$ 1,184	$1,039	$ 996

Key Assumptions	Successor December 31, 2018	Predecessor December 31, 2017
Weighted average prepayment speeds	11.0 %	13.7 %
Weighted average life of loans	6.5 years	5.9 years
Discount rate	10.4 %	10.8 %
Credit Sensitive		
Mortgage prepayment speeds	11.6 %	14.3 %
Average life of mortgage loans	6.3 years	5.8 years
Discount rate	11.1 %	11.1 %
Interest Sensitive		
Mortgage prepayment speeds	9.9 %	11.1 %
Average life of mortgage loans	7.0 years	6.3 years
Discount rate	9.0 %	8.9 %

In conjunction with the excess spread financing servicing acquisition structure, we had previously entered into several sale agreements whereby we sold the right to repayment on outstanding private-label servicing advances and sold the right to receive the base fee component on the related MSRs. We continue to service the loans in exchange for a portion of the base fee. These financings are recorded at fair value, and the change in fair value is recorded against servicing revenue and interest imputed on the outstanding liability is recorded as interest expense.

Table 16. MSRs Financing Liability - Rollforward	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Year ended December 31, 2017
Fair value - beginning of period	$ 26	$ 10	$ 27
Changes in fair value[1]:			
Changes in valuation inputs or assumptions used in the valuation model	11	22	(19)
Other changes in fair value	(5)	(6)	2
Fair value - end of period	$ 32	$ 26	$ 10

Weighted-Average Assumptions	Successor December 31, 2018	Predecessor December 31, 2017
Advance financing rates	4.2 %	3.5 %
Annual advance recovery rates	19.0%	23.2 %

(1) The changes in fair value related to our MSR financing liability primarily relate to both scheduled and unscheduled principal payments reflected in the underlying MSRs and changes in the fair value model assumptions.

We estimate fair value of the MSR financing liability based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments. The cash flow assumptions and prepayment assumptions used in the model are based on various factors, with the key assumptions at December 31, 2018 and 2017 being advance financing rates and annual advance recovery rates. The liability value increased in 2018 primarily due to the increase in the UPB of the underlying MSR, which resulted in an increase in the amounts owed to the counterparty over 2018.

The following table provides an overview of our forward servicing portfolio and amounts that involve excess spread financing with our co-invest partners for the periods indicated.

Table 17. Leveraged Portfolio Characteristics	Successor December 31, 2018	Predecessor December 31, 2017
Owned forward servicing portfolio - unencumbered	$ 103,644	$ 84,488
Owned forward servicing portfolio - encumbered	191,837	196,892
Subserviced forward servicing portfolio and other	223,886	191,876
Total unpaid principal balance	$ 519,367	$ 473,256

The encumbered forward servicing portfolio consists of residential mortgage loans included within our excess spread financing transactions and MSR financing liability. Subserviced and other amounts include (1) loans serviced for others, (2) residential mortgage loans originated but not yet sold, and (3) agency REO balances for which we own the mortgage servicing rights. The increase in subserviced forward servicing portfolio and other was primarily due to the transfer of subserviced portfolios during 2018.

Reverse - MSRs Participating Interests - Amortized Cost

The table below provides detail of the characteristics and key performance metrics of the reverse servicing portfolio, which is included in MSRs and participating interests in reverse mortgages. Such assets are recorded at amortized cost.

Table 18. Reverse - Mortgage Portfolio Characteristics	Successor December 31, 2018	Predecessor December 31, 2017
Loan count	192,810	212,415
Ending unpaid principal balance	$28,415	$35,112
Average loan amount[(1)]	$147,374	$165,299
Average coupon	4.5 %	3.8 %
Average borrower age	79	79

(1) Average loan amount is presented in whole dollar amounts.

From time to time, we acquire servicing rights and participating interests in reverse mortgage portfolios. Reverse mortgage loans, known as HECMs, provide seniors 62 and older with a loan upon which draws can be made periodically. The draws are secured by the equity in the borrower's home. For acquired servicing rights, an MSR or MSL is established on the acquisition date at fair value, as applicable, based on the proceeds paid or received to service the reverse portfolio.

Each quarter, we amortize or accrete the MSR or MSL to service related revenue, net of the respective portfolios run-off. The MSR or MSL is assessed for impairment or increased obligation based on its fair value, using a variety of assumptions, with the primary assumption being discount rates, prepayment speeds and the borrower life expectancy. The MSRs are stratified based on predominant risk characteristics of the underlying serviced loans. Impairment, if any, represents the excess of amortized cost of an individual stratum over its estimated fair value and is recognized through an increase in the valuation allowance.

Based on our assessment, no impairment was required to be recorded for reverse MSRs as of December 31, 2018. No impairment was required to be recorded for reverse MSRs as of December 31, 2017 based on the Predecessor's assessment.

Originations Segment

Our Originations segment comprises both direct-to-consumer and correspondent lending.

The direct-to-consumer lending channel originates first-lien conventional and government-insured loans. The direct-to-consumer strategy relies on call centers, our website and our mobile app to interact with customers. Our primary focus is to assist customers currently in our servicing portfolio with a refinance or home purchase. Through this process, we increased our originations margin by reducing marketing and other costs to acquire customers, as well as replenish our servicing portfolio.

The correspondent lending channel acquires newly originated residential mortgage loans that have been underwritten to investor guidelines. This includes both conventional and government-insured loans that qualify for inclusion in securitizations that are guaranteed by the GSEs. The correspondent lending channel enables us to replenish servicing portfolio run-off typically at better return thresholds than traditional bulk or flow acquisitions.

To mitigate credit risk, we typically sell loans within 30 to 60 days of origination while retaining the associated servicing rights. Servicing rights can be retained, sold (servicing released) or be given back to the investor (or a portion of the servicing rights) depending on the subservicing or co-invest agreements.

The following tables set forth the results of operations from the Originations segment.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 19. Originations - Operations	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Revenues	$ 181	$ 306	$ 487	$ 591	$ (104)	(18)%
Expenses	155	245	400	439	(39)	(9)%
Other income (expenses), net	6	1	7	1	6	600 %
Income before income tax expense	$ 32	$ 62	$ 94	$ 153	$ (59)	(39)%
Income before taxes margin	17.7 %	20.3 %	19.3 %	25.9 %	(6.6)%	(25)%

	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Revenue	$ 181	$ 306	$ 487	$ 591	$ (104)	(18)%
Pull through adjusted lock volume	$ 8,295	$ 11,907	$ 20,202	$ 17,731	$ 2,471	14 %
Revenue basis points[2]	2.18 %	2.57 %	2.41 %	3.33 %	(0.92)%	(28)%
Expenses	$ 155	$ 245	$ 400	$ 439	$ (39)	(9)%
Funded volume	$ 8,884	$ 12,317	$ 21,201	$ 19,140	$ 2,061	11 %
Expenses basis points[3]	1.74 %	1.99 %	1.89 %	2.29 %	(0.40)%	(17)%
Margin	0.44 %	0.58 %	0.52 %	1.04 %	(0.52)%	(11)%

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.
(2) Calculated on pull-through adjusted lock volume as revenue is recognized at the time of loan lock.
(3) Calculated on funded volume as expenses are incurred based on closing of the loan.

On a combined basis, income before income tax expense decreased in 2018 as compared to 2017 primarily due to a decline in revenues. Revenues on a combined basis in 2018 declined as a result of lower margins due to a shift in channel mix from direct-to-consumer to correspondent mix. In addition, the shift to correspondent mix contributed to the decrease in revenue basis points on a combined basis in 2018 as compared to 2017. Expenses on a combined basis decreased in 2018 compared to 2017 primarily due to expense management and correspondent channel growth.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 19.1. Originations - Operations	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Revenues	$591	$738	$(147)	(20)%
Expenses	439	527	(88)	(17)%
Other income (expenses), net	1	4	(3)	(75)%
Income before income tax expense	$153	$215	$(62)	(29)%
Income before taxes margin	25.9 %	29.1 %	(3.2)%	(11)%

	Predecessor Year Ended December 31,			
	2017	2016	Amount Change	% Change
Revenue	$591	$738	$(147)	(20)%
Pull through adjusted lock volume	17,731	20,470	(2,739)	(13)%
Revenue basis points[(1)]	3.33 %	3.61 %	(0.28)%	(8)%
Expenses	$439	$527	$(88)	(17)%
Funded volume	19,140	20,316	(1,176)	(6)%
Expenses basis points[(2)]	2.29 %	2.59 %	(0.30)%	(12)%
Margin	1.04 %	1.02 %	0.02 %	2 %

(1) Calculated on pull-through adjusted lock volume as revenue is recognized at the time of loan lock.
(2) Calculated on funded volume as expenses are incurred based on closing of the loan.

Although income before income taxes for 2017 decreased as compared to 2016 due to a decrease in revenues, earnings margin improved during 2017. The earnings margin improvement was primarily due to a reduction of expenses, causing a decline in expenses basis points. Revenue basis points in 2017 declined in comparison to 2016 primarily due to a higher correspondent mix and lower HARP mix. Revenue decreased as a result of lower volumes. Expenses basis points declined in 2017 due to a decrease in expenses of 17% compared to 2016. The decrease in expenses was a result of cost reduction initiatives, increased productivity and non-recurring TRID related expenses that were incurred in 2016.

Gain on Mortgage Loans Held for Sale

Gain on mortgage loans held for sale represents the realized gains and losses on loan sales and settled derivatives. The gain on mortgage loans held for sale is a function of the volume and margin of our originations activity and is impacted by fluctuations in interest rates.

Net Gain on Mortgage Loans Held for Sale

The net gain on mortgage loans held for sale includes gain on mortgage loans held for sale as well as capitalized servicing rights and mark-to-market adjustments on mortgage loans held for sale and related derivative financial instruments. We recognize the fair value of the interest rate lock commitments ("IRLC"), including the fair value of the related servicing rights, at the time we commit to originate or purchase a loan at specified terms. Loan origination costs are recognized as the obligations are incurred, which typically aligns with the date of loan funding for direct-to-consumer originations and the date of loan purchase for correspondent lending.

Revenues, including net gain on mortgage loans held for sale, for our Originations segment are set forth in the table below.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 20. Originations - Revenues	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Service related, net - Originations	$ 24	$ 36	$ 60	$ 63	$ (3)	(5)%
Net gain on mortgage loans held for sale						
Gain on loans originated and sold	71	113	184	381	(197)	(52)%
Fair value adjustments on loans held for sale	6	—	6	9	(3)	(33)%
Mark-to-market on locks and commitments[2]	(11)	1	(10)	(32)	22	(69)%
Mark-to-market on derivative/hedge	(20)	1	(19)	(29)	10	(34)%
Capitalized servicing rights	114	156	270	192	78	41 %
Provision of repurchase reserves, net of release	(3)	(1)	(4)	7	(11)	(157)%
Total net gain on mortgage loans held for sale	157	270	427	528	(101)	(19)%
Total revenues - Originations	$ 181	$ 306	$ 487	$ 591	$ (104)	(18)%
Key Metrics						
Consumer direct lock pull through adjusted volume[3]	$ 3,588	$ 6,100	$ 9,688	$ 11,319	$ (1,631)	(14)%
Other locked pull through adjusted volume[3]	4,707	5,807	10,514	6,412	4,102	64 %
Total pull through adjusted volume	$ 8,295	$ 11,907	$ 20,202	$ 17,731	$ 2,471	14 %
Funded volume	$ 8,884	$ 12,317	$ 21,201	$ 19,140	$ 2,061	11 %
Funded HARP volume	$ 296	$ 832	$ 1,128	$ 3,540	$ (2,412)	(68)%
Recapture percentage	24.8 %	23.8 %	24.6 %	27.4 %	(2.8)%	(10)%
Purchase percentage of funded volume	55.8 %	46.7 %	64.7 %	30.7 %	34.0 %	111 %
Value of capitalized servicing	130 bps	120 bps	126 bps	101 bps	25	25 %

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.
(2) Mark-to-market on locks and commitments includes our fair value mark-to-market adjustments on IRLCs.
(3) Pull through adjusted volume represents the expected funding from locks taken during the year.

Total revenues on a combined basis decreased in 2018 as compared to 2017 primarily due to a decline in the gain on loans originated and sold. On a combined basis, the gain on loans originated and sold decreased in 2018 primarily due to higher correspondent channel mix volume in 2018, which has a lower margin than the direct-to-consumer channel mix. Partially offsetting the decrease in the gain on loans originated and sold was an increase in capitalized servicing rights and mark-to-market on locks and commitments on a combined basis, as a result of a higher interest rate environment in 2018 compared to 2017.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 20.1. Originations - Revenues	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Service related, net - Originations	$63	$63	$—	— %
Net gain on mortgage loans held for sale				
Gain on loans originated and sold	381	458	(77)	(17)%
Fair value adjustments on loans held for sale	9	(15)	24	(160)%
Mark-to-market on locks and commitments[1]	(32)	2	(34)	(1,700)%
Mark-to-market on derivative/hedge	(29)	27	(56)	(207)%
Capitalized servicing rights	192	197	(5)	(3)%
Provision of repurchase reserves, net of release	7	6	1	17 %
Total net gain on mortgage loans held for sale	528	675	(147)	(22)%
Total revenues - Originations	$591	$738	$(147)	(20)%
Key Metrics				
Consumer direct lock pull through adjusted volume[2]	$11,319	$13,728	$(2,409)	(18)%
Other locked pull through adjusted volume[2]	6,412	6,742	(330)	(5)%
Total pull through adjusted volume	$17,731	$20,470	$(2,739)	(13)%
Funded volume	$19,140	$20,316	$(1,176)	(6)%
Funded HARP volume	$3,540	$4,311	$(771)	(18)%
Recapture percentage	27.4 %	28.6 %	(1.2)%	(4)%
Purchase percentage of funded volume	30.7 %	23.5 %	7.2 %	31 %
Value of capitalized servicing	101 bps	97 bps	4	4 %

(1) Mark-to-market on locks and commitments includes our fair value mark-to-market adjustments on IRLCs.
(2) Pull through adjusted volume represents the expected funding from locks taken during the year.

Total revenue decreased in 2017 as compared to 2016 due to a decline in total net gain on mortgage loans held for sale. Gain on loans originated and sold decreased in 2017 primarily due to lower locked volumes. The decrease in locked volumes was a result of increased interest rates over 2017, which drove lower demand for refinance loans. The decrease in locked volumes and the change in interest rates over 2017 also contributed to the decrease in mark-to-market on locks and commitments and mark-to-market on derivative/hedge revenues.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 21. Originations - Expenses	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Salaries, wages and benefits	$ 95	$ 148	$ 243	$ 263	$ (20)	(8)%
General and administrative						
Loan origination expenses	19	32	51	59	(8)	(14)%
Corporate and other general and administrative expenses	18	26	44	49	(5)	(10)%
Marketing and professional service fee	18	32	50	58	(8)	(14)%
Depreciation and amortization	5	7	12	10	2	20 %
Total general and administrative	60	97	157	176	(19)	(11)%
Total expenses - Originations	$ 155	$ 245	$ 400	$ 439	$ (39)	(9)%

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

Total expenses on a combined basis decreased 9% in 2018 compared to 2017 primarily due to a decline in salaries, wages and benefits expense, loan origination expenses and marketing and professional service fee expenses. On a combined basis, salaries, wages and benefits expense declined in 2018 primarily as a result of lower volumes and decreased headcount in the direct-to-consumer channel. Loan origination expenses and marketing and professional service fee expenses, on a combined basis, declined in 2018 primarily due to cost reduction initiatives and decreased volumes.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 21.1. Originations - Expenses	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Salaries, wages and benefits	$263	$297	$ (34)	(11)%
General and administrative				
Loan origination expenses	59	76	(17)	(22)%
Corporate and other general and administrative expenses	49	72	(23)	(32)%
Marketing and professional service fee	58	59	(1)	(2)%
Depreciation and amortization	10	11	(1)	(9)%
Loss on impairment of assets	—	12	(12)	(100)%
Total general and administrative	176	230	(54)	(23)%
Total expenses - Originations	$439	$527	$ (88)	(17)%

Total expenses decreased 17% in 2017 compared to 2016 primarily due to declines in volumes, expense initiatives and improvements in efficiency. In addition, a one-time $12 impairment charge was incurred in 2016 related to the impairment of the Greenlight trade name. Partially offsetting the volume related reductions during 2017 were exit and restructuring costs incurred to improve the alignment of costs with current operations. The restructuring costs included $1 of severance expense in salaries, wages and benefits and $2 of exit costs included in corporate and other general and administrative expenses associated with the restructuring of leases. In addition, lower loan origination expenses contributed to the overall decrease in expenses due to lower TRID expenses and stronger underwriting in 2017.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 22. Originations - Other Income (Expenses), Net	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Interest income	$ 27	$ 38	$ 65	$ 55	$ 10	18 %
Interest expense	(26)	(37)	(63)	(54)	9	17 %
Other income	5	—	5	—	5	100 %
Other income, net - Originations	$ 6	$ 1	$ 7	$ 1	$ 6	600 %
Weighted average coupon - mortgage loans held for sale	4.9 %	4.5 %	4.7 %	4.1 %	0.6 %	15 %
Weighted average cost of funds (excluding facility fees)	4.5 %	4.2 %	4.4 %	3.5 %	0.9 %	26 %

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

Interest income relates primarily to mortgage loans held for sale. Interest expense is associated with the warehouse facilities utilized to finance newly originated loans.

On a combined basis, interest income increased in 2018 primarily due to higher funded volume, as compared to 2017. Interest expense on a combined basis also increased primarily as a result of increased cost of funds from an increase in the interest rate index in 2018. In addition, other income on a combined basis increased in 2018 due to the recognition of incentives we received related to our financing of certain loans satisfying certain consumer relief characteristics. In September 2018, we entered into a master repurchase agreement that provides us with incentives to finance mortgage loans satisfying certain consumer relief characteristics as provided in the agreement. In 2018, on a combined basis, we recorded $5 in other income related to such incentives.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 22.1. Originations - Other Income (Expenses), Net	Predecessor Year Ended December 31, 2017	2016	$ Change	% Change
Interest income	$55	$63	$ (8)	(13)%
Interest expense	(54)	(58)	(4)	(7)%
Other expense	—	(1)	(1)	(100)%
Other income, net - Originations	$1	$4	$ (3)	(75)%
Weighted average coupon - mortgage loans held for sale	4.1 %	3.9 %	0.2 %	5 %
Weighted average cost of funds (excluding facility fees)	3.5 %	2.9 %	0.6 %	21 %

Due to reduced originated loan volume, interest income declined in 2017 as compared to 2016. Interest expense also declined primarily as a result of lower financed amounts in response to decreased originations activity in 2017.

Xome Segment

Our Xome segment is a leading provider of technology and data-enhanced solutions to home buyers, home sellers, real estate professionals and companies engaged in the origination and/or servicing of mortgage loans. Xome seeks to transform the real estate experience by making the challenge of buying or selling a home less complex and increasing transparency through the partnering of both online and offline components of the transaction cycle. The result provides customers a more streamlined and cohesive real estate environment. Xome is comprised of three revenue types categorized as Exchange, Services and Data/Technology.

Exchange revenue is comprised of real estate disposition services. The Xome.com auction platform leverages our proprietary auction technology designed to increase transparency, reduce fraud risk and provide better execution for property sales. Success of this mission is evidenced by generally higher sales price and lower average days to sell compared to traditional property sales.

Services revenue is comprised of title, escrow, valuation and field services related to real estate purchases, refinance and default transactions. We continue to serve existing third-party customers and capture refinance and default transactions generated by our Servicing and Originations segments. Today, significant opportunities still exist with respect to penetration of current and new customers. During 2018, we added over 9 new title clients. In August 2018, Xome acquired Assurant Mortgage Solutions ("AMS") and related entities which contributed to 24% of total revenues for the year, on a combined basis.

Data/Technology revenue includes sales of data solutions to real estate franchisors, brokerages, agents and MLS organizations and associations. Data/Technology contains a diversified set of businesses including Xome Analytics (primarily multiple listing service ("MLS") data and analytics). Quantarium (artificial intelligence powered valuation and other real estate data and analytics), and Xome Signings (technology enabled notary services). Xome Analytics provides aggregation, standardization and licensing for one of the nation's largest set of MLS, public records and neighborhood demographic data. Quantarium is an artificial intelligence company which has developed a sophisticated machine based property valuation model and built one of the largest real estate data lakes in the US. Quantarium serves clients in both the mortgage and real estate sectors. This unit also includes the financial results of Xome corporate functions. In February 2018, Xome sold its software-based business of its Real Estate Digital ("RED") business but retained RED's reDataVault proprietary offering, which is home to Xome's MLS data, and continues to provide this service to RED and other industry related businesses.

The following tables set forth the results of operation for the Xome segment.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 23. Xome - Operations	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Revenues	$ 177	$ 149	$ 326	$ 291	$ 35	12 %
Expenses	178	123	301	247	54	22 %
Other income (expenses), net	—	9	9	9	—	— %
Income before income tax expense	$ (1)	$ 35	$ 34	$ 53	$ (19)	(36)%
Income before taxes margin	(0.6)%	23.5 %	10.4 %	18.2 %	(7.8)%	(43)%

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

On a combined basis, income before income taxes decreased in 2018 compared to 2017 due to an increase in expenses primarily driven by operational expenses related to the acquisition of AMS and decreased revenues for both Exchange and Data/Technology, due to lower volume of sales. This decrease in income before income taxes was partially offset by increased revenues for Services related to the AMS acquisition, which contributed to higher volumes of units for valuation and field services.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 23.1 Xome - Operations	Predecessor Year Ended December 31, 2017	2016	$ Change	% Change
Revenues	$291	$423	$(132)	(31)%
Expenses	247	354	(107)	(30)%
Other income (expenses), net	9	—	9	100 %
Income before income tax expense	$53	$69	$(16)	(23)%
Income before taxes margin	18.2 %	16.3 %	1.9 %	12 %

Income before income taxes decreased in 2017 compared to 2016 due to a decline in revenues driven by lower volume of property listings sold and completed services orders. Offsetting the decrease in revenues was a decrease in expenses, primarily in compensation related expenses as a result of a decline in headcount and direct vendor costs due to volume decline. In addition, Xome recorded a gain of $8 in 2017 to other income (expenses) in connection with the sale of its retail title division.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 24. Xome - Revenues	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Exchange	$ 34	$ 62	$ 96	$ 109	$(13)	(12)%
Services	135	74	209	152	57	38 %
Data/Technology	8	13	21	30	(9)	(30)%
Total revenues - Xome	$ 177	$ 149	$ 326	$ 291	$35	12 %
Key Metrics						
Exchange property listings sold	3,952	6,920	10,872	11,985	(1,113)	(9)%
Exchange property listings at period end	6,177	5,867	6,177	3,963	2,214	56 %
Services completed orders	808,503	264,031	1,072,534	422,658	649,876	154 %
Percentage of revenue earned from third-party customers	56.2 %	28.0 %	43.3 %	34.6 %	8.7 %	25 %

[1] Refer to Basis of Presentation section for discussion on presentation of combined results.

Exchange revenues on a combined basis decreased in 2018 compared to 2017 due to a decrease in the number of property listings sold. Revenues earned from default property listings decreased, as our outflow outpaced our referral inflow, and contributed to the reduction in properties sold. Despite the reduction in total property listings sold on a combined basis, revenues earned from third-party customers for the year ended 2018 increased by approximately 130% compared to the year ended 2017. The increase in third-party revenue was due to our focus on business development efforts with new and existing third-party customers.

Services revenues on a combined basis increased in 2018 as compared to 2017 primarily due to the August 2018 acquisition of the AMS entities plus the increase in our product offerings and product mix for the collateral valuations business. This was partially offset by a decline in title and escrow services mainly due to higher interest rates in 2018 that resulted in a decreased order volume and adversely impacted revenue. In addition, Xome sold its retail title division in June 2017, which contributed to the decline in revenues for our legacy title and escrow services.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 24.1 Xome - Revenues	Predecessor Year Ended December 31, 2017	2016	$ Change	% Change
Exchange	$ 109	$ 153	$ (44)	(29)%
Services	152	238	(86)	(36)%
Data/Technology	30	32	(2)	(6)%
Total revenues - Xome	$ 291	$ 423	$ (132)	(31)%
Key Metrics				
Exchange property listings sold	11,985	17,319	(5,334)	(31)%
Exchange property listings at period end	3,963	4,669	(706)	(15)%
Services completed orders	422,658	594,623	(171,965)	(29)%
Percentage of revenue earned from third-party customers	34.6 %	40.2 %	(5.6)%	(14)%

Exchange revenues decreased in 2017 compared to 2016 due to a decrease in the number of property listings sold. Revenues earned from default property listings decreased, as the Predecessor’s outflow outpaced its referral inflow, and contributed to the reduction in properties sold. Despite the reduction in total property listings sold, revenues earned from third-party customers for the year ended 2017 increased by 82% compared to the year ended 2016. The increase in third-party revenue was due to the Predecessor’s focus on business development efforts with new and existing third-party customers.

Services revenues decreased in 2017 as compared to 2016, primarily due to a decline in national and retail title and escrow services and collateral valuation services. Higher interest rates in 2017 resulted in a decreased order volume and adversely impacted the national and retail title and escrow services revenue. In addition, Xome sold its retail title division in June 2017, which contributed to the decline in revenues. Revenues from collateral valuation services decreased primarily due to a decrease in the delinquency rate of the Predecessor’s servicing portfolio and the termination of a nonprofitable client relationship in third quarter 2016.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 25. Xome - Expenses	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Salaries, wages and benefits	$ 73	$ 58	$ 131	$ 126	$ 5	4 %
General and administrative						
Operational expenses	100	58	158	104	54	52 %
Depreciation and amortization	5	7	12	14	(2)	(14)%
Loss on impairment of assets	—	—	—	3	(3)	(100)%
Total general and administrative	105	65	170	121	49	40 %
Total expenses - Xome	$ 178	$ 123	$ 301	$ 247	$ 54	22 %

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

On a combined basis, total expenses increased in 2018 as compared to 2017, primarily driven by an increase in operational expenses. The increase in operational expenses on a combined basis was primarily due to the acquisition of AMS in August 2018.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 25.1 Xome - Expenses	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Salaries, wages and benefits	$ 126	$ 175	$ (49)	(28)%
General and administrative				
Operational expenses	104	154	(50)	(32)%
Depreciation and amortization	14	21	(7)	(33)%
Loss on impairment of assets	3	4	(1)	(25)%
Total general and administrative	121	179	(58)	(32)%
Total expenses - Xome	$ 247	$ 354	$ (107)	(30)%

Salaries, wages and benefits expense decreased in 2017 compared to 2016 largely due to a reduction in headcount and the sale of the retail title division in 2017. The decrease in operational expenses was driven by a decline in direct vendor costs in conjunction with the decrease in revenues, as well as a decrease in system transaction related fees as the Predecessor completed the migration of its operations off of third-party platforms onto its proprietary technology. Operational expenses were also positively impacted by a decline in facility related expenses in conjunction of the sale of its retail title business and decrease in technology expenses due to reduction in headcount. Depreciation and amortization decreased primarily due to the retirement of the legacy technology. In addition, the Predecessor recorded a $3 loss on impairment of assets due to a $2 write off of goodwill in connection with the sale of Xome’s retail title division in June 2017 and a $1 impairment in customer relationships related to the loss of a major customer. In 2016, we experienced loss of a customer and determined that a certain tradename did not have any future value. Accordingly, a non-cash charge of $4 was recorded in 2016 for the impairment of these assets.

Corporate and Other

Our Corporate and Other segment records interest expense on our unsecured senior notes and other corporate debt, income or loss from our legacy portfolio consisting of non-prime and nonconforming residential mortgage loans and corporate expenses that are not directly attributable to our operating segments. The legacy portfolio consists of Predecessor loans that were transferred to a securitization trust in 2009 that was structured as a secured borrowing. The securitized loans are recorded as mortgage loans in our consolidated balance sheets and the asset-backed certificates acquired by third parties are recorded as nonrecourse debt.

Non-allocated corporate expenses include the administrative costs of executive management and other corporate functions that are not directly attributable to our operating segments.

The following tables set forth the results of operations for the Corporate and Other segment.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 26. Corporate and Other - Operations	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change

Revenues	$ —	$ 1	$ 1	$ 2	$ (1)	(50)%
Expenses	71	103	174	98	76	78 %
Other income (expense), net	(85)	(78)	(163)	(142)	(21)	15 %
Loss before income tax expense (benefit)	$ (156)	$ (180)	$ (336)	$ (238)	$ (98)	41 %

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

On a combined basis, the loss before income taxes increased in 2018 as compared to 2017 due to an increase in expenses primarily as a result of the Nationstar acquisition. Other income (expense), net declined on a combined basis in 2018 primarily due to an increase in interest expense on a higher debt balance.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 26.1 Corporate and Other - Operations	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Revenues	$2	$1	$ 1	100 %
Expenses	98	129	(31)	(24)%
Other income (expense), net	(142)	(151)	9	(6)%
Loss before income tax expense (benefit)	$(238)	$(279)	$ 41	(15)%

Loss before income taxes improved in 2017 as compared to 2016 due to lower expenses related to reductions in legal and marketing expenses and cost containment initiatives taken during 2017. In addition, 2016 expenses included non-recurring costs associated with restructuring costs and technology disposition. A decrease in interest expense on unsecured senior notes due to the continued repurchase of unsecured senior notes further contributed to the improvement in loss before income taxes.

Table 27. Legacy Portfolio	Successor December 31, 2018	Predecessor December 31, 2017
Performing - UPB	$ 145	$ 153
Nonperforming (90+ delinquency) - UPB	27	39
REO - estimated fair value	4	1
Total legacy portfolio	$ 176	$ 193

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 28. Corporate and Other - Expenses	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Salaries, wages and benefits	$ 38	$ 45	$ 83	$ 63	$ 20	32 %
General and administrative						
Operational expenses	13	54	67	23	44	191 %
Depreciation and amortization	20	4	24	12	12	100 %
Total general and administrative	33	58	91	35	56	160 %
Total expenses - Corporate and Other	$ 71	$ 103	$ 174	$ 98	$ 76	78 %

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

Total expenses on a combined basis for 2018 increased as compared to 2017 primarily due to increased expenses related to the Nationstar acquisition.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 28.1 Corporate and Other - Expenses	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Salaries, wages and benefits	$ 63	$ 53	$ 10	19 %
General and administrative				
Operational expenses	23	59	(36)	(61)%
Depreciation and amortization	12	8	4	50 %
Loss on impairment of assets	—	9	(9)	(100)%
Total general and administrative	35	76	(41)	(54)%
Total expenses - Corporate and Other	$ 98	$ 129	$ (31)	(24)%

Total expenses for 2017 decreased as compared to 2016 due to non-recurring expenses in the fourth quarter of 2016 related to restructuring costs and technology disposition. In addition, cost containment initiatives, which included lower legal expenses, lower marketing costs associated with brand spending and efficiencies realized in the management of the Predecessor's legacy portfolio, contributed to the decrease in expenses. The increase in depreciation and amortization in 2017 was related to the growth in the Predecessor's network platforms and development of its new website, which launched in December 2016. Salaries, wages and benefits increased in 2017 due to a shift from previously outsourced positions to internal positions with the expansion of its offshore shared services.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 29. Corporate and Other - Other Income (Expenses), Net	Successor	Predecessor		Predecessor		
	For the Period August 1 - December 31, 2018	For the Period January 1 - July 31, 2018	Combined[1]	Year ended December 31, 2017	$ Change	% Change
Interest income - legacy portfolio	$ 5	$ 7	$ 12	$ 14	$ (2)	(14)%
Other interest income	2	—	2	1	1	(100)%
Total interest income	7	7	14	15	(1)	7 %
Interest expense - legacy portfolio	(1)	(3)	(4)	(6)	(2)	(33)%
Interest expense on unsecured senior notes	(90)	(77)	(167)	(144)	23	16 %
Other interest expense	(2)	(3)	(5)	(4)	1	25 %
Total interest expense	(93)	(83)	(176)	(154)	22	14 %
Other income (expense)	1	(2)	(1)	(3)	2	67 %
Other income (expense), net - Corporate and Other[2]	$ (85)	$ (78)	$ (163)	$ (142)	$ (21)	(15)%
Weighted average cost - unsecured senior notes	7.1 %	7.4 %	7.2 %	7.3 %	(0.1)%	(1.4)%

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.
(2) Other income (expense), net for the Corporate and Other segment consists of interest expense on our unsecured senior notes, the interest income and expense from our legacy portfolio, and other interest related to a revolving

facility used for general corporate purposes.

On a combined basis, other income (expense), net increased in 2018 compared to 2017 primarily due to an increase in interest expense on unsecured senior notes. Interest expense on unsecured senior notes on a combined basis increased primarily as a result of a higher debt balance and higher borrowing rates under the new unsecured senior notes that were executed in July 2018 to fund the Nationstar acquisition.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 29.1 Corporate and Other - Other Income (Expenses), Net	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Interest income - legacy portfolio	$14	$14	$ —	— %
Other interest income	1	1	—	— %
Total interest income	15	15	—	— %
Interest expense - legacy portfolio	(6)	(7)	(1)	(14)%
Interest expense on unsecured senior notes	(144)	(152)	(8)	(5)%
Other interest expense	(4)	(6)	(2)	(33)%
Total interest expense	(154)	(165)	(11)	(7)%
Other income (expense)	(3)	(1)	(2)	(200)%
Other income (expense), net - Corporate and Other[(1)]	$(142)	$(151)	$ 9	6 %
Weighted average cost - unsecured senior notes	7.3 %	7.3 %	— %	— %

(1) Other income (expense), net for the Corporate and Other segment consists of interest expense on our unsecured senior notes, the interest income and expense from our legacy portfolio, and other interest related to a revolving facility used for general corporate purposes.

Other income (expense), net improved in 2017 compared to 2016 primarily due to the reduction in interest expense on unsecured senior notes as a result of the repurchase of unsecured senior notes over both years. The Predecessor repurchased $120 and $40 of outstanding notes during 2017 and 2016, respectively.

Changes in Financial Position

Table 30. Assets	Successor December 31, 2018	Predecessor December 31, 2017	$ Change	% Change
Cash and cash equivalents	$ 242	$ 215	$27	12.6 %
Mortgage servicing rights	3,676	2,941	735	25.0 %
Advances and other receivables, net	1,194	1,706	(512)	(30.0)%
Reverse mortgage interests, net	7,934	9,984	(2,050)	(20.5)%
Mortgage loans held for sale at fair value	1,631	1,891	(260)	(13.7)%
Deferred tax asset, net	967	—	967	100.0 %
Other	1,329	1,299	30	2.3 %
Total assets	$ 16,973	$ 18,036	$(1,063)	(5.9)%

Total assets as of December 31, 2018 decreased $1,063 or 5.9% compared with the Predecessor's total assets as of December 31, 2017 primarily due to the decrease in advances and other receivables, reverse mortgage interest, net and mortgage loans held for sale. Advances and other receivables decreased $512 primarily due to stronger recoveries of advances in 2018. Reverse mortgage interests decreased $2,050 due to the collection on participating interests in HMBS. In addition, reverse mortgage interests were adjusted down to fair value as of July 31, 2018 in connection with the Nationstar acquisition. Mortgage loans held for sale decreased $260 primarily due to a decrease in loans originated and purchased. These declines in assets were partially offset by an increase in mortgage servicing rights and deferred tax asset, net. Mortgage servicing rights increased primarily due to favorable fair value adjustments driven by a higher interest rate environment in 2018 compared to 2017. Deferred tax asset increased due to the release of the valuation allowance associated with the NOL carryforwards of WMIH in the five months ended December 31, 2018.

Table 31. Liabilities and Stockholders' Equity	Successor December 31, 2018	Predecessor December 31, 2017	$ Change	% Change
Unsecured senior notes, net	$ 2,459	$ 1,874	$585	31.2 %
Advance facilities, net	595	855	(260)	(30.4)%
Warehouse facilities, net	2,349	3,285	(936)	(28.5)%
MSR related liabilities - nonrecourse at fair value	1,216	1,006	210	20.9 %
Other nonrecourse debt, net	6,795	8,014	(1,219)	(15.2)%
Other liabilities	1,614	1,280	334	26.1 %
Total liabilities	15,028	16,314	(1,286)	(7.9)%
Total stockholders' equity attributable to Successor and Predecessor	1,942	1,715	227	13.2 %
Non-controlling interests	3	7	(4)	(57.1)%
Total liabilities and stockholders' equity	$ 16,973	$ 18,036	$(1,063)	(5.9)%

Stockholders' equity as of December 31, 2018 increased $227 or 13.2% compared to the Predecessor balance as of December 31, 2017 primarily due to the December 31, 2017 balance representing the Predecessor basis of equity. The December 31, 2018 balance represents the Successor's basis of equity after the Merger. Within liabilities, the advance facilities decreased $260 or 30.4% as the portfolio balance declined due to the repayments of advances. Warehouse facilities decreased $936 or 28.5% primarily due to the repayment from the proceeds of the issuance of the HECM securitization. Other nonrecourse debt decreased by $1,219 due to collections on participating interests in HMBS and subsequent repayments of HECM loans. These declines in liabilities were partially offset by an increase in unsecured senior notes, MSR related liabilities and other liabilities. Unsecured senior notes increased 31.2% due to the issuance of new unsecured senior notes totaling $1,700, offset by the redemption and repayment of certain unsecured senior notes as discussed in Note 11, Indebtedness. MSR related liabilities increased $210 primarily due to new excess spread financings in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources and Uses of Cash
Our primary sources of funds for liquidity include: (i) servicing fees and ancillary revenues; (ii) payments received from sale or securitization of loans; (iii) payments from the liquidation or securitization of our outstanding participating interests in reverse mortgage loans; (iv) advance and warehouse facilities, other secured borrowings and the unsecured senior notes; and (v) payments received in connection with the sale of advance receivables and excess spread.

Our primary uses of funds for liquidity include: (i) funding of servicing advances; (ii) originations and purchases of loans; (iii) payment of interest expenses; (iv) payment of operating expenses; (v) repayment of borrowings; (vi) payments for acquisitions of MSRs; (vii) scheduled and unscheduled draws on our serviced reverse residential mortgage loans; and (viii) payment of our marketing and technology expenses.

We service and subservice reverse mortgage loan portfolios with a UPB of $28,415 as of December 31, 2018, which includes $3,940 of reverse MSRs, $16,538 of reverse MSLs and $7,937 of reverse mortgage interests. Reverse mortgages provide seniors with the ability to monetize the equity in their homes in a lump sum, line of credit or annualized draws. The unpaid principal balance of the loan is accreted for borrower draws and other costs such as mortgage insurance premiums, property taxes and insurance. Recovery of advances and draws related to reverse MSRs is generally recovered over a two to three month period from the investor. However, for reverse portfolio recorded as a loan, the repayment of loan balances and collection of servicing fees occurs upon the payoff or other liquidation of the loan. We securitize our holdings in reverse mortgage loans in order to finance subsequent borrower draws and loan related costs. Draws on loans totaled $316 in 2018 on a combined basis, $403 in 2017 and $415 in 2016. Interest expenses are higher as a result of the issuance of the $950 aggregate principal amount of the 8.125% Notes due 2023 and $750 aggregate principal amount of the 9.125% Notes due 2026.

We believe that our cash flows from operating activities, as well as capacity with existing facilities, provide adequate resources to fund our anticipated ongoing cash requirements. We are reliant on these facilities to fund operating activities. As the facilities mature, we anticipate renewal of these facilities will be achieved. Future debt maturities will be funded with cash and cash equivalents, cash flow from operating activities and, if necessary, future access to capital markets. We continue to optimize the use of balance sheet cash to avoid unnecessary interest carrying costs.

During 2018, we expanded our subservicing portfolios in order to grow our operations without the capital required for acquisition costs and carrying costs of advances that is associated with ownership of mortgage servicing rights. We completed boardings of $60 billion UPB, on a combined basis, in connection with new and existing subservicing agreements.

Cash Flows
The table below presents the major sources and uses of cash flow for operating activities.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 32. Operating Cash Flow	Successor	Predecessor		Predecessor		
	For the Period August 1 - December	For the Period January 1 - July 31, 2018	Combined[1]	Year ended December 31, 2017	$ Change	% Change

31, 2018						
Cash provided by operating profits and changes in working capital and other assets	$ 1,261	$ 1,774	$ 3,035	$ 991	$ 2,044	206 %
Originations net sales activities	(10)	520	510	368	142	39 %
Net cash attributable to operating activities	$ 1,251	$ 2,294	$ 3,545	$ 1,359	$ 2,186	161 %

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

Cash generated from operating activities and from changes in working capital and other assets on a combined basis increased by $2,044 in 2018 when compared with 2017 primarily due to an increase of $1,008 in net income and an increase of $2,108 in cash provided by other assets and liabilities in 2018. The increase in cash provided by other assets and liabilities was primarily driven by increased proceeds from the liquidation of reverse mortgage loans, net of advance draws. The increase in cash inflow from net income and working capital was partially offset by the $958 million provision for deferred taxes, on a combined basis.

Cash generated from the origination and sale of loans increased by $142 or 39% in 2018, on a combined basis, when compared with 2017, primarily due to a decrease in the cash used of $178 for repurchases of forward loans out of Ginnie Mae securitizations and the origination and purchase of mortgage loans. Offsetting this decline in cash used was an increase in cash used in origination of loans of $36, on a combined basis.

Our business is subject to extensive regulation, investigations and reviews by various federal, state and local regulatory and enforcement agencies. We are also subject to various legal proceedings in the ordinary course of our business. Addressing these regulations, reviews and legal proceedings and implementing any resulting remedial measures may require us to devote substantial resources to legal and regulatory compliance or to make other changes to our business practices, resulting in higher costs which may adversely affect our cash flows.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 32.1 Operating Cash Flow	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Cash provided by operating profits and changes in working capital and other assets	$991	$783	$ 208	27 %
Originations net sales activities	368	189	179	95 %
Net cash attributable to operating activities	$1,359	$972	$ 387	40 %

Cash generated from operating activities and from changes in working capital and other assets increased by $208 in 2017 when compared with 2016, primarily due to an increase of $989 in funds used for the repurchase of reverse loan assets out of Ginnie Mae securitization trusts. Cash provided by other assets and liabilities increased by $912 in 2017 driven by increased proceeds from the liquidation of reverse mortgage loans, net of advance draws. Cash generated from the origination and sale of loans increased by $179 or 95% in 2017 when compared with 2016, primarily due to a $1,434 decrease in the cash used for repurchases of forward loans out of Ginnie Mae securitizations and the origination and purchase of mortgage loan. Offsetting this decline was a decrease in the proceeds for the sale of previously originate loans of $1,255.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 33. Investing Cash Flow	Successor	Predecessor		Predecessor		
	For the Period August 1 - December 31, 2018	For the Period January 1 - July 31, 2018	Combined(1)	Year ended December 31, 2017	$ Change	% Change
Purchase of forward mortgage servicing rights, net of liabilities incurred	$ (307)	$ (134)	$ (441)	$ (63)	$ (378)	600 %
Acquisition, net of cash acquired	(33)	—	(33)	—	(33)	100 %

Net proceeds from acquisition of reverse mortgage servicing portfolio and HECM related receivables	—	—	—	16	(16)	(100)%
Proceeds on sale of forward mortgage servicing rights	105	—	105	71	34	48 %
Proceeds on sale of assets	—	13	13	16	(3)	(19)%
Other	(15)	(41)	(56)	(46)	(10)	460 %
Net cash attributable to investing activities	$ (250)	$ (162)	$ (412)	$ (6)	$ (406)	6,767 %

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

Our investing activities used net cash of $412 in 2018 on a combined basis, which increased by $406 from $6 in 2017. The increase in net cash used in investing activities was primarily due to the fact that we utilized $378 more in 2018, on a combined basis, in purchase of forward mortgage servicing rights. In addition, we utilized $33, net of cash acquired, in 2018 in connection with the acquisition of Assurant Mortgage Solutions. Although we continue to seek to acquire servicing portfolios at advantageous pricing, the timing of these opportunities is not of a consistent frequency and can result in cash flows variability between years.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 33.1 Investing Cash Flow	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Purchase of forward mortgage servicing rights, net of liabilities incurred	$(63)	$(144)	$81	(56)%
Net proceeds from acquisition of reverse mortgage servicing portfolio and HECM related receivables	16	(3,600)	3,616	(100)%
Proceeds on sale of forward mortgage servicing rights	71	68	3	4 %
Proceeds on sale of assets	16	—	16	100 %
Other	(46)	(62)	16	(26)%
Net cash attributable to investing activities	$(6)	$(3,738)	$3,732	(100)%

The Predecessor's investing activities used net cash of $6 in 2017, which decreased by $3,732 from $3,738 in 2016. The decrease in net cash used in investing activities is primarily due to the fact that we utilized $3,600 in 2016 for an acquisition of reverse mortgage interests in securitized HECM loans and related advances. In addition, the Predecessor utilized $81 less in 2017 in purchase of forward mortgage servicing rights and received proceeds of $16 on sale of Xome's retail title division in June 2017, which further improved net cash attributable to investing activities. Although the Predecessor continues to seek to acquire servicing portfolios at advantageous pricing, the timing of these opportunities is not of a consistent frequency and can result in cash flows variability between years.

Year ended December 31, 2018 compared to Year ended December 31, 2017

Table 34. Financing Cash Flow	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Combined[1]	Predecessor Year ended December 31, 2017	$ Change	% Change
Changes in advance facilities	$45	$(305)	$(260)	$(241)	$(19)	8 %
Changes in warehouse facilities	(351)	(585)	(936)	863	(1,799)	(208)%
Payment of unsecured senior notes and nonrecourse debt	(1,036)	(93)	(1,129)	(138)	(991)	718 %
Issuance of excess spread financing	255	70	325	—	325	100 %
Repayment of excess spread and MSR liability financing	(115)	(108)	(223)	(230)	7	(3)%
Decrease of participating interest financing in reverse mortgage interests	(831)	(1,391)	(2,222)	(2,022)	(200)	10 %
Changes in HECM securitizations	(31)	311	280	135	145	107 %
Other	1	(10)	(9)	(22)	13	(59)%
Net cash attributable to financing activities	$(2,063)	$(2,111)	$(4,174)	$(1,655)	$(2,519)	152 %

(1) Refer to Basis of Presentation section for discussion on presentation of combined results.

Our financing activities used $4,174 cash in 2018, on a combined basis, which increased by $2,519 from 2017. The use in cash in 2018 was primarily driven by a decrease of $1,799 in warehouse facilities due to lower borrowings to fund the reverse mortgage activities. In addition, we redeemed and repaid a total $1,129 unsecured senior notes and nonrecourse debt in 2018, on a combined basis, an increase of $991 from 2017. Partially offsetting the cash outflow was $325 of proceeds from the issuance of excess spread financing in 2018 on a combined basis.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Table 34.1 Financing Cash Flow	Predecessor Year Ended December 31,			
	2017	2016	$ Change	% Change
Decrease in advance facilities	$(241)	$(550)	$309	(56)%
Increase in warehouse facilities	863	529	334	63 %
Payment of senior unsecured notes and nonrecourse debt	(138)	(58)	(80)	138 %
Issuance of excess spread financing	—	155	(155)	(100)%
Repayment of excess spread and MSR liability financing	(230)	(216)	(14)	6 %
Changes in participating interest financing in reverse mortgage interests	(2,022)	2,939	(4,961)	(169)%
Changes in HECM securitizations	135	15	120	800 %
Repurchase of common stock	—	(114)	114	(100)%
Other	(22)	(2)	(20)	1,000 %
Net cash attributable to financing activities	$(1,655)	$2,698	$(4,353)	(161)%

The Predecessor's financing activities used $1,655 cash in 2017 and generated $2,698 cash in 2016. In 2017, the use in cash was primarily driven by a decrease of $4,961 in participating interest financing. The Predecessor collapsed two HECM trusts and issued HMBS or private label securities under two new trusts in 2017. Proceeds from the securitizations less scheduled pay downs and amounts incurred to settle the collapsed trusts totaled $135.

Advance facilities declined to $241 in 2017 consistent with recoveries in advance balances. These amounts were offset by higher borrowings of $863 in warehouse facilities due to the funding need for reverse mortgage activities.

Warehouse facilities increased to $863 in 2017 primarily due to borrowings to fund the reverse mortgage activities, particularly associated with an acceleration of HMBS repurchases, of which the Predecessor expected to assign majority of those loans.

The Predecessor did not repurchase any shares under the $100 share repurchase program in 2017, and the program expired on December 31, 2017.

Capital Resources

Capital Structure and Debt

We require access to external financing resources from time to time depending on our cash requirements, assessments of current and anticipated market conditions and after-tax cost of capital. If needed, we believe additional capital could be raised through a combination of issuances of equity, corporate indebtedness, asset-backed acquisition financing and/or cash from operations. Our access to capital markets can be impacted by factors outside our control, including economic conditions.

Financial Covenants

Our advance and warehouse facilities contain various financial covenants which primarily relate to required tangible net worth amounts, liquidity reserves, leverage requirements, and profitability requirements. As of December 31, 2018, we were in compliance with our financial covenants on our borrowing arrangements and credit facilities.

Seller/Servicer Financial Requirements
The Federal Housing Finance Agency's finalized minimum financial requirements for Fannie Mae and Freddie Mac Seller/Servicers are set forth below.

Minimum Net Worth
Base of $2.5 plus 25 basis points of UPB for total loans serviced.
Tangible Net Worth comprises total equity less goodwill, intangible assets, affiliate receivables and certain pledged assets.

Minimum Capital Ratio
Tangible Net Worth/Total Assets greater than 6%.

Minimum Liquidity
3.5 basis points of total Agency servicing (Fannie Mae, Freddie Mac, Ginnie Mae).
Incremental 200 basis points of total nonperforming Agency, measured as 90+ delinquencies, servicing in excess of 6% of the total Agency servicing UPB.
Allowable assets for liquidity may include: cash and cash equivalents (unrestricted), available for sale or held for trading investment grade securities (e.g., Agency MBS, Obligations of GSEs, US Treasury Obligations); and unused/available portion of committed servicing advance lines.

In addition, Fannie Mae or Freddie Mac may require capital ratios in excess of stated requirements. Refer to Financial Covenants in Note 11, Indebtedness and Note 19, Capital Requirements for additional information. As of December 31, 2018, we were in compliance with our seller/servicer financial requirements.

Table 35. Debt	Successor December 31, 2018	Predecessor December 31, 2017
Advance facilities, net	$ 595	$ 855
Warehouse facilities, net	2,349	3,285
Unsecured senior notes, net	2,459	1,874

Advance Facilities
Our servicing agreements impose on us various rights and obligations that affect our liquidity. Among the most significant of these obligations is the requirement that we advance our own funds to meet contractual principal and interest payments for certain investors and to pay taxes, insurance, foreclosure costs and various other items that are required to preserve the assets being serviced. Delinquency rates and prepayment speeds affect the size of servicing advance balances along with stop advance policies. As part of our normal course of business, we borrow money to fund servicing advances. We rely upon several counterparties to provide us with financing facilities to fund a portion of our servicing advances. Pursuant to the terms of our agreements, a joint venture capitalized by New Residential and certain unaffiliated third party investors has the obligation to fund future advances on the private-label securitized loans subject to the agreements.

Warehouse Facilities
Loan origination activities generally require short-term liquidity in excess of amounts generated by our operations. The loans we originate are financed through several warehouse lines on a short-term basis. We typically hold the loans for approximately 30 days and then sell or place the loans in government securitizations in order to repay the borrowings under the warehouse lines. Our ability to fund current operations depends upon our ability to secure these types of short-term financings on acceptable terms and to renew or replace the financings as they expire.

As servicer for reverse mortgage loans, among other things, we are required to fund borrower draws on the loans. We typically pool borrower draws for approximately 30 days before including them in a HMBS securitization. As of December 31, 2018, unsecuritized borrower draws totaled $339, and our maximum unfunded advance obligation related to these reverse mortgage loans was $3,128.

Unsecured Senior Notes

In 2013 and 2018, we completed offerings of unsecured senior notes, which mature on various dated through July 2026. We pay interest semi-annually to the holders of these notes at interest rates ranging from 6.5% to 9.125%.

Table 36. Contractual Maturities - Unsecured Senior Notes

As of December 31, 2018, the expected maturities of our unsecured senior notes based on contractual maturities are presented below.

Year Ending December 31,	Amount
2019	$—
2020	—
2021	592
2022	206
2023	950
Thereafter	750
Unsecured senior notes	2,498
Unamortized debt issuance costs	(39)
Unsecured senior notes, net of unamortized debt issuance costs	$2,459

Table 37. Contractual Obligations

The table below sets forth our contractual obligations, excluding our legacy asset securitized debt, our excess spread financing, MSR financing and our participating interest financing at December 31, 2018.

	Less than 1 Year	1 - 3 Years	3-5 Years	More than 5 Years	Total
Unsecured senior notes	$—	$592	$1,156	$ 750	$2,498
Interest payment from unsecured senior notes[(1)]	198	395	298	206	1,097
Advance facilities	168	427	—	—	595
Warehouse facilities	1,960	390	—	—	2,350
Capital lease obligations	2	—	—	—	2
Operating lease obligations	32	54	28	34	148
Total	$2,360	$1,858	$1,482	$ 990	$6,690

(1) Interest expense on advance and warehouse facilities is not presented in this table due to the short term nature of these facilities.

In addition to the above contractual obligations, we have also been involved with several securitizations, which were structured as secured borrowings. These structures resulted in us carrying the securitized loans as mortgages on our consolidated balance sheets and recognizing the asset-backed certificates acquired by third parties as nonrecourse debt. The timing of the principal payments on this nonrecourse debt is dependent on the payments received on the underlying mortgage loans and liquidation of REO. For more information regarding our indebtedness, see Note 11, Indebtedness, in the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, we have identified the following policies that, due to the judgment, estimates and assumptions inherent in those policies, are critical to an understanding of our consolidated financial statements. These policies relate to fair value measurements, particularly those determined to be Level 3 as discussed in Note 17, Fair Value Measurements, business combinations and goodwill, and valuation and reserves for deferred tax assets. We believe that the judgment, estimates and assumptions used in the preparation of our consolidated financial statements are appropriate given the factual circumstances at the time. However, given the sensitivity of our consolidated financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in our results of operations or financial condition. Fair value measurements considered to be Level 3 representing estimated values based on significant unobservable inputs include (i) the valuation of MSRs, (ii) the valuation of excess spread financing and (iii) the valuation of mortgage servicing rights financing liability.

MSRs at Fair Value

We generally retain the servicing rights for existing forward residential mortgage loans transferred to a third party. We recognize MSRs in such transfers that meet the requirements for sale accounting. Additionally, we may acquire the rights to service forward residential mortgage loans from third parties. We apply fair value accounting to this class of MSRs, with all changes in fair value recorded as a charge or credit to servicing related revenue, net in the consolidated statements of operations. We estimate the fair value of these MSRs using a process that combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value. The cash flow assumptions and prepayment assumptions used in the model are based on various factors, with the key assumptions being mortgage prepayment speeds, discount rates, ancillary revenues and costs to service.

We use internal financial models that use market participant data to value MSRs. These models are complex and use asset specific collateral data and market inputs for interest and discount rates. In addition, the modeling requirements of MSRs are complex because of the high number of variables that drive cash flows associated with MSRs. Although the general accuracy of our valuation models is validated, valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of the models. On a quarterly basis, we obtain external market valuations from independent third-party MSR valuation experts in order to validate the reasonableness of our internal valuation.

Excess Spread Financing

In conjunction with the acquisition of certain MSRs, we have entered into sale and assignment agreements, which we account for as financings with third parties associated with funds and accounts under management of New Residential, BlackRock Financial Management, Inc. and Värde Partners, Inc., whereby we sell the right to receive a portion of the excess cash flow generated from certain underlying MSR portfolios after receipt of a fixed base servicing fee per loan. We retain all ancillary revenues associated with servicing the portfolio and the remaining portion of the excess cash flow after receipt of the fixed base servicing fee. We measure these financing arrangements at fair value to more accurately represent the future economic performance of the acquired MSRs and related excess servicing financing, with all changes in fair value recorded as a charge or credit to servicing related revenue, net in the consolidated statements of operations. We estimate the fair value of these financings using a process that combines the use of a discounted cash flow model and analysis of current market data based on the value of the underlying MSRs. The cash flow assumptions and prepayment assumptions used in the model are based on various factors with the key assumptions being mortgage prepayment speeds, discount rates, average life and recapture rate.

In addition, should we refinance any loan in the portfolios, subject to certain limitations, we are required to transfer the new loan or a replacement loan of similar economic characteristics into the portfolios. The new or replacement loan will be governed by the same terms set forth in the sale and assignment agreement described above.

Mortgage Servicing Rights Financing Liability

From time to time, we will enter into certain transactions with third parties to sell certain mortgage servicer rights and servicer advances under specified terms. When these transfers qualify for sale treatment, we derecognize the transferred assets on our consolidated balance sheets. We have determined that for a portion of these transactions, the related mortgage servicing rights sales are contingent upon the receipt of consents from various third parties. Until these required consents are obtained, legal ownership of the mortgage servicing rights continues to reside with us. We continue to account for the mortgage servicing rights on our consolidated balance sheets. Consequently, we record a mortgage servicing rights financing liability associated with this financing transaction.

We have elected to measure MSR financing agreements at fair value, with all changes in fair value recorded as a charge or credit to servicing related revenue in the consolidated statements of operations. The fair value of MSR financing is based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments. The cash flow assumptions and prepayment assumptions used in the model are based on various factors, with the key assumptions being advance financing rates and advance recovery rates.

Business Combinations and Goodwill
Acquisitions that qualify as a business combination are accounted for using the acquisition method of accounting. The fair value of consideration transferred for an acquisition is allocated to the assets acquired and liabilities assumed based on their fair value as of the acquisition date. Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and identified intangible assets acquired under a business combination.

Under the acquisition method of accounting, we complete valuation procedures for an acquisition to determine the fair value of the assets acquired and liabilities assumed. These valuation procedures require management to make assumptions and apply significant judgment to estimate the fair value of the assets acquired and liabilities assumed. If the estimates or assumptions used should significantly change, the resulting differences could materially affect the fair value of net assets. We estimate the fair value of the intangible assets acquired generally through a combination of a discounted cash flow analysis (the income approach) and an analysis of comparable market transactions (the market approach). For the income approach, we base the inputs and assumptions used to develop these estimates on a market participant perspective which include estimates of projected revenues, discount rates, economic lives and income tax rates, among others, all of which require significant management judgment. For the market approach, we apply judgment to identify the most comparable market transactions to the transaction. Definite-lived intangible assets, which are primarily comprised of customer relationships and technology, are amortized over their estimated useful lives using the straight-line method, or on a basis more representative of the time pattern over which the benefit is derived, and are assessed for impairment whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable.

Goodwill is not amortized, but is reviewed for impairment annually as of October 1 and monitors for interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing either a qualitative assessment or a quantitative goodwill impairment test. If we choose to perform a qualitative assessment and determines the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where we perform the quantitative goodwill impairment test, we compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, the difference would be recognized as an impairment loss.

Valuation of Deferred Tax Assets
Our provision for income taxes is calculated using the liability method, which requires the recognition of deferred income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and certain changes in the valuation allowance. We provide a valuation allowance against deferred tax assets if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the adequacy of the valuation allowance, we consider all forms of evidence, including: (1) historic earnings or losses; (2) anticipated taxable income resulting from the reversal of taxable temporary differences; (3) tax planning strategies; and (4) anticipated future earnings exclusive of the reversal of taxable temporary differences. Of all of the sources of taxable income, we generally rely upon reversals of existing deferred tax liabilities and future

taxable income excluding reversing differences. In determining the appropriate amount of valuation allowance required, we consider (1) internal forecasts of the Successor’s future pre-tax income exclusive of reversing temporary differences and carryforwards, (2) the nature and timing of future reversals of existing deferred tax assets and liabilities, (3) future originating temporary and permanent differences, and (4) NOL carryforward expiration dates, among others.

OTHER MATTERS

Recent Accounting Developments

See Note 1, Nature of Business and Basis of Presentation, in the consolidated financial statements in Item 8, Financial Statements and Supplementary Data, which is incorporated herein for details of recently issued accounting pronouncements and their expected impact on our consolidated financial statements.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the “Tax Reform Act”) was enacted. The Tax Reform Act significantly revised the U.S. corporate income tax regime by lowering the U.S. corporate tax rate from 35% to 21%, imposing a one-time transition tax on deemed repatriated earnings of foreign subsidiaries, creating new taxes on certain foreign sourced earnings, as well as other changes. In the year ended December 31, 2017, we have recorded a net tax benefit in connection with the Tax Reform Act and related matters primarily due to the remeasurement of deferred tax balances. During the five months ended December 31, 2018, adjustments of $3 were made to the Predecessor’s deferred tax assets and liabilities, including the rate differential due to 2017 return to provision true up adjustments. Such adjustments were recorded in purchase accounting and had no impact on the tax provision.

Impact of Inflation and Changing Prices

Our consolidated financial statements and notes thereto presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Further, interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Variable Interest Entities and Off Balance Sheet Arrangements

See Note 13, Securitizations and Financings, in the consolidated financial statements in Item 8, Financial Statements and Supplementary Data, which is incorporated herein for a summary of our transactions with VIEs and unconsolidated balances, and details of their impact on our consolidated financial statements.

Derivatives

See Note 10, Derivative Financial Instruments, in the consolidated financial statements in Item 8, Financial Statements and Supplementary Data, which is incorporated herein for a summary of our derivative transactions.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk
Our principal market exposure is to interest rate risk due to the impact on our mortgage-related assets and commitments.

Interest Rate Risk
Changes in interest rates affect our operations primarily as follows:

Servicing Segment

- a decrease in interest rates may increase prepayment speeds which may lead to (i) increased amortization expense; (ii) decrease in servicing fees; and (iii) decrease in the value of our MSRs;

- a decrease in interest rates could reduce our earnings from our custodial deposit accounts;

- an increase in interest rates would increase the cost of servicing our outstanding debt, including our ability to finance servicing advances and for borrowing for acquisitions;

- an increase in interest rates, together with an increase in monthly payments when an adjustable mortgage loan's interest rate adjusts upward from an initial fixed rate or a low introductory rate, may cause increased delinquency, default and foreclosure. Increased mortgage defaults and foreclosures may adversely affect our business as they increase our expenses and reduce the number of mortgages we service;

Originations Segment

- an increase in interest rates could adversely affect our loan originations volume because refinancing an existing loan would be less attractive for homeowners and qualifying for a purchase money loan may be more difficult for consumers;

- an increase in interest rates could also adversely affect our production margins due to increased competition among originators;

Xome Segment

- an increase in interest rates could adversely affect Xome Exchange's property sales, particularly non-distressed sales, as financing may become less attractive to borrowers;

- a substantial and sustained increase in prevailing interest rates could adversely affect the loan origination volumes of Xome's clients since refinancing and purchase loans would be less attractive to borrowers, which would in turn adversely impact Xome Services' valuation and title order volume;

We actively manage the risk profiles of interest rate lock commitments ("IRLCs") and mortgage loans held for sale on a daily basis and enter into forward sales of MBS in an amount equal to the portion of the IRLC expected to close, assuming no change in mortgage interest rates. In addition, to manage the interest rate risk associated with mortgage loans held for sale, we enter into forward sales of MBS to deliver mortgage loan inventory to investors.

Sensitivity Analysis

We assess our market risk based on changes in interest rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential impact on fair values based on hypothetical changes (increases and decreases) in interest rates.

We use a duration-based model in determining the impact of interest rate shifts on our loan portfolio, certain other interest-bearing liabilities measured at fair value and interest rate derivatives portfolios. The primary assumption used in these models is that an increase or decrease in the benchmark interest rate produces a parallel shift in the yield curve across all maturities.

We utilize a discounted cash flow analysis to determine the fair value of MSRs and the impact of parallel interest rate shifts on MSRs. The primary assumptions in this model are prepayment speeds, earnings related to float and market discount rates. However, this analysis ignores the impact of interest rate changes on certain material variables, such as the benefit or detriment on the value of future loan originations, non-parallel shifts in the spread relationships between MBS, swaps and U.S. Treasury rates and changes in primary and secondary mortgage market spreads. For mortgage loans, IRLCs and forward delivery commitments on MBS, we rely on a model in determining the impact of interest rate shifts. In addition, the primary assumption used for IRLCs, is the borrower's propensity to close their mortgage loans under the commitment.

Our total market risk is influenced by a wide variety of factors including market volatility and the liquidity of the markets. There are certain limitations inherent in the sensitivity analysis presented, including the necessity to conduct the analysis based on a single point in time and the inability to include the complex market reactions that normally would arise from the market shifts modeled.

We used December 31, 2018 market rates on our instruments to perform the sensitivity analysis. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in fair value may not be linear.

The following table summarizes the estimated change in the fair value of our assets and liabilities sensitive to interest rates as of December 31, 2018 given hypothetical instantaneous parallel shifts in the yield curve. Results could differ materially.

Table 38. Change in Fair Value	December 31, 2018	
	Down 25 bps	Up 25 bps
Increase (decrease) in assets		
Mortgage servicing rights at fair value	$(208)	$198
Mortgage loans held for sale at fair value	10	(12)
Derivative financial instruments:		
Interest rate lock commitments	4	(5)
Total change in assets	(194)	181
Increase (decrease) in liabilities		
Mortgage servicing rights liabilities at fair value	(5)	5
Excess spread financing at fair value	(42)	42
Derivative financial instruments:		
Forward MBS trades	16	(19)
Total change in liabilities	(31)	28
Total, net change	$(163)	$153

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements and Supplementary Data:

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Mr. Cooper Group Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Mr. Cooper Group Inc. (the Company) as of December 31, 2018 (Successor), the related consolidated statements of operations, stockholders’ equity and cash flows for the period August 1, 2018 through December 31, 2018 (Successor), and the related notes. We have also audited the accompanying consolidated balance sheet of Nationstar Mortgage Holdings Inc. (Nationstar) as of December 31, 2017 (Predecessor), the related consolidated statements of operations, stockholders’ equity and cash flows for the period January 1, 2018 through July 31, 2018 (Predecessor) and the years ended December 31, 2017 and 2016 (Predecessor), and the related notes (collectively with the consolidated financial statements of the Company, the “consolidated financial statements”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2018 (Successor) and the results of its operations and cash flows for the period August 1, 2018 through December 31, 2018 (Successor), in conformity with U.S. generally accepted accounting principles. It is also our opinion that the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nationstar as of December 31, 2017 (Predecessor) and the results of its operations and cash flows for the period January 1, 2018 through July 31, 2018 (Predecessor) and the years ended December 31, 2017 and 2016 (Predecessor), in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 11, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

Dallas, Texas
March 11, 2019

Consolidated Financial Statements

MR. COOPER GROUP INC.
CONSOLIDATED BALANCE SHEETS
(millions of dollars, except share data)

	Successor December 31, 2018	Predecessor December 31, 2017
Assets		
Cash and cash equivalents	$ 242	$ 215
Restricted cash	319	360
Mortgage servicing rights, $3,665 and $2,937 at fair value, respectively	3,676	2,941
Advances and other receivables, net of reserves of $47 and $284, respectively	1,194	1,706
Reverse mortgage interests, net of reserves of $13 and $115, respectively	7,934	9,984
Mortgage loans held for sale at fair value	1,631	1,891
Mortgage loans held for investment	119	139
Property and equipment, net of accumulated depreciation of $16 and $169, respectively	96	121
Deferred tax asset, net	967	—
Other assets	795	679
Total assets	$ 16,973	$ 18,036
Liabilities and Stockholders' Equity		
Unsecured senior notes, net	$ 2,459	$ 1,874
Advance facilities, net	595	855
Warehouse facilities, net	2,349	3,285
Payables and accrued liabilities	1,543	1,239
MSR related liabilities - nonrecourse at fair value	1,216	1,006
Mortgage servicing liabilities	71	41
Other nonrecourse debt, net	6,795	8,014
Total liabilities	15,028	16,314
Commitments and contingencies (Note 20)		
Preferred stock at $0.00001 and $0.01 par value - 10 million and 300 million shares authorized, 1 million and zero shares issued and outstanding for Successor and Predecessor, respectively; aggregate liquidation preference of ten and zero dollars for Successor and Predecessor, respectively	—	—
Common stock at $0.01 and $0.01 par value - 300 million and 1 billion shares authorized, 90.8 million and 109.9 million shares issued for Successor and Predecessor, respectively	1	1
Additional paid-in-capital	1,093	1,131
Retained earnings	848	731
Treasury shares at cost, zero and 12.2 million shares for Successor and Predecessor, respectively	—	(148)
Total Mr. Cooper stockholders' equity and Nationstar stockholders' equity, respectively	1,942	1,715
Non-controlling interests	3	7
Total stockholders' equity	1,945	1,722
Total liabilities and stockholders' equity	$ 16,973	$ 18,036

See accompanying Notes to Consolidated Financial Statements.

MR. COOPER GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(millions of dollars, except for earnings per share data)

	Successor	Predecessor		
	For the Period August 1 - December 31, 2018	For the Period January 1 - July 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Revenues:				
Service related, net	$ 418	$901	$ 1,043	$ 1,122
Net gain on mortgage loans held for sale	176	295	607	793
Total revenues	594	1,196	1,650	1,915
Expenses:				
Salaries, wages and benefits	337	426	742	813
General and administrative	370	519	733	831
Total expenses	707	945	1,475	1,644
Other income (expenses):				
Interest income	256	333	597	425
Interest expense	(293)	(388)	(731)	(665)
Other income (expenses)	13	6	3	(2)
Total other income (expenses), net	(24)	(49)	(131)	(242)
(Loss) income before income tax (benefit) expense	(137)	202	44	29
Less: Income tax (benefit) expense	(1,021)	48	13	13
Net income	884	154	31	16
Less: Net income (loss) attributable to non-controlling interests	—	—	1	(3)
Net income attributable to Successor/Predecessor	884	154	30	19
Less: Undistributed earnings attributable to participating stockholders	8	—	—	—
Net income attributable to common stockholders	$ 876	$154	$ 30	19
Net income per common share attributable to Successor/Predecessor:				
Basic	$ 9.65	$1.57	$ 0.31	$ 0.19
Diluted	$ 9.54	$1.55	$ 0.30	$ 0.19

See accompanying Notes to Consolidated Financial Statements.

MR. COOPER GROUP INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY
(millions of dollars, except share data)

	Preferred Stock		Common Stock							
	Shares (in thousands)	Amount	Shares (in thousands)	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Shares Amount	Total Nationstar Stockholders’ Equity and Mr. Cooper Stockholders’ Equity, respectively	Non-controlling Interests	Total Equity
Predecessor										
Balance at January 1, 2016	—	$ —	108,000	$ 1	$ 1,105	$ 682	$ (30)	$ 1,758	$ 9	$ 1,767
Shares issued / (surrendered) under incentive compensation plan	—	—	86	—	—	—	(3)	(3)	—	(3)
Share-based compensation	—	—	—	—	21	—	—	21	—	21
Excess tax deficiency from share-based compensation	—	—	—	—	(4)	—	—	(4)	—	(4)
Repurchase of common stock	—	—	(10,589)	—	—	—	(114)	(114)	—	(114)
Net income (loss)	—	—	—	—	—	19	—	19	(3)	16
Balance at December 31, 2016	—	—	97,497	1	1,122	701	(147)	1,677	6	1,683
Shares issued / (surrendered) under incentive compensation plan	—	—	231	—	(3)	—	(1)	(4)	—	(4)
Share-based compensation	—	—	—	—	17	—	—	17	—	17
Dividends to non-controlling interests	—	—	—	—	(5)	—	—	(5)	—	(5)
Net income	—	—	—	—	—	30	—	30	1	31
Balance at December 31, 2017	—	—	97,728	1	1,131	731	(148)	1,715	7	1,722
Shares issued / (surrendered) under incentive compensation plan	—	—	450	—	(6)	—	(3)	(9)	—	(9)
Share-based compensation	—	—	—	—	17	—	—	17	—	17
Dividends to non-controlling interests	—	—	—	—	5	—	—	5	(6)	(1)
Net income	—	—	—	—	—	154	—	154	—	154
Balance at July 31, 2018	—	$ —	98,178	$ 1	$ 1,147	$ 885	$ (151)	$ 1,882	$ 1	$ 1,883
Successor										
Balance at August 1, 2018	1,000	$ —	90,806	$ 1	$ 1,091	$ (36)	$ —	$ 1,056	$ —	$ 1,056
Non-controlling interests acquired	—	—	—	—	—	—	—	—	3	3
	—	—	15	—	—	—	—	—	—	—

Shares issued under incentive compensation plan										
Share-based compensation	—	—	—	—	2	—	—	2	—	2
Net income	—	—	—	—	—	884	—	884	—	884
Balance at December 31, 2018	1,000	$ —	90,821	$ 1	$ 1,093	$ 848	$ —	$ 1,942	$ 3	$ 1,945

See accompanying Notes to Consolidated Financial Statements.

MR. COOPER GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions of dollars)

	Successor	Predecessor		
	For the Period August 1 - December 31, 2018	For the Period January 1 - July 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Operating Activities				
Net income attributable to Successor/Predecessor	$ 884	$ 154	$ 30	$ 19
Adjustments to reconcile net income to net cash attributable to operating activities:				
Provision for deferred income taxes	(1,021)	63	(46)	(5)
Net income (loss) attributable to non-controlling interests	—	—	1	(3)
Net gain on mortgage loans held for sale	(176)	(295)	(607)	(793)
Interest income on reverse mortgage interests	(206)	(274)	(490)	(344)
(Gain) loss on sale of assets	—	(9)	(8)	2
Loss on impairment of assets	—	—	—	25
MSL related increased obligation	—	59	—	—
Provision for servicing reserves	38	70	148	108
Fair value changes and amortization/accretion of mortgage servicing rights/liabilities	225	(177)	430	484
Fair value changes in excess spread financing	5	81	12	25
Fair value changes in mortgage servicing rights financing liability	6	16	(17)	(42)
Fair value changes in mortgage loans held for investment	(2)	—	—	—
Amortization of premiums, net of discount accretion	9	8	82	64
Depreciation and amortization for property and equipment and intangible assets	39	33	59	63
Share-based compensation	2	17	17	21
Other loss	—	3	6	—
Repurchases of forward loan assets out of Ginnie Mae securitizations	(527)	(544)	(1,249)	(1,432)
Mortgage loans originated and purchased for sale, net of fees	(8,888)	(12,328)	(19,159)	(20,410)
Sales proceeds and loan payment proceeds for mortgage loans held for sale and held for investment	9,405	13,392	20,776	22,031
Excess tax (deficiency) benefit from share based compensation	—	—	(1)	4
Changes in assets and liabilities:				
Advances and other receivables, net	43	377	(30)	582
Reverse mortgage interests, net	1,544	1,601	1,672	572
Other assets	(61)	(41)	(75)	(25)
Payables and accrued liabilities	(68)	88	(192)	26
Net cash attributable to operating activities	1,251	2,294	1,359	972
Investing Activities				
Acquisition, net of cash acquired	(33)	—	—	—
Property and equipment additions, net of disposals	(15)	(40)	(42)	(62)

Purchase of forward mortgage servicing rights, net of liabilities incurred	(307)	(134)	(63)	(144)
Net payment related to acquisition of HECM related receivables	—	(1)	—	—
Net proceeds from acquisition of reverse mortgage servicing portfolio and HECM related receivables	—	—	16	(3,600)
Proceeds on sale of forward and reverse mortgage servicing rights	105	—	71	68
Proceeds on sale of assets	—	13	16	—
Purchase of cost-method investments	—	—	(4)	—
Net cash attributable to investing activities	(250)	(162)	(6)	(3,738)

Continued on following page. See accompanying Notes to Consolidated Financial Statements.

MR. COOPER GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)
(millions of dollars)

	Successor	Predecessor		
	For the Period August 1 - December 31, 2018	For the Period January 1 - July 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Financing Activities				
Increase (decrease) in warehouse facilities	(351)	(585)	863	529
Increase (decrease) in advance facilities	45	(305)	(241)	(550)
Proceeds from issuance of HECM securitizations	343	759	707	728
Repayment of HECM securitizations	(374)	(448)	(572)	(713)
Proceeds from issuance of participating interest financing in reverse mortgage interests	112	208	575	4,124
Repayment of participating interest financing in reverse mortgage interests	(943)	(1,599)	(2,597)	(1,185)
Proceeds from issuance of excess spread financing	255	70	—	155
Repayment of excess spread financing	(38)	(3)	(23)	(198)
Settlement of excess spread financing	(77)	(105)	(207)	—
Repayment of nonrecourse debt - legacy assets	(6)	(7)	(15)	(18)
Repurchase of unsecured senior notes	—	(62)	(123)	(40)
Redemption and repayment of unsecured senior notes	(1,030)	—	—	—
Repurchase of common stock	—	—	—	(114)
Proceeds from non-controlling interests	3	—	—	—
Excess tax deficiency from share based compensation	—	—	—	(4)
Surrender of shares relating to stock vesting	—	(9)	(4)	(3)
Debt financing costs	(2)	(24)	(13)	(13)
Dividends to non-controlling interests	—	(1)	(5)	—
Net cash attributable to financing activities	(2,063)	(2,11)	(1,655)	2,698
Net (decrease) increase in cash and cash equivalents	(1,062)	21	(302)	(68)
Cash and cash equivalents - beginning of year	1,623	575	877	945
Cash and cash equivalents - end of year[1]	$ 561	$596	$ 575	$ 877
Supplemental Disclosures of Cash Activities				
Cash paid for interest expense	$ 283	$417	$ 765	$ 694
Net cash (refunded) paid for income taxes	$ (37)	$36	$ 102	$ 17

(1) The following table provides a reconciliation of cash, cash equivalents and restricted cash to amount reported within the consolidated balance sheets.

Successor	Predecessor		
December 31, 2018	July 31, 2018	December 31, 2017	December 31, 2016

Cash and cash equivalents	$ 242	$166	$ 215	$ 489
Restricted cash	319	430	360	388
Total cash, cash equivalents and restricted cash	$ 561	$596	$ 575	$ 877

See accompanying Notes to Consolidated Financial Statements.

MR. COOPER GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(millions of dollars, unless otherwise stated)

1. Nature of Business and Basis of Presentation

Nature of Business
Mr. Cooper Group Inc. collectively with its consolidated subsidiaries, “Mr. Cooper”, the “Company”, “we”, “us” or “our”) provides servicing, origination and transaction-based services related to single family residences throughout the United States with operations under its primary brands: Mr. Cooper® and Xome®. Mr. Cooper is one of the largest home loan servicers in the country focused on delivering a variety of servicing and lending products, services and technologies. Xome provides technology and data enhanced solutions to homebuyers, home sellers, real estate agents and mortgage companies. The Company’s corporate website is located at www.mrcoopergroup.com.

Mr. Cooper, which was previously known as WMIH Corp. (“WMIH”), is a corporation duly organized and existing under the laws of the State of Delaware since May 11, 2015. On July 31, 2018, Wand Merger Corporation, a wholly-owned subsidiary of WMIH merged with and into Nationstar Mortgage Holdings Inc. (“Nationstar”), with Nationstar continuing as a wholly-owned subsidiary of WMIH (the “Merger”). Prior to the Merger, WMIH had limited operations other than its reinsurance business that operated in runoff mode and focused on identifying and consummating an accretive acquisition transaction across a broad array of industries, with a primary focus on the financial institutions sector. As a result of the Merger, shares of Nationstar common stock were delisted from the New York Stock Exchange. Following the Merger closing, the combined company traded on NASDAQ under the ticker symbol “WMIH” until October 10, 2018, when WMIH changed its name to “Mr. Cooper Group Inc.” and its ticker symbol to “COOP”.

Reverse Stock Split
On October 10, 2018, the Company completed its 1-for-12 reverse stock split. The reverse stock split reduced the number of WMIH common shares outstanding from 1,089,738,735 shares as of October 9, 2018 to 90,811,562 shares outstanding after giving effect to the reverse stock split. In addition, the reverse stock split reduced the total authorized shares of the Company’s common stock from 3,500,000,000 to 300,000,000 and increased the par value of each share from $0.00001 per share to $0.01 per share. All issued and outstanding share and per share amounts for Mr. Cooper included in the accompanying consolidated financial statements have been adjusted to reflect this reverse stock split for the successor period presented.

Basis of Presentation
For the purpose of financial statement presentation, Mr. Cooper was determined to be the accounting acquirer in the Merger, and Nationstar’s assets and liabilities were recorded at estimated fair value as of the acquisition date. Mr. Cooper’s interim consolidated financial statements for periods following the Merger closing are labeled “Successor” and reflect the acquired assets and assumed liabilities from Nationstar.

Under Securities and Exchange Commission (“SEC”) rules, when a registrant succeeds to substantially all of the business of another entity and the registrant’s own operations before the succession appear insignificant relative to the operations assumed or acquired, the registrant is required to present financial information for the acquired entity (the “Predecessor”) for all comparable periods being presented before the acquisition. Due to the acquisition, the Predecessor and Successor financial statements have been prepared on different basis of accounting and are therefore not comparable.

Pursuant to the Merger, Nationstar is considered the predecessor company. Therefore, the Company is providing additional information in the accompanying consolidated financial statements regarding Nationstar’s business for periods prior to July 31, 2018. The predecessor's company financial information in this report is labeled "Predecessor" in these consolidated financial statements.

The consolidated financial statements of the Company and Predecessor have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The significant accounting policies described below, together with the other notes that follow, are an integral part of the consolidated financial statements.

Basis of Consolidation

The basis of consolidation described below was adopted by Nationstar and applied to the Predecessor financial statements for the periods impacted by the adoption. The Successor's financial statements reflect the adoption of such standards.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, other entities in which the Company has a controlling financial interest, and those variable interest entities (“VIE”) where the Company’s wholly-owned subsidiaries are the primary beneficiaries. Assets and liabilities of VIEs and their respective results of operations are consolidated from the date that the Company became the primary beneficiary through the date the Company ceases to be the primary beneficiary. The Company applies the equity method of accounting to investments where it is able to exercise significant influence, but not control, over the policies and procedures of the entity and owns less than 50% of the voting interests. Investments in certain companies over which the Company does not exert significant influence are accounted for as cost method investments. Intercompany balances and transactions on consolidated entities have been eliminated.

Use of Estimates
The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates due to factors such as adverse changes in the economy, increases in interest rates, secondary market pricing for loans held for sale and derivatives, strength of underwriting and servicing practices, changes in prepayment assumptions, declines in home prices or discrete events adversely affecting specific borrowers, and such differences could be material.

Reclassifications
Certain reclassifications have been made in the Predecessor’s consolidated statement of cash flow to conform to the Successor’s 2018 presentation. Such reclassifications did not affect total revenues or net income.

Recent Accounting Guidance Adopted
The accounting standards described below were adopted by Nationstar and applied to the Predecessor financial statements for the periods impacted by the adoption. The adoption of such standards is also considered in the Successor’s financial statements.

Accounting Standards Update No. 2014-09, 2016-08, 2016-10, 2016-12 and 2016-20, collectively implemented as Financial Accounting Standard Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606 (“ASC 606”), Revenue from Contracts with Customers, provides guidance for revenue recognition. This ASC’s core principle requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. The standard also clarifies the principal versus agent considerations, providing that the evaluation must focus on whether the entity has control of the goods or services before they are transferred to the customer. The Company’s revenue is generated from loan servicing, loan originations and services provided by Xome. Servicing revenue is comprised of servicing fees and other ancillary fees in connection with the Company’s servicing activities as well as fees earned under subservicing arrangements. Origination revenue is comprised of fee income earned at origination of a loan, interest income earned for the period the loans are held and gain on sale on loans upon disposition of the loan. Xome’s revenue is comprised of income earned from real estate exchange, real estate services and real estate software as a service. The Company has performed a review of the new guidance as compared to its current accounting policies and evaluated all services rendered to its customers as well as underlying contracts to determine the impact of this standard to its revenue recognition process. The majority of services rendered by the Company in connection with originations and servicing are not within the scope of ASC 606. However, all revenues from Xome fall within the scope of ASC 606. Xome’s operations are comprised of Exchange, Services and Data/Technology, as discussed below.

- Exchange is a national technology-enabled platform that manages and sells residential properties through its Xome.com platform. Revenue-generating activities include commission and buyer’s premium of winning bids on auctioned real estate owned (“REO”) and short sale properties. Revenue is recognized when the performance obligation is completed, which is at the closing of real estate transactions and there is transfer of ownership to the buyer.

- Services connects the major touch points of the real estate transactions process by providing title, escrow and collateral valuation services for purchase, refinance and default transactions. Major revenue-generating activities include title and escrow services and valuation services. Revenue is recognized when the performance obligation is completed, which is when services are rendered to customers.

- Data/Technology includes the Company’s software as a service platform which provides integrated technology, media and data solutions to mortgage servicers, originators and multiple listing service (“MLS”) organizations and associations. Revenue-generating activities include software and platform system access and use, system implementation, software maintenance and support, data services and any additional customized enhancement. Revenue is recognized when the performance obligation is completed, which is generally recognized on a straight-line basis over the contractual terms. Additionally, any additional fees owed due to usage metrics in excess of the monthly minimum will be recognized each month under the usage-based royalties guidance of ASC 606.

Nationstar adopted ASC 606 on January 1, 2018, and there was no material impact recorded to the 2018 consolidated statements of operations of either the Successor or Predecessor. In connection with the adoption of ASC 606, Nationstar identified and implemented changes to its accounting policies and practices, business processes, and controls to support the new revenue recognition standard.

Accounting Standards Update No. 2016-15, Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), relates to the Statement of Cash Flows (Topic 230) and is intended to provide specific guidance to reduce diversity in practice. ASU 2016-15 addresses the following eight cash flow classification issues: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of life insurance claims, (5) proceeds from the settlement of corporate owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions and (8) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. Nationstar adopted ASU 2016-15 in the first quarter of 2018 and determined that the implementation of this standard had no impact on its consolidated statement of cash flows of the Predecessor and Successor.

Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash ("ASU 2016-18"), requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. Nationstar adopted ASU 2016-18 in the first quarter of 2018 and retrospectively applied the guidance to all periods presented. As a result, the consolidated financial statements of the Predecessor and Successor includes restricted cash with cash and cash equivalents when reconciling the beginning and end of period total amounts shown on the consolidated statements of cash flows, and changes in restricted cash are no longer presented as a component of financing activities.

Accounting Standards Update No. 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-1"), addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Among other things, ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Furthermore, equity investments without readily determinable fair values are to be assessed for impairment using a quantitative approach. ASU 2016-01 is effective for interim periods beginning after December 15, 2017, and requires a modified retrospective approach to adoption. Nationstar adopted ASU 2016-01 in the first quarter of 2018, and the implementation of this standard did not have a significant impact on the consolidated financial statements of the Predecessor and Successor.

Accounting Standards Update No. 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business ("ASU 2017-01"), clarifies the definition of a business to assist companies in the evaluation of whether business combination transactions should be accounted for as an acquisition of a business or as a group of assets. ASU 2017-01 is effective for interim periods beginning after December 15, 2017. The Company adopted this standard during the third quarter of 2018, in connection with the accounting for the acquisitions completed in the third quarter of 2018. The adoption of this standard did not have a material impact on the consolidated financial statements.

Accounting Standards Update No. 2017-04, Simplifying the Test for Goodwill Impairment (“ASU 2017-04”), simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today’s two-step impairment test under ASC Topic 350, Intangibles - Goodwill and Other. ASU 2017-04 is effective for the Company for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. In the fourth quarter of 2018, the Company early adopted ASU 2017-04. The standard did not have an impact to the Company’s qualitative assessment for goodwill impairment that it performed in the fourth quarter of 2018.

Recent Accounting Guidance Not Yet Adopted
Accounting Standards Update No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), No.2018-10, Codification Improvements to Topic 842, Leases (“ASU 2018-10”), and No. 2018-11, Leases (Topic 842): Targeted Improvements (“ASU 2018-11”), primarily impact lessee accounting by requiring the recognition of a right-of-use asset and a corresponding lease liability on the balance sheet for long-term lease agreements. ASU 2016-02 requires the recognition of a lease liability that is equal to the present value of all reasonably certain lease payments. The right-of-use asset will be based on the liability, subject to adjustment for initial direct costs. Lease agreements with terms 12 months or less are permitted to be excluded from the balance sheet. In general, leases will be amortized on a straight-line basis with the exception of finance lease agreements. ASU 2018-10 and ASU 2018-11 affect narrow aspects of the guidance issued in the amendments in ASU 2016-02. ASU 2018-11 specifically relieves companies of the requirement to present prior comparative years’ results when they adopt ASU 2016-02 and gives companies the option to recognize the cumulative effect of applying ASU 2016-02 to lease assets and liabilities as an adjustment to the opening balance of retained earnings. ASU 2016-02, ASU 2018-10, and ASU 2018-11 are effective for the Company for its interim periods beginning after December 15, 2018, with early adoption permitted. The Company currently plans to adopt this standard in the first quarter of 2019 using the modified retrospective approach and will recognize a cumulative-effect adjustment to the opening balance of retained earnings in that period. The new standard also provides a number of optional practical expedients in transition. The Company expects to elect the package of practical expedients, which, among other items, permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company also expects to elect the short-term lease recognition exemption for all leases that qualify. Under this practical expedient, for those leases that qualify, we will not recognize right-of-use (“ROU”) assets or lease liabilities, which includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company also expects to elect the practical expedient to not separate lease and non-lease components for all of our leases. The Company does not expect to elect the use-of-hindsight practical expedient. Based on the current lease portfolio as of December 31, 2018, the Company anticipates recognizing a lease liability and related right-of-use asset ranging from $120 to $135 on the consolidated balance sheets with no material impact on the consolidated statements of operations.

Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326) (“ASU 2016-13”), requires expected credit losses for financial instruments held at the reporting date to be measured based on historical experience, current conditions and reasonable and supportable forecasts. The update eliminates the probable initial recognition threshold in current GAAP and instead reflects an entity’s current estimate of all expected credit losses. Previously, when credit losses were measured under GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss. ASU 2016-13 is effective for interim periods beginning after December 15, 2019. The Company is currently evaluating the potential impact of ASU 2016-13 on its consolidated financial statements.

Accounting Standards Update No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40 - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" (“ASU 2018-15”) aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 will be effective for the Company on January 1, 2020. The Company is currently evaluating the potential impact of ASU 2018-15 on its consolidated financial statements.

Accounting Standards Update No. 2018-13, Fair Value Measurement (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement, (“ASU 2018-13”) removes the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 fair value measurement methodologies, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. It also adds a requirement to disclose changes in unrealized gains and losses for the period included in other comprehensive income for recurring

Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. For certain unobservable inputs, entities may disclose other quantitative information in lieu of the weighted average if the other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 will be effective for the Company on January 1, 2020. The Company is currently evaluating the potential impact of ASU 2018-13 on its consolidated financial statements.

2. Significant Accounting Policies

The significant accounting policies described below were implemented by Nationstar and applied to the Predecessor’s financial statements, unless otherwise noted. Upon the consummation of the Merger, the Company adopted these significant accounting policies, which are applicable to the Successor’s financial statements.

Restricted Cash
With respect to the Servicing segment, restricted cash includes recoveries received from borrowers or investors on advances pledged to advance facilities and to advance facilities structured as special purposes entities that require certain level of restricted cash. With respect to the Originations segment, restricted cash includes (i) principal received from borrowers on originated loans pledged to a warehouse facility and (ii) guarantee fees collected on behalf and payable to either Fannie Mae or Freddie Mac on a monthly basis.

Advances and Other Receivables, Net
The Company advances funds to or on behalf of the investors when the borrower fails to meet contractual payments (e.g., principal, interest, property taxes, insurance) in accordance with terms of its servicing agreements. Other receivables consist of advances funded to maintain and market underlying loan collateral through foreclosure and ultimate liquidation on behalf of the investors. Advances are recovered from borrowers for performing loans and from the investors and loan proceeds for non-performing loans.

The Company may also acquire servicer advances in connection with the acquisition of mortgage servicing rights (“MSR”). These advances are recorded at their relative fair value amounts upon acquisition. The Company records receivables upon determining that collection of amounts due from loan proceeds, investors, mortgage insurers, or prior servicers is probable. Reserves related to recoverability of advances and other receivables are discussed below in Reserves for Forward Servicing Activity.

As a result of the Merger, the Advances and Other Receivables assets were recorded at their estimated fair value as of the acquisition date. Recording the estimated fair value resulted in a discount within Advances and Other Receivables. Subsequently, this discount will be adjusted as the advance balances associated with the discount are utilized through recoveries or write-offs.

Mortgage Loans Held for Sale
The Company originates prime residential mortgage loans with the intention of selling such loans on a servicing-retained basis in the secondary market. As these loans are originated with intent to sell, the loans are classified as held for sale and the Company has elected to measure these loans held for sale at fair value. The Company estimates fair value of mortgage loans held for sale by using a market approach by utilizing either: (i) the fair value of securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for similar loans, adjusted for credit risk and other individual loan characteristics. In connection with the Company’s election to measure originated mortgage loans held for sale at fair value, the Company records the loan originations fees when earned, net of direct loan originations costs associated with these loans. Loan origination fees, gains or losses recognized upon sale of loans, and fair value adjustments are recorded in net gain on sale of mortgage loans held for sale in the consolidated statements of operations.

The Company may repurchase loans that were previously transferred to Ginnie Mae (“GNMA”) if those loans meet certain criteria, including being delinquent greater than 90 days. It is the Company’s intention to sell such loans; therefore, the Company classifies such loans as loans held for sale and has elected to measure these repurchased loans at fair value.

Mortgage Loans Held for Investment
Mortgage loans held for investment primarily consist of nonconforming or subprime mortgage loans that were transferred in 2009 from mortgage loans held for sale at fair value. In connection with the Merger, the Company elected the fair value option for mortgage loans held for investment effective August 1, 2018. The Company determines the fair value of loans held for investment, on a recurring basis, based on various underlying attributes such as market participants’ views, loan delinquency, recent observable loan pricing and sales for similar loans,

individual loan characteristics and internal market evaluation. These internal market evaluations require the use of judgment by the Company and can have a significant impact on the determination of the loan's fair value. The Predecessor recorded mortgage loans held for investment at amortized cost.

Reverse Mortgage Interests, Net

Reverse mortgage interests are comprised of the Company's interest in reverse mortgage loans that consists of participating interests in Home Equity Conversion Mortgages ("HECMs") mortgage-backed securities ("HMBS"), other interests securitized and unsecuritized interests, as well as related claims receivables and real estate owned ("REO") related receivables. The Company primarily acquires and services interests in reverse mortgage loans insured by the Federal Housing Administration ("FHA") known as HECMs. HECMs provide seniors aged 62 and older with a loan secured by their home which can be taken as a lump sum, line of credit, or scheduled payments. HECM loan balances grow over the loan term through borrower draws of scheduled payments or line of credit draws, funded by the Company, as well as through the accrual of interest, servicing fees and FHA mortgage insurance premiums. Growth in the loan balances are capitalized and recorded as reverse mortgage interests within the Company's consolidated balance sheet. Additionally, loan balances including borrower draws, mortgage insurance premiums and servicing fees are eligible for securitization through Ginnie Mae's HMBS program. In accordance with FHA guidelines, HECMs are designed to repay through foreclosure and subsequent liquidation of loan collateral after the loan becomes due and payable. Shortfalls experienced by the servicer of the HECM through the foreclosure and liquidation process can be claimed to FHA in accordance with applicable guidelines. Other interests securitized consist of reverse mortgage interests that no longer meet HMBS program eligibility criteria and have been repurchased out of HMBS. These reverse mortgage interests have subsequently been transferred to private securitization trusts and are accounted for as a secured borrowing. Unsecuritized interests include repurchased HECM loans for which the Company is required to repurchase from the HMBS pool when the outstanding principal balance of the HECM loan is equal to or greater than 98% of the maximum claim amount ("MCA") established at origination in accordance with HMBS program guidelines.

As the HECM loan moves through the foreclosure and claims process, the Company classifies reverse mortgage interests as REO related receivables and HECM related receivables, respectively. Interest income is accrued monthly within the consolidated statements of operations based upon the borrower interest rates. The Company includes the cash outflow from funding these amounts as operating activities in the consolidated statements of cash flow as a component of reverse mortgage interests.

The Company is an authorized GNMA HMBS program issuer and servicer. In accordance with GNMA HMBS program guidelines, borrower draws of scheduled payments or line of credit draws, servicing fee and interest accruals and mortgage insurance premium accruals are eligible for HMBS participation securitizations as each of these items increases underlying HECM loan balances. The Company pools and securitizes such eligible items into GNMA HMBS as issuer and servicer. In accordance with the HMBS program, issuers are responsible for purchasing HECM loans out of the HMBS pool when the outstanding principal balance of the related HECM loan is equal or greater than 98% of the maximum claim amount at which point the HECM loans are no longer eligible to remain in the HMBS pool. Upon purchase from the HMBS pool, the Company will assign active HECM loans to FHA or a prior servicer (as applicable and permitted by acquisition agreements) or service inactive HECM loans through foreclosure and liquidation. Based upon the structure of the GNMA HMBS program, the Company has determined that the securitizations of the HECM loans into HMBS pools do not meet all requirements for sale accounting. Accordingly, these transactions are accounted for as secured borrowings.

If the Company has repurchased an inactive HECM loan that cannot be assigned to FHA, the Company may pool and securitize these loans into a private HECM securitization. These securitizations are also recorded as secured borrowings in the consolidated balance sheets. Interest expense on the participating interest financing is accrued monthly based upon the underlying HMBS rates and is recorded to interest expense in the consolidated statements of operations. Both the acquisition and assumption of HECM loans and related GNMA HMBS debt are presented as investing and financing activities, respectively, in the consolidated statements of cash flows. Subsequent proceeds received from securitizations, and subsequent repayments on the securitized debt are presented as financing activities in the consolidated statements of cash flows. Reserves related to recoverability of reverse mortgage interests are discussed below in Reserves for Reverse Mortgage Interests.

As a result of the Merger, the reverse mortgage interest assets were recorded at their estimated fair value as of the acquisition date. Recording the estimated fair value resulted in a premium on the participating interests in HMBS loans and a discount on the unsecuritized interests and other interests securitized within reverse mortgage interests. Subsequently, the premium and the discount will be amortized and accreted, respectively, to other income, based on the effective yield method whereby the Company will update its prepayment assumptions for actual prepayments on a quarterly basis. In addition, the discount will be adjusted as the reverse mortgage interest balances associated with the discount are utilized through recoveries or write-offs.

Mortgage Servicing Rights

The Company recognizes the rights to service mortgage loans for others, or MSRs, whether acquired or as a result of the sale of loans the Company originates with servicing retained, as assets. The Company initially records all MSRs at fair value. MSRs related to reverse mortgages are subsequently recorded at amortized cost. The Company has elected to subsequently measure forward MSRs at fair value.

For MSRs initially recorded and subsequently measured at fair value, the fair value of the MSRs is based upon the present value of the expected future net cash flows related to servicing the underlying loans. The Company determines the fair value of the MSRs by the use of a discounted cash flow model which incorporates prepayment speeds, delinquencies, discount rate, ancillary revenues, float earnings and other assumptions (including costs to service) that management believes are consistent with the assumptions that other similar market participants use in valuing the MSRs. The credit quality and stated interest rates of the forward loans underlying the MSRs affects the assumptions used in the cash flow models. The Company obtains third-party valuations quarterly to assess the reasonableness of the fair value calculated by the cash flow model. The Company receives a base servicing fee annually on the outstanding principal balances of the loans, which is collected from investors.

Additionally, the Company owns servicing rights for certain reverse mortgage loans. For this separate class of servicing rights, the Company initially records a MSR or mortgage servicing liability ("MSL") on the acquisition date based on the fair value of the future cash flows associated with the pool and whether adequate compensation is to be received for servicing. The Company applies the amortized cost method for subsequent measurement of the loan pools with the capitalized cost of the MSRs amortized in proportion and over the period of the estimated net future servicing income and the MSL accreted ratably over the expected life of the portfolio. The expected period of the estimated net servicing income is based, in part, on the expected prepayment period of the underlying mortgages. The Company adjusts MSR amortization and MSL accretion prospectively in response to changes in estimated projections of future cash flows. Reverse MSRs and MSLs are stratified and evaluated each reporting period for impairment or increased obligation, as applicable, based on predominant risk characteristics of the underlying serviced loans. These stratification characteristics include investor, loan type (fixed or adjustable rate), term and interest rate. Impairment of the MSR or additional obligation associated with the MSL are recorded through a valuation allowance, unless considered other-than-temporary, and are recognized as a charge to general and administrative expense. Amounts amortized or accreted are recognized as an adjustment to service related revenue, net, along with monthly servicing fees received, generally stated at a fixed rate per loan.

MSR Related Liabilities - Nonrecourse

Excess Spread Financing

In conjunction with the acquisition of certain MSRs on various pools of residential mortgage loans (the "Portfolios"), the Company has entered into sale and assignment agreements related to its right to servicing fees, under which the Company sells to third parties the right to receive a portion of the excess cash flow generated from the Portfolios after receipt of a fixed base servicing fee per loan. The agreements consist of two components - current excess spread, or remittance of a percentage of excess spread on currently serviced loans, and future excess spread, or the obligation to transfer currently serviced loans that have been refinanced into current excess spread or a replacement loan of similar economic characteristics into the portfolios. The new or replacement loan will be governed by the same terms set forth in the sale and assignment agreement described above. The sale of these rights is accounted for as secured borrowings, with the total proceeds received being recorded as a component of MSR related liabilities - nonrecourse at fair value in the consolidated balance sheets. The Company determines the effective interest rate on these liabilities and allocates total repayments between interest expense and the outstanding liability.

The Company has elected to measure the outstanding financings related to the excess spread financing agreements at fair value with all changes in fair value recorded as a charge or credit to service related revenue, net in the consolidated statements of operations. The fair value on excess spread financing is based on the present value of future expected discounted cash flows with the discount rate approximating current market value.

Mortgage Servicing Rights Financing

The Company has entered into certain transactions with third parties to sell a contractually specified base fee component of certain MSRs and servicer advances under specified terms. The Company evaluates these transactions to determine if they are sales or secured borrowings. When these transfers qualify for sale treatment, the Company derecognizes the transferred assets in its consolidated balance sheets. The Company has determined that for a portion of these transactions, the related MSRs sales are contingent on the receipt of consents from various third parties. Until these required consents are obtained, for accounting purposes, legal ownership of the MSR's continues to reside with the Company. The Company continues to account for the MSRs in its consolidated balance sheets. In addition, the Company records a mortgage servicing rights financing liability associated with this financing transaction. Counterparty payments related to this financing arrangement are recorded as an adjustment to the Company's service related revenues.

The Company has elected to measure the mortgage servicing rights financing liabilities at fair value with all changes in fair value recorded as a charge or credit to service related revenue, net, in the consolidated statements of operations.

The fair value on mortgage servicing right financings is based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments.

Revenues

ASC 606, Revenue from Contracts with Customers, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The majority of Company’s revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as Company’s loans and derivatives, as well as revenue related to Company’s mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within Company’s disclosures. All revenues from Xome fall within the scope of ASC 606. Xome’s operations are comprised of Exchange, Services and Data/Technology, as follows:

- Exchange is a national technology-enabled platform that manages and sells residential properties through its Xome.com platform. Revenue-generating activities include commission and buyer's premium of winning bids on auctioned real estate owned ("REO") and short sale properties. Revenue is recognized when the performance obligation is completed, which is at the closing of real estate transactions and there is transfer of ownership to the buyer.

- Services connects the major touch points of the real estate transactions process by providing title, escrow and collateral valuation services for purchase, refinance and default transactions. Major revenue-generating activities include title and escrow services and valuation services. Revenue is recognized when the performance obligation is completed, which is when services are rendered to customers.

- Data/Technology includes the Company's software as a service platform which provides integrated technology, media and data solutions to mortgage servicers, originators and multiple listing service ("MLS") organizations and associations. Revenue-generating activities include software and platform system access and use, system implementation, software maintenance and support, data services and any additional customized enhancement. Revenue is recognized when the performance obligation is completed, which is generally recognized on a straight-line basis over the contractual terms. Additionally, any additional fees owed due to usage metrics in excess of the monthly minimum will be recognized each month under the usage-based royalties guidance of ASC 606.

Revenues from Forward Servicing Activities
Service related revenues primarily include contractually specified servicing fees, late charges, prepayment penalties and other ancillary revenues. The servicing fees are based on a contractual percentage of the outstanding principal balance and recognized as revenue as earned, which is generally upon collection of the payments from the borrower. Corresponding loan servicing costs are charged to expense as incurred. The Company recognizes ancillary revenues and earnings on float as they are earned, which is generally upon collection of the payments from the borrower.

In addition, the Company receives various fees in the course of providing servicing on its various portfolios. These fees include modification fees for modifications performed outside of government programs, modification fees for modifications pursuant to various government programs, and incentive fees for servicing performance on specific government-sponsored entities ("GSE") portfolios. Fees recorded on modifications of mortgage loans serviced by the Company for others are recognized on collection and are recorded as a component of service related revenues. Fees recorded on modifications pursuant to various government programs are recognized based upon completion of all necessary steps by the Company and the minimum loan performance time frame to establish eligibility for the fee. Revenue earned on modifications pursuant to various government programs is included as a component of service related revenues. Incentive fees for servicing performance on specific GSE portfolios are recognized as various incentive standards are achieved and are recorded as a component of service related revenues.

The Company also acts as a subservicer for certain parties that own the underlying servicing rights and receives subservicing fees, which are typically a stated monthly fee per loan that varies based on types of loans. Fees related to the subserviced portfolio are accrued in the period the services are performed.

Revenues from Origination Activities
Loan origination and other loan fees generally represent flat, per-loan fee amounts and are recognized as revenue, net of loan origination costs, at the time the loans are funded.

Revenues from Reverse Mortgage Servicing and Reverse Mortgage Interests
The Company performs servicing of reverse mortgage loans, similar to its forward servicing business, and receives servicing fees from investors, which is recorded in service related revenues. For reverse mortgage interests, where the Company records entire participating interest in HECM loans, the Company accrues interest in accordance with FHA

guidelines and records interest income on the consolidated statements of operations.

Net Gain on Mortgage Loans Held for Sale

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been legally isolated from the Company, (ii) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through either (a) an agreement that entitles and obligates the Company to repurchase or redeem them before their maturity or (b) the ability to unilaterally cause the holder to return specific assets.

Loan securitizations structured as sales, as well as whole loan sales and the resulting gains on such sales, net of any accrual for recourse obligations, are reported in operating results during the period in which the securitization closes or the sale occurs.

Reserves for Origination Activity
The Company provides for reserves, included within payables and accrued liabilities, in connection with loan origination activities. Reserves on loan origination activities primarily include reserves for the repurchase of loans from GSEs, GNMA, and third-party investors primarily due to delinquency or foreclosure and are initially recorded upon sale of the loan to a third party with subsequent reserves recorded based on repurchase demands. The provision for reserves associated with loan origination activities is a component of net gain on mortgage loans held for sale.

The Company utilizes internal models to estimate reserves for loan origination activities based upon its expectation of future defaults and the historical defect rate for government insured loans and is based upon judgments and assumptions which can be influenced by many factors and may change over the life of the underlying loans, including: (i) historical loss rate, (ii) secondary market pricing of loans; (iii) home prices and the levels of home equity; (iv) the quality of Company’s underwriting procedures; (v) borrower delinquency and default patterns; and (vi) other Company-specific and macro-economic factors. On a quarterly basis, management corroborates these assumptions using third-party data, where applicable.

Reserves for Forward Servicing Activity
In connection with forward loan servicing activities, the Company records reserves primarily for the recoverability of advances, interest claims, and mortgage insurance claims. Reserves for advances and other receivables associated with loans in the MSR portfolio are considered within the MSR valuation, and the provision expense for such advances is recorded in the mark-to-market adjustment in service related revenue. Such valuation gives consideration to the expected cash outflows and inflows for advances and other receivables in accordance with the fair value framework. Reserves for advances and other receivables on loans transferred out of the MSR portfolio are established within advances and other receivables, net. As loans serviced transfer out of the MSR portfolio, any negative MSR value associated with the loans transferred is reclassified from the MSR to the reserve within advances and other receivables, net, to the extent such reserves continue to be required for balances remaining on the consolidated balance sheets. Management evaluates reserves for sufficiency each reporting period and any additional reserve requirements are recorded as a provision in general and administrative expense, as needed.

The Company records reserves for advances and other receivables and evaluates the sufficiency of such reserves through internal models considering both historical and expected recovery rates on claims filed with government agencies, government sponsored enterprises, vendors, prior servicer and other counterparties. Key assumptions used in the model include but are not limited to expected recovery rates by loan types and aging of the receivable. Recovery of advances and other receivables is subject to significant judgment and estimates based on the Company’s assessment of its compliance with servicing guidelines, its ability to produce the necessary documentation to support claims, its ability to support amounts from prior servicers and to effectively negotiate settlements, as needed. Management reviews recorded advances and other receivables and upon determination that no further recourse for recovery is available from all means known to management, the recorded balances associated with these receivables are written-off against the reserve.

Reserves for Reverse Mortgage Interests
The Company records a reserve for reverse mortgage interests based on unrecoverable costs and estimates of probable loss exposures. The Company estimates reserve requirements upon the realization of a triggering event indicating a probable loss exposure. Internal models are utilized to estimate loss exposures at the loan level associated with the Company’s ability to meet servicing guidelines set forth by regulatory agencies and GSEs. Key assumptions within the models include but are not limited to expected recovery rates by loan and borrower characteristics, foreclosure

timelines, value of underlying collateral, future carrying and foreclosure costs, and other macro-economic factors. If the calculated reserve requirements exceed the recorded allowance for reserves and discounts, a provision is recorded to general and administrative expense, as needed. Releases to reserves are also recorded against provision in general and administrative expenses. Reserve requirements are subject to significant judgment and estimates based on the Company's assessment of its compliance with servicing guidelines, its ability to produce the necessary documentation to support claims, its ability to support amounts from prior servicers and to effectively negotiate settlements, as needed. Each period, management reviews recorded reverse mortgage interests and upon determination that no further recourse for recovery is available from all means known to management, the recorded balances associated with these receivables are written-off against the reserve at the loan level.

Amounts Due from Prior Servicers

The Company services its loan portfolios under guidelines set forth by regulatory agencies and investor guidelines. Losses can be incurred if the underlying loans are not serviced in accordance with established guidelines, resulting in the assessment of fines and the inability to recover interest and costs incurred. Prior servicers associated with the underlying loans may have contributed to the losses if their prior servicing practices did not allow for timely compliance with servicing guidelines set forth. To mitigate the risk of loss to the Company, indemnification provisions are incorporated into the executed acquisition and servicing agreements that allow for the recovery of realized losses which can be attributed to prior servicers. As part of its servicing operations, the Company estimates and records an asset in advances and other receivables on the consolidated balance sheet for probable recoveries from prior servicers for their respective portion of these losses. Estimated recoveries from prior servicers are based on management's best estimate of allocated losses among servicing parties, terms of the indemnification provisions, prior recovery experience, current negotiations and the servicer's ability to pay requested amounts. The Company updates its estimate of recovery each reporting period based on the facts and circumstances known at the time. Recovery of amounts due from prior servicers is subject to significant judgment based on the Company's assessment of the prior servicer's responsibility for losses incurred, its ability to provide related support for such amounts and its ability to effectively negotiate settlement of amounts due from prior servicers if needed.

Property and Equipment, Net

Property and equipment, net is comprised of land, building, furniture, fixtures, leasehold improvements, computer software, and computer hardware. These assets are stated at cost less accumulated depreciation. Repairs and maintenance are expensed as incurred which is included in general and administrative expenses in the consolidated statements of operations. Depreciation, which includes depreciation and amortization on capital leases, is recorded using the straight-line method over the estimated useful lives of the related assets. Cost and accumulated depreciation applicable to assets retired or sold are eliminated from the accounts, and any resulting gains or losses are recognized at such time through a charge or credit to general and administrative expenses. Costs to internally develop computer software are capitalized during the development stage and include external direct costs of materials and services as well as employee costs related to time spent on the project.

The Company periodically reviews its property and equipment when events or changes in circumstances indicate that the carrying amount of its property and equipment might not be recoverable under the recoverability test, whereby the expected future undiscounted cash flows from the assets are estimated and compared with the carrying amount of the assets. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recorded to general and administrative expense, as needed. The impairment loss is measured by comparing the fair value of the assets with their carrying amounts. Fair value is determined based on discounted cash flow.

The Company evaluates all leases at inception to determine if they meet the criteria for a capital lease. A capital lease is recorded as an acquisition of property or equipment at an amount equal to the present value of minimum lease payments at the date of inception. Assets acquired under a capital lease are depreciated on a straight-line basis in accordance with the Company's normal depreciation policy over the lease term and are included in property and equipment, net, on the consolidated balance sheets. A corresponding liability is recorded representing an obligation to make lease payments which is included in payables and accrued liabilities on the consolidated balance sheets. Lease payments are allocated between interest expense and reduction of obligation.

Leases that do not meet the capital lease criteria are accounted for as operating leases. Rental expense on operating leases is recognized on a straight-line basis over the lease term which is included in general and administrative expenses in the consolidated statements of operations. Leasehold improvements are amortized over the shorter of the lease terms of the respective leases or the estimated useful lives of the related assets.

Variable Interest Entities

In the normal course of business, the Company enters into various types of on- and off-balance sheet transactions with special purpose entities (“SPEs”), which primarily consist of securitization trusts established for a limited purpose. Generally, these SPEs are formed for the purpose of securitization transactions in which the Company transfers assets to an SPE, which then issues to investors various forms of debt obligations supported by those assets. In these securitization transactions, the Company typically receives cash and/or other interests in the SPE as proceeds for the transferred assets. The Company will typically retain the right to service the transferred receivables and to repurchase the transferred receivables from the SPE if the outstanding balance of the receivables falls to a level where the cost exceeds the benefits of servicing the transferred receivables.

The Company evaluates its interests in each SPE for classification as a Variable Interest Entity (“VIE”). When an SPE meets the definition of a VIE and the Company determines that the Company is the primary beneficiary, the Company includes the SPE in its consolidated financial statements.

The Company consolidates SPEs connected with both forward and reverse mortgage activities. See Note 13, Securitizations and Financings for more information on Company SPEs and Note 11, Indebtedness for certain debt activity connected with SPEs.

Securitizations and Asset-Backed Financing Arrangements
The Company and its subsidiaries have been a transferor in connection with a number of securitizations and asset-backed financing arrangements. The Company has continuing involvement with the financial assets of the securitizations and the asset-backed financing arrangements. The Company has aggregated these transactions into two groups: (1) securitizations of residential mortgage loans accounted for as sales and (2) financings of advances on loans serviced for others accounted for as secured borrowings.

Securitizations Treated as Sales
The Company’s continuing involvement typically includes acting as servicer for the mortgage loans held by the trust and holding beneficial interests in the trust. The Company’s responsibilities as servicer include, among other things, collecting monthly payments, maintaining escrow accounts, providing periodic reports and managing insurance in exchange for a contractually specified servicing fee. The beneficial interests held consist of both subordinate and residual securities that were retained at the time of securitization. These securitizations generally do not result in consolidation of the VIE as the beneficial interests that are held in the unconsolidated securitization trusts have no value and no potential for significant cash flows in the future. In addition, at December 31, 2018, the Company had no other significant assets in its consolidated financial statements related to these trusts. The Company has no obligation to provide financial support to unconsolidated securitization trusts and has provided no such support. The creditors of the trusts can look only to the assets of the trusts themselves for satisfaction of the debt issued by the trusts and have no recourse against the assets of the Company. The general creditors of the Company have no claim on the assets of the trusts. The Company’s exposure to loss as a result of its continuing involvement with the trusts is limited to the carrying values, if any, of its investments in the residual and subordinate securities of the trusts, the MSRs that are related to the trusts and the advances to the trusts. The Company considers the probability of loss arising from its advances to be remote because of their position ahead of most of the other liabilities of the trusts. See Note 5, Advances and Other Receivables, Net and Note 4, Mortgage Servicing Rights and Related Liabilities, for additional information regarding advances and MSRs.

Financings
The Company transfers advances on loans serviced for others to SPEs in exchange for cash. The Company consolidates these SPEs because the Company is the primary beneficiary of the VIE.

These VIEs issue debt supported by collections on the transferred advances. The Company made these transfers under the terms of its advance facility agreements. The Company classifies the transferred advances on its consolidated balance sheets as advances and classifies the related liabilities as advance facilities and other nonrecourse debt. The SPEs use collections of the pledged advances to repay principal and interest and to pay the expenses of the entity. Holders of the debt issued by these entities can look only to the assets of the entities themselves for satisfaction of the debt and have no recourse against the Company.

Financings include the HMBS and private securitization trusts as previously discussed.

Derivative Financial Instruments
Derivative instruments are used as part of the overall strategy to manage exposure to market risks primarily associated with fluctuations in interest rates related to originations. The Company recognizes all derivatives on its consolidated balance sheets at fair value on a recurring basis. The Company treats all of its derivative instruments as economic hedges, therefore none of its derivative instruments are designated as accounting hedges.

Derivative instruments utilized by the Company primarily include interest rate lock commitments (“IRLCs”), loan purchase commitments (“LPCs”), forward Mortgage Backed Securities (“MBS”) purchase commitments, Eurodollar futures, Treasury futures, interest rate swap agreements and interest rate caps.

IRLCs represent an agreement to extend credit to a mortgage loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to funding. The fair values of mortgage loans held for sale, which are held in inventory awaiting sale into the secondary market, and interest rate lock commitments, are subject to changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. As a result, the Company is exposed to interest rate risk during the period from the date of the lock commitment through (i) the lock commitment cancellation or expiration date; or (ii) the date of sale into the secondary mortgage market. IRLCs are considered freestanding derivatives and are recorded at fair value at inception. Loan commitments generally range between 30 and 90 days; and the Company typically sells mortgage loans within 30 days of origination. Changes in fair value subsequent to inception are based on changes in the fair value of the underlying loan, and changes in the probability that the loan will fund within the terms of the commitment. Any changes in fair value are recorded in earnings as a component of net gain on mortgage loans held for sale.

The Company uses other derivative financial instruments, primarily forward sales commitments, to manage exposure to interest rate risk and changes in the fair value of IRLCs and mortgage loans held for sale. These commitments are recorded at fair value based on the dealer's market. The forward sales commitments fix the forward sales price that will be realized in the secondary market and thereby reduce the interest rate and price risk to the Company. The Company's expectation of the amount of its interest rate lock commitments that will ultimately close is a key factor in determining the notional amount of derivatives used in economically hedging the position. The Company may also enter into commitments to purchase MBS as part of its overall hedging strategy. The estimated fair values of forward MBS are based on the exchange prices. The changes in value on the forward sales commitments and forward sales of MBS are recorded as a charge or credit to net gain on mortgage loans held for sale.

The Company also purchases interest rate swaps, Eurodollar futures and Treasury futures to mitigate exposure to interest rate risk related to cash flows on securitized mortgage borrowings.

Intangible Assets

Intangible assets primarily consist of trade name, customer relationships and technology acquired through the acquisition of Nationstar and the acquisition of Assurant Mortgage Solutions ("AMS"). Those intangible assets are deemed to have finite useful lives and are amortized either on a straight-line basis over their estimated useful lives (trade name, technology and internally developed software), or on a basis more representative of the time pattern over which the benefit is derived (customer relationships).

Intangible assets with finite useful lives are tested for impairment on an annual basis or whenever events or circumstances indicate that their carrying amount may not be recoverable. If the carrying value of the asset cannot be recovered from estimated future undiscounted cash flows, the fair value of the asset is calculated using the present value of net future cash flows. If the carrying amount of the asset exceeds its fair value, an impairment is recorded.

Goodwill

Goodwill is initially recorded as the excess of the purchase price over the fair value of net assets acquired in a business combination and is subsequently evaluated for impairment at least annually or when events or circumstances make it more likely than not that an impairment may have occurred. Goodwill impairment testing is performed at the reporting unit level, equivalent to a business segment or one level below. The Company has determined that each of its operating segments (the Servicing, Originations and Xome segments) represents a reporting unit, resulting in three total reporting units.

The Company early adopted ASU 2017-04 in the fourth quarter of 2018. The Company performs its annual goodwill impairment test as of October 1 and monitors for interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing either a qualitative assessment or a quantitative goodwill impairment test. If the Company chooses to perform a qualitative assessment and determines the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where the Company performs the quantitative goodwill impairment test, the Company compares the fair value of each reporting unit, which the Company primarily determines using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, the difference would be recognized as an impairment loss.

Loans Subject to Repurchase Rights from Ginnie Mae

For certain forward loans sold to GNMA, the Company as the issuer has the unilateral right to repurchase, without GNMA's prior authorization, any individual loan in a GNMA securitization pool if that loan meets certain criteria, including being delinquent greater than 90 days. Once the Company has the unilateral right to repurchase a delinquent loan, the Company has effectively regained control over the loan, and under GAAP, must recognize the right to the loan in its consolidated balance sheets and establish a corresponding repurchase liability regardless of the Company's intention to repurchase the loan. The Company recognizes the right to purchase these mortgage loans in other assets at their unpaid principal balances and records a corresponding liability in payables and accrued liability for mortgage loans eligible for repurchase in its consolidated balance sheets.

Interest Income

Interest income is recognized on loans held for sale for the period from loan funding to sale, which is typically within 30 days. Loans are placed on non-accrual status when any portion of the principal or interest is 90 days past due. Loans return to accrual status when the principal and interest become current and it is probable that the amounts are fully collectible. For individual loans that have been modified, a period of six timely payments is required before the loan is returned to an accrual basis.

Interest income also includes interest earned on custodial cash deposits associated with the mortgage loans serviced, and interest earned on reverse mortgage interests. Reverse mortgage interests accrue interest income in accordance with FHA guidelines.

Share-Based Compensation
Share-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant) on a straight-line basis in salaries, wages and benefits within the consolidated statements of operations.

Advertising Costs
Advertising costs are expensed as incurred and are included as part of general and administrative expenses. The Company incurred advertising costs of $17 for the five months ended December 31, 2018. The Predecessor incurred advertising costs of $33 for the seven months ended July 31, 2018, and $57 and $58 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes
The Company is subject to the income tax laws of the U.S., its states and municipalities. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities.

Deferred income taxes are determined using the balance sheet method. Deferred taxes are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

The Company regularly reviews the carrying amount of its deferred tax assets to determine if the establishment of a valuation allowance is necessary. If based on the available evidence, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized in future periods, a deferred tax valuation allowance is established. Consideration is given to various positive and negative factors that could affect the realization of the deferred tax assets. In evaluating this available evidence, management considers, among other things, historical financial performance, expectation of future earnings, length of statutory carryforward periods, experience with operating tax loss and tax credit carryforwards which may expire unused, tax planning strategies and timing of reversals of temporary differences. The Company's evaluation is based on current tax laws as well as management's expectations of future performance.

The Company initially recognizes tax positions in the consolidated financial statements when it is more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. In establishing a provision for income tax expense, the Company makes judgments and interpretations about the application of these inherently complex tax laws within the framework of existing GAAP. The Company recognizes interest and penalties related to uncertain tax positions as a component of provision for income taxes.

Earnings Per Share
The Company computes earnings per share using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. The Series A Preferred Stock is considered participating securities because it has dividend rights determined on an as-converted basis in the event of Company's declaration of a dividend or distribution for common shares.

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed by dividing net income available to common stockholders by the sum of the weighted average number of common shares outstanding and any dilutive securities for the period.

3. Acquisitions

Acquisition of Nationstar Mortgage Holdings Inc.

Upon the Merger with Nationstar on July 31, 2018, each share of Nationstar's common stock issued and outstanding immediately prior to the Effective Time was converted into the right to receive, at the election of the holder of such share, (i) $18.00 per share in cash, without interest, or (ii) 12.7793 shares (prior to the 1-for-12 reverse stock split) of validly issued, fully paid and nonassessable shares of WMIH common stock (the "Merger Consideration"). The Merger Consideration was subject to automatic proration and adjustment pursuant to the Merger Agreement to ensure that the total amount of cash paid (excluding cash paid in lieu of fractional shares) equaled approximately $1,226.

Pursuant to the Merger Agreement, immediately prior to the Effective Time, subject to certain exceptions, (i) each then-outstanding share of Nationstar restricted stock automatically vested in full and was converted into the right to receive the Merger Consideration, as elected by the holder, and (ii) each then-outstanding Nationstar restricted stock unit, whether vested or unvested, was automatically vested in full, assumed by WMIH and converted into a WMIH restricted stock unit entitling the holder thereof to receive upon settlement the Merger Consideration, as elected by the holder.

Upon closing the Merger, all outstanding WMIH Series B Preferred Stock and all outstanding warrants to purchase shares of WMIH common stock were converted into WMIH common stock.

Total purchase price was approximately $1,777, consisting of cash paid of $1,226 and transferred stock valued at $551. The purchase price was funded from available cash on hand and borrowings under senior unsecured notes (see discussion below). Prior to the acquisition, Nationstar was a publicly-held company that earned fees through the delivery of servicing, origination and transaction-based services related primarily to single-family residences throughout the United States. This acquisition marks the Company's initial entry into the mortgage servicing industry that Nationstar operates in and is consistent with the Company's business strategy.

On July 13, 2018, Merger Sub closed the offering of $950 aggregate principal amount of 8.125% Notes due 2023 (the "2023 Notes") and $750 aggregate principal amount of 9.125% Notes due 2026 (the "2026 Notes" and, together with the 2023 Notes, the "New Notes"). The proceeds from the New Notes were used, together with the proceeds from the issuance of the Company's common stock and the Company's cash and restricted cash on hand, to consummate the Company's acquisition of Nationstar and the refinancing of certain of Nationstar's existing debt and to pay related fees and expenses. At the consummation of the acquisition, Merger Sub merged with and into Nationstar, with Nationstar continuing as a wholly-owned subsidiary of the Company. After the Merger, Nationstar assumed all of Merger Sub's obligations under the New Notes.

The acquisition has been accounted for in accordance with ASC 805, Business Combinations, using the acquisition method of accounting. Under the acquisition method of accounting, the Company allocated the purchase price of the acquisition to identifiable assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The Company recorded preliminary goodwill of $10, which represents the excess of the purchase price over the estimated fair value of tangible and intangible assets acquired, net of the liabilities assumed. The goodwill is primarily attributable to the assembled workforce and synergies from the future growth and strategic advantages in the mortgage industry. The entire preliminary goodwill is assigned to the Servicing segment and will not be deductible for tax purposes.

The table below presents the calculation of aggregate purchase price.

Purchase Price	
Converted WMIH common shares in millions (prior to the 1-for-12 reverse stock split)	394
Price per share, based on price of $1.398 for WMIH stock on July 31, 2018 (prior to the 1-for-12 reverse stock split)	$1.398
Purchase price from common stock issued	551
Purchase price from cash payment	1,226
Total purchase price	$1,777

The allocation of the fair value of the acquired business was based on preliminary valuations of the estimated fair value of the assets acquired and liabilities assumed. The determination of fair value estimates requires management to make certain estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and may require adjustments. The Company's estimates are subject to change as the

Company obtains additional information and finalizes its review of estimates during the measurement period (up to one year from the acquisition date). The primary areas of the preliminary allocation of fair value of consideration transferred that are not yet finalized relate to the fair value of reverse mortgage interests and related other nonrecourse debt, advances and other receivables and payables and accrued liabilities. Based on the preliminary allocation of fair value, goodwill of $10 has been recorded.

The Company will record any adjustments to the preliminary fair value estimates in the reporting period in which the adjustments are determined. Fair value adjustments based on updated estimates could materially affect the goodwill recorded on the acquisition.

The preliminary allocation of the purchase price to the acquired assets and liabilities is as follows:

Preliminary Estimated Fair Value of Net Assets Acquired	
Cash and cash equivalents	$166
Restricted cash	430
Mortgage servicing rights	3,428
Advances and other receivables	1,262
Reverse mortgage interests	9,213
Mortgage loans held for sale	1,514
Mortgage loans held for investment	125
Property and equipment	96
Derivative financial instruments	64
Other assets	546
Fair value of assets acquired	16,844
Unsecured senior notes	1,830
Advance facilities	551
Warehouse facilities	2,701
Payables and accrued liabilities	1,361
MSR related liabilities—nonrecourse	1,065
Mortgage servicing liabilities	86
Derivative financial instruments	3
Other nonrecourse debt	7,583
Fair value of liabilities assumed	15,180
Total fair value of net tangible assets acquired	1,664
Intangible assets(1)	103
Preliminary goodwill	10
	$1,777

(1) The following intangible assets were acquired in the Nationstar acquisition:

	Useful Life (Years)	Fair Value
Customer relationships (i)	6	$ 61
Tradename (ii)	5	8
Technology (ii)	3-5	11
Internally developed software(iii)	2	23
Total		$ 103

(i) The estimated fair values for customer relationships were measured using the excess earnings method.

(ii) The estimated fair values for tradename and technology were measured using the relief-from-royalty method. This method assumes the tradename and technology have value to the extent the owner is relieved of the obligation to pay royalties for the benefits received from these assets.

(iii) The estimated fair values for internally developed software were measured using the replacement cost method.

The preliminary allocation of fair value in the third quarter of 2018 resulted in a $2 bargain purchase gain. The Company did not record the bargain purchase gain in the third quarter of 2018 because it has not completed its assessment of the re-consideration criteria as specified in ASC 805, Business Combinations, which is required to be performed prior to recording a bargain purchase gain. During the fourth quarter of 2018, the Company performed a lookback analysis of certain valuation inputs and related valuation results as part of its assessment of the re-consideration criteria. Based on the revised valuation and lookback analysis performed, the Company updated the estimated fair value of reverse mortgage interests, which resulted in a reduction of $12 in reverse mortgage interests with a corresponding adjustment to goodwill. In addition, the Company updated other assets and payables and accrued liabilities for the tax impact related to the reverse mortgage interests fair value adjustment and return to provision true up adjustments recorded in purchase accounting. As a result of these adjustments, the Company recorded goodwill of $10 as of December 31, 2018 after taking into the consideration of previously unrecognized bargain purchase gain. The purchase price has not been finalized as of December 31, 2018 as the Company continues to analyze the valuations assigned to the acquired assets and assumed liabilities. Due to the complexity in valuing reverse mortgage interests and the significant amount of data inputs required, the valuation is not yet final. As a result of revising the reverse mortgage interests valuation, the purchase accounting accretion and amortization amounts are also subject to change.

WMIH incurred total acquisition costs of $92 prior to the consummation of the Merger. No significant additional acquisition costs were recorded during the remainder of fiscal 2018. The acquisition costs were primarily related to legal, accounting and consulting services and were expensed as incurred through July 31, 2018. Included in the total acquisition costs was a transaction fee of $25 to KKR Capital Markets LLC (“KCM”), an affiliate of KKR Wand Investors Corporation, which is WMIH’s largest stockholder, for acting as a non-exclusive financial advisor to WMIH with respect to the Merger and an arrangement fee of $7 to KCM for acting as a placement agent with respect to a bridge financing facility in connection with the Merger that was not executed. In addition, WMIH incurred $38 of costs related to borrowings under the Notes, which were capitalized in debt costs.

WMIH also paid KCM a deferred fee of $8, which initially reduced the carrying value of the Series B Preferred Stock. This fee was payable in connection with the conversion of Series B Preferred Stock to WMIH’s common stock upon consummation of the Merger.

Included in the Predecessor’s consolidated statements of operations were $27 of acquisition costs incurred by Nationstar for the seven months ended July 31, 2018. The acquisition costs were primarily related to legal, accounting and consulting services.

Included in the Successor’s consolidated statements of operations were $10 of acquisition costs related to the compensation arrangements incurred by the Company related to the merger for the five months ended December 31, 2018.

The following unaudited pro forma financial information presents the combined results of operations for the year ended December 31, 2018 as if the transaction had occurred on January 1, 2018.

	Year ended December 31, 2018 (unaudited)
Pro forma total revenues	$ 1,790
Pro forma net income	$ 16

The unaudited pro forma financial information above does not include the pro forma effects of the Company's acquisition of Assurant Mortgage Solutions as presented below. The above unaudited pro forma financial information is presented for illustrative purposes only and is not indicative of the results of operations that would have actually occurred had the Merger occurred on January 1, 2018. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, the future operating results of the Company. Further, the unaudited financial information excludes acquisition and integration costs and does not give effect to any estimated and potential cost savings or other operating efficiencies, if any, that might result from the acquisition.

Acquisition of Assurant Mortgage Solutions
On August 1, 2018, Xome Holdings LLC, a wholly-owned subsidiary of the Company, acquired Assurant Mortgage Solutions for $38 in cash with additional consideration dependent on the achievement of certain future performance targets, which was estimated at $15 as of December 31, 2018. Total purchase price is estimated at $53. The acquisition expands Xome's footprint and grows its third-party client portfolio across its valuation, title and field services businesses. The Company initially recorded $23 of intangible assets and $3 of goodwill based on preliminary purchase price allocation in the third quarter of 2018. During the fourth quarter of 2018, the Company finalized its purchase price allocation and adjusted the fair value of net assets acquired based on the valuation performed by a third party valuation specialist. Such adjustments resulted in $1 increase in intangible assets and $10 increase in goodwill. Therefore, the Company recorded intangible assets of $24 and goodwill of $13 as of December 31, 2018 and expects entire goodwill will be deductible for tax purposes.

4. Mortgage Servicing Rights and Related Liabilities

The following table sets forth the carrying value of the Company's MSRs and the related liabilities.

MSRs and Related Liabilities	Successor December 31, 2018	Predecessor December 31, 2017
Forward MSRs - fair value	$ 3,665	$ 2,937
Reverse MSRs - amortized cost	11	4
Mortgage servicing rights	$ 3,676	$ 2,941
Mortgage servicing liabilities - amortized cost	$ 71	$ 41
Excess spread financing - fair value	$ 1,184	$ 996
Mortgage servicing rights financing - fair value	32	10
MSR related liabilities - nonrecourse at fair value	$ 1,216	$ 1,006

Mortgage Servicing Rights
The Company owns and records at fair value the rights to service traditional residential mortgage ("forward") loans for others either as a result of purchase transactions or from the retained servicing associated with the sales and securitizations of loans originated. MSRs are comprised of servicing rights of both agency and non-agency loans.

The following table sets forth the activities of forward MSRs.

Forward MSRs - Fair Value	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Predecessor Year ended December 31, 2017
Fair value - beginning of period	$ 3,413	$2,937	$ 3,160
Additions:			
Servicing retained from mortgage loans sold	120	162	203
Purchases of servicing rights	479	144	66
Dispositions:			
Sales of servicing assets[1]	(111)	4	(60)
Changes in fair value:			

Changes in valuation inputs or assumptions used in the valuation model	(123)	330	(101)
Other changes in fair value	(113)	(164)	(331)
Fair value - end of period	$ 3,665	$3,413	$ 2,937

(1) Amount for the seven months ended July 31, 2018 is related to the sale of MSRs collateralized by nonperforming loans, which have a negative MSR value.

From time to time, the Company sells its ownership interest in certain MSRs and is retained as the subservicer for the sold assets. The Company has evaluated the sale accounting requirements related to these transactions, including the Company's continued involvement as the subservicer, and concluded that these transactions qualify for sale accounting treatment. During the five months ended December 31, 2018, the Company sold $10,746 in unpaid principal balance ("UPB") of forward MSRs, of which none was retained by the Company as subservicer. During the seven months ended July 31, 2018 and the year ended December 31, 2017, the Predecessor sold $1,203 and $2,123 in UPB of forward MSRs, respectively, of which $1 and $364 was retained by the Company as subservicer, respectively.

MSRs measured at fair value are segregated between credit sensitive and interest sensitive pools. Credit sensitive pools are primarily impacted by borrower performance under specified repayment terms, which most directly impacts involuntary prepayments and delinquency rates. Interest sensitive pools are primarily impacted by changes in forecasted interest rates, which in turn impact voluntary prepayment speeds. The Company assesses whether acquired portfolios are more credit sensitive or interest sensitive in nature on the date of acquisition. Numerous factors are considered in making this assessment, including loan-to-value ratios, FICO scores, percentage of portfolio previously modified, portfolio seasoning and similar criteria. The determination between credit sensitive and interest sensitive for a pool is made at the date of acquisition, and no subsequent changes are made.

Credit sensitive portfolios generally consist of higher delinquency, single-family non-conforming residential forward mortgage loans serviced for agency and non-agency investors. Interest sensitive portfolios generally consist of lower delinquency, single-family conforming residential forward mortgage loans for agency investors.

The following table provides a breakdown of credit sensitive and interest sensitive UPB for the Company's forward MSRs.

	Successor December 31, 2018		Predecessor December 31, 2017	
MSRs - Sensitivity Pools	UPB	Fair Value	UPB	Fair Value
Credit sensitive	$135,752	$1,495	$167,605	$1,572
Interest sensitive	159,729	2,170	113,775	1,365
Total	$295,481	$3,665	$281,380	$2,937

The Company used the following key weighted-average inputs and assumptions in estimating the fair value of forward MSRs.

Credit Sensitive	Successor December 31, 2018		Predecessor December 31, 2017	
Discount rate	11.3	%	11.4	%
Total prepayment speeds	11.8	%	15.2	%
Expected weighted-average life	6.4 years		5.7 years	
Interest Sensitive				
Discount rate	9.3	%	9.2	%
Total prepayment speeds	10.0	%	10.7	%
Expected weighted-average life	7.0 years		6.7 years	

The following table shows the hypothetical effect on the fair value of the forward MSRs when applying certain unfavorable variations of key assumptions to these assets for the dates indicated.

Discount Rate

Forward MSRs - Hypothetical Sensitivities	100 bps Adverse Change	200 bps Adverse Change	Total Prepayment Speeds 10% Adverse Change	20% Adverse Change
Successor				
December 31, 2018				
Forward mortgage servicing rights	$(137)	$(265)	$(129)	$(250)
Predecessor				
December 31, 2017				
Forward mortgage servicing rights	$(108)	$(208)	$(118)	$(227)

These hypothetical sensitivities should be evaluated with care. The effect on fair value of a 10% adverse change in assumptions generally cannot be determined because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other assumptions constant. In reality, changes in one factor may lead to changes in other factors, which could impact the above hypothetical effects.

Reverse Mortgage Servicing Rights and Liabilities - Amortized Cost
The Company services certain HECM reverse mortgage loans with an unpaid principal balance of $28,415 as of December 31, 2018. The Predecessor serviced and subserviced certain HECM reverse mortgage loans with an unpaid principal balance of $35,112 as of December 31, 2017. Reverse mortgage servicing liabilities had an ending balance of $71 and $41 as of December 31, 2018 and 2017 for the Company and Predecessor, respectively. For the five months ended December 31, 2018, the Company accreted $15 of the MSL. For the seven months ended July 31, 2018, the Predecessor accreted $11 of the MSL and recorded impairment of $56 in general and administrative expenses. For the year ended December 31, 2017, the Predecessor accreted $4 of the MSL and recorded an impairment of $3. Such accretion recorded by the Predecessor relates to previous portfolio acquisitions.

Reverse MSR had an ending balance of $11 and $4 as of December 31, 2018 and 2017 for the Company and Predecessor, respectively. For the five months ended December 31, 2018, the Company recorded $4 of amortization. For the seven months ended July 31, 2018, the Predecessor recorded an impairment of $4. For the year ended December 31, 2017, the Predecessor amortized $2 of the MSR.

The fair value of the reverse MSR was $11 and $29 as of December 31, 2018 and 2017 for the Company and Predecessor, respectively. The fair value of the MSL was $53 and $34 as of December 31, 2018 and 2017 for the Company and Predecessor, respectively. Management evaluates reverse MSRs and MSLs each reporting period for impairment. Based on management’s assessment at December 31, 2018 and 2017, no impairment or increased obligation was needed.

Excess Spread Financing - Fair Value
In order to finance the acquisition of certain MSRs on various Portfolios, the Company has entered into sale and assignment agreements with a third-party associated with funds and accounts under management of BlackRock Financial Management Inc. (“BlackRock”), a third-party associated with funds and accounts under management of Värde Partners, Inc. (“Varde”), and with certain affiliated entities formed and managed by New Residential Investment Corp. (“New Residential”). The Company sold to such entities the right to receive a specified percentage of the excess cash flow generated from the Portfolios after receipt of a fixed base servicing fee per loan. Servicing fees associated with traditional MSRs can be segregated into a contractually specified base servicing fee component and an excess servicing fee. The base servicing fee, along with ancillary income, is designed to cover costs incurred to service the specified pool plus a reasonable profit margin. The remaining servicing fee is considered excess. The Company retains all the base servicing fee and ancillary revenues associated with servicing the Portfolios and retains a portion of the excess servicing fee. The Company continues to be the servicer of the Portfolios and provides all servicing and advancing functions.

Contemporaneous with the above, the Company entered into refinanced loan obligations with New Residential, BlackRock and Varde. Should the Company refinance any loan in the Portfolios, subject to certain limitations, it will be required to transfer the new loan or a replacement loan of similar economic characteristics into the Portfolios. The new or replacement loan will be governed by the same terms set forth in the sale and assignment agreement described above, which is the primary driver of the recapture rate assumption.

The range of key assumptions used in the Company's valuation of excess spread financing are as follows:

Excess Spread Financing	Prepayment Speeds	Average Life (Years)	Discount Rate	Recapture Rate
Successor				
December 31, 2018				
Low	6.0 %	5.0	8.5 %	8.5 %
High	16.7 %	8.1	13.9 %	30.5 %
Weighted-average	11.0 %	6.5	10.4 %	18.6 %
Predecessor				
December 31, 2017				
Low	6.2 %	4.4	8.5 %	7.2 %
High	21.2 %	6.9	14.1 %	30.0 %
Weighted-average	13.7 %	5.9	10.8 %	18.7 %

The following table shows the hypothetical effect on the excess spread financing fair value when applying certain unfavorable variations of key assumptions to these liabilities for the dates indicated.

Excess Spread Financing - Hypothetical Sensitivities	Discount Rate		Prepayment Speeds	
	100 bps Adverse Change	200 bps Adverse Change	10% Adverse Change	20% Adverse Change
Successor				
December 31, 2018				
Excess spread financing	$47	$ 99	$ 38	$ 81
Predecessor				
December 31, 2017				
Excess spread financing	$37	$ 78	$ 34	$ 71

As the cash flow assumptions utilized in determining the fair value amounts in the excess spread financing are based on the related cash flow assumptions utilized in the financed MSRs, any fair value changes recognized in the MSRs would inherently have an inverse impact on the carrying amount of the related excess spread financing. For example, while an increase in discount rates would negatively impact the value of the Company's MSRs, it would reduce the carrying value of the associated excess spread financing liability.

These hypothetical sensitivities should be evaluated with care. The effect on fair value of a 10% variation in assumptions generally cannot be determined because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other assumptions constant. In reality, changes in one factor may lead to changes in other factors, which could impact the above hypothetical effects. Also, a positive change in the above assumptions would not necessarily correlate with the corresponding decrease in the net carrying amount of the excess spread financing.

Mortgage Servicing Rights Financing - Fair Value

From December 2013 through June 2014, the Predecessor entered into agreements to sell a contractually specified base servicing fee component of certain MSRs and servicing advances under specified terms to a joint venture capitalized by New Residential and certain unaffiliated third-party investors. The Predecessor and subsequently the Company continues to be the named servicer and, for accounting purposes, ownership of the mortgage servicing rights continues to reside with the Company. Accordingly, the Predecessor and the Company records the MSRs and a MSR financing liability associated with this transaction in its consolidated balance sheets.

The following table sets forth the weighted average assumptions used in the valuation of the mortgage servicing rights financing.

Mortgage Servicing Rights Financing Assumptions	Successor December 31, 2018	Predecessor December 31, 2017
Advance financing rates	4.2 %	3.5 %
Annual advance recovery rates	19.0 %	23.2 %

The following table sets forth the items comprising revenues associated with servicing loan portfolios.

Servicing Revenue	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Contractually specified servicing fees[1]	$ 421	$574	$ 1,003	$ 1,045
Other service-related income[1]	44	66	168	245
Incentive and modification income[1]	17	37	80	113
Late fees[1]	34	53	89	82
Reverse servicing fees	16	37	58	57
Mark-to-market adjustments[2]	(164)	196	(160)	(177)
Counterparty revenue share[3]	(68)	(111)	(230)	(298)
Amortization, net of accretion[4]	(64)	(112)	(242)	(314)
Total servicing revenue	$ 236	$740	$ 766	$ 753

(1) Amounts include subservicing related revenues.

(2) Mark-to-market ("MTM") adjustments include fair value adjustments on MSR, excess spread financing and MSR financing liabilities. The amount of MSR MTM includes the impact of negative modeled cash flows which have been transferred to reserves on advances and other receivables. The negative modeled cash flows relate to advances and other receivables associated with inactive and liquidated loans that are no longer part of the MSR portfolio. The impact of negative modeled cash flows was $25 for the five months ended December 31, 2018. The impact of negative modeled cash flows for the Predecessor was $38 for the seven months ended July 31, 2018 and $72 and $81 for the years ended December 31, 2017 and 2016, respectively.

(3) Counterparty revenue share represents the excess servicing fee that the Company pays to the counterparties under the excess spread financing arrangements and the payments made associated with MSR financing arrangements.

(4) Amortization for the Successor is net of excess spread accretion of $53 and MSL accretion of $15 for the five months ended December 31, 2018. Amortization for the Predecessor is net of excess spread accretion of $78 for the seven months ended July 31, 2018, and $161 and $200 for the years ended December 31, 2017 and 2016, respectively. The Predecessor recorded MSL accretion within reverse servicing fees, whereas the Successor has elected to record MSL accretion within Amortization, net of accretion.

5. Advances and Other Receivables, Net

Advances and other receivables, net consists of the following:

	Successor December 31, 2018	Predecessor December 31, 2017
Servicing advances, net of $205 and $0 discount, respectively	$ 952	$ 1,599
Receivables from agencies, investors and prior servicers, net of $48 and $0 discount, respectively	289	391
Reserves	(47)	(284)
Total advances and other receivables, net	$ 1,194	$ 1,706

The Company and Predecessor, as loan servicer, are contractually responsible to advance funds on behalf of the borrower and investor primarily for loan principal and interest, property taxes and hazard insurance, and foreclosure costs. Advances are primarily recovered through reimbursement from the investor, proceeds from sale of loan collateral, or mortgage insurance claims. Reserves for advances and other receivables on loans transferred out of the MSR portfolio are established within advances and other receivables.

The Company and Predecessor estimate and record an asset for estimated recoveries to be collected from prior servicers for their respective portion of the losses associated with the underlying loans that were not serviced in accordance with established guidelines. Receivables from prior servicers totaled $94 and $134 for the Company and Predecessor's forward loan portfolio at December 31, 2018 and 2017, respectively.

The following table sets forth the activities of the reserves for advances and other receivables.

Reserves for Advances and Other Receivables	Successor	Predecessor	
	For the Period August 1 - December 31, 2018	For the Period January 1 - July 31, 2018	Year ended December 31, 2017
Balance - beginning of period	$ —	$ 284	$ 184
Provision and other additions[(1)]	47	69	142
Write-offs	—	(56)	(42)
Balance - end of period	$ 47	$ 297	$ 284

(1) The Company recorded a provision of $25 through the MTM adjustments in service related revenues for the five months ended December 31, 2018 for inactive and liquidated loans that are no longer part of the MSR portfolio. The Predecessor recorded a provision through the MTM adjustments in service related revenues of $38 and $72 for the seven months ended July 31, 2018 and year ended December 31, 2017, respectively, for inactive and liquidated loans that are no longer part of the MSR portfolio. Other additions represent reclassifications of required reserves provisioned within other balance sheet accounts as associated serviced loans become inactive or liquidate.

Purchase Discount for Advances and Other Receivables

In connection with the Merger, the Company recorded the acquired advances and other receivables at estimated fair value as of the acquisition date, which resulted in a preliminary purchase discount of $302. The following table sets forth the activities of the purchase discount for advances and other receivables.

Purchase Discounts	Successor For the Period August 1 - December 31, 2018	
	Servicing Advances	Receivables from Agencies, Investors and Prior Servicers
Balance - beginning of period	$ 246	$ 56
Utilization of purchase discounts	(41)	(8)
Balance - end of period	$ 205	$ 48

6. Reverse Mortgage Interests, Net

Reverse mortgage interests, net consists of the following:

	Successor December 31, 2018	Predecessor December 31, 2017
Participating interests in HECM mortgage-backed securities, net of $58 and $0 premium, respectively	$ 5,664	$ 7,107
Other interests securitized, net of $100 and $0 discount, respectively	1,064	912
Unsecuritized interests, net of $122 and $89 discount, respectively	1,219	2,080
Reserves	(13)	(115)
Total reverse mortgage interests, net	$ 7,934	$ 9,984

Participating Interests in HMBS
Participating interests in HMBS consist of the Company's reverse mortgage interests in HECM loans which have been transferred to GNMA and subsequently securitized through the issuance of HMBS. During the five months ended December 31, 2018, a total of $107 UPB was transferred to GNMA and securitized by the Company. During the seven months ended July 31, 2018 and year ended December 31, 2017, a total of $198 and $547 in UPB were transferred to GNMA and securitized by the Predecessor, respectively.

Other Interests Securitized
Other interests securitized consist of reverse mortgage interests that no longer meet HMBS program eligibility criteria and have been repurchased out of HMBS. These reverse mortgage interests have subsequently been transferred to private securitization trusts and are accounted for as a secured borrowing. During the five months ended December 31, 2018, the Company securitized a total of $364 UPB through Trust 2018-3 and a total of $188 UPB from Trust 2017-1 was called and the related debt was extinguished. During the seven months ended July 31, 2018, the Predecessor securitized a total of $760 UPB through Trust 2018-1 and Trust 2018-2 and a total of $284 UPB from Trust 2016-2 and Trust 2016-3 were called and the related debt was extinguished. Refer to Other Nonrecourse Debt in Note 11, Indebtedness for additional information.

Unsecuritized Interests
Unsecuritized interests in reverse mortgages consists of the following:

	Successor December 31, 2018	Predecessor December 31, 2017
Repurchased HECM loans (exceed 98% MCA)	$ 949	$ 1,751
HECM related receivables	300	311
Funded borrower draws not yet securitized	76	82
REO-related receivables	16	25
Purchase discount	(122)	(89)
Total unsecuritized interests	$ 1,219	$ 2,080

Unsecuritized interests include repurchased HECM loans for which the Company is required to repurchase from the HMBS pool when the outstanding principal balance of the HECM loan is equal to or greater than 98% of the maximum claim amount ("MCA") established at origination in accordance with HMBS program guidelines. The Company repurchased a total of $1,429 of HECM loans out of GNMA HMBS securitizations during the five months ended December 31, 2018, of which $328 were subsequently assigned to a third party in accordance with applicable servicing agreements. The Predecessor repurchased a total of $2,439 and $4,268 of HECM loans out of GNMA HMBS securitizations during the seven months ended July 31, 2018 and year ended December 31, 2017, respectively, of which, $512 and $1,018 were subsequently assigned to a third party in accordance with applicable servicing agreements, respectively. To the extent a loan is not subject to applicable servicing agreements and assigned to a third party, the loan is either subject to assignment to U.S. Department of Housing and Urban Development ("HUD"), per contractual obligations with GNMA, liquidated via a payoff from the borrower or liquidated via a foreclosure according to the terms of the underlying mortgage.

The Company and the Predecessor also estimate and record an asset for probable recoveries from prior servicers for their respective portion of the losses associated with the underlying loans that were not serviced in accordance with established guidelines. Receivables from prior servicers totaled $18 and $22 for the Company and Predecessor's reverse loan portfolio at December 31, 2018 and 2017, respectively.

Purchase of Reverse Mortgage Servicing Rights and Interests

On December 1, 2016, the Predecessor executed an asset purchase agreement with a large financial institution and acquired servicing rights and reverse mortgage interests. As part of the asset purchase agreement, the Predecessor agreed to acquire remaining components of the reverse portfolio, primarily including servicing of whole HECM loans and REO advances upon receiving regulatory approval. In September 2017, the Predecessor executed a mortgage servicing rights purchase agreement and a subservicing agreement to acquire servicing rights and subservicing contracts on the remaining reverse portfolio. In March 2018, the Predecessor executed an asset purchase agreement to acquire reverse mortgage interests on the subservicing contracts acquired in September 2017 referenced above, acquiring $467 UPB of participating interests in HECM loans and $460 UPB of related HMBS obligations.

Reserves for Reverse Mortgage Interests

The Company records reserves related to reverse mortgage interests based on potential unrecoverable costs and loss exposures expected to be realized. Recoverability is determined based on the Company's ability to meet HUD servicing guidelines and is viewed as two different categories of expenses: financial and operational. Financial exposures are defined as the cost of doing business related to servicing the HECM product and include potential unrecoverable costs primarily based on HUD claim guidelines related to recoverable expenses and unfavorable changes in the appraised value of the loan collateral. Operational exposures are defined as unrecoverable debenture interest curtailments imposed for missed HUD-specified servicing timelines. Reserves for reverse mortgage interests are related to both financial and operational exposures.

The activity of the reserves for reverse mortgage interests is set forth below.

	Successor	Predecessor	
Reserves for reverse mortgage interests	For the Period August 1 - December 31, 2018	For the Period January 1 - July 31, 2018	Year ended December 31, 2017
Balance - beginning of period	$ —	$ 115	$ 131
Provisions	13	32	76
Write-offs	—	(18)	(92)
Balance - end of period	$ 13	$ 129	$ 115

Purchase Discount for Reverse Mortgage Interests

In connection with the Merger, the Company recorded the acquired reverse mortgage interests at estimated fair value as of the acquisition date, which resulted in a preliminary purchase premium of $58 for participating interests in HMBS, and a preliminary purchase discount of $290 for other interest securitized and unsecuritized interests as this population of reverse mortgage interests represents a portion of the portfolio that has more risk of loss attributable to financial and operational exposures related to being serviced through foreclosure and collateral liquidation. The following table sets forth the activities of the purchase premiums and discounts for reverse mortgage interests.

	Successor		
	For the Period August 1 - December 31, 2018		
Purchase premiums and discounts for reverse mortgage interests	Premium for Participating Interests in HMBS	Discount for Other Interest Securitized	Discount for Unsecuritized Interests
Balance - beginning of period	$ 58	$ (117)	$ (173)
Additions	—	—	—
Utilization of purchase discounts	—	—	43
Accretion/(Amortization)	—	17	8
Balance - end of period	$ 58	$ (100)	$ (122)

In connection with previous reverse mortgage portfolio acquisitions, the Predecessor recorded a purchase discount within unsecuritized interests. The following table sets forth the activities of the purchase discounts for reverse mortgage interests.

Purchase discounts for reverse mortgage interests	Predecessor For the Period January 1 - July 31, 2018	Year ended December 31, 2017
Balance - beginning of period	$ (89)	$ (43)
Additions	(7)	(75)
Accretion	14	29
Balance - end of period	$ (82)	$ (89)

Reverse Mortgage Interest Income

The Company accrues interest income for its participating interest in reverse mortgages based on the stated rates underlying HECM loans and FHA guidelines. Total interest earned on the Company's reverse mortgage interests was $206 for the five months ended December 31, 2018. Total interest earned on the Predecessor's reverse mortgage interests was $274 for the seven months ended July 31, 2018, and $490 and $344 for the years ended December 31, 2017 and 2016, respectively.

7. Mortgage Loans Held for Sale and Investment

Mortgage Loans Held for Sale

The Company maintains a strategy of originating and purchasing residential mortgage loan products primarily for the purpose of selling to GSEs or other third-party investors in the secondary market on a servicing-retained basis. The Company focuses on assisting customers currently in the Company's servicing portfolio with refinancing of loans or new home purchases. Generally, all newly originated mortgage loans held for sale are securitized and transferred to GSEs or delivered to third-party purchasers shortly after origination on a servicing-retained basis.

Mortgage loans held for sale are recorded at fair value as set forth below.

	Successor December 31, 2018	Predecessor December 31, 2017
Mortgage loans held for sale - UPB	$ 1,568	$ 1,837
Mark-to-market adjustment[1]	63	54
Total mortgage loans held for sale	$ 1,631	$ 1,891

(1) The mark-to-market adjustment is recorded in net gain on mortgage loans held for sale in the consolidated statements of operations.

The Company accrues interest income as earned and places loans on non-accrual status after any portion of principal or interest has been delinquent for more than 90 days. Accrued interest is recorded as interest income in the consolidated statements of operations.

The total UPB of mortgage loans held for sale on non-accrual status was as follows:

	Successor December 31, 2018		Predecessor December 31, 2017	
Mortgage Loans Held for Sale - UPB	UPB	Fair Value	UPB	Fair Value
Non-accrual[1]	$ 45	$ 42	$ 66	$ 64

(1) Non-accrual includes $40 and $64 of UPB related to Ginnie Mae repurchased loans as of December 31, 2018 and 2017, respectively.

From time to time, the Company exercises its right to repurchase individual delinquent loans in Ginnie Mae securitization pools to minimize interest spread losses, to re-pool into new Ginnie Mae securitizations, or to otherwise sell to third-party investors. During the five months ended December 31, 2018, the Company repurchased $56 of delinquent Ginnie Mae loans and securitized or sold to third-party investors $95 of previously repurchased loans. During the seven months ended July 31, 2018 and the year ended December 31, 2017, the Predecessor repurchased $118 and $316 of delinquent Ginnie Mae loans, respectively, and securitized or sold to third-party investors $151 and $341 of previously repurchased loans, respectively.

As of December 31, 2018 and 2017, $70 and $227 of the repurchased loans have re-performed and were held in accrual status, respectively, and remaining balances continue to be held under a nonaccrual status.

The total UPB of mortgage loans held for sale for which the Company and the Predecessor have begun formal foreclosure proceedings was $33 and $51 as of December 31, 2018 and 2017, respectively.

The following table details a roll forward of the change in the account balance of mortgage loans held for sale.

Mortgage loans held for sale	Successor For the Period August 1 - December 31, 2018	Predecessor For the Period January 1 - July 31, 2018	Predecessor Year ended December 31, 2017
Balance - beginning of period	$ 1,514	$ 1,891	$ 1,788
Mortgage loans originated and purchased, net of fees	8,890	12,319	19,140
Loans sold	(9,304)	(13,255)	(20,318)
Repurchase of loans out of Ginnie Mae securitizations	527	544	1,249
Transfer of mortgage loans held for sale to advances/accounts receivable related to claims[1]	(5)	(7)	(19)
Net transfer of mortgage loans held for sale from REO in other assets[2]	5	14	23
Changes in fair value	6	(1)	9
Other purchase-related activities[3]	(2)	9	19
Balance - end of period	$ 1,631	$ 1,514	$ 1,891

(1) Amounts are comprised of claims made on certain government insured mortgage loans upon completion of the REO sale.

(2) Net amounts are comprised of REO in the sales process which are transferred to other assets and certain government insured mortgage REO which are transferred from other assets upon completion of the sale so that the claims process can begin.

(3) Amounts are comprised primarily of non-Ginnie Mae loan purchases and buyouts.

For the five months ended December 31, 2018, the Company received proceeds of