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(Do not check if a smaller reporting company)

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

As of August 1, 2016, the Registrant had one class of Common Stock (\$.01 par value), of which 170,668,960 shares were issued and outstanding.

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

(In Thousands, Except Par Value)

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost \$6,617,396; \$5,482,042)	\$6,838,968	\$5,433,797
Equity securities, available-for-sale, at fair value (cost \$171,492; \$109,346)	161,880	104,497
Equity securities, trading, at fair value (cost \$26,232; \$26,937)	26,847	27,271
Short-term investments	127,880	84,266
Equity investment in unconsolidated subsidiaries – related party	149,573	138,023
Other investments (related party \$68,186; \$64,869; recorded at fair value \$38,039; \$30,309)	129,414	99,012
Total investments	7,434,562	5,886,866
Cash and cash equivalents	1,009,534	931,970
Restricted cash and cash equivalents	591,984	380,699
Accrued interest and dividends	55,940	51,487
Premiums receivable, net	2,562,165	2,115,653
Reinsurance recoverable (related party \$2,236,292; \$1,963,140)	3,856,087	3,008,670
Prepaid reinsurance premium (related party \$1,194,588; \$1,066,961)	1,924,747	1,531,866
Other assets (related party \$205,320; \$189,223; recorded at fair value \$304,434; \$264,001)	1,371,771	1,398,064
Deferred policy acquisition costs	873,641	704,243
Property and equipment, net	327,311	281,456
Goodwill	603,662	432,700
Intangible assets	395,589	367,345
	\$21,006,993	\$17,091,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss adjustment expense reserves	\$9,097,408	\$7,208,367
Unearned premiums	4,819,255	4,014,728
Ceded reinsurance premiums payable (related party \$679,083; \$379,988)	843,473	651,051
Accrued expenses and other liabilities (related party \$167,975; \$167,975; recorded at fair value \$462,537; \$132,558)	1,604,413	1,140,830
Debt	1,229,599	989,356
Total liabilities	17,594,148	14,004,332
Commitments and contingencies		
Redeemable non-controlling interest	941	1,172
Stockholders' equity:		
Common stock, \$0.01 par value; 500,000 shares authorized; 196,455 issued in 2016 and 2015, respectively; 172,432 and 175,915 outstanding in 2016 and 2015, respectively	1,965	1,964
Preferred stock, \$0.01 par value; 10,000 shares authorized; 5,112 and 4,968 issued and outstanding; \$626,250 and \$482,500 aggregated liquidation preference in 2016 and 2015, respectively.	626,250	482,500
Additional paid-in capital	1,380,153	1,383,492
Treasury stock at cost; 24,023 and 20,540 shares in 2016 and 2015, respectively	(262,984)	(162,867)

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Accumulated other comprehensive loss, net of tax	(31,791) (130,262)
Retained earnings	1,517,092	1,334,233	
Total AmTrust Financial Services, Inc. equity	3,230,685	2,909,060	
Non-controlling interest	181,219	176,455	
Total stockholders' equity	3,411,904	3,085,515	
	\$21,006,993	\$17,091,019	

See accompanying notes to unaudited consolidated financial statements.

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AmTrust Financial Services, Inc.
 Consolidated Statements of Income
 (Unaudited)
 (In Thousands, Except Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Premium income:				
Net written premium	\$1,268,436	\$1,008,721	\$2,489,115	\$2,051,910
Change in unearned premium	(86,684)	(39,751)	(233,081)	(133,563)
Net earned premium	1,181,752	968,970	2,256,034	1,918,347
Service and fee income (related parties - three months \$21,608; \$21,281 and six months \$41,771; \$38,685)	138,270	107,737	282,471	220,623
Net investment income	50,745	36,283	100,160	70,856
Net realized and unrealized gain (loss) on investments	15,099	(2,642)	23,074	13,011
Total revenues	1,385,866	1,110,348	2,661,739	2,222,837
Expenses:				
Loss and loss adjustment expense	784,393	638,475	1,499,466	1,251,758
Acquisition costs and other underwriting expenses (net of ceding commission - related party - three months \$145,610; \$129,222 and six months \$284,001; \$247,909)	298,803	238,710	563,437	470,386
Other	132,970	98,130	261,156	196,587
Total expenses	1,216,166	975,315	2,324,059	1,918,731
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	169,700	135,033	337,680	304,106
Other income (loss):				
Interest expense (net of interest income - related party - three months \$2,187; \$2,211 and six months \$4,375; \$4,399)	(19,738)	(9,646)	(37,438)	(19,901)
Loss on extinguishment of debt	—	—	—	(4,714)
Gain on investment in life settlement contracts net of profit commission	12,676	3,096	23,406	14,469
Foreign currency loss	(26,435)	(47,320)	(62,108)	(7,366)
Acquisition gain on purchase	39,097	—	48,775	—
Total other income (loss)	5,600	(53,870)	(27,365)	(17,512)
Income before income taxes and equity in earnings of unconsolidated subsidiaries	175,300	81,163	310,315	286,594
Provision for income taxes	27,918	4,472	55,644	51,284
Income before equity in earnings of unconsolidated subsidiaries	147,382	76,691	254,671	235,310
Equity in earnings of unconsolidated subsidiaries – related parties	4,802	4,042	10,578	9,571
Net income	\$152,184	\$80,733	\$265,249	\$244,881
Net income attributable to redeemable non-controlling interest and non-controlling interest of subsidiaries	(5,817)	(1,346)	(9,834)	(5,429)
Net income attributable to AmTrust Financial Services, Inc.	\$146,367	\$79,387	\$255,415	\$239,452
Dividends on preferred stock	(11,576)	(8,639)	(20,367)	(14,008)
Net income attributable to AmTrust common stockholders	\$134,791	\$70,748	\$235,048	\$225,444
Earnings per common share:				
Basic earnings per share	\$0.79	\$0.43	\$1.36	\$1.38

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Diluted earnings per share	\$0.78	\$0.42	\$1.34	\$1.35
Dividends declared per common share	\$0.15	\$0.125	\$0.30	\$0.25
Net realized gain (loss) on investments:				
Total other-than-temporary impairment loss	\$(16,956)	\$(1,466)	\$(16,956)	\$(2,482)
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment losses recognized in earnings	(16,956)	(1,466)	(16,956)	(2,482)
Net realized gain (loss) on available for sale securities	33,391	(856)	38,663	15,813
Net unrealized gain (loss) on trading securities and other investments	(1,336)	(320)	1,367	(320)
Net realized investment gain (loss)	\$15,099	\$(2,642)	\$23,074	\$13,011
See accompanying notes to unaudited consolidated financial statements.				

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AmTrust Financial Services, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)
(In Thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$152,184	\$80,733	\$265,249	\$244,881
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(36,820)	14,021	(84,665)	(51,332)
Change in fair value of interest rate swap	168	163	287	190
Unrealized gain (loss) on securities:				
Gross unrealized holding gain (loss)	168,963	(91,679)	293,683	(80,494)
Tax expense arising during period	59,137	(32,088)	102,789	(28,173)
Net unrealized holding gain (loss)	109,826	(59,591)	190,894	(52,321)
Reclassification adjustments for investment gain (loss) included in net income, net of tax:				
Other-than-temporary impairment loss	(10,537)	—	(10,537)	—
Other net realized gain (loss) on investments	2,920	(790)	2,492	(1,205)
Reclassification adjustments for investment gain (loss) included in net income:	(7,617)	(790)	(8,045)	(1,205)
Other comprehensive income (loss), net of tax	\$65,557	\$(46,197)	\$98,471	\$(104,668)
Comprehensive income	217,741	34,536	363,720	140,213
Less: Comprehensive income attributable to redeemable non-controlling interest and non-controlling interest	5,817	1,346	9,834	5,429
Comprehensive income attributable to AmTrust Financial Services, Inc.	\$211,924	\$33,190	\$353,886	\$134,784

See accompanying notes to unaudited consolidated financial statements.

AmTrust Financial Services, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In Thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$265,249	\$244,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54,842	38,519
Net amortization of bond premium or discount	9,707	6,537
Equity earnings on investment in unconsolidated subsidiaries	(10,578)	(9,571)
Gain on investment in life settlement contracts, net	(23,406)	(14,469)
Realized gain on available for sale securities and unrealized gain on trading securities	(40,030)	(15,493)
Non-cash write-down of available for sale securities	16,956	2,482
Discount on notes payable	2,910	2,769
Stock based compensation	11,542	10,436
Loss on extinguishment of debt	—	4,714
Bad debt expense	8,241	7,724
Foreign currency loss	62,108	7,366
Acquisition gain on purchase	(48,775)	—
Changes in assets - (increase) decrease:		
Premiums and note receivables	(350,748)	(536,715)
Reinsurance recoverable	(172,948)	(355,989)
Deferred policy acquisition costs, net	(125,499)	(66,026)
Prepaid reinsurance premiums	(392,881)	(280,712)
Other assets	186,005	(124,061)
Changes in liabilities - increase (decrease):		
Reinsurance premium payable	185,275	155,340
Loss and loss expense reserve	780,599	664,495
Unearned premiums	382,794	394,994
Funds held under reinsurance treaties	(28,041)	13,525
Accrued expenses and other current liabilities	(202,549)	174,391
Deferred taxes	47,989	(158,508)
Net cash provided by operating activities	618,762	166,629
Cash flows from investing activities:		
Purchases of fixed maturities, available-for-sale	(1,299,160)	(1,168,051)
Purchases of equity securities, available-for-sale	(111,284)	(14,923)
Purchase of equity securities, trading	(100,101)	(109,555)
Purchase of other investments	(18,509)	(27,234)
Sales of fixed maturities, available-for-sale	910,939	560,386
Sales of equity securities, available-for-sale	89,348	12,184
Sales of equity securities, trading	102,261	108,325
Sales of other investments	1,242	13,337
Net (purchase) sale of short term investments	(43,614)	42,501
Net (purchase) sale of securities sold but not purchased	(17,448)	15,456
Receipt of life settlement contract proceeds	8,058	81,014
Acquisition of subsidiaries, net of cash obtained	(118,607)	(121,401)

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Increase in restricted cash and cash equivalents	(211,285)	(62,715)
Purchase of property and equipment	(65,538)	(44,386)
Net cash used in investing activities	(873,698)	(715,062)

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Cash flows from financing activities:		
Revolving credit facility borrowings	—	430,000
Revolving credit facility payments	—	(365,000)
Repurchase agreements, net	366,860	48,819
Secured loan proceeds	39,361	—
Secured loan agreements payments	(3,569)	(3,478)
Convertible senior notes settlement	—	(53,606)
Subordinated notes due 2055 proceeds	—	150,000
Financing fees	—	(4,990)
Common stock issuance	276	171,672
Common stock repurchase	(103,509)	—
Preferred stock issuance	139,070	176,529
Non-controlling interest capital distributions from consolidated subsidiaries, net	(5,301)	(41)
Stock option exercise and other	(7,084)	(1,982)
Dividends distributed on common stock	(52,624)	(39,901)
Dividends distributed on preferred stock	(20,367)	(14,008)
Net cash provided by financing activities	353,113	494,014
Effect of exchange rate changes on cash	(20,613)	(2,359)
Net increase in cash and cash equivalents	77,564	(56,778)
Cash and cash equivalents, beginning of the period	931,970	902,750
Cash and cash equivalents, end of the period	\$ 1,009,534	\$ 845,972
Supplemental Cash Flow Information		
Income tax payments	\$22,575	\$226,278
Interest payments on debt	\$28,902	\$18,245
Declared dividends on common stock	\$52,189	\$41,187

See accompanying notes to unaudited consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements

(Unaudited)

(Dollars In Thousands, Except Share and Per Share Data)

1. Basis of Reporting

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. These interim statements should be read in conjunction with the financial statements and notes thereto included in the AmTrust Financial Services, Inc. (“AmTrust” or the “Company”) Annual Report on Form 10-K for the year ended December 31, 2015, previously filed with the Securities and Exchange Commission (“SEC”) on February 29, 2016. The balance sheet at December 31, 2015 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

These interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim period and all such adjustments are of a normal recurring nature. The results of operations for the interim period are not necessarily indicative, if annualized, of those to be expected for the full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Company implemented a two-for-one stock split on February 2, 2016. As a result, the Company retrospectively adjusted all share and per share amounts in the accompanying condensed consolidated financial statements and notes to the condensed consolidated financial statements to apply the effect of the stock split for all periods presented.

A detailed description of the Company’s significant accounting policies and management judgments is located in the audited consolidated financial statements for the year ended December 31, 2015, included in the Company’s Form 10-K filed with the SEC.

All significant inter-company transactions and accounts have been eliminated in the consolidated financial statements.

To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation.

Correction of an Immaterial Error

The Company identified an immaterial error related to its classification on the consolidated statement of cash flows for purchases and sales of securities sold but not yet purchased, at fair value. The Company determined that in prior periods reported, these amounts were improperly reflected as changes in accrued expenses and other current liabilities in cash flow from operating activities instead of securities sold but not yet purchased, at fair value, in cash flow from investing activities. The Company reviewed the impact of this error on the prior periods and determined that the error was not material to the prior period consolidated financial statements. The Company has corrected the consolidated statement of cash flows for the six months ended June 30, 2015 by presenting this amount separately within investing activities and decreasing the changes in accrued expenses and other current liabilities within operating activities. The impact of the error decreased the Company's net cash provided by operating activities by \$15,456 and increased the Company's cash flows from investing activities by an equivalent amount for the period ended June 30, 2015.

2. Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2016, as compared to those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, that are of significance, or potential significance, to the Company.

In June 2016, the Financial Accounting Standards Board ("FASB") completed its Financial Instruments—Credit Losses project by issuing Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments—Credit Losses (Topic 326). The new guidance requires organizations to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The new guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The new guidance is effective for fiscal years,

and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In March 2016, the FASB issued Accounting Standards Update ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplified several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or a liability, and classification on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which improves the operability and understandability of the implementation guidance on principal versus agent considerations by clarifying that 1) an entity determines whether it is a principal or an agent for each specific good or service promised to the customer; 2) an entity determines the nature of each specific good or service; 3) when another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of (a) a good or another asset from the other party that it then transfers to the customer, (b) a right to a service that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf, or (c) a good or service from the other party that is combines with other goods or services to provide the specific good or service to the customer; and 4) the purpose of the indicators in paragraph 606-10-55-39 in Topic 606 is to support or assist in the assessment of control. The effective date and transition requirement for this ASU are the same as the effective date and transition requirements of ASU 2014-09, which were deferred to the quarter ending March 31, 2018 by ASU 2015-14. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments, which clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amended guidance in this ASU is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence prescribed by Topic 815. The updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. This ASU should be applied on a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires a lessee to recognize a right of use asset and a lease liability on the balance sheet for leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The updated guidance is effective for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and

operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically, the guidance (a) requires equity investments to be measured at fair value with changes in fair value recognized in earnings. However, an entity may choose to measure equity investments that do not have readily determinable fair value at cost minus impairment, if any, plus or minus changes resulted from observable price changes in orderly transactions for identical or similar investments of the same issuer, (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (c) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost, (d) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (e) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk

when the entity has elected to measure the liability at fair value in accordance with the fair value option, (f) requires separate presentation of financial assets and liabilities by measurement category and form on the balance sheet or the notes to the financial statements, and (g) clarifies that the need for a valuation allowance on a deferred tax asset related to an available for sale security should be evaluated with other deferred tax assets. The updated guidance is effective for reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, which requires that an acquirer in a business combination transaction recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. It also requires an entity to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The updated guidance was effective for reporting periods beginning after December 15, 2015, and should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this ASU with earlier application permitted for financial statements that have not been issued. The Company elected to early adopt this ASU on September 30, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In May 2015, the FASB issued ASU 2015-09, Financial Services - Insurance (Topic 944): Disclosure about Short-Duration Contracts, which provides certain new and additional disclosure requirements about the liability for unpaid claims and claim adjustment expenses associated with short-duration contracts as defined in Topic 944. Pursuant to the updated guidance, all insurance entities that issue short-duration contracts are required to disclose, among other things, incurred and paid claims development information, a reconciliation of such information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, and significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including the reasons for the change and the effects on the financial statements. The updated guidance was effective for reporting periods beginning after December 15, 2015, and should be applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which provides guidance that removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient, and limits certain disclosure requirements only to investments for which the entity elects to measure the fair value using that practical expedient. The updated guidance is effective for reporting periods beginning after December 15, 2015, and should be applied retrospectively for all periods presented. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance to determine whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a

software license, the customer should account for the arrangement as a service contract. The updated guidance is effective for reporting periods beginning after December 15, 2015, and can be adopted either prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which provides updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized debt liability, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which provides amended guidance on a reporting entity's evaluation whether to consolidate certain legal entities. Specifically, the amendments will modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting entities, eliminate the presumption that a general partner should consolidate a limited partnership, affect the consolidation analysis of reporting entities with interests in VIEs, particularly those that have fee arrangements and related party relationships, and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

3. Investments

(a) Available-for-Sale Securities

The cost or amortized cost, gross unrealized gains and losses, and estimated fair value of fixed maturities and equity securities classified as available-for-sale as of June 30, 2016 and December 31, 2015, are presented below:

(Amounts in Thousands) As of June 30, 2016	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Preferred stock	\$3,629	\$—	\$(33)	\$3,596
Common stock	150,907	14,895	(7,518)	158,284
U.S. treasury securities	272,547	4,778	(1)	277,324
U.S. government agencies	9,541	207	—	9,748
Municipal bonds	838,930	40,406	(1,151)	878,185
Foreign government	122,470	8,314	(503)	130,281
Corporate bonds:				
Finance	1,389,171	60,930	(18,270)	1,431,831
Industrial	2,051,346	113,173	(25,306)	2,139,213
Utilities	183,995	7,155	(4,749)	186,401
Commercial mortgage backed securities	186,920	5,898	(1,731)	191,087
Residential mortgage backed securities:				
Agency backed	1,117,536	37,748	(254)	1,155,030
Non-agency backed	51,932	1,495	(276)	53,151
Collateralized loan / debt obligations	367,228	2,968	(9,122)	361,074
Asset-backed securities	25,780	59	(196)	25,643
	\$6,771,932	\$ 298,026	\$(69,110)	\$7,000,848

(Amounts in Thousands) As of December 31, 2015	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Preferred stock	\$4,869	\$ 150	\$(30)	\$4,989
Common stock	104,477	3,816	(8,785)	99,508
U.S. treasury securities	69,547	1,470	(258)	70,759
U.S. government agencies	45,586	235	(263)	45,558
Municipal bonds	530,004	11,952	(1,530)	540,426
Foreign government	109,645	4,912	(812)	113,745
Corporate bonds:				
Finance	1,358,765	38,058	(34,393)	1,362,430
Industrial	1,706,772	20,542	(80,251)	1,647,063
Utilities	157,067	1,548	(9,115)	149,500
Commercial mortgage backed securities	151,164	1,334	(1,180)	151,318
Residential mortgage backed securities:				
Agency backed	964,059	14,912	(4,133)	974,838
Non-agency backed	124,046	322	(4,139)	120,229
Collateralized loan / debt obligation	232,245	10	(6,161)	226,094
Asset backed securities	33,142	4	(1,309)	31,837
	\$5,591,388	\$ 99,265	\$(152,359)	\$5,538,294

Investments in foreign government securities include securities issued by national entities as well as instruments that are unconditionally guaranteed by such entities. As of June 30, 2016, the Company's foreign government securities were issued or guaranteed primarily by governments in Europe, Canada and Mexico.

Proceeds from the sale of investments in available-for-sale securities during the three months ended June 30, 2016 and 2015 were approximately \$797,529 and \$270,324, respectively. Proceeds from the sale of investments in available-for-sale securities during the six months ended June 30, 2016 and 2015 were approximately \$1,000,265 and \$572,570, respectively.

A summary of the Company's available-for-sale fixed maturities as of June 30, 2016 and December 31, 2015, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in Thousands)	June 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$216,852	\$217,214	\$125,563	\$124,763
Due after one through five years	1,508,569	1,543,107	913,365	909,634
Due after five through ten years	2,753,851	2,883,670	2,586,061	2,537,734
Due after ten years	388,727	408,992	352,397	357,288
Mortgage and asset backed securities	1,749,397	1,785,986	1,504,656	1,504,378
Total fixed maturities	\$6,617,396	\$6,838,969	\$5,482,042	\$5,433,797

Other-than-temporary impairment ("OTTI") charges of our fixed maturities and equity securities classified as available-for-sale are presented below:

(Amounts in Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Equity securities recognized in earnings	\$16,956	\$176	\$16,956	\$1,192
Fixed-maturity securities recognized in earnings	—	1,290	—	1,290
	\$16,956	\$1,466	\$16,956	\$2,482

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The tables below summarize the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized loss position as of June 30, 2016 and December 31, 2015:

(Amounts in Thousands) As of June 30, 2016	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	\$19,282	\$(6,740)	68	\$1,490	\$(812)	28	\$20,772	\$(7,552)
U.S. treasury securities	960	(1)	5	651	—	1	1,611	(1)
Municipal bonds	48,738	(456)	36	15,391	(694)	29	64,129	(1,150)
Foreign government	13,405	(503)	10	—	—	—	13,405	(503)
Corporate bonds:								
Finance	161,268	(17,068)	109	42,783	(1,201)	32	204,051	(18,269)
Industrial	191,697	(20,201)	162	119,185	(5,105)	61	310,882	(25,306)
Utilities	10,658	(1,702)	17	20,747	(3,047)	10	31,405	(4,749)
Commercial mortgage backed securities	39,385	(547)	16	47,712	(1,184)	60	87,097	(1,731)
Residential mortgage backed securities:								
Agency backed	4,028	(13)	28	26,573	(241)	34	30,601	(254)
Non-agency backed	18,001	(207)	16	3,521	(70)	5	21,522	(277)
Collateralized loan / debt obligations	157,122	(6,105)	61	58,079	(3,018)	24	215,201	(9,123)
Asset-backed securities	16,188	(187)	23	1,041	(8)	8	17,229	(195)
Total temporarily impaired securities	\$680,732	\$(53,730)	551	\$337,173	\$(15,380)	292	\$1,017,905	\$(69,110)

(Amounts in Thousands) As of December 31, 2015	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	\$59,302	\$(8,711)	67	\$402	\$(104)	2	\$59,704	\$(8,815)
U.S. treasury securities	31,658	(232)	77	2,586	(26)	8	34,244	(258)
U.S. government agencies	22,412	(262)	20	182	(1)	2	22,594	(263)
Municipal bonds	121,550	(867)	111	17,163	(663)	30	138,713	(1,530)
Foreign government	18,598	(688)	27	5,977	(124)	1	24,575	(812)
Corporate bonds:								
Finance	604,898	(33,068)	349	59,020	(1,325)	22	663,918	(34,393)
Industrial	858,632	(65,887)	633	82,495	(14,364)	55	941,127	(80,251)
Utilities	79,358	(5,305)	113	7,712	(3,810)	5	87,070	(9,115)
Commercial mortgage backed securities	35,405	(1,079)	100	2,870	(101)	6	38,275	(1,180)
Residential mortgage backed securities:								
Agency backed	334,224	(2,788)	163	35,446	(1,345)	29	369,670	(4,133)
Non-agency backed	95,001	(4,077)	39	4,023	(62)	4	99,024	(4,139)
Collateralized loan / debt obligations	201,086	(6,161)	78	—	—	—	201,086	(6,161)
Asset-backed securities	30,302	(1,309)	70	—	—	—	30,302	(1,309)

Total temporarily impaired securities	\$2,492,426	\$(130,434)	1,847	\$217,876	\$(21,925)	164	\$2,710,302	\$(152,359)
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There are 843 and 2,011 securities at June 30, 2016 and December 31, 2015, respectively, that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. At June 30, 2016, we have determined that the unrealized losses on fixed maturities were primarily due to market interest rate movements since their date of purchase. The Company considers an investment, primarily equity securities, to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under \$1,000,000 and in excess of 25% of cost if the issuer has a market capitalization of \$1,000,000 or more) for over 24 months. Additionally, other factors influencing the Company's determination that unrealized losses were temporary included an evaluation of the investment's discounted cash flows, the magnitude of the unrealized losses in relation to each security's cost, near-term and long-term prospects of the issuer or the issuer's ability to have adequate resources to fulfill contractual obligations, the nature of the investment and management's intent not to sell these securities, and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis. As of June 30, 2016, for the \$15,380 of unrealized losses related to securities in unrealized loss positions for a period of twelve or more consecutive months, \$2,091 of those unrealized losses were related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost.

(b) Trading Securities

The original or amortized cost, estimated market value and gross unrealized appreciation and depreciation of trading securities as of June 30, 2016 and December 31, 2015 are presented in the tables below:

(Amounts in Thousands) As of June 30, 2016	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Common stock	\$ 26,232	\$ 1,215	\$ (600)	\$ 26,847

(Amounts in Thousands) As of December 31, 2015	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Common stock	\$ 26,937	\$ 739	\$ (405)	\$ 27,271

Proceeds from the sale of investments in trading securities during the three months ended June 30, 2016 and 2015 were approximately \$49,517 and \$48,057, respectively. Proceeds from the sale of investments in trading securities during the six months ended June 30, 2016 and 2015 were approximately \$102,261 and \$108,325, respectively.

(c) Investment Income

Net investment income for the three and six months ended June 30, 2016 and 2015 was derived from the following sources:

(Amounts in Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Fixed maturities, available-for-sale	\$46,235	\$35,199	\$92,428	\$67,952
Equity securities, available-for-sale	4,098	661	6,462	1,070
Equity securities, trading	(125)	32	(278)	40
Cash and short term investments	686	923	1,772	2,588
	50,894	36,815	100,384	71,650
Investment expenses	(149)	(532)	(224)	(794)
	\$50,745	\$36,283	\$100,160	\$70,856

(d) Realized Gains and Losses

The tables below summarize the gross realized gains and (losses) for the three and six months ended June 30, 2016 and 2015:

(Amounts in Thousands)	Gross Gains	Gross Losses	Net Gains (Losses)
Three Months Ended June 30, 2016			
Fixed maturities, available-for-sale	\$35,008	\$(1,571)	\$33,437
Equity securities, available-for-sale	608	(658)	(50)
Equity securities, trading	5,315	(5,575)	(260)
Other invested assets	4	(1,076)	(1,072)
Write-down of equity securities, available-for-sale	—	(16,956)	(16,956)
	\$40,935	\$(25,836)	\$15,099

(Amounts in Thousands)	Gross Gains	Gross Losses	Net Gains (Losses)
Three Months Ended June 30, 2015			
Fixed maturities, available-for-sale	\$2,228	\$(3,653)	\$(1,425)
Equity securities, available-for-sale	102	(32)	70
Equity securities, trading	3,414	(2,025)	1,389
Other invested assets	—	(1,210)	(1,210)
Write-down of fixed maturities, available-for-sale	—	(274)	(274)
Write-down of equity securities, available-for-sale	—	(1,192)	(1,192)
	\$5,744	\$(8,386)	\$(2,642)

(Amounts in Thousands)	Gross Gains	Gross Losses	Net Gains (Losses)
Six Months Ended June 30, 2016			
Fixed maturities, available-for-sale	\$39,811	\$(1,617)	\$38,194
Equity securities, available-for-sale	1,268	(799)	469
Equity securities, trading	14,927	(12,431)	2,496
Other invested assets	4	(1,133)	(1,129)
Write-down of equity securities, available-for-sale	—	(16,956)	(16,956)
	\$56,010	\$(32,936)	\$23,074

(Amounts in Thousands)	Gross Gains	Gross Losses	Net Gains (Losses)
Six Months Ended June 30, 2015			
Fixed maturities, available-for-sale	\$22,922	\$(7,843)	\$15,079
Equity securities, available-for-sale	2,266	(1,711)	555
Equity securities, trading	6,737	(4,500)	2,237
Other invested assets	—	(2,378)	(2,378)
Write-down of fixed securities, available-for-sale	—	(1,290)	(1,290)
Write-down of equity securities, trading	—	(1,192)	(1,192)
	\$31,925	\$(18,914)	\$13,011

(e) Derivatives

The Company from time to time invests in a limited number of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge, if any, as a component of net realized gains and losses. The Company records changes in valuation on its hedge positions as a component of other comprehensive income.

As of June 30, 2016 and December 31, 2015, the Company had two interest rate swaps designated as hedges that were recorded as a liability in the total amount of \$636 and \$1,077, respectively, and were included as a component of accrued expenses and other liabilities.

The following table presents the notional amounts by remaining maturity of the Company's interest rate swaps as of June 30, 2016:

(Amounts in Thousands)	Remaining Life of Notional Amount ⁽¹⁾				
	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total
Interest rate swaps	\$70,000	\$—	\$—	\$—	—\$70,000

(1) Notional amount is not representative of either market risk or credit risk and is not recorded in the consolidated balance sheet.

(f) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets are primarily in the form of cash and certain high grade securities. The fair values of the Company's restricted assets as of June 30, 2016 and December 31, 2015 are as follows:

(Amounts in Thousands)	June 30, 2016	December 31, 2015
Restricted cash and cash equivalents	\$591,984	\$380,699
Restricted investments - fixed maturities at fair value	1,815,846	1,490,547
Total restricted cash, cash equivalents, and investments	\$2,407,830	\$1,871,246

(g) Other

Securities sold but not yet purchased are securities that the Company has sold, but does not own, in anticipation of a decline in the market value of the security. The Company's risk is that the value of the security will increase rather than decline. Consequently, the settlement amount of the liability for securities sold, not yet purchased may exceed the amount recorded in the consolidated balance sheet as the Company is obligated to purchase the securities sold, not yet purchased in the market at prevailing prices to settle the obligations. To establish a position in security sold, not yet purchased, the Company needs to borrow the security for delivery to the buyer. When the transaction is open, the liability for the obligation to replace the borrowed security is marked to market and an unrealized gain or loss is recorded. At the time the transaction is closed, the Company realizes a gain or loss equal to the differences between the price at which the security was sold and the cost of replacing the borrowed security. While the transaction is open, the Company will also incur an expense for any dividends or interest which will be paid to the lender of the securities. The Company's liability for securities to be delivered is measured at their fair value and was \$21,170 and \$38,618 as of June 30, 2016 and December 31, 2015, respectively. The securities sold but not yet purchased consisted primarily of equity and fixed maturity securities, and the liability for securities sold but not yet purchased is included in accrued expenses and other liabilities in the condensed consolidated balance sheet.

As of June 30, 2016, the Company had 28 repurchase agreements with an outstanding principal amount of \$366,860, which approximates fair value, at interest rates between 0.70% and 1.00%. The Company had 24 repurchase agreements with one counter-party totaling \$232,540 and 4 repurchase agreements with another counter-party totaling \$134,319. Interest expense associated with these repurchase agreements for the three and six months ended June 30, 2016 was \$52. The Company had approximately \$326,586 of collateral pledged in support of these agreements. The

Company records interest expense related to repurchase agreements as a component of investment income.

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4. Fair Value of Financial Instruments

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of June 30, 2016 and December 31, 2015:

(Amounts in Thousands)	Total	Level 1	Level 2	Level 3
As of June 30, 2016				
Assets:				
U.S. treasury securities	\$277,324	\$277,324	\$—	\$—
U.S. government agencies	9,748	—	9,748	—
Municipal bonds	878,185	—	878,185	—
Foreign government	130,281	—	130,281	—
Corporate bonds and other bonds:				
Finance	1,431,831	—	1,431,831	—
Industrial	2,139,213	—	2,139,213	—
Utilities	186,401	—	186,401	—
Commercial mortgage backed securities	191,087	—	191,087	—
Residential mortgage backed securities:				
Agency backed	1,155,030	—	1,155,030	—
Non-agency backed	53,151	—	53,151	—
Collateralized loan / debt obligations	361,074	—	361,074	—
Asset-backed securities	25,644	—	25,644	—
Equity securities, available-for-sale	161,879	129,994	7,121	24,764
Equity securities, trading	26,847	26,847	—	—
Short term investments	127,880	127,880	—	—
Other investments	38,039	—	—	38,039
Life settlement contracts	304,434	—	—	304,434
	\$7,498,048	\$562,045	\$6,568,766	\$367,237
Liabilities:				
Equity securities sold but not yet purchased	\$21,170	\$21,170	\$—	\$—
Securities sold under agreements to repurchase, at contract value	366,860	—	366,860	—
Life settlement contract profit commission	9,054	—	—	9,054
Contingent consideration	64,817	—	—	64,817
Derivatives	636	—	636	—
	\$462,537	\$21,170	\$367,496	\$73,871

(Amounts in Thousands) As of December 31, 2015	Total		Level 1	Level 2	Level 3		
Assets:							
U.S. treasury securities	\$ 70,759		\$ 70,759	\$ —	\$—		
U.S. government agencies	45,558		—	45,558	—		
Municipal bonds	540,426	Recapture Agreement	—	40.0% 1,111	818	12.4	199
MSR Pool 19	10,249,845	33.3	% 26,822	28,407	6.2	1,586	
MSR Pool 19 - Recapture Agreement	—	33.3	% 1,703	1,941	13.7	238	
MSR Pool 20	701,701	33.3	% 2,030	2,206	5.4	177	
MSR Pool 20 - Recapture Agreement	—	33.3	% 193	238	12.0	46	
	\$95,166,259		\$297,592	\$372,416	5.8	\$ 12,104	

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

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

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(dollars in tables in thousands, except share data)

- (C) Weighted Average Life represents the weighted average expected timing of the receipt of expected cash flows for this investment.
- (D) The portion of the change in fair value of the Recapture Agreements relating to loans recaptured to date is reflected in the respective pool.
- (E) Pool in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR as of June 30, 2014 (Note 6).

In the second quarter of 2014, a weighted average discount rate of 12.0% was used to value New Residential's investments in Excess MSRs (directly and through equity method investees).

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

State Concentration	Percentage of Total Outstanding Unpaid Principal Amount as of		
	June 30, 2014		December 31, 2013
California	30.0	%	31.5 %
Florida	8.5	%	9.8 %
New York	4.4	%	4.9 %
Maryland	4.1	%	3.5 %
Washington	3.9	%	3.9 %
Texas	3.8	%	4.0 %
Virginia	3.5	%	3.1 %
Arizona	3.4	%	3.5 %
New Jersey	3.3	%	3.3 %
Illinois	2.8	%	2.7 %
Other U.S.	32.3	%	29.8 %
	100.0	%	100.0 %

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

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

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

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

advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR's are shared on a pro rata basis by the joint venture and Nationstar, subject to certain limitations.

Pools 7, 8, 9, 10. On January 6, 2013, New Residential, through joint ventures, agreed to co-invest in Excess MSR's on a portfolio of four pools of residential mortgage loans Nationstar acquired from Bank of America. At the time of acquisition, approximately 53% of the loans in this portfolio were in private label securitizations ("Pool 10") and the remainder were owned, insured or guaranteed by Fannie Mae ("Pool 7"), Freddie Mac ("Pool 8") or Ginnie Mae ("Pool 9"). New Residential committed to invest approximately \$340 million for a 50% interest in joint ventures which were expected to acquire an approximately 67% interest in

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the Excess MSR assets on these portfolios. The remaining interests in the joint ventures are owned by Fortress-managed funds and the remaining interest of approximately 33% in the Excess MSR assets is owned by Nationstar. In September 2013, New Residential and a Fortress-managed fund each invested an additional \$13.9 million into the joint venture invested in Pool 10 to acquire an additional 10% in the Excess MSR assets held by the joint venture. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR assets are shared on a pro rata basis by the joint ventures and Nationstar, subject to certain limitations. New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSR assets associated with Pool 10. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 10.

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

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

	June 30, 2014		December 31, 2013	
Excess MSR assets	\$655,766		\$703,681	
Other assets	8,451		5,534	
Debt	—		—	
Other liabilities	(3,777	)	(3,683)
Equity	\$660,440		\$705,532	
New Residential's investment	\$330,220		\$352,766	
New Residential's ownership	50.0	%	50.0	%
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income	\$17,292	\$8,140	\$35,785	\$13,756
Other income	8,194	34,528	2,489	31,374
Expenses	(1)	(2,414)
Net income	\$25,485	\$40,254	\$38,233	\$42,192

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

	June 30, 2014						
	Unpaid Principal Balance	Investee Interest in Excess MSR	New Residential Interest in Investees	Amortized Cost Basis ^(A)	Carrying Value ^(B)	Weighted Average Life (Years) ^(C)	
MSR Pool 6	\$9,050,743	66.7	% 50.0	% \$36,286	\$45,089	5.1	
MSR Pool 6 - Recapture Agreement	—	66.7	% 50.0	% 5,951	8,551	12.2	
MSR Pool 7	29,547,830	66.7	% 50.0	% 94,036	95,882	5.2	
MSR Pool 7 - Recapture Agreement	—	66.7	% 50.0	% 12,209	24,136	12.4	
MSR Pool 8	13,043,774	66.7	% 50.0	% 52,744	50,716	5.2	
MSR Pool 8 - Recapture Agreement	—	66.7	% 50.0	% 4,707	12,630	12.1	
MSR Pool 9	27,924,457	66.7	% 50.0	% 97,755	122,440	4.9	
MSR Pool 9 - Recapture Agreement	—	66.7	% 50.0	% 29,343	30,134	12.1	
MSR Pool 10 ^(D)	63,763,048	66.7-77.0%	50.0	% 189,488	190,143	5.1	
MSR Pool 10 - Recapture Agreement	—	66.7-77.0%	50.0	% 13,038	10,546	12.6	
MSR Pool 11	16,491,872	66.7	% 50.0	% 41,115	55,440	5.6	
MSR Pool 11 - Recapture Agreement	—	66.7	% 50.0	% 22,640	10,059	13.1	
	\$159,821,724			\$599,312	\$655,766	6.2	

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

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

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

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

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

In the second quarter of 2014, a weighted average discount rate of 12.0% was used to value New Residential's investments in Excess MSRs (directly and through equity method investees).

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

State Concentration	Percentage of Total Outstanding Unpaid Principal Amount as of			
	June 30, 2014		December 31, 2013	
California	23.5	%	23.5	%
Florida	9.1	%	9.2	%
New York	5.5	%	5.3	%
Texas	4.9	%	4.9	%
Georgia	4.0	%	4.0	%
New Jersey	3.8	%	3.7	%
Illinois	3.5	%	3.5	%
Maryland	3.2	%	3.1	%
Virginia	3.2	%	3.1	%
Washington	2.8	%	2.8	%
Other U.S.	36.5	%	36.9	%
	100.0	%	100.0	%

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

6. INVESTMENTS IN SERVICER ADVANCES

On December 17, 2013, New Residential and third-party co-investors, through a joint venture entity (Advance Purchaser LLC, the "Buyer") consolidated by New Residential, agreed to purchase \$3.2 billion of outstanding servicer advances on a portfolio of loans, which is a subset of the same portfolio of loans in which New Residential invests in a portion of the Excess MSR (Pools 10, 17 and 18) (Notes 4 and 5), including the basic fee component of the related MSRs. During the six months ended June 30, 2014, the Buyer also agreed to purchase outstanding servicer advances on a portfolio of loans underlying Pools 5 and 12. As of June 30, 2014, New Residential and third-party co-investors had settled \$3.6 billion of servicer advances, net of recoveries, financed with \$3.3 billion of notes payables outstanding (Note 11). A taxable wholly owned subsidiary of New Residential is the managing member of the Buyer that holds its investments in servicer advances and owned an approximately 44.5% interest in the Buyer as of June 30, 2014. As of June 30, 2014, noncontrolling third-party investors, owning the remaining interest in the Buyer have aggregate capital commitments to the Buyer of \$389.6 million and New Residential had funded capital commitments to the Buyer of \$312.7 million. The Buyer may call capital up to the commitment amount on unfunded commitments and recall capital to the extent the Buyer makes a distribution to the co-investors, including New Residential. As of June 30, 2014, the third-party co-investors and New Residential have previously funded their commitments however the Buyer may recall \$131.3 million and \$95.8 million of capital distributed to the third-party co-investors and New Residential, respectively. Neither the third-party co-investors nor New Residential is obligated to fund amounts in excess of their respective capital commitments, regardless of the capital requirements of the Buyer that holds its investment in servicer advances.

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

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

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

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

	June 30, 2014		Weighted Average Discount Rate	Weighted Average Life (Years) ^(B)	Six Months Ended
	Amortized Cost Basis	Carrying Value ^(A)			June 30, 2014
					Change in Fair Value Recorded in Other Income
Servicer advances	\$3,596,228	\$3,679,105	5.6	% 3.8	\$82,877

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

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

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

	UPB of Underlying Residential Mortgage Loans	Outstanding Servicer Advances	Servicer Advances to UPB of Underlying Residential Mortgage Loans	Carrying Value of Notes Payable	Loan-to-Value		Cost of Funds ^(B)		
					Gross	Net ^(A)	Gross	Net	
June 30, 2014									
Servicer advances ^(C)	\$102,159,164	\$3,551,464	3.5	% \$3,265,530	91.9 %	90.8 %	3.3 %	2.2 %	
December 31, 2013									
Servicer advances ^(C)	\$43,444,216	\$2,661,130	6.1	% \$2,390,778	89.8 %	88.6 %	4.0 %	2.3 %	

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

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

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

	June 30, 2014	December 31, 2013
Principal and interest advances	\$1,282,504	\$1,516,715
Escrow advances (taxes and insurance advances)	1,597,466	934,525
Foreclosure advances	671,494	209,890
Total	\$3,551,464	\$2,661,130

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

	Six Months Ended June 30, 2014	
Interest income, gross of amounts attributable to servicer compensation	\$ 153,684	
Amounts attributable to base servicer compensation	(49,306)
Amounts attributable to incentive servicer compensation	(1,555)
Interest income from investments in servicer advances	\$ 102,823	

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7. INVESTMENTS IN REAL ESTATE SECURITIES

During the six months ended June 30, 2014, New Residential acquired \$1.4 billion face amount of Non-Agency RMBS for approximately \$882.0 million and \$297.8 million face amount of Agency ARM RMBS for approximately \$316.9 million. New Residential sold Non-Agency RMBS with a face amount of approximately \$1.9 billion and an amortized cost basis of approximately \$1.2 billion for approximately \$1.3 billion, recording a gain on sale of approximately \$60.3 million. Furthermore, New Residential sold Agency ARM RMBS with a face amount of \$306.0 million and an amortized cost basis of approximately \$322.9 million for approximately \$324.4 million, recording a gain on sale of approximately \$1.5 million.

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

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

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

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized		Carrying Value ^(A)	Weighted Average			Life (Years) ^(C)	Principal Subordinate	
			Gains	Losses		Number of Securities	Rating ^(B)	Coupon			Yield
Agency ARM RMBS ^{(E)(F)}	\$1,159,363	\$1,244,864	\$6,179	\$(4,031)	\$1,247,012	120	AAA	3.12%	1.50%	4.7	N/A
Non-Agency RMBS	348,232	210,051	9,186	(2,346)	216,891	77	CCC	1.75%	7.14%	8.5	11.0%
Total/Weighted Average ^(G)	\$1,507,595	\$1,454,915	\$15,365	\$(6,377)	\$1,463,903	197	AA-	2.81%	2.80%	5.6	

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

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

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

- (C) The weighted average life is based on the timing of expected principal reduction on the assets.
- (D) Percentage of the outstanding face amount of securities that is subordinate to New Residential's investments.
- (E) Includes securities issued or guaranteed by U.S. Government agencies such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac").
- (F) Amortized cost basis and carrying value include principal receivable of \$12.5 million.
- (G) The total outstanding face amount was \$64.1 million for fixed rate securities and \$1.4 billion for floating rate securities.

Unrealized losses that are considered other than temporary are recognized currently in earnings. During the six months ended June 30, 2014, New Residential recorded other-than-temporary impairment charges ("OTTI") of \$0.9 million with respect to real estate securities. Any remaining unrealized losses on New Residential's securities were primarily the result of changes in market factors, rather than issue-specific credit impairment. New Residential performed analyses in relation to such securities, using management's best estimate of their cash flows, which support its belief that the carrying values of such securities were fully recoverable over

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their expected holding period. New Residential has no intent to sell, and is not more likely than not to be required to sell, these securities.

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

Securities in an Unrealized Loss Position	Outstanding Face Amount	Amortized Cost Basis			Gross Unrealized Losses	Carrying Value	Number of Securities	Weighted Average			Life (Years)
		Before Impairment	Other-Than-Temporary Impairment	After Impairment ^(A)				Rating ^(B)	Coupon	Yield	
Less than Twelve Months	\$477,511	\$450,308	\$(332)	\$449,976	\$(4,838)	\$445,138	58	AA-	3.15%	2.92%	4.9
Twelve or More Months	116,021	124,285	(612)	123,673	(1,539)	122,134	13	AA+	3.34%	1.51%	3.3
Total/Weighted Average	\$593,532	\$574,593	\$(944)	\$573,649	\$(6,377)	\$567,272	71	AA	3.19%	2.65%	4.6

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

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

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

	June 30, 2014		Unrealized Losses	
	Fair Value	Amortized Cost Basis After Impairment	Credit ^(A)	Non-Credit ^(B)
Securities New Residential intends to sell ^(C)	\$155,599	\$155,871	\$(1,073)	\$(272)
Securities New Residential is more likely than not to be required to sell ^(D)	—	—	—	N/A
Securities New Residential has no intent to sell and is not more likely than not to be required to sell:				
Credit impaired securities	144,118	145,212	(974)	(1,094)
Non credit impaired securities	321,508	326,519	—	(5,011)
Total debt securities in an unrealized loss position	\$621,225	\$627,602	\$(2,047)	\$(6,377)

(A) This amount is required to be recorded as other-than-temporary impairment through earnings. In measuring the portion of credit losses, New Residential's management estimates the expected cash flow for each of the securities. This evaluation includes a review of the credit status and the performance of the collateral supporting those securities, including the credit of the issuer, key terms of the securities and the effect of local, industry and

broader economic trends. Significant inputs in estimating the cash flows include management's expectations of prepayment speeds, default rates and loss severities. Credit losses are measured as the decline in the present value of the expected future cash flows discounted at the investment's effective interest rate.

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

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

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

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

	Six Months Ended June 30, 2014	
Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	\$2,071	
Increases to credit losses on securities for which an OTTI was previously recognized and a portion of an OTTI was recognized in other comprehensive income	464	
Additions for credit losses on securities for which an OTTI was not previously recognized	151	
Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis	(1,073))
Reduction for credit losses on securities for which no OTTI was recognized in other comprehensive income at the current measurement date	(408))
Reduction for securities sold during the period	(231))
Ending balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	\$974	

The table below summarizes the geographic distribution of the collateral securing New Residential's Non-Agency RMBS as of June 30, 2014:

Geographic Location	Outstanding Face Amount	Percentage of Total Outstanding	
Western U.S.	\$85,243	24.5	%
Southeastern U.S.	73,322	21.0	%
Northeastern U.S.	61,194	17.6	%
Midwestern U.S.	58,722	16.9	%
Southwestern U.S.	32,368	9.3	%
Other ^(A)	37,383	10.7	%
	\$348,232	100.0	%

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

New Residential evaluates the credit quality of its real estate securities, as of the acquisition date, for evidence of credit quality deterioration. As a result, New Residential identified a population of real estate securities for which it was determined that it was probable that New Residential would be unable to collect all contractually required payments. For securities acquired during the six months ended June 30, 2014, the face amount of these real estate securities was \$361.7 million, with total expected cash flows of \$339.4 million and a fair value of \$258.0 million on the dates that New Residential purchased the respective securities.

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

Outstanding Face Amount	Carrying Value
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June 30, 2014	\$186,186	\$144,836
December 31, 2013	\$729,895	\$483,680

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

	Six Months Ended June 30, 2014	
Balance at December 31, 2013	\$ 143,067	
Additions	81,365	
Accretion	(8,175)
Reclassifications from non-accretable difference	(778)
Disposals	(155,287)
Balance at June 30, 2014	\$ 60,192	

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

8. INVESTMENTS IN RESIDENTIAL MORTGAGE LOANS

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

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

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

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

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

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

- Reverse Mortgage Loans
- Performing Loans
- Purchased Credit Impaired ("PCI") Loans
- Real Estate Owned ("REO")
- Linked Transactions (treated as derivatives, Note 10)

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

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Loan Type	June 30, 2014									
	Outstanding Face Amount	Carrying Value	Loan Count	Weighted Average Yield	Weighted Average Life (Years) ^(A)	Floating Rate Loans as a % of Face Amount	Loan to Value Ratio ("LTV") ^(B)	Weighted Avg. Delinquency ^(C)	December 31, 2013 Carrying Value	
Reverse Mortgage Loans ^(D)	\$53,085	\$30,794	288	10.3 %	3.7	20.8 %	183 %	80.9 %	\$33,539	
Performing Loans ^{(E)(G)}	72,056	61,008	357	6.4 %	3.9	10.9 %	107 %	3.5 %	—	
Purchased Credit Impaired ("PCI") Loans ^(F)	576,777	425,622	1,880	7.4 %	2.2	49.8 %	111 %	93.7 %	—	
Total Residential Mortgage Loans	\$701,918	\$517,424	2,525	7.5 %	2.5	43.5 %	115 %	82.3 %	\$33,539	

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

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

Represents the percentage of underlying loans that are 30+ days delinquent, none of which are on non-accrual

(C) status. New Residential records REO received in satisfaction of unpaid loans within Other Assets in its Condensed Consolidated Balance Sheet (Note 2).

Represents a 70% interest New Residential holds in reverse mortgage loans. The average loan balance outstanding based on total UPB is \$0.3 million. 79% of these loans have reached a termination event. As a result, the borrower can no longer make draws on these loans. Each loan matures upon the occurrence of a termination event.

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

(F) Represents loans that are 30 days or more past due at acquisition.

(G) Performing loan carrying value includes accrued interest receivable.

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

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

State Concentration	Percentage of Total Outstanding Unpaid Principal Amount as of			
	June 30, 2014		December 31, 2013	
California	24.8	%	5.7	%
New York	18.2	%	22.0	%

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New Jersey	8.5	%	6.9	%
Illinois	4.5	%	7.7	%
Florida	4.3	%	21.2	%
Maryland	4.0	%	2.8	%
Connecticut	3.7	%	3.9	%
Massachusetts	3.5	%	4.1	%
Washington	3.1	%	3.9	%
Pennsylvania	2.5	%	0.9	%
Other U.S.	22.9	%	20.9	%
	100.0	%	100.0	%

Reverse Mortgage Loans

On February 27, 2013, New Residential, through a subsidiary, entered into an agreement to co-invest in reverse mortgage loans with a UPB of approximately \$83.1 million as of December 31, 2012. New Residential invested approximately \$35.1 million to

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acquire a 70% interest in the reverse mortgage loans. Nationstar has co-invested on a pari passu basis with New Residential in 30% of the reverse mortgage loans and is the servicer of the loans performing all servicing and advancing functions and retaining the ancillary income, servicing obligations and liabilities as the servicer.

Performing Loans

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

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

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

	For the Six Months Ended June 30, 2014	
	Reverse Mortgage Loans	Performing Loans
Balance at December 31, 2013	\$33,539	\$—
Purchases/additional fundings	—	60,904
Proceeds from repayments	(1,307) —
Accretion of loan discount and other amortization	1,364	—
Transfer of loans to REO	(2,375) —
Valuation provision on loans	(427	) N/A
Allowance for loan losses	N/A	(30
Balance at June 30, 2014	\$30,794	\$60,874

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

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

	For the Six Months Ended June 30, 2014	
	Reverse Mortgage Loans	Performing Loans
Balance at December 31, 2013	\$461	\$—
Charge-offs ^(A)	—	—
Valuation provision on loans	427	N/A
Allowance for loan losses ^(B)	N/A	30
Balance at June 30, 2014	\$888	\$30

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

confirms that loans are uncollectible.

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

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Purchased Credit Impaired Loans

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

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

	Contractually Required Payments Receivable	Cash Flows Expected to be Collected	Fair Value
As of Acquisition Date	\$1,084,324	\$521,341	\$422,649

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

	Unpaid Principal Balance	Carrying Value
June 30, 2014	\$576,777	\$425,622
December 31, 2013	\$—	\$—

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

	For the Six Months Ended June 30, 2014
Balance at December 31, 2013	\$—
Additions	98,692
Accretion	(4,276)
Reclassifications from non-accretable difference ^(A)	1,349
Balance at June 30, 2014	\$95,765

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

Real estate owned (REO)

REO assets are those individual properties where New Residential receives the property in satisfaction of a debt (e.g., by taking legal title or physical possession). New Residential generally recognizes REO assets at the completion of the foreclosure process or upon execution of a deed in lieu of foreclosure with the borrower. REO assets are managed for prompt sale and disposition at the best possible economic value. See Note 2 for further details on New Residential's REO, which is included in Other Assets on the Condensed Consolidated Balance Sheets.

Linked Transactions

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

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

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

During the six months ended June 30, 2014, New Residential received properties in satisfaction of non-performing residential mortgage loans included in the portfolios acquired from CS and RBS accounted for as "linked transactions". As a result, New Residential has recognized REO assets totaling approximately \$25.8 million, as of June 30, 2014. See Note 2 for further details.

9. INVESTMENTS IN CONSUMER LOANS, EQUITY METHOD INVESTEEES

On April 1, 2013, New Residential completed, through newly formed limited liability companies (together, the "Consumer Loan Companies"), a co-investment in a portfolio of consumer loans with a UPB of approximately \$4.2 billion as of December 31, 2012. The portfolio includes over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. The Consumer Loan Companies acquired the portfolio from HSBC Finance Corporation and its affiliates. New Residential invested approximately \$250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf acquired 47% and an affiliate of Blackstone Tactical Opportunities Advisors L.L.C. acquired 23%. Springleaf acts as the managing member of the Consumer Loan Companies. The Consumer Loan Companies initially financed \$2.2 billion (\$1.3 billion outstanding as of June 30, 2014) of the approximately \$3.0 billion purchase price with asset-backed notes. In September 2013, the Consumer Loan Companies issued and sold an additional \$0.4 billion (\$0.3 billion outstanding as of June 30, 2014) of asset-backed notes for 96% of par. These notes are subordinate to the \$2.2 billion of debt issued in April 2013. The Consumer Loan Companies were formed on March 19, 2013, for the purpose of making this investment, and commenced operations upon the completion of the investment. After a servicing transition period, Springleaf became the servicer of the loans and provides all servicing and advancing functions for the portfolio.

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

	June 30, 2014	December 31, 2013
Consumer loan assets	\$2,302,297	\$2,572,577
Other assets	172,969	192,830
Debt ^(A)	(1,627,323)	(2,010,433)
Other liabilities	(15,025)	(32,712)
Equity	\$832,918	\$722,262
New Residential's investment	\$250,048	\$215,062
New Residential's ownership	30.0	% 30.0

Represents the Class A asset-backed notes with a face amount of \$1.3 billion, an interest rate of 3.75% and a maturity of April 2021 and the Class B asset-backed notes with a face amount of \$0.3 billion, an interest rate of 4.0% and a maturity of December 2024. Substantially all of the net cash flow generated by the Consumer Loan Companies was required to be used to pay down the Class A notes. In June 2014, the balance of the outstanding (A) Class A notes was reduced to 50% of the outstanding UPB of the performing consumer loans and the managing member was reimbursed by the Consumer Loan Companies for accumulated expenses. Prospectively, 70% of the net cash flow generated is required to be used to pay down the Class A notes, and the equity holders of the Consumer Loan Companies and holders of the Class B notes will each be entitled to receive 15% of the net cash flow of the Consumer Loan Companies on a periodic basis.

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	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014	
Interest income	\$ 135,629	\$ 278,444	
Interest expense	(18,106	(40,301)
Provision for finance receivable losses	(27,663	(61,819)
Other expenses, net	(19,279	(39,731)
Change in fair value of debt	535	(16,332)
Net income	\$ 71,116	\$ 120,261	
New Residential's equity in net income	\$ 21,335	\$ 37,695	
New Residential's ownership	30.0	% 30.0	%

The following is a summary of New Residential's consumer loan investments made through equity method investees:
 June 30, 2014

	Unpaid Principal Balance	Interest in Consumer Loan Companies	Carrying Value ^(A)	Weighted Average Coupon ^(B)	Weighted Average Yield	Weighted Average Expected Life (Years) ^(C)
Consumer Loans	\$ 2,924,133	30.0	% \$ 2,302,297	18.1	% 16.8	% 3.5

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

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

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

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

	For the Six Months Ended June 30, 2014
Balance at December 31, 2013	\$ 215,062
Contributions to equity method investees	—
Distributions of earnings from equity method investees ^(A)	(2,709
Distributions of capital from equity method investees	—
Earnings from investments in consumer loan equity method investees	37,695
Balance at June 30, 2014	\$ 250,048

In June 2014, the Consumer Loan Companies distributed \$2.2 million in cash to, and made \$0.6 million in tax (A) withholding payments on behalf of, New Residential. The tax withholding payments were considered a non-cash distribution.

10. DERIVATIVES

As of June 30, 2014, New Residential's derivative instruments include both economic hedges that were not designated as hedges for accounting purposes as well as non-performing loans accounted for as linked transactions that were not

entered into for risk management purposes or for hedging activity. New Residential uses economic hedges to hedge a portion of its interest rate risk exposure. Interest rate risk is sensitive to many factors including governmental monetary and tax policies, domestic and international economic and political considerations and other factors. New Residential's credit risk with respect to economic hedges and linked transactions is the risk of default on New Residential's investments that results from a borrower's or counterparty's inability or unwillingness to make contractually required payments.

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New Residential entered into three interest rate swap agreements during March and April 2014, where New Residential receives floating rate payments in exchange for fixed rate payments, without exchanging the notional principal amounts. The agreements represented a total notional amount of \$500 million with an original maturity of three years and were settled during the second quarter.

As of June 30, 2014, New Residential held to-be-announced forward contract positions (“TBAs”) of \$10.0 million in a short notional amount of Agency RMBS and any amounts or obligations owed by or to New Residential are subject to the right of set-off with the TBA counterparty. New Residential’s net short position in TBAs of \$10.0 million notional was entered into as an economic hedge in order to mitigate New Residential’s interest rate risk on certain residential mortgage loans.

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

	Balance Sheet Location	June 30, 2014	December 31, 2013
Derivative assets			
Real Estate Securities ^(A)	Derivative assets	\$—	\$1,452
Non-Performing Loans ^(A)	Derivative assets	30,736	34,474
TBAs	Derivative assets	256	—
		\$30,992	\$35,926

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

The following table summarizes notional amounts related to derivatives:

	June 30, 2014	December 31, 2013
Non-Performing Loans ^(A)	\$186,362	\$164,598
Real Estate Securities ^(B)	—	10,000
TBAs, short position ^(C)	10,000	—

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

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

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

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

	For the Three Months Ended June 30, 2014	For the Six Months Ended June 30, 2014
Other income		
Non-Performing Loans ^(A)	\$(985	) \$(314
Real Estate Securities ^(A)	—	26
TBAs	(132	) 230
U.S.T. Short Positions	(408) —
Interest Rate Swaps	(2,276	) (2,386
	(3,801	) (2,444
Gain on settlement of investments		
Real Estate Securities ^(A)	—	43
TBAs	(3,824) (4,002

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U.S.T. Short Positions	176	176	
	(3,648) (3,783)
Total gains (losses)	\$(7,449) \$(6,227)

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

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

	June 30, 2014	December 31, 2013
Non-Performing Loans		
Non-performing loan assets, at fair value ^(A)	\$ 104,770	\$ 95,014
Repurchase agreements ^(B)	(74,034	) (60,540
	30,736	34,474
Real Estate Securities		
Real estate securities, at fair value ^(C)	—	9,952
Repurchase agreements ^(B)	—	(8,500
	—	1,452
Net assets recognized as linked transactions	\$ 30,736	\$ 35,926

(A) Non-performing loans that had a UPB of \$186.4 million as of June 30, 2014, which represents the notional amount of the linked transaction and accrued interest.

(B) Represents carrying amount that approximates fair value.

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

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11. DEBT OBLIGATIONS

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

June 30, 2014^(A)

Debt Obligations/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Weighted Average		Collateral		Carrying Value
					Funding Cost	Life (Years)	Outstanding Face	Amortized Cost Basis	
Repurchase Agreements ^(B)									
Agency ARM RMBS ^(C)	Various	\$1,182,244	\$1,182,244	Jul-14	0.33%	0.1	\$1,159,363	\$1,232,414	\$1,234,000
Non-Agency RMBS ^(D)	Various	149,110	149,110	Jul-14 to Oct-14	1.86%	0.1	237,191	186,567	192,413
Residential Mortgage Loans ^(E)	Various	348,033	348,033	Nov-14 to May-16	2.90%	1.7	648,833	486,660	486,630
Consumer Loans ^(F)	Jan-14	125,000	125,000	Jan-15	4.16%	0.6	N/A	N/A	250,048
Real Estate Owned ^(G)	Various	10,795	10,795	Nov-14 to Jun-15	2.96%	0.5	N/A	N/A	27,830
Total Repurchase Agreements		1,815,182	1,815,182		1.23%	0.4			
Notes Payable									
Servicer Advances ^(H)	Various	3,265,530	3,265,530	Sep-14 to Mar-17	3.26%	1.4	3,551,464	3,596,228	3,679,100
Residential Mortgage Loans ^(I)	Dec-13	23,915	23,915	Sep-14	3.41%	0.2	53,085	31,682	30,794
Total Notes Payable		3,289,445	3,289,445		3.26%	1.4			
Total/ Weighted Average		\$5,104,627	\$5,104,627		2.54%	1.1			

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

(B) These repurchase agreements had approximately \$0.1 million of associated accrued interest payable as of June 30, 2014.

(C) The counterparties of these repurchase agreements are Mizuho (\$145.1 million), Morgan Stanley (\$218.5 million), Daiwa (\$296.5 million) and Jefferies (\$522.2 million) and were subject to customary margin call provisions.

(D) The counterparties of these repurchase agreements are Barclays (\$21.6 million), Credit Suisse (\$50.7 million), Royal Bank of Scotland (\$33.9 million), Bank of America (\$1.9 million), Goldman Sachs (\$27.6 million) and UBS (\$13.5 million) and were subject to customary margin call provisions. All of the Non-Agency repurchase

agreements have LIBOR-based floating interest rates. Includes \$48.6 million borrowed under a master repurchase agreement, which bears interest at one-month LIBOR plus 1.75%.

The counterparties on these repurchase agreements are Nomura (\$324.5 million), Citibank (\$17.1 million) and (E) Royal Bank of Scotland (\$6.4 million). All of these repurchase agreements have LIBOR-based floating interest rates.

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

(G) The counterparties of these repurchase agreements are Royal Bank of Scotland (\$7.0 million), Credit Suisse (\$2.5 million) and Nomura (\$1.3 million). All of these repurchase agreements have LIBOR-based floating interest rates.

\$1.1 billion face amount of the notes have a fixed rate while the remaining notes bear interest equal to the sum of (H) (i) a floating rate index rate equal to one-month LIBOR or a cost of funds rate, as applicable, and (ii) a margin ranging from 1.3% to 2.5%.

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

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

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New Residential has margin exposure on \$1.8 billion of repurchase agreements. To the extent that the value of the collateral underlying these repurchase agreements declines, New Residential may be required to post margin, which could significantly impact its liquidity.

As of June 30, 2014, New Residential held TBA positions of \$10.0 million in a short notional amount of Agency ARM RMBS and any amounts or obligations owed by or to New Residential are subject to the right of set-off with the TBA counterparty (Note 10). As part of executing these trades, New Residential has entered into agreements with its TBA counterparties that govern the transactions for the TBA purchases or sales made, including margin maintenance, payment and transfer, events of default, settlements, and various other provisions. New Residential has fulfilled all obligations and requirements entered into under these agreements.

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

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

On March 6, 2014, Merrill Lynch, Pierce, Fenner & Smith Incorporated and New Residential entered into an agreement pursuant to which it agreed to purchase approximately \$625 million face amount of Non-Agency residential mortgage securities for approximately \$553 million. The purchased securities were issued by the American General Mortgage Loan Trust 2009-1 and represent 75% of the mezzanine and subordinate tranches (the 2009-1 Retained Certificates) of a securitization sponsored by Third Street Funding LLC, an affiliate of Springleaf. The securitization, including the 2009-1 Retained Certificates, is collateralized by residential mortgage loans with a face amount of approximately \$0.9 billion. On March 31, 2014, New Residential obtained approximately \$415 million in financing from Merrill Lynch, Pierce, Fenner & Smith Incorporated to settle its purchase of the 2009-1 Retained Certificates (Note 7). On May 30, 2014, New Residential sold the 2009-1 Retained Certificates for approximately \$598.5 million and recorded a gain of approximately \$39.7 million. At the time of sale, the 2009-1 Retained Certificates had an amortized cost basis of approximately \$558.8 million. New Residential used a portion of the proceeds from the sale of the 2009-1 Retained Certificates to pay off the outstanding balance of this facility.

In March 2014, the Buyer prepaid all of the notes issued pursuant to one servicer advance facility and a portion of the notes issued pursuant to another servicer advance facility. The notes were prepaid with the proceeds of new notes issued pursuant to an advance receivables trust (the "NRART Master Trust") that issued (i) variable funding notes ("VFNs") with borrowing capacity of up to \$1.1 billion and (ii) \$1.0 billion of term notes ("Term Notes") to institutional investors. The VFNs generally bear interest at a rate equal to the sum of (i) LIBOR or a cost of funds rate plus (ii) a

spread of 1.375% to 2.5% depending on the class of the notes. The expected repayment date of the VFNs is March 2015. The Term Notes generally bear interest at approximately 2.0% and have expected repayment dates in March 2015 and March 2017. The VFNs and the Term Notes are secured by servicer advances, and the financing is nonrecourse to the Buyer, except for customary recourse provisions.

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

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

On May 28, 2014 and May 30, 2014 New Residential obtained financing from Nomura Corporate Funding Americas, LLC to settle its purchase of \$478.7 million and \$21.6 million of residential mortgage loans, respectively. Borrowings under the agreement

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bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 2.75% and have an expected repayment date of May 28, 2016. The agreement contains customary covenants and event of default provisions.

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

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

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

Maturities

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

Year	Nonrecourse	Recourse ^(A)	Total
July 1 through December 31, 2014	\$1,254,661	\$1,325,641	\$2,580,302
2015	818,146	166,034	984,180
2016	1,028,545	—	1,028,545
2017	511,600	—	511,600
	\$3,612,952	\$1,491,675	\$5,104,627

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

Borrowing Capacity

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

Debt Obligations/ Collateral	Collateral Type	Borrowing Capacity	Balance Outstanding	Available Financing
Repurchase Agreements				
Residential Mortgage Loans ^(A)	Real Estate Loans	\$600,000	\$82,151	\$517,849
Notes Payable				
Servicer Advances ^(B)	Servicer Advances	5,661,700	3,265,530	2,396,170
		\$6,261,700	\$3,347,681	\$2,914,019

(A) Includes \$300.0 million of borrowing capacity and \$65.1 million of balance outstanding related to linked transactions (Note 10).

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

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

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12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Principal Balance or Notional Amount	Carrying Value	Fair Value			Total
			Level 1	Level 2	Level 3	
Assets:						
Investments in:						
Excess mortgage servicing rights, at fair value ^(A)	\$95,166,259	\$372,416	\$—	\$—	\$372,416	\$372,416
Excess mortgage servicing rights, equity method investees, at fair value ^(A)	159,821,724	330,220	—	—	330,220	330,220
Servicer advances	3,551,464	3,679,105	—	—	3,679,105	3,679,105
Real estate securities, available-for-sale	1,507,595	1,463,903	—	1,247,012	216,891	1,463,903
Residential mortgage loans, held for investment ^(B)	701,918	517,424	—	—	519,990	519,990
Non-hedge derivatives ^(C)	196,362	30,992	—	256	30,736	30,992
Cash and cash equivalents	311,126	311,126	311,126	—	—	311,126
Restricted cash	37,327	37,327	37,327	—	—	37,327
	\$261,293,775	\$6,742,513	\$348,453	\$1,247,268	\$5,149,358	\$6,745,079
Liabilities:						
Repurchase agreements	\$1,815,182	\$1,815,182	\$—	\$1,331,354	\$483,828	\$1,815,182
Notes payable	3,289,445	3,289,445	—	1,285,348	2,006,525	3,291,873
	\$5,104,627	\$5,104,627	\$—	\$2,616,702	\$2,490,353	\$5,107,055

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

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

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

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

	Level 3		Excess MSR in		Servicer Advances	Non-Agency RMBS	Linked Transactions	Total
	Excess MSR ^(A)		Equity Method					
	Agency	Non-Agency	Agency	Non-Agency					Investees^{(A)(B)}
Balance at December 31, 2013	\$ 144,660	\$ 179,491	\$ 245,399	\$ 107,367	\$ 2,665,551	\$ 570,425	\$ 35,926	\$ 3,948,819
Transfers ^(C)								
Transfers from Level 3	—	—	—	—	—	—	—	—
Transfers to Level 3	—	—	—	—	—	—	—	—
Gains (losses) included in net income	—	—	—	—	—	—	—	—
Included in other-than-temporary impairment ("OTTI") on securities ^(D)	—	—	—	—	—	(479)	—	(479)
Included in change in fair value of investments in excess mortgage servicing rights ^(D)	3,673	8,431	—	—	—	—	—	12,104
Included in change in fair value of investments in excess mortgage servicing rights, equity method investees ^(D)	—	—	(100)	1,324	—	—	—	1,224
Included in gain on settlement of investments	—	—	—	—	—	60,330	—	60,330
Included in other income ^(D)	—	—	—	—	82,877	—	(271)	82,606
Gains (losses) included in other comprehensive income, net of tax ^(E)	—	—	—	—	—	3,174	—	3,174
Interest income	9,491	15,298	12,622	5,271	102,823	13,812	—	159,317
Purchases, sales and repayments								

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Purchases	36,157	19,132	—	—	3,955,602	882,033	9,758	4,902,682
Purchase adjustments	(59)	1,073	—	—	—	—	—	1,014
Proceeds from sales	—	—	—	—	—	(1,273,224	(1,495)	(1,274,719)
Proceeds from repayments	(18,470)	(26,461)	(28,084)	(13,579)	(3,127,748)	(39,180)	(3,508)	(3,257,030)
Transfers to REO ^(F)	—	—	—	—	—	—	(9,674)	(9,674)
Balance at June 30, 2014	\$175,452	\$196,964	\$229,837	\$100,383	\$3,679,105	\$216,891	\$30,736	\$4,629,368

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

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

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

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

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

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

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Investments in Excess MSR Valuation

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

Held Directly (Note 4)	Significant Inputs			Excess Mortgage Servicing Amount (bps) ^(D)
	Prepayment Speed ^(A)	Delinquency ^(B)	Recapture Rate ^(C)	
MSR Pool 1	12.3	% 8.6	% 36.1	% 26
MSR Pool 1 - Recapture Agreement	8.0	% 5.0	% 35.0	% 21
MSR Pool 2	12.7	% 9.9	% 36.2	% 22
MSR Pool 2 - Recapture Agreement	8.0	% 5.0	% 35.0	% 21
MSR Pool 3	12.8	% 11.2	% 35.9	% 22
MSR Pool 3 - Recapture Agreement	8.0	% 5.0	% 35.0	% 21
MSR Pool 4	15.3	% 13.5	% 36.0	% 17
MSR Pool 4 - Recapture Agreement	8.0	% 5.0	% 35.0	% 21
MSR Pool 5	11.4	% N/A ^(E)	9.7	% 13
MSR Pool 5 - Recapture Agreement	8.0	% N/A ^(E)	35.0	% 21
MSR Pool 11 - Recapture Agreement	7.9	% 5.0	% 35.0	% 19
MSR Pool 12	14.0	% N/A ^(E)	9.6	% 26
MSR Pool 12 - Recapture Agreement	8.0	% N/A ^(E)	35.0	% 19
MSR Pool 14	7.8	% 3.5	% 27.5	% 19
MSR Pool 14 - Recapture Agreement	8.0	% 5.0	% 35.0	% 19
MSR Pool 16	16.4	% 4.9	% 35.0	% 17
MSR Pool 16 - Recapture Agreement	8.0	% 5.0	% 35.0	% 19
MSR Pool 17	11.2	% N/A ^(E)	11.0	% 19
MSR Pool 17 - Recapture Agreement	8.0	% N/A ^(E)	35.0	% 19
MSR Pool 18	14.9	% N/A ^(E)	9.6	% 15
MSR Pool 18 - Recapture Agreement	8.0	% N/A ^(E)	35.0	% 19
MSR Pool 19	8.0	% 2.8	% 20.0	% 19
MSR Pool 19 - Recapture Agreement	8.0	% 5.0	% 35.0	% 19
MSR Pool 20	12.7	% 4.0	% 33.9	% 32
MSR Pool 20 - Recapture Agreement	8.0	% 5.0	% 34.9	% 19
Held through Equity Method Investees (Note 5)				
MSR Pool 6	14.8	% 7.3	% 30.7	% 25
MSR Pool 6 - Recapture Agreement	8.0	% 5.0	% 35.0	% 23
MSR Pool 7	12.9	% 7.7	% 35.1	% 15
MSR Pool 7 - Recapture Agreement	8.0	% 5.0	% 35.0	% 19
MSR Pool 8	14.2	% 7.5	% 35.9	% 19
MSR Pool 8 - Recapture Agreement	8.0	% 5.0	% 35.0	% 19
MSR Pool 9	15.3	% 5.0	% 30.2	% 22
MSR Pool 9 - Recapture Agreement	8.0	% 5.0	% 35.0	% 26

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MSR Pool 10	11.9	% N/A ^(E)	9.7	% 11
MSR Pool 10 - Recapture Agreement	8.0	% N/A ^(E)	35.0	% 19
MSR Pool 11	12.8	% 9.9	% 32.2	% 15
MSR Pool 11 - Recapture Agreement	8.0	% 5.0	% 35.0	% 19

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

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

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

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

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(E) The Excess MSR will be paid on the total UPB of the mortgage portfolio (including both performing and delinquent loans until REO).

In the second quarter of 2014, a weighted average discount rate of 12.0% was used to value New Residential's investments in Excess MSRs (directly and through equity method investees).

Excess Mortgage Servicing Rights Equity Method Investees Valuation

New Residential's investments in equity method investees measured at fair value on a recurring basis using Level 3 inputs changed during the six months ended June 30, 2014 as follows:

Balance at December 31, 2013	\$352,766	
Contributions to equity method investees	—	
Distributions of earnings from equity method investees	(20,500)
Distributions of capital from equity method investees	(21,163)
Change in fair value of investments in equity method investees	19,117	
Balance at June 30, 2014	\$330,220	

Investments in Servicer Advances Valuation

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

	Significant Inputs					
	Weighted Average					
	Outstanding					
	Servicer Advances					
	Prepayment	Delinquency	Mortgage	Discount		
	Speed		Servicing	Rate		
	to UPB of		Amount			
	Underlying					
	Residential					
	Mortgage Loans					
June 30, 2014	2.2	% 14.6	% 16.3	% 19.6	bps 5.6	%
December 31, 2013	2.7	% 13.3	% 20.0	% 21.2	bps 5.6	%

Real Estate Securities Valuation

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

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Fair Value		Total	Level
			Multiple Quotes ^(A)	Single Quote ^(B)		
Agency ARM RMBS	\$1,159,363	\$1,244,864	\$1,247,012	\$—	\$1,247,012	2
Non-Agency RMBS	348,232	210,051	203,373	13,518	216,891	3
Total	\$1,507,595	\$1,454,915	\$1,450,385	\$13,518	\$1,463,903	

(A) Management generally obtained pricing service quotations or broker quotations from two sources, one of which was generally the seller (the party that sold New Residential the security) for Non-Agency RMBS. Management selected one of the quotes received as being most representative of the fair value and did not use an average of the quotes. Even if New Residential receives two or more quotes on a particular security that come from non-selling

brokers or pricing services, it does not use an average because management believes using an actual quote more closely represents a transactable price for the security than an average level. Furthermore, in some cases there is a wide disparity between the quotes New Residential receives. Management believes using an average of the quotes in these cases would not represent the fair value of the asset. Based on New Residential's own fair value analysis, management selects one of the quotes which is believed to more accurately reflect fair value. New Residential never adjusts quotes received. These quotations

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are generally received via email and contain disclaimers which state that they are “indicative” and not “actionable” — meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price.

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

Residential Mortgage Loans for Which Fair Value is Only Disclosed

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

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

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

Loan Type	Carrying Value ^(A)	Fair Value ^(A)	Valuation Provision/ (Reversal) In Current Year	Significant Inputs	
				Discount Rate	Weighted Average Life (Years) ^(B)
Reverse Mortgage Loans	\$30,794	\$30,794	427	10.3	% 3.7

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

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

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

Loan Type	Carrying Value ^(A)	Fair Value	Discount Rate	Prepayment Rate	Default Rate
Performing Loans	\$61,008	\$60,904	6.4	% 7.7	% 1.9

(A) Includes accrued interest receivable.

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

Loan Type	Carrying Value	Fair Value	Discount Rate	Default Rate	Loss Severity
Non-Performing Loans	\$425,622	\$428,292	7.4	% 97.5	% 22.2

Real Estate Owned (“REO”) is initially recognized at fair value less costs to sell and the carrying value of the acquired property is reviewed on a recurring basis and adjusted, if necessary, to the lower of cost or fair value. The fair value of REO is estimated using a broker’s price opinion discounted based upon New Residential’s experience with actual liquidation values and, therefore, is categorized within Level 3 of the fair value hierarchy.

Derivative Valuation

New Residential financed certain investments with the same counterparty from which it purchased those investments, and accounts for the contemporaneous purchase of the investments and the associated financings as linked transactions (Note 10). The linked transactions are valued on a net basis considering their underlying components, the investment value and the related repurchase financing agreement value, generally determined consistently with the relevant instruments as described in this note. Values of investments in non-performing loans are estimated based on a

discounted cash flow analysis using internal pricing models that

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employ market-based assumptions regarding the timing and amount of expected cash flows primarily based upon the performance of the loan pool and liquidation attributes. The linked transactions, which are categorized as Level 3, are recorded as a non-hedge derivative instrument on a net basis.

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

Liabilities for Which Fair Value is Only Disclosed

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

Short-term repurchase agreements and short-term notes payable have an estimated fair value equal to their carrying value due to their short duration and generally floating interest rates. Longer-term notes payable, representing the securitized portion of the servicer advance financing, are valued based on internal models utilizing both observable and unobservable inputs. As of June 30, 2014, these longer-term notes have an estimated fair value of \$1,262 million and a carrying value of \$1,260 million.

13. EQUITY AND EARNINGS PER SHARE

Equity and Dividends

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

On April 29, 2013, New Residential's certificate of incorporation was amended so that its authorized capital stock now consists of 2,000,000,000 shares of common stock, par value \$0.01 per share, and 100,000,000 shares of preferred stock, par value \$0.01 per share. At the time of the completion of the spin-off, there were 253,025,645 outstanding shares of common stock which was based on the number of Newcastle's shares of common stock outstanding on May 6, 2013 and a distribution ratio of one share of New Residential common stock for each share of Newcastle common stock.

In April 2014, New Residential issued 27,750,000 shares of its common stock in a public offering at a price to the public of \$6.10 per share for net proceeds of approximately \$163.8 million. One of New Residential's executive officers participated in this offering and purchased an additional 1,000,000 shares at the public offering price for net proceeds of approximately \$6.1 million. For the purpose of compensating the Manager for its successful efforts in raising capital for New Residential, in connection with this offering, New Residential granted options to the Manager to purchase 2,875,000 shares of New Residential's common stock at a price of \$6.10, which had a fair value of approximately \$1.4 million as of the grant date. The assumptions used in valuing the options were: a 2.87% risk-free rate, a 12.584% dividend yield, 25.66% volatility and a 10 year term.

An employee of the Manager exercised 215,000 options with a weighted average exercise price of \$2.81 on May 7, 2014. Upon exercise, 215,000 shares of common stock of New Residential were issued.

On December 17, 2013, New Residential declared a quarterly dividend of \$0.175 per common share and a special cash dividend of \$0.075 per common share, totaling \$63.3 million, for the quarter ended December 31, 2013. The combined dividend of \$0.25 was paid on January 31, 2014. On March 19, 2014, New Residential declared a quarterly dividend of \$0.175 per common share, or \$44.3 million, for the quarter ended March 31, 2014, which was paid in April 2014. On June 17, 2014, New Residential declared a quarterly dividend of \$0.175 per common share and a special cash dividend of \$0.075 per common share, totaling \$70.6 million, for the quarter ended June 30, 2014. The combined dividend of \$0.25 was paid on July 31, 2014.

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Approximately 5.3 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals at June 30, 2014.

In January and June 2014, New Residential issued an aggregate of 50,159 shares of its common stock to its independent directors as compensation.

Option Plan

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

	Number of Options	Strike Price	Maturity Date
	162,500	\$16.95	11/22/2014
	330,000	15.97	01/12/2015
	2,000	16.68	08/01/2015
	170,000	15.87	11/01/2016
	242,000	16.90	01/23/2017
	456,000	14.96	04/11/2017
	1,495,166	3.29	03/29/2021
	2,294,833	2.49	09/27/2021
	2,000	2.74	12/20/2021
	1,867,167	3.41	04/03/2022
	2,265,000	3.67	05/21/2022
	2,499,167	3.67	07/31/2022
	5,750,000	5.12	01/11/2023
	2,300,000	5.74	02/15/2023
	8,000	6.79	06/02/2023
	2,875,000	6.10	04/30/2024
Total/Weighted Average	22,718,833	\$5.12	

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

Held by the Manager	17,925,463
Issued to the Manager and subsequently transferred to certain of the Manager's employees	4,781,370
Issued to the independent directors	12,000
Total	22,718,833

Income and Earnings Per Share

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

New Residential is required to present both basic and diluted earnings per share ("EPS"). Basic EPS is calculated by dividing net income by the weighted average number of shares of common stock outstanding. Diluted EPS is computed by dividing net income by the weighted average number of shares of common stock outstanding plus the additional dilutive effect, if any, of common stock equivalents during each period. New Residential's common stock equivalents are its outstanding stock options. During the three and six months ended June 30, 2014, based on the treasury stock method, New Residential had 6,405,348 and 6,457,136 dilutive common stock equivalents outstanding,

respectively. During the three and six months ended June 30, 2013, New Residential had 3,633,843 and 1,826,960 dilutive common stock equivalents outstanding, respectively.

For the purposes of computing EPS for periods prior to the spin-off on May 15, 2013, New Residential treated the common shares issued in connection with the spin-off as if they had been outstanding for all periods presented, similar to a stock split. For the purposes of computing diluted EPS for periods prior to the spin-off on May 15, 2013, New Residential treated the 21.5 million options issued on the spin-off date as a result of the conversion of Newcastle options as if they were granted on May 15, 2013 since no New Residential awards were outstanding prior to that date.

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Noncontrolling Interests

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

14. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

failure to maintain its REIT status will not cause New Residential to fail to qualify as a REIT under the successor REIT rule referred to above). Additionally, New Residential covenanted to use its reasonable best efforts to qualify for taxation as a REIT for its taxable year ended December 31, 2013.

15. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES

Due to affiliates is comprised of the following amounts:

	June 30, 2014	December 31, 2013
Management fees	\$3,415	\$1,495
Incentive compensation	22,201	16,847
Expense reimbursements and other	516	827
	\$26,132	\$19,169

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Affiliate expenses and fees were comprised of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Management fees	\$4,915	\$4,072	\$9,401	\$6,397
Incentive compensation	18,863	878	22,201	878
Expense reimbursements ^(A)	125	—	250	—
Total	\$23,903	\$4,950	\$31,852	\$7,275

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

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

See Notes 4, 5, 6, 7, 8, 11, 14 and 18 for a discussion of transactions with Nationstar. As of June 30, 2014, New Residential's entire Non-Agency portfolio was serviced or master serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately \$2.8 billion as of June 30, 2014. As of June 30, 2014, \$17.8 million UPB of New Residential's non-performing residential mortgage loans are being serviced by Nationstar. Subsequent to June 30, 2014, \$548.7 million UPB of New Residential's non-performing residential mortgage loans have transferred to be serviced by Nationstar.

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

16. RECLASSIFICATION FROM ACCUMULATED OTHER COMPREHENSIVE INCOME INTO NET INCOME

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

Accumulated Other Comprehensive Income Components	Statement of Income Location	Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
Reclassification of net realized (gain) loss on securities into earnings	Gain on settlement of securities	\$(57,284)	\$(58)	\$(61,776)	\$(58)
Reclassification of net realized (gain) loss on securities into earnings	Other-than-temporary impairment on securities	615	3,756	943	3,756
Total reclassifications		\$(56,669)	\$3,698	\$(60,833)	\$3,698

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17. INCOME TAXES

The provision for income taxes consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Current:				
Federal	\$2,236	\$—	\$2,453	\$—
State and Local	1,514	—	1,584	—
Total Current Provision	3,750	—	4,037	—
Deferred:				
Federal	13,236	—	13,236	—
State and Local	4,409	—	4,409	—
Total Deferred Provision	17,645	—	17,645	—
Total Provision for Income Taxes	\$21,395	\$—	\$21,682	\$—

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

New Residential has made certain investments, particularly its investments in servicer advances (Note 6), through TRSs and is subject to regular corporate income taxes on these investments. In addition, some investments are held through limited partnership interests which are subject to the New York City unincorporated business tax (“UBT”). Regular corporate income taxes on the TRSs and UBT has been provided for in the provision for income taxes. New Residential and its subsidiaries will file income tax returns with the U.S. federal government and various state and local jurisdictions for the tax years ending December 31, 2013 and 2014. Generally, these income tax returns will be subject to tax examinations by tax authorities for a period of three years after the date of filing.

New Residential recorded a deferred tax liability of \$17.6 million in the second quarter of 2014. This deferred tax liability relates to the unrealized gains of \$82.9 million from New Residential's investment in servicer advances.

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

18. RECENT ACTIVITIES

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

Excess MSRs

On July 8, 2014, New Residential invested approximately \$14.2 million to acquire a 32.5% interest in the Excess MSR on a portfolio of Fannie Mae residential mortgage loans ("Pool 13") with an aggregate UPB of \$5.9 billion. Fortress-managed funds and Nationstar agreed to acquire a 32.5% and 35.0% interest in the Excess MSRs, respectively. New Residential also invested approximately \$5.7 million to acquire a one-third interest in the Excess MSR on a portfolio of Fannie Mae residential mortgage loans ("Pool 15") with an aggregate UPB of \$2.1 billion. Fortress-managed funds and Nationstar each agreed to acquire a one-third interest in the Excess MSRs.

Nationstar as servicer will perform all servicing and advancing functions, and retain the ancillary income, servicing obligations and liabilities as the servicer of the underlying loans in each of the portfolios. Under the terms of these investments, to the extent

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that any loans in the portfolios are refinanced by Nationstar, the resulting Excess MSR's are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations.

Servicer Advances

Subsequent to June 30, 2014 and prior to August 4, 2014, the Buyer funded a total of \$943.5 million of servicer advances and recovered \$1.1 billion of existing servicer advances. Notes payable outstanding decreased by \$130.9 million and restricted cash decreased approximately \$3.8 million in relation to these fundings. Additionally, the Buyer received \$1.0 million from Nationstar to satisfy a targeted return shortfall.

On July 18, 2014, the Buyer received \$26.7 million in proceeds from the refinancing of the note issued under the Bank of America facility. The Bank of America note was prepaid with proceeds of a new note issued to J.P. Morgan. The note issued to J.P. Morgan has a fixed interest rate equal to 2.45% with an expected repayment date of July 2016. As of July 31, 2014, the principal balance of this note was approximately \$531.9 million.

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

Real Estate Securities

Subsequent to June 30, 2014, New Residential acquired Agency RMBS with an aggregate face amount of approximately \$243.0 million for approximately \$251.4 million and acquired Non-Agency RMBS with an aggregate face amount of approximately \$22.7 million for approximately \$19.2 million, financed with repurchase agreements. New Residential sold Agency ARM RMBS with a face amount of \$443.2 million and an amortized cost basis of approximately \$471.1 million for approximately \$474.4 million and recorded a gain of approximately \$3.3 million. New Residential sold no Non-Agency RMBS.

Subsequent to June 30, 2014, New Residential acquired additional net short TBA positions that increased its net short notional position by \$392.0 million of Agency RMBS and any amounts or obligations owed by or to New Residential are subject to the right of set-off with the TBA counterparty.

In July 2014, New Residential paid off \$397.8 million of the Agency ARM RMBS repo facility as a result of sales and rolled \$764.2 million to mature in August 2014.

In July 2014, New Residential rolled \$87.1 million of the Non-Agency RMBS repo facility that was scheduled to mature in July 2014 to mature in August 2014 through October 2014 and received an incremental financing of \$1.7 million due to more favorable financing terms on the same collateral.

Corporate Activities

On June 17, 2014, New Residential's board of directors declared a second quarter 2014 dividend of \$0.175 per common share and a special cash dividend of \$0.075 per common share, or \$70.6 million, which was paid on July 31, 2014 to stockholders of record as of June 27, 2014.

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

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

GENERAL

New Residential is a publicly traded REIT (NYSE: NRZ) primarily focused on investing in residential mortgage related assets. We became an independent public company following our spin-off from Newcastle on May 15, 2013. We are externally managed by an affiliate of Fortress. Our goal is to drive strong risk-adjusted returns primarily through investments in servicing related assets, residential securities and loans and other investments including, but not limited to, Excess MSR, servicer advances, real estate securities and real estate loans. Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets in diverse markets, including non-real estate related assets such as consumer loans. We generally target assets that generate significant current cash flows and/or have the potential for meaningful capital appreciation. We aim to generate attractive returns for our stockholders without the excessive use of financial leverage.

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

MARKET CONSIDERATIONS

Various market factors, which are outside of our control, affect our results of operations and financial condition. One such factor is developments in the U.S. residential housing market, which we believe are generating significant investment opportunities. Since the 2008 financial crisis, the residential mortgage industry has been undergoing major structural changes that are transforming the way mortgages are originated, owned and serviced. Historically, the majority of the approximately \$10 trillion mortgage market has been serviced by large banks, which generally focus on conventional mortgages with low delinquency rates. This has allowed for low-cost routine payment processing and required minimal borrower interaction. Following the credit crisis, the need for "high-touch" specialty servicers, such as Nationstar, increased as loan performance declined, delinquencies rose and servicing complexities broadened. Specialty servicers have proven more willing and better equipped to perform the operationally intensive activities (e.g., collections, foreclosure avoidance and loan workouts) required to service credit-sensitive loans.

Since 2010, banks have sold or committed to sell MSR totaling more than \$1 trillion. An MSR provides a mortgage servicer with the right to service a pool of mortgages in exchange for a portion of the interest payments made on the underlying mortgages. This amount typically ranges from 25 to 50 bps multiplied by the UPB of the mortgages. Approximately 77% of MSR were owned by banks as of the fourth quarter of 2013, according to Inside Mortgage Finance. We expect this number to decline as banks face pressure to reduce their MSR exposure as a result of heightened capital reserve requirements under Basel III, regulatory scrutiny and a more challenging servicing environment. As a result, we believe the volume of MSR sales is likely to be substantial for some period of time.

We estimate that MSR on approximately \$200 – 300 billion of mortgages are currently for sale, which would require a capital investment of approximately \$2 – 3 billion based on current pricing dynamics. We believe that non-bank servicers who are constrained by capital limitations, such as Nationstar, will continue to sell a portion of the Excess MSR or other servicing assets, such as advances. We also estimate that approximately \$1 – 2 trillion of MSR could

be sold over the next several years. In addition, approximately \$1.2 trillion of new loans are expected to be created annually, according to the Mortgage Bankers Association. We believe this creates an opportunity to enter into “flow arrangements,” whereby loan originators agree to sell Excess MSR on newly originated loans on a recurring basis (often monthly or quarterly). We believe that MSRs are being sold at a discount to historical pricing levels, although increased competition for these assets has driven prices higher recently. There can be no assurance that we will make additional investments in Excess MSRs or that any future investment in Excess MSRs will generate returns similar to the returns on our original investments in Excess MSRs.

Beginning in April 2012, we began to invest in RMBS as a complement to our Excess MSR portfolio. As of the fourth quarter of 2013, approximately \$7 trillion of the \$10 trillion of residential mortgages outstanding had been securitized, according to Inside Mortgage Finance. Approximately \$6 trillion were Agency RMBS according to Inside Mortgage Finance, which are securities issued or guaranteed by a U.S. Government agency, such as Ginnie Mae, or by a GSE, such as Fannie Mae or Freddie Mac. The balance has been securitized by either public trusts or PLS, and are referred to as Non-Agency RMBS.

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

Interest rates have risen significantly in recent months and may continue to increase, although the timing of any further increases is uncertain. In periods of rising interest rates, the rates of prepayments and delinquencies with respect to mortgage loans generally decline. Generally, the value of our Excess MSR is expected to increase when interest rates rise or delinquencies decline, and the value is expected to decrease when interest rates decline or delinquencies increase, due to the effect of changes in interest rates on prepayment speeds and delinquencies. However, prepayment speeds and delinquencies could increase even in the current interest rate environment, as a result of, among other things, a general economic recovery, government programs intended to foster refinancing activity or other reasons, which could reduce the value of our investments. Moreover, the value of our Excess MSR is subject to a variety of factors, as described under "Risk Factors." In the second quarter of 2014, the fair value of our investments in Excess MSR (directly and through equity method investees) increased by approximately \$9.6 million and the weighted average discount rate of the portfolio was reduced from 12.5% to 12.0%.

We do not expect changes in interest rates to have a meaningful impact on the net interest spread of our Agency ARM and Non-Agency portfolios. Our RMBS are primarily floating rate or hybrid (i.e., fixed to floating rate) securities, which we generally finance with floating rate debt. Therefore, while rising interest rates will generally result in a higher cost of financing, they will also result in a higher coupon payable on the securities. The net interest spread on our Agency ARM RMBS portfolio as of June 30, 2014 was 1.17%, compared to 1.19% as of March 31, 2014. The net interest spread on our Non-Agency RMBS portfolio as of June 30, 2014 was 5.28%, compared to 2.67% as of March 31, 2014.

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

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

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

Qualitative Disclosures About Market Risk.”

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

OUR PORTFOLIO

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

	Outstanding Face Amount	Amortized Cost Basis ^(A)	Percentage of Total Amortized Cost Basis	Carrying Value	Weighted Average Life (years) ^(B)
Investments in:					
Excess MSR ^(C)	\$254,987,983	\$597,248	9.7	% \$702,636	6.0
Servicer Advances ^(C)	3,551,464	3,596,228	58.3	% 3,679,105	3.8
Agency ARM RMBS	1,159,363	1,244,864	20.2	% 1,247,012	4.7
Non-Agency RMBS	348,232	210,051	3.4	% 216,891	8.5
Residential Mortgage Loans	701,918	518,342	8.4	% 517,424	2.5
Consumer Loans ^(C)	2,924,133	N/A	N/A	250,048	3.5
Total/ Weighted Average	\$263,673,093	\$6,166,733	100.0	% \$6,613,116	4.2

Reconciliation to GAAP total assets:

Cash and restricted cash	348,453
Derivative assets	30,992
Other assets	46,755
GAAP total assets	\$7,039,316

(A) Net of impairment.

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

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

Servicing Related Assets

Excess MSR^(C)

As of June 30, 2014, we had approximately \$702.6 million estimated carrying value of Excess MSR^(C) (held directly and through joint ventures). As of June 30, 2014, our completed investments represent an effective 33% to 80% interest in the Excess MSR^(C) (held either directly or through joint ventures) on pools of mortgage loans with an aggregate UPB of approximately \$255.0 billion. Nationstar is the servicer of the loans underlying all of our investments in Excess MSR^(C) to date, and it earns a basic fee in exchange for providing all servicing functions. In addition, Nationstar retains a 20% to 35% interest in the Excess MSR^(C) and all ancillary income associated with the portfolios. In our capacity as owner of the Excess MSR^(C), we do not have any servicing duties, liabilities or obligations associated with the servicing of the portfolios underlying any of our Excess MSR^(C). However, we, through co-investments made by our subsidiaries, may separately agree to do so and have separately purchased the servicer advances, including the right to receive the basic fee component of related MSR^(C), on the Non-Agency portfolios (Pools 5, 10, 12, 17 and 18) underlying our Excess MSR^(C) investments. See “—Servicer Advances” below.

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

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

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

	Investment Date	Initial UPB (bn)	Current UPB (bn) ^(B)	Loan Type ^(C)	MSR Component ^(A)			Excess MSR		
					MSR (bps)	Excess MSR (bps)	Interest in Excess MSR (%)	Purchase Price (mm)	Carrying Value (mm)	
Pool 1	Dec-11	\$9.9	\$6.4	GSE	32	bps 26	bps 65	%	\$43.7	\$40.4
Pool 2	Jun-12	10.4	7.5	GSE	29	22	65	%	42.3	39.0
Pool 3	Jun-12	9.8	7.4	GSE	30	22	65	%	36.2	37.2
Pool 4	Jun-12	6.3	4.8	GSE	26	17	65	%	15.4	17.7
Pool 5 ^(D)	Jun-12	47.6	34.5	PLS	32	13	80	%	151.5	143.1
Pool 11 (direct portion) ^(E)	May-13	—	0.5	GSE	25	19	67	%	2.4	2.7
Pool 12 ^(D)	Sep-13	5.4	4.8	PLS	50	26	40	%	17.4	17.8
Pool 14	May-14	1.0	1.0	GSE	25	19	33	%	2.4	2.6
Pool 16	May-14	1.5	1.4	GSE	27	17	33	%	2.9	3.0
Pool 17 ^(D)	Jan-14	8.1	8.0	PLS	34	19	33	%	19.1	19.5
Pool 18 ^(D)	Nov-13	9.2	8.0	PLS	37	15	40	%	17.0	16.6
Pool 19	May-14	10.4	10.2	GSE	25	19	33	%	28.6	30.4
Pool 20	May-14	0.7	0.7	GSE	42	32	33	%	2.2	2.4
Total/ Weighted Average		\$120.3	\$95.2		32	bps 18	bps		\$381.1	\$372.4

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

(B) As of June 30, 2014.

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

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

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

(E) The direct investment in Pool 11 includes loans that, upon refinancing by a third-party, became serviced by Nationstar and subject to a 67% Excess MSR owned by us.

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

	Commitment / Investment Date	Initial UPB (bn)	Current UPB (bn) ^(B)	Loan Type ^(C)	MSR Component ^(A)		NRZ Interest in Investee (%)	Investee Interest in Excess MSR ^(D) (%)	NRZ Effective Ownership (%) ^(D)	Investee Carrying Value (mm)
					MSR (bps)	Excess MSR (bps)				
Pool 6	Jan-13	\$13.0	\$9.1	GM	40	25	50	67	33.5	\$53.6
Pool 7	Jan-13	38.0	29.5	GSE	26	15	50	67	33.5	120.0
Pool 8	Jan-13	17.6	13.0	GSE	28	19	50	67	33.5	63.4
Pool 9	Jan-13	33.8	27.9	GM	39	22	50	67	33.5	152.6
Pool 10 ^(E)	Jan-13	75.6	63.8	PLS	34	11	50	67-77%	33.5-38.5%	200.7
Pool 11 (indirect portion) ^(F)	May-13	22.8	16.5	GSE	25	15	50	67	33.5	65.5
Total/Weighted Average		\$200.8	\$159.8		32	16	bps			\$655.8

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

(B) As of June 30, 2014.

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

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

(E) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of June 30, 2014 (Note 6 to our condensed consolidated financial statements included herein).

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

The table below summarizes the terms of our investments in Excess MSRs that were not yet completed as of June 30, 2014:

Summary of Excess MSR Investments closed subsequent to June 30, 2014

	Commitment Date	Initial UPB (bn)	Current UPB (bn) ^(B)	Loan Type ^(C)	MSR Component ^(A)		NRZ Interest in Investee (%)	Direct Interest in Excess MSR (%)	NRZ Excess MSR Initial Investment (mm) ^(D)
					MSR (bps)	Excess MSR (bps)			
Pool 13 (Direct Investment)	Nov-13	\$5.9	\$5.9	GSE	25	19	N/A	33	\$14.2
Pool 15 (Direct Investment)	Nov-13	2.1	2.1	GSE	37	27	N/A	33	5.7
Total/Weighted Average		\$8.0	\$8.0		28	21	bps		\$19.9

- The MSR is a weighted average as of the date the transaction closed and the Excess MSR represents the difference
- (A) between the weighted average MSR and the basic fee (which fee remains constant).
 - (B) As of the date the transaction closed.
 - (C) "GSE" refers to loans in Fannie Mae or Freddie Mac securitizations.
 - (D) Amounts invested based on the UPB at the time of close.

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

Collateral Characteristics													
	Current Carrying Amount	Original Principal Balance	Current Principal Balance	Number of Loans	WA FICO Score	WA Coupon (%) ^(A)	WA Maturity (months)	Average Loan Age (months) ^(B)	Adjustable Mortgage Rate (%)	One Month CPR ^(C)	One Month CRR ^(D)	One Month CDR ^(E)	One Month Recapture Rate
Pool 1													
Original Pool	\$25,091	\$9,940,385	\$4,642,094	35,222	673	5.4 %	273	92	21.0 %	21.4 %	18.3 %	3.7 %	53.8 %
Recaptured Loans	9,222	—	1,789,038	9,774	726	4.5 %	314	12	—	4.7 %	4.5 %	0.2 %	10.4 %
Recapture Agreements	6,102	—	—	—	—	—	—	—	—	—	—	—	—
	40,415	9,940,385	6,431,132	44,996	688	5.1 %	285	70	15.2 %	16.8 %	14.5 %	2.7 %	41.7 %
Pool 2													
Original Pool	25,852	10,383,891	6,107,749	32,652	669	4.7 %	319	80	11.0 %	17.0 %	13.0 %	4.6 %	45.9 %
Recaptured Loans	7,099	—	1,353,377	7,152	729	4.5 %	315	10	—	3.9 %	3.4 %	0.5 %	—
Recapture Agreements	6,089	—	—	—	—	—	—	—	—	—	—	—	—
	39,040	10,383,891	7,461,126	39,804	680	4.7 %	318	67	9.0 %	14.6 %	11.3 %	3.9 %	37.6 %
Pool 3													
Original Pool	26,319	9,844,114	6,487,517	40,987	678	4.0 %	284	104	42.0 %	15.9 %	13.0 %	3.3 %	30.8 %
Recaptured Loans	4,681	—	882,201	5,468	722	4.4 %	310	9	—	1.3 %	1.2 %	0.1 %	—
Recapture Agreements	6,226	—	—	—	—	—	—	—	—	—	—	—	—
	37,226	9,844,114	7,369,718	46,455	683	4.0 %	287	92	37.0 %	14.2 %	11.6 %	2.9 %	27.1 %
Pool 4													
Original Pool	12,520	6,250,549	4,546,050	23,006	681	3.3 %	302	95	58.0 %	13.2 %	7.8 %	5.8 %	44.7 %
Recaptured Loans	1,332	—	257,297	1,322	732	4.5 %	323	8	—	3.0 %	2.1 %	1.0 %	—
Recapture Agreements	3,860	—	—	—	—	—	—	—	—	—	—	—	—
	17,712	6,250,549	4,803,347	24,328	684	3.4 %	303	91	54.9 %	12.7 %	7.5 %	5.5 %	42.3 %
Pool 5													
Original Pool ^(F)	136,246	47,572,905	34,416,119	150,205	666	4.2 %	284	100	52.0 %	13.2 %	6.8 %	6.8 %	9.7 %
Recaptured Loans	716	—	120,933	567	756	4.1 %	304	4	6.0 %	0.1 %	0.1 %	—	—
Recapture Agreements	6,111	—	—	—	—	—	—	—	—	—	—	—	—
	143,073	47,572,905	34,537,052	150,772	666	4.2 %	284	100	51.8 %	13.2 %	6.8 %	6.8 %	9.7 %
Pool 11 (direct portion)^(G)													
Original Pool	—	—	—	—	—	—	—	—	—	—	—	—	—
Recaptured Loans	2,356	—	437,676	2,711	—	4.2 %	303	11	—	4.4 %	4.4 %	—	—

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Recapture Agreements	293	—	—	—	—	—	—	—	—	—	—	—	—	—
	2,649	—	437,676	2,711	—	4.2 %	303	11	—	4.4 %	4.4 %	—	—	—
Pool 12 Original Pool ^(F)	17,551	5,375,157	4,804,896	39,189	598	5.7 %	312	103	31.0 %	12.1 %	3.8 %	8.6 %	14.0 %	—
Recaptured Loans	23	—	9,752	72	691	4.2 %	263	4	—	—	—	—	—	—
Recapture Agreements	236	—	—	—	—	—	—	—	—	—	—	—	—	—
	17,810	5,375,157	4,814,648	39,261	598	5.7 %	312	103	30.9 %	12.1 %	3.8 %	8.6 %	14.0 %	—
Pool 14 Original Pool	2,470	970,121	952,767	3,300	780	3.2 %	231	13	—	6.6 %	6.6 %	—	—	—
Recaptured Loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Recapture Agreements	170	—	—	—	—	—	—	—	—	—	—	—	—	—
	2,640	970,121	952,767	3,300	780	3.2 %	231	13	—	6.6 %	6.6 %	—	—	—
Pool 16 Original Pool	2,114	1,460,638	1,338,407	8,693	690	5.3 %	287	86	4.0 %	41.1 %	40.0 %	1.8 %	67.3 %	—
Recaptured Loans	97	—	74,191	384	668	4.5 %	292	1	—	—	—	—	—	—
Recapture Agreements	767	—	—	—	—	—	—	—	—	—	—	—	—	—
	2,978	1,460,638	1,412,598	9,077	689	5.3 %	287	81	3.8 %	38.9 %	37.9 %	1.7 %	63.8 %	—

Continued on next page.

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Collateral Characteristics

	Current Carrying Amount	Original Principal Balance	Current Principal Balance	Number of Loans	WA FICO Score	WA Coupon (A)	WA Maturity (months)	Average Loan Age (months)	Adjustable Mortgage Rate (B)	One Month CPR (C)	One Month CRR (D)	One Month CDR (E)	One Month Recapture Rate
Pool 17													
Original Pool(F)	18,866	8,088,574	7,947,859	34,402	692	4.5%	254	102	44.0%	13.8%	9.1%	5.1%	2.8%
Recaptured Loans	10	—	5,511	407	727	4.4%	291	1	1.0%	—	—	—	—
Recapture Agreements	644	—	—	—	—	—	—	—	—	—	—	—	—
	19,520	8,088,574	7,953,370	34,809	692	4.5%	254	102	44.0%	13.8%	9.1%	5.1%	2.8%
Pool 18													
Original Pool(F)	15,724	9,238,001	8,031,609	40,118	669	4.8%	240	111	49.0%	13.8%	9.3%	5.0%	5.8%
Recaptured Loans	19	—	9,670	45	721	3.7%	240	1	4.0%	0.8%	0.8%	—	—
Recapture Agreements	818	—	—	—	—	—	—	—	—	—	—	—	—
	16,561	9,238,001	8,041,279	40,163	669	4.8%	240	111	48.9%	13.8%	9.3%	5.0%	5.8%
Pool 19													
Original Pool	28,403	10,418,296	10,247,902	44,210	764	3.8%	297	11	—	7.5%	7.6%	—	—
Recaptured Loans	4	—	1,943	6	593	3.4%	287	1	34.4%	—	—	—	—
Recapture Agreements	1,941	—	—	—	—	—	—	—	—	—	—	—	—
	30,348	10,418,296	10,249,845	44,216	764	3.8%	297	11	—	7.5%	7.6%	—	—
Pool 20													
Original Pool	2,203	719,479	695,754	5,109	674	5.5%	259	108	—	17.9%	16.6%	1.6%	44.2%
Recaptured Loans	3	—	5,947	30	488	3.4%	233	1	—	—	—	—	—
Recapture Agreements	238	—	—	—	—	—	—	—	—	—	—	—	—
	2,444	719,479	701,701	5,139	672	5.5%	259	107	—	17.7%	16.5%	1.6%	43.8%
Total/													
Weighted Average	\$372,416	\$120,262,110	\$95,166,259	485,031	679	4.4%	284	84	35.6%	13.3%	8.9%	4.8%	16.2%

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Collateral Characteristics								
	Uncollected Payments ^(H)	Delinquency 30 Days ^(H)	Delinquency 60 Days ^(H)	Delinquency 90+ Days ^(H)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy	
Pool 1								
Original Pool	9.7	% 6.0	% 2.0	% 1.3	% 3.8	% 1.1	% 3.0	%
Recaptured Loans	0.9	% 0.8	% 0.2	% 0.1	% 0.2	% —	0.1	%
Recapture Agreements	—	—	—	—	—	—	—	
	7.3	% 4.6	% 1.5	% 1.0	% 2.8	% 0.8	% 2.2	%
Pool 2								
Original Pool	13.3	% 4.8	% 1.8	% 1.4	% 6.0	% 2.3	% 5.1	%
Recaptured Loans	1.0	% 0.9	% 0.1	% 0.3	% 0.2	% —	0.2	%
Recapture Agreements	—	—	—	—	—	—	—	
	11.1	% 4.1	% 1.5	% 1.2	% 4.9	% 1.9	% 4.2	%
Pool 3								
Original Pool	12.4	% 4.5	% 1.2	% 1.1	% 5.9	% 2.6	% 3.5	%
Recaptured Loans	0.7	% 0.8	% 0.1	% —	0.1	% —	0.4	%
Recapture Agreements	—	—	—	—	—	—	—	
	11.0	% 4.1	% 1.1	% 1.0	% 5.2	% 2.3	% 3.1	%
Pool 4								
Original Pool	13.7	% 3.5	% 1.3	% 1.1	% 7.4	% 2.4	% 4.3	%
Recaptured Loans	0.5	% 0.7	% 0.1	% —	—	—	0.3	%
Recapture Agreements	—	—	—	—	—	—	—	
	13.0	% 3.4	% 1.2	% 1.0	% 7.0	% 2.3	% 4.1	%
Pool 5								
Original Pool ^(F)	21.8	% 10.1	% 2.2	% 3.3	% 12.0	% 2.3	% 5.0	%
Recaptured Loans	0.2	% 0.4	% —	—	—	—	—	
Recapture Agreements	—	—	—	—	—	—	—	
	21.7	% 10.1	% 2.2	% 3.3	% 12.0	% 2.3	% 5.0	%
Pool 11 (direct portion) ^(G)								
Original Pool	—	—	—	—	—	—	—	
Recaptured Loans	9.5	% 15.9	% 0.5	% 0.5	% —	—	—	
Recapture Agreements	—	—	—	—	—	—	—	
	9.5	% 15.9	% 0.5	% 0.5	% —	—	—	
Pool 12								
Original Pool ^(F)	31.5	% 11.7	% 4.6	% 5.1	% 15.8	% 2.7	% 5.5	%
Recaptured Loans	8.5	% 8.9	% —	—	—	—	—	
Recapture Agreements	—	—	—	—	—	—	—	
	31.5	% 11.7	% 4.6	% 5.1	% 15.8	% 2.7	% 5.5	%
Pool 14								
Original Pool	—	0.1	% —	—	—	—	—	

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Recaptured Loans	—	—	—	—	—	—	—	—
Recapture Agreements	—	—	—	—	—	—	—	—
	—	0.1	% —	—	—	—	—	—
Pool 16								
Original Pool	10.0	% 4.1	% 1.4	% 1.4	% 4.9	% 1.3	% 3.0	%
Recaptured Loans	—	—	—	—	—	—	—	—
Recapture Agreements	—	—	—	—	—	—	—	—
	9.5	% 3.9	% 1.3	% 1.3	% 4.6	% 1.2	% 2.8	%

Continued on next page.

	Collateral Characteristics							
	Uncollected Payments ^(H)	Delinquency 30 Days ^(H)	Delinquency 60 Days ^(H)	Delinquency 90+ Days ^(H)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy	
Pool 17								
Original Pool ^(F)	20.3	% 15.8	% 2.1	% 1.8	% 8.0	% 1.5	% 3.3	%
Recaptured Loans	0.8	% 0.3	% —	0.6	% —	—	—	
Recapture Agreements	—	—	—	—	—	—	—	
	20.3	% 15.8	% 2.1	% 1.8	% 8.0	% 1.5	% 3.3	%
Pool 18								
Original Pool ^(F)	23.6	% 3.5	% 1.3	% 6.9	% 11.7	% 1.0	% 4.8	%
Recaptured Loans	—	—	—	—	—	—	—	
Recapture Agreements	—	—	—	—	—	—	—	
	23.6	% 3.5	% 1.3	% 6.9	% 11.7	% 1.0	% 4.8	%
Pool 19								
Original Pool	0.2	% 0.3	% —	—	—	—	—	
Recaptured Loans	—	—	—	—	—	—	—	
Recapture Agreements	—	—	—	—	—	—	—	
	0.2	% 0.3	% —	—	—	—	—	
Pool 20								
Original Pool	19.7	% 5.1	% 1.9	% 6.4	% 7.7	% 2.1	% 3.0	%
Recaptured Loans	—	—	—	—	—	—	—	
Recapture Agreements	—	—	—	—	—	—	—	
	19.5	% 5.1	% 1.9	% 6.3	% 7.6	% 2.1	% 3.0	%
Total/Weighted Average	16.4	% 7.2	% 1.7	% 2.5	% 8.3	% 1.7	% 3.8	%

The WA FICO score is based on the weighted average of information provided by the loan servicer on a monthly (A) basis. The loan servicer generally updates the FICO score on a monthly basis. Weighted averages exclude collateral information for which collateral data was not available as of the report date.

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

(C) One Month CPR, or the constant prepayment rate, represents the annualized rate of the prepayments during the month as a percentage of the total principal balance of the pool.

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

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

(F) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of June 30, 2014 (Note 6 to our condensed consolidated financial statements included herein).

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

serviced by Nationstar and subject to a 67% Excess MSR owned by us.

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

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

	Current Carrying Amount	Original Principal Balance	Current Principal Balance	NRZ Effective Ownership Principal Balance	Number of Loans	WA FICO Score	WA Coupon (A)	WA Maturity (months)	Average Loan Age (months)	Adjustable Rate Mortgage (B)	One Month CPR (C)	One Month CRR (D)	One Month CRR (E)
Pool 6													
Original Pool	\$38,212	\$12,987,190	\$7,848,749	33.3	% 61,495	666	5.6%	295	64	—	20.4%	16.0%	2.0%
Recaptured Loans	6,877	—	1,201,994	33.3	% 3,425	707	3.9%	350	7	—	6.4%	5.1%	1.0%
Recapture Agreements	8,551	—	—	33.3	% —	—	—	—	—	—	—	—	—
	53,640	12,987,190	9,050,743		64,920	671	5.4%	303	56	—	18.5%	14.6%	2.0%
Pool 7													
Original Pool	82,547	37,965,199	26,842,973	33.3	% 200,423	680	4.9%	284	94	23.0%	17.2%	14.5%	3.0%
Recaptured Loans	13,335	—	2,704,857	33.3	% 17,381	707	4.6%	295	6	1.0%	3.3%	3.2%	0.0%
Recapture Agreements	24,136	—	—	33.3	% —	—	—	—	—	—	—	—	—
	120,018	37,965,199	29,547,830		217,804	682	4.9%	285	86	21.0%	15.9%	13.5%	2.0%
Pool 8													
Original Pool	40,644	17,622,118	11,003,550	33.3	% 76,241	691	5.2%	294	81	15.0%	21.8%	18.6%	3.0%
Recaptured Loans	10,072	—	2,040,224	33.3	% 11,658	722	4.6%	299	7	—	2.8%	2.2%	0.0%
Recapture Agreements	12,630	—	—	33.3	% —	—	—	—	—	—	—	—	—
	63,346	17,622,118	13,043,774		87,899	696	5.1%	295	70	12.7%	18.8%	16.0%	3.0%
Pool 9													
Original Pool	113,734	33,799,700	26,545,480	33.3	% 208,408	686	5.0%	292	57	4.0%	19.1%	16.2%	1.0%
Recaptured Loans	8,706	—	1,378,977	33.3	% 4,688	665	4.2%	324	9	1.0%	1.1%	1.1%	—
Recapture Agreements	30,134	—	—	33.3	% —	—	—	—	—	—	—	—	—
	152,574	33,799,700	27,924,457		213,096	685	5.0%	294	54	3.9%	18.2%	15.5%	1.0%
Pool 10													
Original Pool ^(F)	189,386	75,574,361	63,598,239	33.3-38.5%	341,696	661	4.8%	259	103	49.0%	12.4%	8.6%	4.0%
Recaptured Loans	757	—	164,809	33.3-38.5%	555	742	4.1%	261	2	3.0%	—	—	—
Recapture Agreements	10,546	—	—	33.3-38.5%	—	—	—	—	—	—	—	—	—
	200,689	75,574,361	63,763,048		342,251	661	4.8%	259	102	48.9%	12.4%	8.6%	4.0%
Pool 11 (indirect portion) ^(G)													
Original Pool	54,443	22,817,213	16,286,921	33.3	% 117,193	622	5.1%	295	75	4.0%	15.0%	13.3%	2.0%

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Recaptured Loans	997	—	204,951	33.3	%	1,120	673	4.9%	311	4	—	0.2	%	0.2	%	—
Recapture Agreements	10,059	—	—	33.3	%	—	—	—	—	—	—	—	—	—	—	—
Total/	65,499	22,817,213	16,491,872			118,313	623	5.1%	295	74	4.0	%	14.8%	13.1%	2	
Weighted Average	\$655,766	\$200,765,781	\$159,821,724			1,044,283	669	4.9%	279	83	25.5%	15.2%	12.1%	3		

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Collateral Characteristics								
	Uncollected Payments ^(H)	Delinquency 30 Days ^(H)	Delinquency 60 Days ^(H)	Delinquency 90+ Days ^(H)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy	
Pool 6								
Original Pool	8.0	% 6.4	% 1.8	% 1.1	% 2.9	% 0.4	% 2.3	%
Recaptured Loans	1.1	% 0.9	% 0.2	% 0.2	% 0.2	% —	0.1	%
Recapture Agreements	—	—	—	—	—	—	—	
	7.7	% 6.2	% 1.7	% 1.1	% 2.8	% 0.4	% 2.2	%
Pool 7								
Original Pool	14.8	% 4.1	% 1.1	% 1.5	% 8.1	% 2.3	% 3.7	%
Recaptured Loans	0.8	% 0.9	% 0.1	% 0.1	% 0.1	% —	0.2	%
Recapture Agreements	—	—	—	—	—	—	—	
	14.2	% 4.0	% 1.1	% 1.4	% 7.8	% 2.2	% 3.6	%
Pool 8								
Original Pool	11.5	% 3.9	% 1.3	% 1.5	% 5.4	% 1.6	% 3.7	%
Recaptured Loans	0.9	% 0.7	% 0.2	% 0.1	% 0.1	% —	0.3	%
Recapture Agreements	—	—	—	—	—	—	—	
	11.1	% 3.8	% 1.3	% 1.4	% 5.2	% 1.5	% 3.6	%
Pool 9								
Original Pool	5.7	% 4.5	% 1.3	% 0.9	% 1.9	% 0.2	% 1.5	%
Recaptured Loans	3.6	% 1.7	% 0.6	% 2.4	% —	—	—	
Recapture Agreements	—	—	—	—	—	—	—	
	5.6	% 4.4	% 1.3	% 1.0	% 1.8	% 0.2	% 1.4	%
Pool 10								
Original Pool ^(F)	27.0	% 4.5	% 1.6	% 7.6	% 15.7	% 1.6	% 4.7	%
Recaptured Loans	—	—	—	—	—	—	—	
Recapture Agreements	—	—	—	—	—	—	—	
	25.9	% 4.3	% 1.5	% 7.3	% 15.1	% 1.5	% 4.5	%
Pool 11 (indirect portion) ^(G)								
Original Pool	16.5	% 15.8	% 2.1	% 2.7	% 4.9	% 1.0	% 1.8	%
Recaptured Loans	1.5	% 2.5	% 0.3	% 0.1	% —	—	0.2	%
Recapture Agreements	—	—	—	—	—	—	—	
	15.9	% 15.3	% 2.0	% 2.6	% 4.7	% 1.0	% 1.7	%
Total/Weighted	16.2	% 5.6	% 1.4	% 3.5	% 8.3	% 1.3	% 3.2	%

Average

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

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

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

Servicer Advances

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

In Transaction 1, the Buyer acquired from Nationstar Mortgage LLC (“Nationstar”) approximately \$3.2 billion of outstanding servicer advances (including deferred servicing fees) and the basic fee component of the related MSR on Non-Agency mortgage loans with an aggregate UPB of approximately \$54.6 billion. In exchange, the Buyer (i) paid approximately \$3.2 billion (the “Initial Purchase Price”), and (ii) agreed to purchase future servicer advances related to the loans at par. The Initial Purchase Price is equal to the value of the discounted cash flows from the outstanding and future advances and from the basic fee. We previously acquired an interest in the Excess MSR related to these loans, which are in Pools 10, 17 and 18. See above “—Our Portfolio—Servicing Related Assets—Excess MSR.” The Buyer funded the Initial Purchase Price with approximately \$2.8 billion of debt and \$0.4 billion of equity, excluding working capital. As of June 30, 2014, the Buyer had settled approximately \$3.2 billion of servicer advances related to Transaction 1, which represents substantially all of Transaction 1.

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

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

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

	June 30, 2014				Six Months Ended June 30, 2014
	Amortized Cost Basis	Carrying Value ^(A)	Weighted Average Discount Rate	Weighted Average Life (Years) ^(B)	Change in Fair Value Recorded in Other Income
Servicer Advances	\$3,596,228	\$3,679,105	5.6	% 3.8	\$82,877

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

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

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

	UPB of Underlying Residential Mortgage Loans	Outstanding Servicer Advances	Servicer Advances to UPB of Underlying Residential Mortgage Loans	Carrying Value of Notes Payable	Loan-to-Value		Cost of Funds ^(B)			
					Gross	Net ^(A)	Gross	Net		
June 30, 2014 Servicer advances ^(C)	\$ 102,159,164	\$ 3,551,464	3.5	% \$ 3,265,530	91.9 %	90.8 %	3.3 %	2.2 %		
December 31, 2013 Servicer advances ^(C)	\$ 43,444,216	\$ 2,661,130	6.1	% \$ 2,390,778	89.8 %	88.6 %	4.0 %	2.3 %		

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

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

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

	June 30, 2014	December 31, 2013
Principal and interest advances	\$ 1,282,504	\$ 1,516,715
Escrow advances (taxes and insurance advances)	1,597,466	934,525
Foreclosure advances	671,494	209,890
Total	\$ 3,551,464	\$ 2,661,130

	As of 12/31/13	As of 06/30/14	
Advances Purchased	\$ 2,687,813	\$ 5,184,860	
Activity Since Purchase	(26,683	) (1,633,396)
Ending Advance Balance	\$ 2,661,130	\$ 3,551,464	
Net Debt ^(A)	\$ 2,357,440	\$ 3,226,003	
Total Equity Invested ^(B)	\$ 363,324	\$ 702,359	
Distributions Since Purchase	\$—	\$ 247,742	
Net Equity Invested ^(B)	\$ 363,324	\$ 454,617	
New Residential's Equity % in Buyer ^(C)	31.8	% 44.5	%
Co-investors' Equity % in Buyer ^(C)	68.2	% 55.5	%

(A) Outstanding debt net of restricted cash.

(B) Includes working capital.

(C) Based on cash basis equity.

Subsequent to June 30, 2014 and prior to August 4, 2014, the Buyer funded a total of \$943.5 million of servicer advances and recovered \$1.1 billion of existing servicer advances. Notes payable outstanding decreased by \$130.9

million and restricted cash decreased approximately \$3.8 million in relation to these fundings. Additionally, the Buyer received \$1.0 million from Nationstar to satisfy a targeted return shortfall.

On July 18, 2014, the Buyer received \$26.7 million in proceeds from the refinancing of the note issued under the Bank of America facility. The Bank of America note was prepaid with proceeds of a new note issued to J.P. Morgan. The note issued to J.P. Morgan has a fixed interest rate equal to 2.45% with an expected repayment date of July 2016. As of July 31, 2014, the principal balance of this note was approximately \$531.9 million.

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

Call Right

In Transaction 1, the Buyer also acquired the right, but not the obligation (the “Call Right”), to purchase additional servicer advances, including the basic fee component of the related MSR, on terms substantially similar to the terms of Transaction 1. As in Transaction 1, (i) the purchase price for the servicer advances, including the basic fee, will be the outstanding balance of the advances at the time of purchase and (ii) the Buyer will be obligated to purchase future servicer advances on the related loans. We previously acquired an interest in the Excess MSR related to these loans, which are in Pools 5, 10 and 12. See above “—Our Portfolio—Servicing Related Assets—Excess MSR.”

The Buyer exercised the Call Right, in part, in Transaction 2. The outstanding balance of the servicer advances subject to the portion of the Call Right that was exercised was approximately \$1.1 billion in the first quarter of 2014. An additional \$921.3 million of the remaining portion of the outstanding balance of the servicer advances subject to the Call Right was exercised in the current quarter. As of June 30, 2014, the Buyer has settled \$2.0 billion of advances related to Transaction 2, which was financed with approximately \$1.8 billion of debt. The Call Right expired on June 30, 2014. At the time of expiration, approximately \$400.0 million of advances remained related to Transaction 2.

The Buyer

We, through a wholly owned subsidiary, are the managing member of the Buyer. On May 2, 2014, we funded \$86.4 million and an additional \$28.4 million on June 23, 2014. As of June 30, 2014, we owned approximately 44.5% of the Buyer, which corresponds to a \$209.2 million equity investment (net of distributions).

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

	June 30, 2014	
Required equity ^{(A)(B)}	\$608,352	
Working capital ^{(A)(B)}	94,007	
Other	118,878	
Distributions	(247,742)
Total GAAP equity ^(B)	573,495	
GAAP equity attributable to New Residential	\$260,194	
New Residential’s GAAP ownership	45.4	%

(A) Equity on which the Buyer applies its specified return.

(B) Capital held at the Buyer to invest in additional servicer advances and provide compensating balances for financing facilities.

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

Servicing Fee

Nationstar remains the named servicer under the applicable servicing agreements and will continue to perform all servicing duties for the related mortgage loans. The Buyer has the right, but not the obligation, to become the named servicer, subject to obtaining consents and ratings agency letters required for a formal change of the named servicer.

In exchange for its services, the Buyer will pay Nationstar a monthly Servicing Fee representing a portion of the amounts from the purchased basic fee.

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

Targeted Return

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

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

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

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

Performance Fee

The Performance Fee is calculated as follows. Pursuant to a Master Servicing Rights Purchase Agreement and related Sale Supplements, Net Collections is divided into two subsets: the "Retained Amount" and the "Surplus Amount." If the amount necessary to achieve the Targeted Return is equal to or less than the Retained Amount, then 50% of the excess Retained Amount (if any) and 100% of the Surplus Amount is paid to Nationstar as the Performance Fee. If the amount necessary to achieve the Targeted Return is greater than the Retained Amount but less than Net Collections, then 100% of the excess Surplus Amount is paid to Nationstar as a Performance Fee. A Performance Fee payment was made to Nationstar in the amount of \$1.6 million during the six months ended June 30, 2014.

Residential Securities and Loans

Real Estate Securities

As of June 30, 2014, we had approximately \$1.5 billion face amount of real estate securities, including \$1.2 billion of Agency ARM RMBS and \$348.2 million of Non-Agency RMBS. These investments were financed with repurchase agreements with an aggregate face amount of approximately \$1.2 billion for Agency ARM RMBS and approximately \$149.1 million for Non-Agency RMBS. As of June 30, 2014, our entire Non-Agency portfolio was serviced or master serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately \$2.8 billion as of June 30, 2014.

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

billion. On May 30, 2014, we sold the 2009-1 Retained Certificates for approximately \$598.5 million and recorded a gain of approximately \$39.7 million. At the time of sale, the 2009-1 Retained Certificates had an amortized cost basis of approximately \$558.8 million.

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

Subsequent to June 30, 2014, we acquired Agency RMBS with an aggregate face amount of approximately \$243.0 million for approximately \$251.4 million and we acquired Non-Agency RMBS with an aggregate face amount of approximately \$22.7 million for approximately \$19.2 million, financed with repurchase agreements. We sold Agency ARM RMBS with a face amount of \$443.2 million and an amortized cost basis of approximately \$471.1 million for approximately \$474.4 million and recorded a gain of approximately \$3.3 million. We sold no Non-Agency RMBS.

Subsequent to June 30, 2014, we acquired additional net short TBA positions that increased our net short notional position by \$392.0 million of Agency RMBS and any amounts or obligations owed by or to us are subject to the right of set-off with the TBA counterparty.

Agency ARM RMBS

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

Asset Type	Outstanding Face Amount	Amortized Cost Basis ^(A)	Gross Unrealized		Carrying Value ^{(A)(B)}	Outstanding Repurchase Agreements
			Gains	Losses		
Agency ARM RMBS	\$1,159,363	\$1,232,414	\$6,179	\$(4,031)	\$1,234,562	\$1,182,244

(A) Amortized cost basis and carrying value exclude \$12.5 million of principal receivables as of June 30, 2014.

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

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

Months to Next Reset ^(A)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis ^(B)	Percentage of Total Amortized Cost Basis	Carrying Value ^(B)	Weighted Average Periodic Cap					
						Coupon	Margin	1st Coupon Adjustment	Subsequent Coupon Adjustment	Lifetime Cap ^(E)	Months to Reset ^(F)
1 - 12	106	\$951,020	\$1,011,125	82.0 %	\$1,013,029	3.1 %	1.8 %	N/A ^(G)	2.0 %	9.5 %	7
13 - 24	12	137,654	146,223	11.9 %	146,596	3.3 %	1.8 %	5.0 %	2.0 %	8.4 %	16
25 - 36	2	70,689	75,066	6.1 %	74,937	3.1 %	1.8 %	4.7 %	2.0 %	8.1 %	21
Total/Weighted Average	120	\$1,159,363	\$1,232,414	100.0 %	\$1,234,562	3.1 %	1.8 %	4.9 %	2.0 %	9.3 %	9

Of these investments, 88.8% reset based on 12 month LIBOR index, 3.2% reset based on 6 month LIBOR Index, (A) 0.4% reset based on 1 month LIBOR, and 7.6% reset based on the 1 year Treasury Constant Maturity Rate. After the initial fixed period, 96.4% of these securities will reset annually and 3.6% will reset semi-annually.

(B) Amortized cost basis and carrying value exclude \$12.5 million of principal receivables as of June 30, 2014.

(C) Represents the maximum change in the coupon at the end of the fixed rate period.

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

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

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

Not applicable as 64 of the securities (49% of the current face of this category) are past the first coupon adjustment (G) period. The remaining 42 securities (51% of the current face of this category) have a maximum change in the coupon of 6.0% at the end of the fixed rate period.

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

Vintage ^(A)	Agency ARM RMBS Characteristics					Collateral Characteristics			
	Number of Securities	Outstanding Face Amount	Amortized Cost Basis ^(B)	Percentage of Total Amortized Cost Basis	Carrying Value ^(B)	Weighted Average Life (Years)	3 Month CPR ^(C)		
Pre-2006	26	\$135,477	\$143,185	11.6	% \$144,616	6.7	8.5 %		
2006	7	37,544	40,075	3.3	% 40,045	6.1	15.0 %		
2007	17	81,763	86,962	7.1	% 87,228	5.0	20.2 %		
2008	9	65,569	69,483	5.6	% 70,192	7.4	11.2 %		
2009	9	75,087	80,478	6.5	% 80,183	4.0	22.0 %		
2010	34	414,008	440,386	35.7	% 441,226	3.6	23.1 %		
2011	10	170,163	180,188	14.6	% 180,873	4.3	21.7 %		
2012 and later	8	179,752	191,657	15.6	% 190,199	5.2	18.9 %		
Total/Weighted Average	120	\$1,159,363	\$1,232,414	100.0	% \$1,234,562	4.7	19.3 %		

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

(B) Amortized cost basis and carrying value exclude \$12.5 million of principal receivables as of June 30, 2014.

(C) Three month average constant prepayment rate.

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

Weighted Average Asset Yield	1.50	%
Weighted Average Funding Cost	0.33	%
Net Interest Spread	1.17	%

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

Non-Agency RMBS

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

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized		Carrying Value ^(A)	Outstanding Repurchase Agreements
			Gains	Losses		
Non-Agency RMBS	\$348,232	\$210,051	\$9,186	\$(2,346)	\$216,891	\$149,110

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

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

Non-Agency RMBS Characteristics

Vintage ^(A)	Average Minimum Rating ^(B)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis		Carrying Value	Principal Subordination	Excess Spread ^(C)	Weighted Average Life ^(D) (Years)	Weighted Average Coupon			
Pre 2004	B-	47	\$92,358	\$56,094	26.7	%	\$57,376	15.7	%	1.8	%	8.4	1.3	%
2004	C	22	111,992	71,292	34.0	%	74,919	14.2	%	2.7	%	8.7	1.1	%
2005	D	7	106,499	81,147	38.6	%	82,540	7.4	%	1.6	%	10.5	2.8	%
2006 and later	AAA	1	37,383	1,518	0.7	%	2,056	—	%	—	%	2.4	1.9	%
Total/Weighted Average	CCC	77	\$348,232	\$210,051	100.0	%	\$216,891	11.0	%	1.9	%	8.5	1.8	%

Collateral Characteristics^(E)

Vintage ^(A)	Average Loan Age (years)	Collateral Factor ^(F)	3 month CPR ^(G)	Delinquency ^(H)	Cumulative Losses to Date		
Pre 2004	12.4	0.05	8.1	% 14.5	%	3.4	%
2004	10.7	0.07	8.3	% 19.6	%	3.2	%
2005	11.2	0.14	9.6	% 17.0	%	10.6	%
2006 and later	11.6	0.87	14.3	% 1.6	%	—	%
Total/Weighted Average	11.4	0.17	9.3	% 15.5	%	5.2	%

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

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

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

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

(D) The weighted average loan size of the underlying collateral is \$115.0 thousand. This excludes the collateral underlying one bond, due to unavailable information.

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

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

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

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

Geographic Location	Outstanding Face Amount	Percentage of Total Outstanding	
Western U.S.	\$85,243	24.5	%
Southeastern U.S.	73,322	21.0	%
Northeastern U.S.	61,194	17.6	%
Midwestern U.S.	58,722	16.9	%
Southwestern U.S.	32,368	9.3	%

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Other ^(A)	37,383	10.7	%
	\$348,232	100.0	%

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

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

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Net Interest Spread ^(A)		
Weighted Average Asset Yield	7.14	%
Weighted Average Funding Cost	1.86	%
Net Interest Spread	5.28	%

(A) The Non-Agency RMBS portfolio consists of 81.6% floating rate securities and 18.4% fixed rate securities.

Residential Mortgage Loans

As of June 30, 2014, we had approximately \$701.9 million outstanding face amount of residential mortgage loans. These investments were financed with repurchase agreements with an aggregate face amount of approximately \$348.0 million.

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

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

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

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

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

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

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

In February 2013, we invested approximately \$35.1 million to acquire a 70% interest in reverse mortgage loans with a UPB of approximately \$83.1 million. Nationstar co-invested on a pari passu basis with us in 30% of the reverse mortgage loans and is the servicer of the loans performing all servicing and advancing functions and retaining the ancillary income, servicing obligations and liabilities as the servicer.

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

June 30, 2014								
Outstanding Face Amount	Carrying Value	Loan Count	Weighted Average Yield	Weighted Average Life (Years) ^(A)	Floating Rate Loans as a % of Face	Loan to Value Ratio ("LTV") ^(B)	Weighted Avg. Delinquency	December 31, 2013 Carrying Value

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Loan Type	Amount												
Reverse Mortgage Loans ^(D)	\$53,085	\$30,794	288	10.3	%	3.7	20.8	%	183	%	80.9	%	\$33,539
Performing Loans ^{(E)(G)}	72,056	61,008	357	6.4	%	3.9	10.9	%	107	%	3.5	%	—
Purchased Credit Impaired ("PCI") Loans ^(F)	576,777	425,622	1,880	7.4	%	2.2	49.8	%	111	%	93.7	%	—
Total Residential Mortgage Loans	\$701,918	\$517,424	2,525	7.5	%	2.5	43.5	%	115	%	82.3	%	\$33,539

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

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

Represents the percentage of underlying loans that are 30+ days delinquent, none of which are on non-accrual

(C) status. We record REO received in satisfaction of unpaid loans within Other Assets in the Condensed Consolidated Balance Sheet (Note 2).

Represents a 70% interest we hold in reverse mortgage loans. The average loan balance outstanding based on total (D)UPB is \$0.3 million. 79% of these loans have reached a termination event. As a result, the borrower can no longer make draws on these loans. Each loan matures upon the occurrence of a termination event.

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

(F) Represents loans that are 30 days or more past due at acquisition.

(G) Performing loan carrying value includes accrued interest receivable.

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

Other

Consumer Loans

On April 1, 2013, we completed, through newly formed limited liability companies (together, the “Consumer Loan Companies”), a co-investment in a portfolio of consumer loans with a UPB of approximately \$4.2 billion as of December 31, 2012. The portfolio included over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. The Consumer Loan Companies acquired the portfolio from HSBC Finance Corporation and its affiliates. We invested approximately \$250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf, which is majority-owned by Fortress funds managed by our Manager, acquired 47% and an affiliate of Blackstone Tactical Opportunities Advisors LLC acquired 23%. Springleaf acts as the managing member of the Consumer Loan Companies. After a servicing transition period, Springleaf became the servicer of the loans and provides all servicing and advancing functions for the portfolio. The Consumer Loan Companies initially financed \$2.2 billion (\$1.3 billion outstanding as of June 30, 2014) of the approximately \$3.0 billion purchase price with asset-backed notes that have a maturity of April 2021, and pay a coupon of 3.75%. In September 2013, the Consumer Loan Companies issued and sold an additional \$0.4 billion (\$0.3 billion outstanding as of June 30, 2014) of asset-backed notes for 96% of par. These notes are subordinate to the debt issued in April 2013, have a maturity of December 2024, and pay a coupon of 4%.

The table below summarizes the collateral characteristics of the consumer loans as of June 30, 2014 (dollars in thousands):

Collateral Characteristics

UPB	Personal Unsecured Loans %	Personal Homeowner Loans %	Number of Loans	Weighted Average Original FICO Score ^(A)	Weighted Average Coupon %	Adjustable Rate Loan %	Average Loan Age (months)	Average Life (years)	Average Delinquency 30 Days ^(B)	Average Delinquency 60 Days ^(B)	Average Delinquency 90+ Days ^(B)	CRR ^(C)	CDR ^(D)	
Consumer Loans	\$2,924,133	67.4 %	32.6 %	305,916	635	18.1 %	10.4 %	109	3.5	3.6 %	1.7 %	4.0 %	16.0 %	10.1 %

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

Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days represent the percentage of the total (B) principal balance of the pool that corresponds to loans that are delinquent by 30-59 days, 60-89 days or 90 or more days, respectively.

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

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

Excess MSRs

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

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

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

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

• Quoted prices in active markets for similar instruments,

• Quoted prices in less active or inactive markets for identical or similar instruments,

• Other observable inputs (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), and

• Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3—Valuations based significantly on unobservable inputs.

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

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

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

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

Investments in Excess MSR are aggregated into pools as applicable; each pool of Excess MSR is accounted for in the aggregate. Interest income for Excess MSR is accreted using an effective yield or “interest” method, based upon the expected income from the Excess MSR through the expected life of the underlying mortgages. Changes to expected

cash flows result in a cumulative retrospective adjustment, which will be recorded in the period in which the change in expected cash flows occurs. Under the retrospective method, the interest income recognized for a reporting period would be measured as the difference between the amortized cost basis at the end of the period and the amortized cost basis at the beginning of the period, plus any cash received during the period. The amortized cost basis is calculated as the present value of estimated future cash flows using an effective yield, which is the yield that equates all past actual and current estimated future cash flows to the initial investment. In addition, our policy is to recognize interest income only on Excess MSR in existing eligible underlying mortgages.

Under the fair value election, the difference between the fair value of Excess MSR and their amortized cost basis is recorded as "Change in fair value of investments in excess mortgage servicing rights," as applicable. Fair value is generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the Excess MSR, and therefore may differ from their effective yields.

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

Fair value at June 30, 2014	\$372,416				
Discount rate shift in %	-20%	-10%	10%	20%	
Estimated fair value	\$406,727	\$388,752	\$357,514	\$343,867	
Change in estimated fair value:					
Amount	\$34,311	\$16,336	\$(14,902)	\$(28,549))
%	9.2	% 4.4	% (4.0)	% (7.7))%
Prepayment rate shift in %	-20%	-10%	10%	20%	
Estimated fair value	\$403,042	\$387,209	\$358,572	\$345,593	
Change in estimated fair value:					
Amount	\$30,626	\$14,793	\$(13,844)	\$(26,823))
%	8.2	% 4.0	% (3.7)	% (7.2))%
Delinquency rate shift in %	-20%	-10%	10%	20%	
Estimated fair value	\$376,851	\$374,632	\$370,199	\$367,980	
Change in estimated fair value:					
Amount	\$4,435	\$2,216	\$(2,217)	\$(4,436))
%	1.2	% 0.6	% (0.6)	% (1.2))%
Recapture rate shift in %	-20%	-10%	10%	20%	
Estimated fair value	\$365,133	\$368,734	\$375,950	\$379,289	
Change in estimated fair value:					
Amount	\$(7,283)	\$(3,682)	\$3,534	\$6,873)
%	(2.0)	)% (1.0)	)% 0.9	% 1.8)%

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

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Fair value at June 30, 2014	\$330,220				
Discount rate shift in %	-20%	-10%	10%	20%	
Estimated fair value	\$361,594	\$345,125	\$316,668	\$304,297	
Change in estimated fair value:					
Amount	\$31,374	\$14,905	\$(13,552)	\$(25,923))
%	9.5	% 4.5	% (4.1)	)% (7.9))%
Prepayment rate shift in %	-20%	-10%	10%	20%	
Estimated fair value	\$356,838	\$343,084	\$318,165	\$306,849	
Change in estimated fair value:					
Amount	\$26,618	\$12,864	\$(12,055)	\$(23,371))
%	8.1	% 3.9	% (3.7)	)% (7.1))%
Delinquency rate shift in %	-20%	-10%	10%	20%	
Estimated fair value	\$335,671	\$332,945	\$327,494	\$324,771	
Change in estimated fair value:					
Amount	\$5,451	\$2,725	\$(2,726)	\$(5,449))
%	1.7	% 0.8	% (0.8)	)% (1.7))%
Recapture rate shift in %	-20%	-10%	10%	20%	
Estimated fair value	\$319,771	\$324,937	\$335,622	\$341,146	
Change in estimated fair value:					
Amount	\$(10,449)	) \$(5,283)	) \$5,402	\$10,926	
%	(3.2)	)% (1.6)	)% 1.6	% 3.3	%

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

Servicer Advances

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

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

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

We categorize servicer advance investments under Level 3 of the GAAP hierarchy described above under “—Application of Critical Accounting Policies—Excess MSRs,” since we use internal pricing models to estimate the future cash flows

related to the servicer advance investments that incorporate significant unobservable inputs and include assumptions that are inherently subjective and imprecise. In order to evaluate the reasonableness of its fair value determinations, management engages an independent valuation firm to separately measure the fair value of its servicer advances investment. The independent valuation firm determines an estimated fair value range based on its own models and issues a “fairness opinion” with this range.

Our estimations of future cash flows include the combined cash flows of all of the components that comprise the servicer advance investments: existing advances, the requirement to purchase future advances and the right to the basic fee component of the related MSR. The factors that most significantly impact the fair value include (i) the rate at which the servicer advance balance declines, which we estimate is approximately \$600.0 million per year on average over the weighted average life of the investment held as of June 30, 2014, (ii) the duration of outstanding servicer advances, which we estimate is approximately nine months on average for an advance balance at a given point in time (not taking into account new advances made with respect to the pool), and (iii) the UPB of the underlying loans with respect to which we have the obligation to make advances and own the basic fee component.

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

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

Real Estate Securities (RMBS)

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

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

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

We must also assess whether unrealized losses on securities, if any, reflect a decline in value that is other-than-temporary and, if so, record an other-than-temporary impairment through earnings. A decline in value is deemed to be other-than-temporary if (i) it is probable that we will be unable to collect all amounts due according to the contractual terms of a security that was not impaired at acquisition (there is an expected credit loss), or (ii) if we have the intent to sell a security in an unrealized loss position or it is more likely than not that we will be required to sell a security in an unrealized loss position prior to its anticipated recovery (if any). For the purposes of performing this analysis, we will assume the anticipated recovery period is until the expected maturity of the applicable security. Also, for securities that represent beneficial interests in securitized financial assets within the scope of ASC 325-40, whenever there is a probable adverse change in the timing or amounts of estimated cash flows of a security from the cash flows previously projected, an other-than-temporary impairment will be deemed to have occurred. Our Non-Agency RMBS acquired with evidence of deteriorated credit quality for which it was probable, at acquisition,

that we would be unable to collect all contractually required payments receivable, fall within the scope of ASC 310-30, as opposed to ASC 325-40. All of our other Non-Agency RMBS, those not acquired with evidence of deteriorated credit quality, fall within the scope of ASC 325-40.

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

Performing Loans

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

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

Impairment of Loans

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

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

Charge-offs

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

Nonaccrual Loans

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

Purchased Credit Impaired (PCI) Loans

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

are accounted for as if each pool were a single loan with a single composite interest rate and an aggregate expectation of cash flows.

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

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

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

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

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

Valuation of Derivatives

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

Investment Consolidation

The analysis as to whether to consolidate an entity is subject to a significant amount of judgment. Some of the criteria considered are the determination as to the degree of control over an entity by its various equity holders, the design of the entity, how closely related the entity is to each of its equity holders, the relation of the equity holders to each other and a determination of the primary beneficiary in entities in which we have a variable interest. These analyses involve estimates, based on the assumptions of management, as well as judgments regarding significance and the design of entities.

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

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

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

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

we are not obligated to provide, and have not provided, any financial support to these entities.

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

We have invested in servicer advances, including the basic fee component of the related MSRs, through the Buyer, of which we are the managing member. The Buyer was formed through cash contributions by us and third-parties in exchange for membership interests. As of July 25, 2014, we owned an approximately 45% interest in the Buyer, and the third-party investors owned the remaining membership interests. Through our managing member interest, we direct substantially all of the day-to-day activities of the Buyer. The third-party investors do not possess substantive participating rights or the power to direct the day-to-day activities

that most directly affect the operations of the Buyer. In addition, no single third-party investor, or group of third-party investors, possesses the substantive ability to remove us as the managing member of the Buyer. We have determined that the Buyer is a voting interest entity. As a result of our managing member interest, which represents a controlling financial interest, we consolidate the Buyer and its wholly owned subsidiaries and reflect membership interests in the Buyer held by third parties as noncontrolling interests.

Investments in Equity Method Investees

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

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

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

Income Taxes

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

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The standard clarifies the timing of when a creditor is considered to have taken physical possession of residential real estate collateral for a consumer mortgage loan, resulting in the reclassification of the loan receivable to real estate owned. A creditor has taken physical possession of the property when either (1) the creditor obtains legal title through foreclosure, or (2) the borrower transfers all interests in the property to the creditor via a deed in lieu of foreclosure or a similar legal agreement. The standard also requires disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in residential real estate mortgage loans that are in process of foreclosure. The ASU is effective for New Residential in the first

quarter of 2015. Early adoption is permitted. New Residential is currently evaluating the new guidance to determine the impact that it may have on its consolidated financial statements.

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

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

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

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

RESULTS OF OPERATIONS

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

	Three Months Ended June 30,		Increase (Decrease) Amount	Six Months Ended June 30,		Increase (Decrease) Amount
	2014	2013		2014	2013	
Interest income	\$92,656	\$22,999	\$69,657	\$164,146	\$39,190	\$124,956
Interest expense	36,512	2,651	33,861	75,509	3,550	71,959
Net Interest Income	56,144	20,348	35,796	88,637	35,640	52,997
Impairment						
Other-than-temporary impairment (“OTTI”) on securities	615	3,756	(3,141)	943	3,756	(2,813)
Valuation provision on loans	293	—	293	457	—	457
	908	3,756	(2,848)	1,400	3,756	(2,356)
Net interest income after impairment	55,236	16,592	38,644	87,237	31,884	55,353
Other Income						
Change in fair value of investments in excess mortgage servicing rights	5,502	41,833	(36,331)	12,104	43,691	(31,587)
Change in fair value of investments in excess mortgage servicing rights, equity method investees	12,743	20,127	(7,384)	19,117	21,096	(1,979)
Change in fair value of investments in servicer advances	82,877	—	82,877	82,877	—	82,877
Earnings from investments in consumer loans, equity method investees	21,335	36,164	(14,829)	37,695	36,164	1,531
Gain on settlement of investments	52,539	58	52,481	56,896	58	56,838
Other income	2,893	—	2,893	4,250	—	4,250
	177,889	98,182	79,707	212,939	101,009	111,930
Operating Expenses						
General and administrative expenses	5,744	602	5,142	7,819	3,321	4,498
	—	1,809	(1,809)	—	4,134	(4,134)

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Management fee allocated by Newcastle						
Management fee to affiliate	4,915	2,263	2,652	9,401	2,263	7,138
Incentive compensation to affiliate	18,863	878	17,985	22,201	878	21,323
	29,522	5,552	23,970	39,421	10,596	28,825
Income (Loss) Before Income Taxes	203,603	109,222	94,381	260,755	122,297	138,458
Income tax expense	21,395	—	21,395	21,682	—	21,682
Net Income (Loss)	\$182,208	\$109,222	\$72,986	\$239,073	\$122,297	\$116,776
Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries	\$58,705	\$—	\$58,705	\$66,798	\$—	\$66,798
Net Income (Loss) Attributable to Common Shareholders	\$123,503	\$109,222	\$14,281	\$172,275	\$122,297	\$49,978

Interest Income

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

Interest income increased by \$69.7 million, primarily attributable to incremental interest income of (i) \$57.1 million from servicer advances that we acquired subsequent to June 30, 2013; (ii) \$5.1 million from our collapse of real estate securities during the three months ended June 30, 2014; (iii) \$4.2 million from real estate loans, in which we made additional investments during the three months ended June 30, 2014, and (iv) \$3.2 million from other real estate securities.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Interest income increased by \$125.0 million, primarily attributable to incremental interest income of (i) \$102.8 million from servicer advances that we acquired subsequent to June 30, 2013; (ii) \$8.5 million from our investments in real estate securities that we acquired during and after the six months ended June 30, 2013; (iii) \$5.1 million from our collapse of real estate securities during the three months ended June 30, 2014; (iv) \$4.9 million from real estate loans, in which we made additional investments during the three months ended June 30, 2014; and (v) \$4.0 million from our acquisitions of Excess MSR investments during and after the six months ended June 30, 2013.

Interest Expense

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

Interest expense increased by \$33.9 million primarily due to repurchase agreements and notes payable financing entered into since June 2013 on our servicer advances, real estate and consumer loans and other investments.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Interest expense increased by \$72.0 million primarily due to repurchase agreements and notes payable financing entered into since June 2013 on our servicer advances, real estate securities and loans, consumer loans, and other investments.

Other than Temporary Impairment (“OTTI”) on Securities

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

The other-than-temporary impairment on securities decreased by \$3.1 million due to the recognition of impairment of \$3.8 million on our real estate securities in connection with the spin-off on May 15, 2013, partially offset by \$0.6 million of impairment recognized on our real estate securities during the three months ended June 30, 2014.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

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

Valuation Provision on Loans

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

The valuation provision on loans increased by \$0.3 million due to the recognition of loan losses on our residential mortgage loans during the three months ended June 30, 2014.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

The valuation provision on loans increased by \$0.5 million due to the recognition of loan losses on our residential mortgage loans during the six months ended June 30, 2014.

Change in Fair Value of Investments in Excess Mortgage Servicing Rights

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

The change in fair value of investments in excess mortgage servicing rights decreased by \$36.3 million due to slower growth in value during the three months ended June 30, 2014 relative to the three months ended June 30, 2013.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

The change in fair value of investments in excess mortgage servicing rights decreased by \$31.6 million due to slower growth in value during the six months ended June 30, 2014 relative to the six months ended June 30, 2013.

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

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

The change in fair value of investments in excess mortgage servicing rights, equity method investees decreased by \$7.4 million due to slower growth in value during the three months ended June 30, 2014 relative to the three months ended June 30, 2013.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

The change in fair value of investments in excess mortgage servicing rights, equity method investees decreased by \$2.0 million due to slower growth in value during the six months ended June 30, 2014 relative to the six months ended June 30, 2013.

Change in Fair Value of Investments in Servicer Advances

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

The change in fair value of investments in servicer advances increased by \$82.9 million due to the acquisition of servicer advances in December 2013 and subsequent increase in value.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

The change in fair value of investments in servicer advances increased by \$82.9 million due to the acquisition of servicer advances in December 2013 and subsequent increase in value.

Earnings from Investments in Consumer Loans, Equity Method Investees

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

Earnings from investments in consumer loans, equity method investees decreased by \$14.8 million primarily due to a decrease in interest income and an increase in the provision for finance receivable losses on the underlying loan portfolio during the three months ended June 30, 2014 as compared to prior year.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Earnings from investments in consumer loans, equity method investees increased by \$1.5 million due to the acquisition of these investments in the second quarter of 2013 and subsequent income recognized by the investees.

Gain on Settlement of Investments

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

Gain on settlement of investments increased by \$52.5 million, primarily related to the sale of real estate securities and loans during the three months ended June 30, 2014.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Gain on settlement of investments increased by \$56.8 million, primarily related to the sale of real estate securities and loans during the six months ended June 30, 2014.

Other Income

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

Other income increased by \$2.9 million, primarily attributable to a net gain on transfer to REO of \$6.7 million, partially offset by an unrealized loss of \$3.8 million on non-hedge derivative instruments during the three months ended June 30, 2014.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Other income increased by \$4.3 million primarily attributable to a net gain on transfer to REO of \$6.7 million, partially offset by to an unrealized loss of \$2.4 million on non-hedge derivative instruments during the six months ended June 30, 2014.

General and Administrative Expenses

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

General and administrative expenses increased by \$5.1 million, partially attributable to increased expenses of \$1.8 million from deal expenses for Excess MSR and real estate loan pools during the three months ended June 30, 2014. The remaining increase primarily results from expenses incurred to maintain and monitor our increasing asset base and general expenses to operate as an independent company since such costs were not solely borne by us prior to May 15, 2013.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

General and administrative expenses increased by \$4.5 million, partially attributable to increased expenses of \$1.8 million from deal expenses for Excess MSR and real estate loan pools for the six months ended June 30, 2014. These increased expenses were more than offset by deal expenses of \$2.0 million related to our investment in consumer loans, equity method investees that were incurred during the six months ended June 30, 2013. The remaining \$4.7 million increase primarily results from expenses incurred to maintain and monitor our increasing asset base and general expenses to operate as an independent company since such costs were not solely borne by us prior to May 15, 2013.

Management Fee Allocated by Newcastle

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

Management fee allocated by Newcastle decreased by \$1.8 million due to the management agreement becoming effective on May 15, 2013 and no management fees being allocated subsequent to that date.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

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

Management Fee to Affiliate

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

Management fee to affiliate increased by \$2.7 million as a result of the management agreement becoming effective on May 15, 2013 and subsequent increases to our gross equity.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Management fee to affiliate increased by \$7.1 million as a result of the management agreement becoming effective on May 15, 2013 and subsequent increases in our gross equity.

Incentive Compensation to Affiliate

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

Incentive compensation to affiliate increased by \$18.0 million as a result of the management agreement becoming effective on May 15, 2013 and subsequent investment performance.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Incentive compensation to affiliate increased by \$21.3 million as a result of the management agreement becoming effective on May 15, 2013 and subsequent investment performance.

Income Tax Expense

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

Income tax expense increased by \$21.4 million due to the acquisition of servicer advances held in a taxable REIT subsidiary in December 2013 and subsequent taxable income recognized.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Income tax expense increased by \$21.7 million due to the acquisition of servicer advances held in a taxable REIT subsidiary in December 2013 and subsequent taxable income recognized.

Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries

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

Noncontrolling interest in income (loss) of consolidated subsidiaries increased by \$58.7 million due to the acquisition of investments in servicer advances held by a less than wholly owned subsidiary at the end of the fourth quarter of the year ended December 31, 2013 and subsequent income recognized.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Noncontrolling interest in income (loss) of consolidated subsidiaries increased by \$66.8 million due to the acquisition of investments in servicer advances held by a less than wholly owned subsidiary at the end of the fourth quarter of the year ended December 31, 2013 and subsequent income recognized.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Our primary sources of financing currently are notes payable and repurchase agreements, although we may also pursue other sources of financing such as securitizations and other secured and unsecured forms of borrowing. As of June 30, 2014, we had outstanding repurchase agreements with an aggregate face amount of approximately \$125.0 million to finance our ownership interest in each of the consumer loan companies, approximately \$348.0 million to finance \$648.8 million UPB of residential mortgage loans, approximately \$10.8 million to finance our investments in real estate owned, approximately \$149.1 million to finance \$237.2 million face amount of Non-Agency RMBS and approximately \$1.2 billion to finance \$1.2 billion face amount of Agency ARM RMBS. The financing of our entire RMBS portfolio, which generally has 30 to 90 day terms, is subject to margin calls. Under repurchase agreements, we sell a security to a counterparty and concurrently agree to repurchase the same security at a later date for a higher

specified price. The sale price represents financing proceeds and the difference between the sale and repurchase prices represents interest on the financing. The price at which the security is sold generally represents the market value of the security less a discount or “haircut,” which can range broadly, for example from 4%-5% for Agency RMBS, 15%-40% for Non-Agency RMBS, and 24%-58% for residential mortgage loans. During the term of the repurchase agreement, the counterparty holds the security as collateral. If the agreement is subject to margin calls, the counterparty monitors and calculates what it estimates to be the value of the collateral during the term of the agreement. If this value declines by more than a de minimis threshold, the counterparty could require us to post additional collateral (or “margin”) in order to maintain the initial haircut on the collateral. This margin is typically required to be posted in the form of cash and cash equivalents. Furthermore, we may, from time to time, be a party to derivative agreements or financing arrangements that may be subject to margin calls based on the value of such instruments. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates.

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

As of June 30, 2014, we have sufficient liquid assets, which include unrestricted cash and Agency ARM RMBS, to satisfy all of our short-term recourse liabilities. With respect to the next twelve months, we expect that our cash on hand combined with our cash flow provided by operations will be sufficient to satisfy our anticipated liquidity needs with respect to our current investment portfolio, including related financings, potential margin calls and operating expenses. While it is inherently more difficult to forecast beyond the next twelve months, we currently expect to meet our long-term liquidity requirements through our cash on hand and, if needed, additional borrowings, proceeds received from repurchase agreements and other financings, proceeds from equity offerings and the liquidation or refinancing of our assets.

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

Our cash flow provided by operations differs from our net income due to these primary factors: (i) accretion of discount or premium on our residential securities and loans, (ii) unrealized gains or losses on our Excess MSRs owned directly and through equity method investees, (iii) the difference between (a) accretion and unrealized gains and losses recorded with respect to our servicer advance investments and (b) cash received therefrom, and (iv) other-than-temporary impairment, if any. In addition, cash received by our consumer loan joint ventures is currently required to be used to repay the related debt and is therefore not available to fund other cash needs.

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

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

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

Debt Obligations

The following table presents certain information regarding our debt obligations:

 June 30, 2014^(A)

Debt Obligations/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Weighted Average Funding Cost	Weighted Average Life (Years)	Collateral		Carrying Value
							Outstanding Face	Amortized Cost Basis	
Repurchase Agreements ^(B)									
Agency ARM RMBS ^(C)	Various	\$1,182,244	\$1,182,244	Jul-14	0.33%	0.1	\$1,159,363	\$1,232,414	\$1,234,000
Non-Agency RMBS ^(D)	Various	149,110	149,110	Jul-14 to Oct-14	1.86%	0.1	237,191	186,567	192,413
Residential Mortgage Loans ^(E)	Various	348,033	348,033	Nov-14 to May-16	2.90%	1.7	648,833	486,660	486,630
Consumer Loans ^(F)	Jan-14	125,000	125,000	Jan-15	4.16%	0.6	N/A	N/A	250,048
Real Estate Owned ^(G)	Various	10,795	10,795	Nov-14 to Jun-15	2.96%	0.5	N/A	N/A	27,830
Total Repurchase Agreements		1,815,182	1,815,182		1.23%	0.4			
Notes Payable									
Servicer Advances ^(H)	Various	3,265,530	3,265,530	Sep-14 to Mar-17	3.26%	1.4	3,551,464	3,596,228	3,679,100
Residential Mortgage Loans ^(I)	Dec-13	23,915	23,915	Sep-14	3.41%	0.2	53,085	31,682	30,794
Total Notes Payable		3,289,445	3,289,445		3.26%	1.4			
Total/Weighted Average		\$5,104,627	\$5,104,627		2.54%	1.1			

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

(B) These repurchase agreements had approximately \$0.1 million of associated accrued interest payable as of June 30, 2014.

(C) The counterparties of these repurchase agreements are Mizuho (\$145.1 million), Morgan Stanley (\$218.5 million), Daiwa (\$296.5 million) and Jefferies (\$522.2 million) and were subject to customary margin call provisions.

The counterparties of these repurchase agreements are Barclays (\$21.6 million), Credit Suisse (\$50.7 million), Royal Bank of Scotland (\$33.9 million), Bank of America (\$1.9 million), Goldman Sachs (\$27.6 million) and UBS (\$13.5 million) and were subject to customary margin call provisions. All of the Non-Agency repurchase agreements have LIBOR-based floating interest rates. Includes \$48.6 million borrowed under a master repurchase agreement, which bears interest at one-month LIBOR plus 1.75%.

The counterparties on these repurchase agreements are Nomura (\$324.5 million), Citibank (\$17.1 million) and Royal Bank of Scotland (\$6.4 million). All of these repurchase agreements have LIBOR-based floating interest rates.

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

(G)

The counterparties of these repurchase agreements are Royal Bank of Scotland (\$7.0 million), Credit Suisse (\$2.5 million) and Nomura (\$1.3 million). All of these repurchase agreements have LIBOR-based floating interest rates. \$1.1 billion face amount of the notes have a fixed rate while the remaining notes bear interest equal to the sum of (H)(i) a floating rate index rate equal to one-month LIBOR or a cost of funds rate, as applicable, and (ii) a margin ranging from 1.3% to 2.5%. (I) The note is payable to Nationstar and bears interest equal to one-month LIBOR plus 3.25%.

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

The repurchase agreements with full recourse to us include the financing of \$1,182.2 million face amount of Agency ARM RMBS, \$127.6 million face amount of the Non-Agency RMBS, \$125.0 million face amount of the Consumer Loans, \$22.2 million face amount of the Residential Mortgage Loans, and \$10.8 million face amount of Real Estate Owned, while \$21.6 million face amount of the Non-Agency RMBS and \$325.8 million face amount of the Residential Mortgage Loans repurchase agreements are non-recourse debt. The weighted average differences between the fair value of the assets and the face amount of available financing for the Agency ARM RMBS repurchase agreements and Non-Agency RMBS repurchase agreements were 4.0% and 21.2%, respectively, and for residential mortgage loans was 37.8% during the six months ended June 30, 2014. The notes payable with full recourse to us include the financing of \$23.9 million face amount of Residential Mortgage Loans while \$3,265.5 million face amount of Servicer Advances notes payable are non-recourse debt.

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

	Outstanding Balance at June 30, 2014	Six Months Ended June 30, 2014 ^(A)			Weighted Average Daily Interest Rate
		Average Daily Amount Outstanding ^(B)	Maximum Amount Outstanding		
Repurchase Agreements					
Agency ARM RMBS	\$ 1,182,244	\$ 1,204,661	\$ 1,396,384	0.35	%
Non-Agency RMBS	149,110	545,335	885,639	1.95	%
Residential Mortgage Loans	68,223	17,822	68,223	2.90	%
Consumer Loans	125,000	141,286	150,000	4.16	%
Notes Payable					
Servicer Advances	2,005,195	2,522,944	3,386,396	2.21	%
Residential Mortgage Loans	23,915	23,156	23,915	3.41	%
Total/Weighted Average	\$ 3,553,687	\$ 4,455,204	\$ 5,910,557	1.67	%

(A) Note this excludes debt related to linked transactions. See Note 10 to the Condensed Consolidated Financial Statements included in this report for additional information on linked transactions.

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

Servicer Advances

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

On May 2, 2014, the Buyer received \$86.4 million from us to fund the purchase of \$617.5 million of additional servicer advances, which were financed with a new note issued to Morgan Stanley bearing interest at a rate equal to 2.1% and an expected repayment date in May 2016. As of July 31, 2014, the principal balance of this note was approximately \$803.3 million.

Real Estate Securities

On March 31, 2014, we obtained approximately \$415 million in financing from Merrill Lynch, Pierce, Fenner & Smith Incorporated (a wholly-owned subsidiary of Bank of America) to settle our purchase of approximately \$625 million face amount of Non-Agency RMBS for approximately \$553 million, which represents 75% of the mezzanine and subordinate tranches of a securitization previously sponsored by an affiliate of Springleaf. The securitization is collateralized by residential mortgage loans with a face amount of approximately \$0.9 billion. Merrill Lynch, Pierce, Fenner & Smith Incorporated purchased the remaining 25% of the mezzanine and subordinate tranches on the securitization on the same terms as our purchase. On May 30, 2014, we sold our investment in the Non-Agency RMBS (refer to Note 7 in our Condensed Consolidated Financial Statements) and used a portion of the proceeds to pay off the outstanding balance of the facility.

In July 2014, we paid off \$397.8 million of the Agency ARM RMBS repo facility as a result of sales and rolled \$764.2 million to mature in August 2014.

In July 2014, we rolled \$87.1 million of the Non-Agency RMBS repo facility that was scheduled to mature in July 2014 to mature in August 2014 through October 2014 and received an incremental financing of \$1.7 million due to more favorable financing terms on the same collateral.

Real Estate Loans

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

On May 15, 2014, we entered into a \$300 million repurchase agreement with Citibank, N.A. which matures on May 14, 2015. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 2.75%. The agreement contains customary covenants and event of default provisions.

On May 28, 2014 and May 30, 2014, we entered into a repurchase agreement with Nomura Corporate Funding Americas, LLC for \$267.4 million and \$12.4 million respectively, which matures on May 28, 2016. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 2.75%. The agreement contains customary covenants and event of default provisions.

On June 24, 2014, we entered into a \$46.0 million repurchase agreement with Nomura Corporate Funding Americas, LLC, which matures on June 24, 2015. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 2.75%. The agreement contains customary covenants and event of default provisions.

Other

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

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

Maturities

Our debt obligations as of June 30, 2014, as summarized in Note 11 to our Condensed Consolidated Financial Statements, had contractual maturities as follows (in thousands):

Year	Nonrecourse	Recourse ^(A)	Total
July 1 through December 31, 2014	\$1,254,661	\$1,325,641	\$2,580,302
2015	818,146	166,034	984,180
2016	1,028,545	—	1,028,545
2017	511,600	—	511,600
	\$3,612,952	\$1,491,675	\$5,104,627

^(A) Excludes recourse debt related to linked transactions. Refer to Note 10 to our Condensed Consolidated Financial Statements included herein.

Borrowing Capacity

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The following table represents our borrowing capacity as of June 30, 2014:

Debt Obligations/ Collateral Repurchase Agreements	Collateral Type	Borrowing Capacity	Balance Outstanding	Available Financing
Residential Mortgage Loans ^(A)	Real Estate Loans	\$600,000	\$82,151	\$517,849
Notes Payable				
Servicer Advances ^(B)	Servicer Advances	5,661,700	3,265,530	2,396,170
		\$6,261,700	\$3,347,681	\$2,914,019

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- (A) Includes \$300.0 million of borrowing capacity and \$65.1 million of balance outstanding related to linked transactions (Note 10).
- (B) Our unused borrowing capacity is available to us if we have additional eligible collateral to pledge and meet other borrowing conditions.

Covenants

We were in compliance with all of our debt covenants as of June 30, 2014.

Stockholders' Equity

Common Stock

Approximately 5.3 million shares of our common stock were held by Fortress, through its affiliates, and its principals as of June 30, 2014.

As of June 30, 2014, our outstanding options corresponding to Newcastle options issued prior to 2011 had a weighted average strike price of \$15.50 and our outstanding options corresponding to Newcastle options issued in 2011, 2012 and 2013 (as well as options issued by us in 2013 and 2014) had a weighted average strike price of \$4.44. Our outstanding options as of June 30, 2014 were summarized as follows:

	June 30, 2014		
	Issued Prior to 2011	Issued in 2011 - 2014	Total
Held by the Manager	1,075,130	16,850,333	17,925,463
Issued to the Manager and subsequently transferred to certain of the Manager's employees	285,370	4,496,000	4,781,370
Issued to the independent directors	2,000	10,000	12,000
Total	1,362,500	21,356,333	22,718,833

In April 2014, we issued 27,750,000 shares of our common stock in a public offering at a price to the public of \$6.10 per share for net proceeds of approximately \$163.8 million. One of our executive officers participated in this offering and purchased an additional 1,000,000 shares at the public offering price for net proceeds of approximately \$6.1 million. For the purpose of compensating the Manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the Manager to purchase 2,875,000 shares of our common stock at a price of \$6.10, which had a fair value of approximately \$1.4 million as of the grant date. The assumptions used in valuing the options were: a 2.87% risk-free rate, a 12.584% dividend yield, 25.66% volatility and a 10 year term.

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

Accumulated Other Comprehensive Income (Loss)

During the six months ended June 30, 2014, our accumulated other comprehensive income (loss) changed due to the following factors (in thousands):

	Total Accumulated Other Comprehensive Income
Accumulated other comprehensive income, December 31, 2013	\$3,214

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Net unrealized gain (loss) on securities	66,607	
Reclassification of net realized (gain) loss on securities into earnings	(60,833)
Accumulated other comprehensive income, June 30, 2014	\$8,988	

Our GAAP equity changes as our real estate securities portfolio is marked to market each quarter, among other factors. The primary causes of mark to market changes are changes in interest rates and credit spreads. During the six months ended June 30, 2014, we

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recorded unrealized gains on our real estate securities primarily caused by a net tightening of credit spreads. We recorded OTTI charges of \$0.9 million with respect to real estate securities and realized gains of \$61.8 million on sales of real estate securities.

See “— Market Considerations” above for a further discussion of recent trends and events affecting our unrealized gains and losses as well as our liquidity.

Common Dividends

We are organized and intend to conduct our operations to qualify as a REIT for U.S. federal income tax purposes. We intend to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income. We intend to make regular quarterly distributions of all or substantially all of our taxable income to holders of our common stock out of assets legally available for this purpose, if and to the extent authorized by our board of directors. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our repurchase agreements and other debt payable. If our cash available for distribution is less than our taxable income, we could be required to sell assets or raise capital to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

We make distributions based on a number of factors, including an estimate of taxable earnings per common share. Dividends distributed and taxable and GAAP earnings will typically differ due to items such as fair value adjustments, differences in premium amortization and discount accretion, and non-deductible general and administrative expenses. Our quarterly dividend per share may be substantially different than our quarterly taxable earnings and GAAP earnings per share.

Common Dividends Declared for the Period Ended	Paid	Amount Per Share
March 31, 2014	April 2014	\$0.175
June 30, 2014	July 2014	\$0.250

Cash Flow

Operating Activities

We did not have any cash balance during periods prior to April 5, 2013, which is the first date Newcastle contributed cash to us. All of its cash activity occurred in Newcastle’s accounts during these periods.

Net cash flow provided by operating activities increased approximately \$9.4 million for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. Operating cash flows for the six months ended June 30, 2014 primarily consisted of net interest income received of \$43.2 million and distributions of earnings from equity method investees of \$22.7 million, partially offset by incentive compensation and management fees paid to the Manager of \$24.3 million, income taxes paid of \$3.5 million, additional restricted cash of \$4.0 million and other outflows of approximately \$6.7 million that primarily consists of general and administrative costs.

Investing Activities

Cash flows used in investing activities were \$1.1 billion for the six months ended June 30, 2014. Investing activities during the six months ended June 30, 2014 consisted primarily of the acquisition of excess mortgage servicing rights, servicer advances and real estate securities and loans, net of principal repayments from servicer advances, Agency

RMBS and Non-Agency RMBS as well as proceeds from the sale of Agency RMBS and Non-Agency RMBS.

Financing Activities

Cash flows provided by financing activities were approximately \$1.1 billion during the six months ended June 30, 2014. Financing activities during the six months ended June 30, 2014 consisted primarily of borrowings net of repayments under debt obligations, capital contributions net of distributions from noncontrolling interests in the equity of a consolidated subsidiary, and net proceeds from the issuance of common stock.

INTEREST RATE, CREDIT AND SPREAD RISK

We are subject to interest rate, credit and spread risk with respect to our investments. These risks are further described in “Quantitative and Qualitative Disclosures About Market Risk.”

OFF-BALANCE SHEET ARRANGEMENTS

On April 1, 2013, we completed, through the Consumer Loan Companies, a co-investment in a portfolio of consumer loans. The Consumer Loan Companies initially financed \$2.2 billion (\$1.3 billion outstanding as of June 30, 2014) of the approximately \$3.0 billion purchase price with asset-backed notes. These notes have an interest rate of 3.75% and a maturity date of April 2021. In September 2013, the Consumer Loan Companies issued and sold an additional \$0.4 billion (\$0.3 billion outstanding as of June 30, 2014) of asset-backed notes for 96% of par. These notes are subordinate to the \$2.2 billion of debt issued in April 2013, have an interest rate of 4.0% and a maturity date of December 2024. We have 30% membership interests in each of the Consumer Loan Companies and do not consolidate them.

We also had approximately \$74.0 million of repurchase agreements as of June 30, 2014 in transactions accounted for as “linked transactions.” See Note 10 to our consolidated financial statements included in this report.

We did not have any other off-balance sheet arrangements. We did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, or special purpose or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes, other than the joint venture entities. Further, we have not guaranteed any obligations of unconsolidated entities or entered into any commitment and do not intend to provide additional funding to any such entities.

CONTRACTUAL OBLIGATIONS

Our contractual obligations as of June 30, 2014 included all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2013, excluding debt that was repaid as described in “—Liquidity and Capital Resources—Debt Obligations.”

In addition, we executed the following material contractual obligations during the six months ended June 30, 2014:

- Servicer Advance Securitization – As described in Note 11 to our consolidated financial statements, we financed and refinanced portions of our servicer advance investments through various servicer advance facilities.

- Consumer Loan Repurchase Agreement – As described in Note 11 to our consolidated financial statements, we financed all of our ownership interest in each of the Consumer Loan Companies under a \$150.0 million (\$125.0 million outstanding as of June 30, 2014) master repurchase agreement with Credit Suisse Securities (USA) LLC.

- Corporate Loan – In June 2014, we paid off the outstanding secured corporate loan with Credit Suisse First Boston Mortgage LLC for approximately \$69.1 million.

- Repurchase agreements – as described in Note 11 to our consolidated financial statements, we repaid certain repurchase agreements and borrowed additional amounts under other agreements, including borrowings to purchase real estate loans and TBAs.

INFLATION

Virtually all of our assets and liabilities are financial in nature. As a result, interest rates and other factors affect our performance more so than inflation, although inflation rates can often have a meaningful influence over the direction of interest rates. Furthermore, our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors primarily based on our taxable income, and, in each case, our activities and

balance sheet are measured with reference to historical cost and/or fair market value without considering inflation. See “—Quantitative and Qualitative Disclosure About Market Risk—Interest Rate Risk” below.

CORE EARNINGS

We have four primary variables that impact our operating performance: (i) the current yield earned on our investments, (ii) the interest expense incurred under the debt incurred to finance our investments, (iii) our operating expenses and (iv) our realized and unrealized gain or losses, including any impairment and deferred tax, on our investments. “Core earnings” is a non-GAAP measure of our operating performance excluding the fourth variable above and adjusting the earnings from the consumer loan investment to a level yield basis. It is used by management to gauge our current performance without taking into account: (i) realized and unrealized gains and losses, which although they represent a part of our recurring operations, are subject to significant variability

and are only a potential indicator of future economic performance; (ii) incentive compensation paid to our Manager; and (iii) non-capitalized deal inception costs.

While incentive compensation paid to our Manager may be a material operating expense, we exclude it from core earnings because (i) from time to time, a component of the computation of this expense will relate to items (such as gains or losses) that are excluded from core earnings, and (ii) it is impractical to determine the portion of the expense related to core earnings and non-core earnings, and the type of earnings (loss) that created an excess (deficit) above or below, as applicable, the incentive compensation threshold. To illustrate why it is impractical to determine the portion of incentive compensation expense that should be allocated to core earnings, we note that, as an example, in a given period, we may have core earnings in excess of the incentive compensation threshold but incur losses (which are excluded from core earnings) that reduce total earnings below the incentive compensation threshold. In such case, we would either need to (a) allocate zero incentive compensation expense to core earnings, even though core earnings exceeded the incentive compensation threshold, or (b) assign a “pro forma” amount of incentive compensation expense to core earnings, even though no incentive compensation was actually incurred. We believe that neither of these allocation methodologies achieves a logical result. Accordingly, the exclusion of incentive compensation facilitates comparability between periods and avoids the distortion to our non-GAAP operating measure that would result from the inclusion of incentive compensation that relates to non-core earnings.

With regard to non-capitalized deal inception costs, management does not view these costs as part of our core operations. Non-capitalized deal inception costs are generally legal and valuation service costs, as well as other professional service fees, incurred when we acquire certain investments. These costs are recorded as "General and administrative expenses" in our Condensed Consolidated Statements of Income.

Management believes that the adjustments to compute “core earnings” specified above allow investors and analysts to readily identify the operating performance of the assets that form the core of our activity, assist in comparing the core operating results between periods, and enable investors to evaluate our current performance using the same measure that management uses to operate the business.

The primary differences between core earnings and the measure we use to calculate incentive compensation relate to (i) realized gains and losses (including impairments) and (ii) non-capitalized deal inception costs. Both are excluded from core earnings and included in our incentive compensation measure. Unlike core earnings, our incentive compensation measure is intended to reflect all realized results of operations.

Core earnings does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net income as an indicator of our operating performance or as an alternative to cash flow as a measure of our liquidity and is not necessarily indicative of cash available to fund cash needs. For a further description of the difference between cash flow provided by operations and net income, see “—Liquidity and Capital Resources” above. Our calculation of core earnings may be different from the calculation used by other companies and, therefore, comparability may be limited. Set forth below is a reconciliation of core earnings to the most directly comparable GAAP financial measure (dollars in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss) attributable to common stockholders	\$ 123,503	\$ 109,222	\$ 172,275	\$ 122,297
Impairment	908	3,756	1,400	3,756
Other Income adjustments:				
Other Income	(177,889	) (98,182	) (212,939	) (101,009
Other Income attributable to non-controlling interests	44,741	—	44,741	—
Deferred taxes attributable to Other Income, net of non-controlling interests	16,303	—	16,303	—
Total Other Income Adjustments	(116,845	) (98,182	) (151,895	) (101,009
Incentive compensation to affiliate	18,863	878	22,201	878
Non-capitalized deal inception costs	1,825	—	1,825	—
Core earnings of equity method investees:				
Excess mortgage servicing rights	8,646	2,863	17,871	5,409
Consumer loans	19,465	19,793	34,452	19,793
Core Earnings	\$ 56,365	\$ 38,330	\$ 98,129	\$ 51,124

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads, foreign currency exchange rates, commodity prices, equity prices and other market based risks. The primary market risks that we are exposed to are interest rate risk, prepayment speed risk, credit spread risk and credit risk. These risks are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. All of our market risk sensitive assets, liabilities and derivative positions (other than TBAs) are for non-trading purposes only. For a further discussion of how market risk may affect our financial position or results of operations, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Application of Critical Accounting Policies.”

Interest Rate Risk

Changes in interest rates, including changes in expected interest rates or “yield curves,” affect our investments in two distinct ways, each of which is discussed below.

First, changes in interest rates affect our net interest income, which is the difference between the interest income earned on assets and the interest expense incurred in connection with our debt obligations and hedges.

We may use match funded structures, when appropriate and available. This means that we seek to match the maturities of our debt obligations with the maturities of our assets to reduce the risk that we have to refinance our liabilities prior to the maturities of our assets, and to reduce the impact of changing interest rates on our earnings. In addition, we seek to match fund interest rates on our assets with like-kind debt (i.e., fixed rate assets are financed with fixed rate debt and floating rate assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps or other financial instruments (see below), or through a combination of these strategies, which we believe allows us to reduce the impact of changing interest rates on our earnings.

However, increases in interest rates can nonetheless reduce our net interest income to the extent that we are not completely match funded. Furthermore, a period of rising interest rates can negatively impact our return on certain floating rate investments. Although these investments may be financed with floating rate debt, the interest rate on the debt may reset prior to, and in some cases more frequently than, the interest rate on the assets, causing a decrease in return on equity during a period of rising interest rates. See further disclosure regarding our Agency ARM RMBS under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Portfolio – Real Estate Securities – Agency ARM RMBS” for information about the reset terms and “Management’s Discussion and Analysis of Financial Conditions as Results of Operations – Liquidity and Capital Resources – Debt Obligations” for information about related debt.

As of June 30, 2014, a 100 basis point increase in short term interest rates would increase our earnings by approximately \$1.8 million per annum, based on the current net floating rate exposure from our real estate securities and related financings.

Second, changes in the level of interest rates also affect the yields required by the marketplace on interest bearing instruments. Increasing interest rates would decrease the value of the fixed rate assets we hold at the time because higher required yields result in lower prices on existing fixed rate assets in order to adjust their yield upward to meet the market.

Changes in unrealized gains or losses resulting from changes in market interest rates do not directly affect our cash flows, or our ability to pay a dividend, to the extent the related assets are expected to be held, as their fair value is not

relevant to their underlying cash flows. As long as these fixed rate assets continue to perform as expected, our cash flows from these assets would not be affected by increasing interest rates. Changes in unrealized gains or losses would impact our ability to realize gains on existing investments if they were sold. Furthermore, with respect to changes in unrealized gains or losses on investments which are carried at fair value, changes in unrealized gains or losses would impact our net book value and, in certain cases, our net income.

As of June 30, 2014, a 100 basis point change in short term interest rates would impact our net book value by approximately \$0.7 million, based on the current net fixed rate exposure from our investments.

Changes in the value of our assets could affect our ability to borrow and access capital. Also, if the value of our assets subject to short-term financing were to decline, it could cause us to fund margin and affect our ability to refinance such assets upon the maturity of the related financings, adversely impacting our rate of return on such securities.

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control.

Our Excess MSR, servicer advances (including the basic fee component of the related MSR, and the related financing) and consumer loans are subject to interest rate risk. Generally, in a declining interest rate environment, prepayment speeds increase which in turn would cause the value of Excess MSR and basic fees to decrease and the value of consumer loans to increase. Conversely, in an increasing interest rate environment, prepayment speeds decrease which in turn would cause the value of Excess MSR and basic fee to increase and the value of consumer loans to decrease. To the extent we do not hedge against changes in interest rates, our balance sheet, results of operations and cash flows would be susceptible to significant volatility due to changes in the fair value of, or cash flows from, Excess MSR, basic fees and consumer loans as interest rates change. However, rising interest rates could result from more robust market conditions, which could reduce the credit risk associated with our investments. The effects of such a decrease in values on our financial position, results of operations and liquidity are discussed below under “—Prepayment Speed Exposure.”

We are subject to margin calls on our repurchase agreements. Furthermore, we may, from time to time, be a party to derivative agreements or financing arrangements that are subject to margin calls based on the value of such instruments. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates but there can be no assurance that our cash reserves will be sufficient.

Prepayment Speed Exposure

Prepayment speeds significantly affect the value of Excess MSR, the basic fee component of MSR (which we own as part of our investment in servicer advances) and consumer loans. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. The price we pay to acquire certain investments will be based on, among other things, our projection of the cash flows from the related pool of loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If the fair value of Excess MSR decreases, we would be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from Excess MSR or our right to the basic fee component of MSR, and we could ultimately receive substantially less than what we paid for such assets. Conversely, a significant decrease in prepayment speeds with respect to our consumer loans could delay our expected cash flows and reduce the yield on this investment.

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

Please refer to the table in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Application of Critical Accounting Policies — Excess MSR” for an analysis of the sensitivity of these investments to changes in certain market factors.

Credit Spread Risk

Credit spreads measure the yield demanded on loans and securities by the market based on their credit relative to U.S. Treasuries, for fixed rate credit, or LIBOR, for floating rate credit. Our floating rate securities are valued based on a market credit spread over LIBOR. Excessive supply of such securities combined with reduced demand will generally

cause the market to require a higher yield on such securities, resulting in the use of a higher (or “wider”) spread over the benchmark rate to value them.

Widening credit spreads would result in higher yields being required by the marketplace on securities. This widening would reduce the value of the securities we hold at the time because higher required yields result in lower prices on existing securities in order to adjust their yield upward to meet the market. The effects of such a decrease in values on our financial position, results of operations and liquidity are discussed above under “—Interest Rate Risk.”

As of June 30, 2014, a 25 basis point movement in credit spreads would impact our net book value by approximately \$6.0 million, based on a static portfolio of real estate securities and related financings, but would not directly affect our earnings or cash flow.

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

Credit Risk

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

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

Liquidity Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this report. The Company’s disclosure (a) controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) (b) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are or may be involved in various disputes and litigation matters that arise in the ordinary course of business. We are not party to any material legal proceedings as of the date on which this report is filed.

ITEM 1A. RISK FACTORS

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully read and consider the following risk factors and all other information contained in this report. If any of the following risks, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, occur, our business, financial condition or results of operations could be materially and adversely affected. The risk factors summarized below are categorized as follows: (i) Risks Related to Our Business, (ii) Risks Related to Our Manager, (iii) Risks Related to the Financial Markets, (iv) Risks Related to Our Taxation as a REIT, and (v) Risks Related to Our Common Stock. However, these categories do overlap and should not be considered exclusive.

Risks Related to Our Business

We have a very limited operating history as an independent company and may not be able to successfully operate our business strategy or generate sufficient revenue to make or sustain distributions to our stockholders. The financial

information included in this report may not be indicative of the results we would have achieved as a separate stand-alone company and are not a reliable indicator of our future performance or results.

We have very limited experience operating as an independent company and cannot assure you that we will be able to successfully operate our business or implement our operating policies and strategies. We were formed in September 2011 as a subsidiary of Newcastle and spun-off from Newcastle on May 15, 2013. We completed our first investment in Excess MSR in December 2011, and our Manager has limited experience with transactions involving GSEs. The timing, terms, price and form of consideration that we and servicers pay in future transactions may vary meaningfully from prior transactions.

There can be no assurance that we will be able to generate sufficient returns to pay our operating expenses and make satisfactory distributions to our stockholders, or any distributions at all. Our results of operations and our ability to make or sustain distributions to our stockholders depend on several factors, including the availability of opportunities to acquire attractive assets, the level and volatility of interest rates, the availability of adequate short- and long-term financing, conditions in the real estate market, the financial markets and economic conditions.

We did not operate as a separate, stand-alone company for the entirety of the historical periods presented in the financial information included in this report, which has been derived from Newcastle's historical financial statements for the periods prior to the spin-off. Therefore, the financial information in this report for the periods prior to the spin-off does not necessarily reflect what our financial condition, results of operations or cash flows would have been had we been a separate, stand-alone public company prior to our separation from Newcastle. This is primarily a result of the following factors:

- The financial information in this report for the periods prior to the spin-off does not reflect all of the expenses we incur as a public company;

- The working capital requirements and capital for general corporate purposes for our assets were satisfied prior to the spin-off as part of Newcastle's corporate-wide cash management policies. Following the spin-off, Newcastle does not provide us with funds to finance our working capital or other cash requirements, so we are required to satisfy our liquidity needs by obtaining financing from banks, through public offerings or private placements of debt or equity securities, strategic relationships or other arrangements; and

- Our cost structure, management, financing and business operations following the spin-off are significantly different as a result of operating as an independent public company. These changes result in increased costs, including, but not limited to, fees paid to our Manager, legal, accounting, compliance and other costs associated with being a public company with equity securities traded on the NYSE.

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

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

- rates of prepayment and repayment of the underlying mortgage loans;

- interest rates;

- rates of delinquencies and defaults; and

-

recapture rates (in the case of Excess MSR only) and the amount and timing of servicer advances (in the case of servicer advances only).

Our assumptions could differ materially from actual results. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets, which could have a material adverse effect on our consolidated financial position, results of operations and cash flows. The ultimate realization of the value of our Excess MSR and servicer advances may be materially different than the fair values of such assets as reflected in our consolidated statement of financial position as of any particular date.

When mortgage loans underlying our Excess MSR are prepaid as a result of a refinancing or otherwise, the related cash flows payable to us cease (unless the loans are recaptured upon a refinancing). Borrowers under residential mortgage loans are generally permitted to prepay their loans at any time without penalty. Our expectation of prepayment speeds is a significant assumption underlying our cash flow projections. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. If the fair value of our Excess MSR

decreases, we would be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from Excess MSR, and we could ultimately receive substantially less than what we paid for such assets. Consequently, the price we pay to acquire Excess MSR may prove to be too high.

The values of Excess MSR and our servicer advances are highly sensitive to changes in interest rates. Historically, the value of MSR, which underpin the value of our Excess MSR and servicer advances, has increased when interest rates rise and decreased when interest rates decline due to the effect of changes in interest rates on prepayment speeds. However, prepayment speeds could increase in spite of the current interest rate environment, as a result of a general economic recovery or other factors, which would reduce the value of our interests in MSR.

Moreover, delinquency rates have a significant impact on the value of Excess MSR. When delinquent loans are resolved through foreclosure (or repurchased by the GSEs), the UPB of such loans cease to be a part of the aggregate UPB of the serviced loan pool when the related properties are foreclosed on and liquidated and the related cash flows payable to us, as the holder of the Excess MSR or basic fee, cease. An increase in delinquencies will generally result in lower revenue because typically we will only collect on our Excess MSR from GSEs or mortgage owners for performing loans. An increase in delinquencies with respect to the loans underlying our servicer advances could also result in a higher advance balance and the need to obtain additional financing, which we may not be able to do on favorable terms or at all. In addition, delinquencies on the loans underlying our servicer advances give rise to accrued but unpaid servicing fees, or “deferred servicing fees,” which we have agreed to purchase in connection with our purchase of servicer advances, and deferred servicing fees generally cannot be financed on terms as favorable as the terms available to other types of servicer advances. If delinquencies are significantly greater than expected, the estimated fair value of the Excess MSR and servicer advances could be diminished. As a result, we could suffer a loss, which would have a negative impact on our financial results.

We are party to “recapture agreements” whereby we receive a new Excess MSR with respect to a loan that was originated by the servicer and used to repay a loan underlying an Excess MSR that we previously acquired from that same servicer. In lieu of receiving an Excess MSR with respect to the loan used to repay a prior loan, the servicer may supply a similar Excess MSR. We believe that recapture agreements will mitigate the impact on our returns in the event of a rise in voluntary prepayment rates. There are no assurances, however, that servicers will enter into recapture agreements with us in connection with any future investment in Excess MSR. If the servicer does not meet anticipated recapture targets, the servicing cash flow on a given pool could be significantly lower than projected, which could have a material adverse effect on the value of our Excess MSR and consequently on our business, financial condition, results of operations and cash flows. Our recapture target for each of our current recapture agreements is stated in the table in Note 12 to our Condensed Consolidated Financial Statements included herein. In our investment in servicer advances, we are not entitled to the cash flows from recaptured loans.

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

We have agreed, together with certain third-party investors, to purchase from Nationstar all servicer advances related to certain loan pools, as a result of which we are entitled to amounts representing repayment for such advances. During any period in which a borrower is not making payments, a servicer (including Nationstar) is generally required under the applicable servicing agreement to advance its own funds to cover the principal and interest remittances due to investors in the loans, pay property taxes and insurance premiums to third parties, and to make payments for legal expenses and other protective advances. The servicer also advances funds to maintain, repair and market real estate properties on behalf of investors in the loans.

Repayment for servicer advances and payment of deferred servicing fees are generally made from late payments and other collections and recoveries on the related mortgage loan (including liquidation, insurance and condemnation proceeds) or, if a “general collections backstop” is available, from collections on other mortgage loans to which the applicable servicing agreement relates. The rate and timing of payments on the servicer advances and the deferred servicing fees, are unpredictable for several reasons, including the following:

payments on the servicer advances and the deferred servicing fees depend on the source of repayment, and whether and when the related servicer receives such payment (certain servicer advances are reimbursable only out of late payments and other collections and recoveries on the related mortgage loan, while others are also reimbursable out of principal and interest collections with respect to all mortgage loans serviced under the related servicing agreement, and as a consequence, the timing of such reimbursement is highly uncertain);
the length of time necessary to obtain liquidation proceeds may be affected by conditions in the real estate market or the financial markets generally, the availability of financing for the acquisition of the real estate and other factors, including, but not limited to, government intervention;

the length of time necessary to effect a foreclosure may be affected by variations in the laws of the particular jurisdiction in which the related mortgaged property is located, including whether or not foreclosure requires judicial action;

the requirements for judicial actions for foreclosure (which can result in substantial delays in reimbursement of servicer advances and payment of deferred servicing fees), which vary from time to time as a result of changes in applicable state law; and

the ability of the related servicer to sell delinquent mortgage loans to third parties prior to liquidation, resulting in the early reimbursement of outstanding unreimbursed servicer advances in respect of such mortgage loans.

As home values change, the servicer may have to reconsider certain of the assumptions underlying its decisions to make advances. In certain situations, its contractual obligations may require the servicer to make certain advances for which it may not be reimbursed. In addition, when a mortgage loan defaults or becomes delinquent, the repayment of the advance may be delayed until the mortgage loan is repaid or refinanced, or a liquidation occurs. To the extent that Nationstar fails to recover the servicer advances in which we have invested, or takes longer than we expect to recover such advances, the value of our investment could be adversely affected and we could fail to achieve our expected return and suffer losses.

Servicing agreements related to residential mortgage securitization transactions generally require a residential mortgage servicer to make servicer advances in respect of serviced mortgage loans unless the servicer determines in good faith that the servicer advance would not be ultimately recoverable from the proceeds of the related mortgage loan, the mortgaged property or the related mortgagor. In many cases, if the servicer determines that a servicer advance previously made would not be recoverable from these sources, the servicer is entitled to withdraw funds from the related custodial account in respect of payments on the related pool of serviced mortgages to reimburse the related servicer advance. This is what is often referred to as a “general collections backstop.” The timing of when a servicer may utilize a general collections backstop can vary (some contracts require actual liquidation of the related loan first, while others do not), and contracts vary in terms of the types of servicer advances for which reimbursement from a general collections backstop is available. Accordingly, a servicer may not ultimately be reimbursed if both (i) the payments from related loan, property or mortgagor payments are insufficient for reimbursement, and (ii) a general collections backstop is not available or is insufficient. Also, if a servicer improperly makes a servicer advance, it would not be entitled to reimbursement. Historically, Nationstar has recovered more than 99% of the advances that it has made. While we do not expect this recovery rate to vary materially during the term of our investment, there can be no assurance regarding future recovery rates related to our portfolio.

We rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.

The value of our investments in Excess MSR, servicer advances and Non-Agency RMBS is dependent on the satisfactory performance of servicing obligations by the mortgage servicer. The duties and obligations of mortgage servicers are defined through contractual agreements, generally referred to as Servicing Guides in the case of GSEs, or Pooling and Servicing Agreements in the case of private-label securities (collectively, the “Servicing Guidelines”). Our investment in the Excess MSR is subject to all of the terms and conditions of the applicable Servicing Guidelines. Servicing Guidelines generally provide for the possibility for termination of the contractual rights of the servicer in the absolute discretion of the owner of the mortgages being serviced. Under the GSE Servicing Guidelines, the servicer may be terminated by the applicable GSE for any reason, “with” or “without” cause, for all or any portion of the loans being serviced for such GSE. In the event a mortgage owner terminates the servicer, the related Excess MSR and basic fees would under most circumstances lose all value on a going forward basis. If the servicer is terminated as servicer for any Agency Pools, the related Excess MSR will be extinguished and our investment in such Excess MSR will likely lose all of its value. Any recovery in such circumstances will be highly conditioned and will require, among other things, a new servicer willing to pay for the right to service the applicable mortgage loans while

assuming responsibility for the origination and prior servicing of the mortgage loans. In addition, any payment received from a successor servicer will be applied first to pay the GSE for all of its claims and costs, including claims and costs against the Servicer that do not relate to the mortgage loans for which we own the Excess MSR. A termination could also result in an event of default under our financings for servicer advances. It is expected that any termination by a mortgage owner of a servicer would take effect across all mortgages of such mortgage owner and would not be limited to a particular vintage or other subset of mortgages. Therefore, it is expected that all investments with a given servicer would lose all their value in the event a mortgage owner terminates such servicer. Nationstar is the servicer of all of the loans underlying all of our investments in Excess MSR and servicer advances, and it is the servicer or master servicer of the vast majority of the loans underlying our Non-Agency RMBS to date. See “—We have significant counterparty concentration risk in Nationstar and Springleaf and are subject to other counterparty concentration and default risks.” As a result, we could be materially and adversely affected if the servicer is unable to adequately service the underlying mortgage loans due to:

- its failure to comply with applicable laws and regulation;
- a downgrade in its servicer rating;
- its failure to maintain sufficient liquidity or access to sources of liquidity;

- its failure to perform its loss mitigation obligations;
- its failure to perform adequately in its external audits;
- a failure in or poor performance of its operational systems or infrastructure;
- regulatory or legal scrutiny regarding any aspect of a servicer's operations, including, but not limited to, servicing practices and foreclosure processes lengthening foreclosure timelines;
- a GSE's or a whole-loan owner's transfer of servicing to another party; or
- any other reason.

Nationstar is subject to numerous legal proceedings, federal, state or local governmental examinations, investigations or enforcement actions, which could adversely affect its reputation and its liquidity, financial position and results of operations. For example, on March 5, 2014, Nationstar received a letter from Benjamin Lawsky, Superintendent of the New York Department of Financial Services, in connection with Nationstar's recent growth, certain operational issues, and certain alleged recent complaints from certain New York consumers.

Loss mitigation techniques are intended to reduce the probability that borrowers will default on their loans and to minimize losses when defaults occur, and they may include the modification of mortgage loan rates, principal balances and maturities. If Nationstar (or any other applicable servicer or subservicer) fail to adequately perform their loss mitigation obligations, we could be required to purchase servicer advances in excess of those that we might otherwise have had to purchase, and the time period for collecting servicer advances may extend. Any increase in servicer advances or material increase in the time to resolution of a defaulted loan could result in increased capital requirements and financing costs for us and our co-investors and could adversely affect our liquidity and net income. In the event that Nationstar receives requests for advances in excess of amounts that we or the co-investors is willing or able to fund, Nationstar may not be able to fund these advance requests, which could result in a termination event under the applicable Servicing Guidelines, an event of default under our advance facilities and a breach of our purchase agreement with Nationstar. As a result, we could experience a partial or total loss of the value of our investment in servicer advances.

MSRs and servicer advances are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions. If the servicer actually or allegedly failed to comply with applicable laws, rules or regulations, it could be terminated as the servicer, which could have a material adverse effect on our business, financial condition, results of operations or cash flows. In addition, servicer advances that are improperly made may not be eligible for financing under our facilities and may not be reimbursable by the related securitization trust or other owner of the mortgage loan, which could cause us to suffer losses.

Favorable ratings from third-party rating agencies such as Standard & Poor's, Moody's and Fitch are important to the conduct of a mortgage servicer's loan servicing business, and a downgrade in a mortgage servicer's ratings could have an adverse effect on the value of our Excess MSRs and servicer advances, and result in an event of default under our financing for advances. Downgrades in a mortgage servicer's servicer ratings could adversely affect their and our ability to finance servicer advances and maintain their status as an approved servicer by Fannie Mae and Freddie Mac. Downgrades in servicer ratings could also lead to the early termination of existing advance facilities and affect the terms and availability of match funded advance facilities that a mortgage servicer or we may seek in the future. A mortgage servicer's failure to maintain favorable or specified ratings may cause their termination as a servicer and may impair their ability to consummate future servicing transactions, which could result in an event of default under our financing for servicer advances and have an adverse effect on the value of our investments since we will rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.

In addition, a bankruptcy by any mortgage servicer that services the mortgage loans underlying our Excess MSRs and servicer advances could result in:

• the validity and priority of our ownership in the Excess MSRs or servicer advances being challenged in a bankruptcy proceeding;

• payments made by such servicer to us, or obligations incurred by it, being voided by a court under federal or state preference laws or federal or state fraudulent conveyance laws;

• a re-characterization of any sale of Excess MSRs, servicer advances or other assets to us as a pledge of such assets in a bankruptcy proceeding;

• any agreement pursuant to which we acquired the Excess MSRs or servicer advances being rejected in a bankruptcy proceeding; or

• a default under our financing for servicer advances and a partial or total loss of the value of our investment in servicer advances.

For additional information about the ways in which we may be affected by mortgage servicers, see “—The value of our Excess MSR, servicer advances and RMBS may be adversely affected by deficiencies in servicing and foreclosure practices, as well as related delays in the foreclosure process.”

We have significant counterparty concentration risk in Nationstar and Springleaf and are subject to other counterparty concentration and default risks.

We are not restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with a few counterparties. Any loss suffered by us as a result of a counterparty defaulting, refusing to conduct business with us or imposing more onerous terms on us would also negatively affect our business, results of operations, cash flows and financial condition.

To date, all of our co-investments in Excess MSR and servicer advances relate to loans serviced by Nationstar. If Nationstar is terminated as the servicer of some or all of these portfolios, or in the event that it files for bankruptcy, our expected returns on these investments would be severely impacted. In addition, the vast majority of the loans underlying our Non-Agency RMBS are serviced by Nationstar. We closely monitor Nationstar’s mortgage servicing performance and overall operating performance, financial condition and liquidity, as well as its compliance with regulations and Servicing Guidelines. We have various information, access and inspection rights in our agreements with Nationstar that enable us to monitor Nationstar’s financial and operating performance and credit quality, which we periodically evaluate and discuss with Nationstar’s management. However, we have no direct ability to influence Nationstar’s performance, and our diligence cannot prevent, and may not even help us anticipate, the termination of a Nationstar servicing agreement.

Furthermore, Nationstar is subject to numerous legal proceedings, federal, state or local governmental examinations, investigations or enforcement actions, which could adversely affect its reputation and its liquidity, financial position and results of operations. For example, on March 5, 2014, Nationstar received a letter from Benjamin Lawsky, Superintendent of the New York Department of Financial Services, in connection with Nationstar’s recent growth, certain operational issues, and certain alleged recent complaints from certain New York consumers.

Nationstar has no obligation to offer us any future co-investment opportunity on the same terms as prior transactions, or at all, and we may not be able to find suitable counterparties other than Nationstar from which to acquire Excess MSR and servicer advances, which could impact our business strategy. See “—We will rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.”

Repayment of the outstanding amount of servicer advances (including payment with respect to deferred servicing fees) may be subject to delay, reduction or set-off in the event that Nationstar (or any other applicable servicer or subservicer) breaches any of its obligations under the related servicing agreements, including, without limitation, any failure of Nationstar (or any other applicable servicer or subservicer) to perform its servicing and advancing functions in accordance with the terms of such servicing agreements. If Nationstar (or any other applicable servicer) is terminated or resigns as servicer and the applicable successor servicer does not purchase all outstanding servicer advances at the time of transfer, collection of the servicer advances will be dependent on the performance of such successor servicer and, if applicable, reliance on such successor servicer’s compliance with the “first-in, first-out” or “FIFO” provisions of the Servicing Guidelines. In addition, such successor servicers may not agree to purchase the outstanding advances on the same terms as our current purchase arrangements and may require, as a condition of their purchase, modification to such FIFO provisions, which could further delay our repayment and have adversely affect the returns from our investment.

We are subject to substantial other operational risks associated to Nationstar or any other applicable servicer or subservicer in connection with the financing of servicer advances. In our current financing facilities for servicer

advances, the failure of Nationstar to satisfy various covenants and tests can result in a target amortization event, a facility early amortization event and/or an event of default. We have no direct ability to control Nationstar's compliance with those covenants and tests. Failure of Nationstar to satisfy any such covenants or tests could result in a partial or total loss on our investment.

In addition, the consumer loans in which we have invested are serviced by Springleaf. If Springleaf is terminated as the servicer of some or all of these portfolios, or in the event that it files for bankruptcy, our expected returns on these investments could be severely impacted. Moreover, we are party to repurchase agreements with a limited number of counterparties. If any of our counterparties elected not to roll our repurchase agreements, we may not be able to find a replacement counterparty, which would have a material adverse effect on our financial condition.

Our risk-management processes may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although we will monitor our credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default

by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

In the event of a counterparty default, particularly a default by a major investment bank, we could incur material losses rapidly, and the resulting market impact of a major counterparty default could seriously harm our business, results of operations, cash flows and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

Counterparty risks have increased in complexity and magnitude as a result of the insolvency of a number of major financial institutions (such as Lehman Brothers) in recent years and the consequent decrease in the number of potential counterparties. In addition, counterparties have generally tightened their underwriting standards and increased their margin requirements for financing, which could negatively impact us in several ways, including by decreasing the number of counterparties willing to provide financing to us, decreasing the overall amount of leverage available to us, and increasing the costs of borrowing.

GSE initiatives and other actions may adversely affect returns from investments in Excess MSR's.

On January 17, 2011, the Federal Housing Finance Agency ("FHFA") announced that it had instructed Fannie Mae and Freddie Mac to study possible alternatives to the current residential mortgage servicing and compensation system used for single-family mortgage loans. It is unclear what the GSEs, including Fannie Mae or Freddie Mac, may propose as alternatives to current servicing compensation practices, or when any such alternatives may become effective. Although we do not expect MSR's that have already been created to be subject to any changes implemented by Fannie Mae or Freddie Mac, it is possible that, because of the significant role of Fannie Mae or Freddie Mac in the secondary mortgage market, any changes they implement could become prevalent in the mortgage servicing industry generally. Other industry stakeholders or regulators may also implement or require changes in response to the perception that the current mortgage servicing practices and compensation do not appropriately serve broader housing policy objectives. These proposals are still evolving. To the extent the GSEs implement reforms that materially affect the market for conforming loans, there may be secondary effects on the subprime and Alt-A markets. These reforms may have a material adverse effect on the economics or performance of any Excess MSR's that we may acquire in the future.

Changes to the minimum servicing amount for GSE loans could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

Currently, when a loan is sold into the secondary market for Fannie Mae or Freddie Mac loans, the servicer is generally required to retain a minimum servicing amount ("MSA") of 25 bps of the UPB for fixed rate mortgages. As has been widely publicized, in September 2011, the FHFA announced that a Joint Initiative on Mortgage Servicing Compensation was seeking public comment on two alternative mortgage servicing compensation structures detailed in a discussion paper. Changes to the MSA structure could significantly impact our business in negative ways that we cannot predict or protect against. For example, the elimination of a MSA could radically change the mortgage servicing industry and could severely limit the supply of Excess MSR's available for sale. In addition, a removal of, or reduction in, the MSA could significantly reduce the recapture rate on the affected loan portfolio, which would negatively affect the investment return on our Excess MSR's. We cannot predict whether any changes to current MSA rules will occur or what impact any changes will have on our business, results of operations, liquidity or financial condition.

Our investments in Excess MSR's and servicer advances may involve complex or novel structures.

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

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

that expose us to risks to which we have not previously been exposed and that could negatively affect our returns from our investments.

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

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

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

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

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

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

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

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

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

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

The geographic distribution of the loans underlying, and collateral securing, our investments, including our Excess MSR, servicer advances, Non-Agency RMBS and consumer loans, exposes us to risks associated with the real estate and commercial lending industry in general within the states and regions in which we hold significant investments. These risks include, without limitation: possible declines in the value of real estate; risks related to general and local economic conditions; possible lack of availability of mortgage funds; overbuilding; extended vacancies of properties; increases in competition, property taxes and operating expenses; changes in zoning laws; increased energy costs; unemployment; costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; casualty or condemnation losses; uninsured damages from floods, earthquakes or other natural disasters; and changes in interest rates. As of June 30, 2014, 25.9% of the total UPB of the residential mortgage loans underlying our Excess MSR was secured by properties located in California and 8.8% was secured by properties located in Florida. As of June 30, 2014, 24.5% of the collateral securing our Non-Agency RMBS was located in the Western U.S., 21.0% was located in the Southeastern U.S., 17.6% was located in the Northeastern U.S., 16.9% was located in the Midwestern U.S. and 9.3% was located in the Southwestern U.S. New Residential was unable to obtain geographical information for 10.7% of the collateral. To the extent any of the foregoing risks arise in states and regions where we hold significant investments, the performance of our investments, our results of operations, cash flows and financial condition could suffer a material adverse effect.

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

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

condition and business.

The value of our Excess MSRs, servicer advances and RMBS may be adversely affected by deficiencies in servicing and foreclosure practices, as well as related delays in the foreclosure process.

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

As a result of alleged deficiencies in foreclosure practices, a number of servicers temporarily suspended foreclosure proceedings beginning in the second half of 2010 while they evaluated their foreclosure practices. In late 2010, a group of state attorneys general and state bank and mortgage regulators representing nearly all 50 states and the District of Columbia, along with the U.S. Justice Department and the Department of Housing and Urban Development, began an investigation into foreclosure practices of banks and servicers. The investigations and lawsuits by several state attorneys general led to a settlement agreement in early

February 2012 with five of the nation's largest banks, pursuant to which the banks agreed to pay more than \$25 billion to settle claims relating to improper foreclosure practices. The settlement does not prohibit the states, the federal government, individuals or investors from pursuing additional actions against the banks and servicers in the future.

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

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

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

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

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

In addition, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments while the defaulted loans remain in the trusts, rather than absorbing the default losses. This may reduce the amount of credit support available for the senior classes of RMBS that we own, thus possibly adversely affecting these securities. Additionally, a substantial portion of the \$25 billion settlement is a "credit" to the banks and servicers for principal write-downs or reductions they may make to certain mortgages underlying RMBS. There remains

uncertainty as to how these principal reductions will work and what effect they will have on the value of related RMBS. As a result, there can be no assurance that any such principal reductions will not adversely affect the value of our Excess MSRs, servicer advances and RMBS.

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

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

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

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

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

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

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

Fixed rate securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. Floating rate securities are valued based on a market credit spread over LIBOR and are affected similarly by changes in LIBOR spreads. As of June 30, 2014, 81.6% of our Non-Agency RMBS Portfolio consisted of floating rate securities and 18.4% consisted of fixed rate securities, and our entire Agency ARM RMBS portfolio consisted of floating rate securities. Excessive supply of these securities combined with reduced demand will generally cause the market to require a higher yield on these securities, resulting in the use of a higher, or "wider," spread over the benchmark rate to value such securities. Under such conditions, the value of our real estate related securities portfolios would tend to decline. Conversely, if the spread used to value such securities were to decrease, or "tighten," the value of our real estate related securities portfolio would tend to increase. Such changes in the market value of our real estate securities portfolios may affect our net equity, net income or cash flow directly through their impact on unrealized gains or losses on available-for-sale securities, and therefore our ability to realize gains on such securities, or indirectly through their impact on our ability to borrow and access capital. During 2008 through the first quarter of 2009, credit spreads widened substantially. Widening credit spreads could cause the net unrealized gains on our securities and derivatives, recorded in accumulated other comprehensive income or retained earnings, and therefore our book value per share, to decrease and result in net losses.

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

In general, the mortgage loans backing our real estate related securities may be prepaid at any time without penalty. Prepayments on our real estate related securities result when homeowners/mortgagees satisfy (i.e., pay off) the mortgage upon selling or refinancing their mortgaged property. When we acquire a particular security, we anticipate that the underlying mortgage loans will prepay at a projected rate which, together with expected coupon income, provides us with an expected yield on such securities. If we purchase assets at a premium to par value, and borrowers prepay their mortgage loans faster than expected, the corresponding prepayments on the real estate related security

may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their mortgage loans slower than expected, the decrease in corresponding prepayments on the real estate related security may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. Prepayment rates on loans are influenced by changes in mortgage and market interest rates and a variety of economic, geographic and other factors, all of which are beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment or other such risks. In periods of declining interest rates, prepayment rates on mortgage loans generally increase. If general interest rates decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the market value of our real estate related securities may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates.

With respect to Agency ARM RMBS, we intend to purchase securities that have a higher coupon rate than the prevailing market interest rates. In exchange for a higher coupon rate, we would then pay a premium over par value to acquire these securities. In

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accordance with GAAP, we will amortize the premiums on our Agency ARM RMBS over the life of the related securities. If the mortgage loans securing these securities prepay at a more rapid rate than anticipated, we will have to amortize our premiums on an accelerated basis which may adversely affect our profitability. Defaults on the mortgage loans underlying Agency ARM RMBS typically have the same effect as prepayments because of the underlying Agency guarantee.

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

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

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

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

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

We finance a meaningful portion of our investments in RMBS with repurchase agreements, which are short-term financing arrangements. Under the terms of these agreements, we will sell a security to a counterparty for a specified price and concurrently agree to repurchase the same security from our counterparty at a later date for a higher

specified price. During the term of the repurchase agreement—which can be as short as 30 days—the counterparty will make funds available to us and hold the security as collateral. Our counterparties can also require us to post additional margin as collateral at any time during the term of the agreement. When the term of a repurchase agreement ends, we will be required to repurchase the security for the specified repurchase price, with the difference between the sale and repurchase prices serving as the equivalent of paying interest to the counterparty in return for extending financing to us. If we want to continue to finance the security with a repurchase agreement, we ask the counterparty to extend-or “roll”-the repurchase agreement for another term.

Our counterparties are not required to roll our repurchase agreements upon the expiration of their stated terms, which subjects us to a number of risks. Counterparties electing to roll our repurchase agreements may charge higher spread and impose more onerous terms upon us, including the requirement that we post additional margin as collateral. More significantly, if a repurchase agreement counterparty elects not to extend our financing, we would be required to pay the counterparty the full repurchase price on the maturity date and find an alternate source of financing. Alternate sources of financing may be more expensive, contain more onerous terms or simply may not be available. If we were unable to pay the repurchase price for any security financed with a

repurchase agreement, the counterparty has the right to sell the underlying security being held as collateral and require us to compensate it for any shortfall between the value of our obligation to the counterparty and the amount for which the collateral was sold (which may be a significantly discounted price). As of June 30, 2014, we had outstanding repurchase agreements with an aggregate face amount of approximately \$149.1 million to finance Non-Agency RMBS and approximately \$1.2 billion to finance Agency ARM RMBS. Moreover, our repurchase agreement obligations are currently with a limited number of counterparties. If any of our counterparties elected not to roll our repurchase agreements, we may not be able to find a replacement counterparty in a timely manner. Finally, some of our repurchase agreements contain covenants and our failure to comply with such covenants could result in a loss of our investment.

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

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

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

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

As of June 30, 2014, certain of the notes issued under our structured servicer advance financing arrangements accrued interest at a floating rate of interest. Servicer advances are non-interest bearing assets. Accordingly, if there is an increase in prevailing interest rates and/or our financing sources increase the interest rate "margins" or "spreads," the amount of financing that we could obtain against any particular pool of servicer advances may decrease substantially and/or we may be required to obtain interest rate hedging arrangements. There is no assurance that we will be able to obtain any such interest rate hedging arrangements.

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

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

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

Certain of our advance facilities mature in September 2014, and there can be no assurance that we will be able to renew these facilities on favorable terms or at all. Moreover, an increase in delinquencies with respect to the loans underlying our servicer

advances could result in the need for additional financing, which may not be available to us on favorable terms or at all. If we are not able to obtain adequate financing to purchase servicer advances from Nationstar in accordance with our agreement, Nationstar could default on its obligation to fund such advances, which could result in their termination as servicer under the applicable pooling and servicing agreements and a partial or total loss of our investment in servicer advances and Excess MSRs.

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

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

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

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

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

The ability of borrowers to repay the consumer loans underlying our investments may be adversely affected by numerous personal factors, including unemployment, divorce, major medical expenses or personal bankruptcy. General factors, including an economic downturn, high energy costs or acts of God or terrorism, may also affect the financial stability of borrowers and impair their ability or willingness to repay the consumer loans in our investment portfolio. In the event of any default under a loan in the consumer loan portfolio in which we have invested, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral securing the loan, if any, and the principal and accrued interest of the loan. In addition, our investments in consumer loans may entail

greater risk than our investments in residential real estate loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. Further, repossessing personal property securing a consumer loan can present additional challenges, including locating the collateral and taking possession of it. In addition, borrowers under consumer loans may have lower credit scores. There can be no guarantee that we will not suffer unexpected losses on our investments as a result of the factors set out above, which could have a negative impact on our financial results.

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

A portion of our investment in consumer loans is secured by second and third liens on real estate. When we hold the second or third lien another creditor or creditors, as applicable, holds the first and/or second, as applicable, lien on the real estate that is the subject of the security. In these situations our second or third lien is subordinate in right of payment to the first and/or second, as applicable, holder's right to receive payment. Moreover, as the servicer of the loans underlying our consumer loan portfolio is not

able to track the default status of a senior lien loan in instances where we do not hold the related first mortgage, the value of the second or third lien loans in our portfolio may be lower than our estimates indicate.

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

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

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

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

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

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

We leverage certain of our assets through a variety of borrowings. Our investment guidelines do not limit the amount of leverage we may incur with respect to any specific asset or pool of assets. The return we are able to earn on our investments and cash available for distribution to our stockholders may be significantly reduced due to changes in

market conditions, which may cause the cost of our financing to increase relative to the income that can be derived from our assets.

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

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

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

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

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

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

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

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

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

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

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

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

There are limits to the ability of any hedging strategy to protect us completely against interest rate risks. When rates change, we expect the gain or loss on derivatives to be offset by a related but inverse change in the value of any items that we hedge. We cannot assure you, however, that our use of derivatives will offset the risks related to changes in interest rates. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses. In addition, our hedging strategy may limit our flexibility by causing us to refrain

from taking certain actions that would be potentially profitable but would cause adverse consequences under the terms of our hedging arrangements. The REIT provisions of the Internal Revenue Code limit our ability to hedge. In managing our hedge instruments, we consider the effect of the expected hedging income on the REIT qualification tests that limit the amount of gross income that a REIT may receive from hedging. We need to carefully monitor, and may have to limit, our hedging strategy to assure that we do not realize hedging income, or hold hedges having a value, in excess of the amounts that would cause us to fail the REIT gross income and asset tests. See “Risks Related to Our Taxation as a REIT—Complying with the REIT requirements may limit our ability to hedge effectively.”

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

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

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

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

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

For purposes of the foregoing, we treat our interests in certain of our wholly owned and majority owned subsidiaries, which constitutes more than 60% of the value of our adjusted total assets on an unconsolidated basis, as non-investment securities because such subsidiaries qualify for exclusion from the definition of an investment company under the 1940 Act pursuant to Section 3(c)(5)(C) of the 1940 Act (the “Section 3(c)(5)(C) exclusion”). The Section 3(c)(5)(C) exclusion is available for entities “primarily engaged” in the business of “purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” The Section 3(c)(5)(C) exclusion generally requires that at least 55% of these subsidiaries’ assets must comprise qualifying real estate assets and at least 80% of each of their portfolios must comprise qualifying real estate assets and real estate-related assets under the 1940 Act. We expect each of our subsidiaries relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff or

on our analyses of such guidance to determine which assets are qualifying real estate assets and real estate-related assets. However, the SEC's guidance was issued in accordance with factual situations that may be substantially different from the factual situations each of our subsidiaries may face, and much of the guidance was issued more than 20 years ago. No assurance can be given that the SEC staff will concur with the classification of each of our subsidiaries' assets. In addition, the SEC staff may, in the future, issue further guidance that may require us to re-classify some of our subsidiaries' assets for purposes of qualifying for an exclusion from regulation under the 1940 Act. For example, the SEC and its staff have not published guidance with respect to the treatment of whole pool Non-Agency RMBS for purposes of the Section 3(c)(5)(C) exclusion. Accordingly, based on our own judgment and analysis of the guidance from the SEC and its staff identifying Agency whole pool certificates as qualifying real estate assets under Section 3(c)(5)(C), we treat whole pool Non-Agency RMBS issued with respect to an underlying pool of mortgage loans in which our subsidiary relying on Section 3(c)(5)(C) holds all of the certificates issued by the pool as qualifying real estate assets. Based on our own judgment and analysis of the guidance from the SEC and its staff with respect to analogous assets, we treat Excess MSRs as real estate-related assets for purposes of satisfying the 80% test under the Section 3(c)(5)(C) exclusion. If we are required to re-classify any of our subsidiaries' assets, including those subsidiaries holding whole pool Non-Agency RMBS and/or Excess MSRs, such subsidiaries may no longer be in compliance with the exclusion from the definition of an "investment company" provided by Section 3(c)(5)(C) of the 1940 Act, and in turn, we may not satisfy the requirements to avoid falling within the definition of an "investment company" provided by Section 3(a)(1)(C). To the extent that the SEC staff publishes new or different guidance or disagrees with our analysis with respect to any assets of our subsidiaries we have determined to be qualifying real estate assets or real estate-related assets, we may be required to adjust our strategy accordingly. In addition, we may be limited in our ability to make certain investments and these limitations could result in a subsidiary holding assets we might wish to sell or selling assets we might wish to hold.

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

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

If the market value or income potential of qualifying assets for purposes of our qualification as a REIT or our exclusion from registration as an investment company under the 1940 Act declines as a result of increased interest rates, changes in prepayment rates or other factors, or the market value or income from non-qualifying assets increases, we may need to increase our investments in qualifying assets and/or liquidate our non-qualifying assets to maintain our REIT qualification or our exclusion from registration under the 1940 Act. If the change in market values or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets we may own. We may have to make investment decisions that we

otherwise would not make absent the intent to maintain our qualification as a REIT and exclusion from registration under the 1940 Act.

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Manager

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

We have no employees. Our officers and other individuals who perform services for us are employees of our Manager. We are completely reliant on our Manager, which has significant discretion as to the implementation of our operating policies and strategies, to conduct our business. We are subject to the risk that our Manager will terminate the Management Agreement and that we will not be able to find a suitable replacement for our Manager in a timely manner, at a reasonable cost or at all. Furthermore, we are dependent on the services of certain key employees of our Manager whose compensation is partially or entirely dependent upon the amount of incentive or management compensation earned by our Manager and whose continued service is not guaranteed, and the loss of such services could adversely affect our operations.

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

Our Management Agreement with our Manager was not negotiated at arm's-length, and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. There are conflicts of interest inherent in our relationship with our Manager insofar as our Manager and its affiliates—including investment funds, private investment funds, or businesses managed by our Manager, including Newcastle, Nationstar and Springleaf—invest in real estate related securities, consumer loans and Excess MSR and servicer advances and whose investment objectives overlap with our investment objectives. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles. Certain members of our board of directors and employees of our Manager who are our officers also serve as officers and/or directors of these other entities. For example, we have some of the same directors and officers as Newcastle. Although we have the same Manager, we may compete with entities affiliated with our Manager or Fortress, including Newcastle, for certain target assets. From time to time, affiliates of Fortress focus on investments in assets with a similar profile as our target assets that we may seek to acquire. These affiliates may have meaningful purchasing capacity, which may change over time depending upon a variety of factors, including, but not limited to, available equity capital and debt financing, market conditions and cash on hand. Currently, Fortress has two funds primarily focused on investing in Excess MSRs with approximately \$1.7 billion in capital commitments in aggregate. We intend to co-invest with these funds in Excess MSRs. We have broad investment guidelines, and we may co-invest with Fortress funds or portfolio companies of private equity funds managed by our Manager (or an affiliate thereof) in a variety of investments. We also may invest in securities that are senior or junior to securities owned by funds managed by our Manager. Fortress funds generally have a fee structure similar to ours, but the fees actually paid will vary depending on the size, terms and performance of each fund. Fortress had approximately \$63.8 billion of assets under management as of June 30, 2014.

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

The ability of our Manager and its officers and employees to engage in other business activities, subject to the terms of our Management Agreement with our Manager, may reduce the amount of time our Manager, its officers or other employees spend managing us. In addition, we may engage (subject to our investment guidelines) in material

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

The management compensation structure that we have agreed to with our Manager, as well as compensation arrangements that we may enter into with our Manager in the future (in connection with new lines of business or other activities), may incentivize our Manager to invest in high risk investments. In addition to its management fee, our Manager is currently entitled to receive

incentive compensation. In evaluating investments and other management strategies, the opportunity to earn incentive compensation may lead our Manager to place undue emphasis on the maximization of earnings, including through the use of leverage, at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative than lower-yielding investments. Moreover, because our Manager receives compensation in the form of options in connection with the completion of our common equity offerings, our Manager may be incentivized to cause us to issue additional common stock, which could be dilutive to existing stockholders. In addition, our Manager's management fee is not tied to our performance and may not sufficiently incentivize our Manager to generate attractive risk-adjusted returns for us.

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

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

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

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

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

to new legal and regulatory risks. In addition, a change in our investment strategy may increase our use of non-match-funded financing, increase the guarantee obligations we agree to incur or increase the number of transactions we enter into with affiliates. Our failure to accurately assess the risks inherent in new asset categories or the financing risks associated with such assets could adversely affect our results of operations, liquidity and financial condition.

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

Pursuant to our Management Agreement, our Manager will not assume any responsibility other than to render the services called for thereunder in good faith and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager, its members, managers, officers and employees will not be liable to us or any of our subsidiaries, to our board of directors, or our or any subsidiary's stockholders or partners for any acts or omissions by our Manager, its members, managers, officers or employees, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement. We shall, to the full extent lawful,

reimburse, indemnify and hold our Manager, its members, managers, officers and employees and each other person, if any, controlling our Manager harmless of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including attorneys' fees) in respect of or arising from any acts or omissions of an indemnified party made in good faith in the performance of our Manager's duties under our Management Agreement and not constituting such indemnified party's bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement.

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

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

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

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

Risks Related to the Financial Markets

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

On July 21, 2010, the U.S. enacted the Dodd-Frank Act. The Dodd-Frank Act affects almost every aspect of the U.S. financial services industry, including certain aspects of the markets in which we operate. The Dodd-Frank Act imposes new regulations on us and how we conduct our business. For example, the Dodd-Frank Act will impose additional disclosure requirements for public companies and generally require issuers or originators of asset-backed securities to retain at least five percent of the credit risk associated with the securitized assets.

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

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

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

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

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

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

In response to the deteriorating financial condition of Fannie Mae and Freddie Mac and the credit market disruption beginning in 2007, Congress and the U.S. Treasury undertook a series of actions to stabilize these GSEs and the financial markets, generally. The Housing and Economic Recovery Act of 2008 was signed into law on July 30, 2008, and established the FHFA, with enhanced regulatory authority over, among other things, the business activities of Fannie Mae and Freddie Mac and the size of their portfolio holdings. On September 7, 2008, FHFA placed Fannie Mae and Freddie Mac into federal conservatorship and, together with the U.S. Treasury, established a program designed to boost investor confidence in Fannie Mae's and Freddie Mac's debt and Agency Securities. As the conservator of Fannie Mae and Freddie Mac, the FHFA controls and directs the operations of Fannie Mae and Freddie Mac and may (1) take over the assets of and operate Fannie Mae and Freddie Mac with all the powers of the stockholders, the directors and the officers of Fannie Mae and Freddie Mac and conduct all business of Fannie Mae and Freddie Mac; (2) collect all obligations and money due to Fannie Mae and Freddie Mac; (3) perform all functions of Fannie Mae and Freddie Mac which are consistent with the conservator's appointment; (4) preserve and conserve the assets and property of Fannie Mae and Freddie Mac; and (5) contract for assistance in fulfilling any function, activity, action or duty of the conservator.

Those efforts resulted in significant U.S. Government financial support and increased control of the GSEs. As part of the conservatorship agreement, the U.S. Treasury committed to support the positive net worth of Fannie Mae and Freddie Mac with preferred stock purchases as necessary, through the beginning of 2013. In 2013, Fannie Mae's bailout was capped at \$125.0 billion and Freddie Mac's was limited to \$149.0 billion. The preferred stock purchase agreements, as amended, also require the reduction of Fannie Mae's and Freddie Mac's mortgage and Agency Securities portfolios (they must be reduced by at least 15 percent each year until their respective mortgage assets reach \$250 billion, which is projected to be 2018). Under these agreements, each GSE is required to pay to the U.S. Treasury a quarterly dividend equal to 10 percent of the total amount drawn under their respective agreements. In 2012, the U.S. Treasury announced that the payments would be replaced by a quarterly sweep of every dollar of profit that each GSE earned in the future.

The U.S. Federal Reserve (the "Fed") announced in November 2008 a program of large-scale purchases of Agency Securities in an attempt to lower longer-term interest rates and contribute to an overall easing of adverse financial conditions. In total, \$1.25 trillion in Agency Securities were purchased between January 2009 and March 2010, when

the purchase phase of the program was completed. In addition, while the Fed program of Agency Securities purchases terminated in 2010, the Fed reported that through October 30, 2013, it held approximately \$1.4 trillion of Agency Securities. Subject to specified investment guidelines, the portfolios of Agency Securities purchased through the programs established by the U.S. Treasury and the Fed may be held to maturity and, based on mortgage market conditions, adjustments may be made to these portfolios. This flexibility may adversely affect the pricing and availability of Agency Securities that we seek to acquire during the remaining term of these portfolios.

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

Additionally, because of the financial problems faced by Fannie Mae and Freddie Mac that led to their federal conservatorships, many policymakers have been examining the value of a federal mortgage guarantee and the appropriate role for the U.S. government in providing liquidity for mortgage loans. In June 2013, legislation titled "Housing Finance Reform and

Taxpayer Protection Act of 2013” was introduced in the U.S. Senate; in July 2013, legislation titled “Protecting American Taxpayers and Homeowners Act of 2013” was introduced in the U.S. House of Representatives. The bills differ in many respects, but both require the wind-down of the GSEs. Other bills have been introduced that change the GSEs’ business charters and eliminate the entities. We cannot predict whether or when the introduced legislation, the amended legislation or any future legislation may be enacted. Such legislation could materially and adversely affect the availability of, and trading market for, Agency Securities and could, therefore, materially and adversely affect the value of our Agency Securities and our business, operations and financial condition.

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

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

Risks Related to Our Taxation as a REIT

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

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

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

We intend to operate in a manner intended to qualify us as a REIT for U.S. federal income tax purposes. Our ability to satisfy the asset tests depends upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we do not obtain independent appraisals. See “Risks Related to our Business—The valuations of our assets are subject to uncertainty since most of our assets are not traded in an active market,” and “Risks Related to Our Business—Rapid changes in the values of our assets may make it more difficult for us to maintain our qualification as a REIT or our exclusion from the 1940 Act.” Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of one or more of our investments (such as TBAs) may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements.

Accordingly, there can be no assurance that the U.S. Internal Revenue Service (“IRS”) will not contend that our investments violate the REIT requirements.

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

Unless entitled to relief under certain provisions of the Internal Revenue Code, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we initially ceased to qualify as a REIT. The rule against re-electing REIT status following a loss of such status would also apply to us if Newcastle fails to qualify as a REIT for its taxable years ending on or before December 31, 2014, and we are treated as a successor to Newcastle for U.S. federal income tax purposes. Although, as described under the heading “Certain Relationships and Transactions with Related Persons, Affiliates and Affiliated

Entities,” Newcastle has (i) represented in the separation and distribution agreement that it entered into with us on April 26, 2013 (the “Separation and Distribution Agreement”) that it has no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT and (ii) covenanted in the Separation and Distribution Agreement to use its reasonable best efforts to maintain its REIT status for each of Newcastle’s taxable years ending on or before December 31, 2014 (unless Newcastle obtains an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS to the effect that Newcastle’s failure to maintain its REIT status will not cause us to fail to qualify as a REIT under the successor REIT rule referred to above), no assurance can be given that such representation and covenant would prevent us from failing to qualify as a REIT. Although, in the event of a breach, we may be able to seek damages from Newcastle, there can be no assurance that such damages, if any, would appropriately compensate us. In addition, if Newcastle were to fail to qualify as a REIT despite its reasonable best efforts, we would have no claim against Newcastle.

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

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

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

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

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

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

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

private letter ruling, then we will not be able to rely on the private letter ruling. If we are unable to rely on the private letter ruling with respect to an Excess MSR investment, the IRS could assert that such Excess MSR investments do not qualify under the REIT asset and income tests, and if successful, we might fail to qualify as a REIT.

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

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

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

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

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

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

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

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

In addition, we may acquire debt instruments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding instrument are “significant modifications” under the applicable Treasury regulations, the modified instrument will be considered to have been reissued to us in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified instrument exceeds our adjusted tax basis in the unmodified instrument, even if the value of the instrument or the payment

expectations have not changed. Following such a taxable modification, we would hold the modified loan with a cost basis equal to its principal amount for U.S. federal tax purposes.

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

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

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

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

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

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

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

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

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. As a result of these tests, we may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, forego

otherwise attractive investment opportunities, liquidate assets in adverse market conditions or contribute assets to a TRS that is subject to regular corporate federal income tax. Our ability to acquire and hold Excess MSRs, interests in consumer loans, servicer advances and other investments is subject to the applicable REIT qualification tests, and we may have to hold these interests through TRSs, which would negatively impact our returns from these assets. In general, compliance with the REIT requirements may hinder our ability to make and retain certain attractive investments.

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

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

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

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

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

part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as unrelated business taxable income if shares of our stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income;

part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the stock; and to the extent that we are (or a part of us, or a disregarded subsidiary of ours, is) a “taxable mortgage pool,” or if we hold residual interests in a real estate mortgage investment conduit (“REMIC”), a portion of the distributions paid to a tax-exempt stockholder that is allocable to excess inclusion income may be treated as unrelated business taxable income.

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

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

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

We purchase and sell Agency RMBS through TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise. In a dollar roll transaction, we exchange an existing TBA for

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

LLP, we could be subject to a penalty tax or we could fail to qualify as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

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

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

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

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

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

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

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

Risks Related to our Common Stock

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

Our common stock began trading (on a when issued basis) on the NYSE on May 2, 2013. There can be no assurance that an active trading market for our common stock will develop or be sustained in the future, and the market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control.

These factors include, without limitation:

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

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

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

Sales of substantial amounts of shares of our common stock in the public market, or the perception that such sales might occur, could adversely affect the market price of our common stock. The issuance of our common stock in connection with property, portfolio or business acquisitions or the exercise of outstanding stock options or otherwise could also have an adverse effect on the market price of our common stock. We have filed a registration statement to sell common stock in a public offering in the future, which registration statement is not yet effective.

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

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

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

Your percentage ownership in us may be diluted in the future because of equity awards that we expect will be granted to our Manager, to the directors, officers and employees of our Manager who perform services for us, and to our directors, officers and employees, as well as other equity instruments such as debt and equity financing. Our board of directors has approved a Nonqualified Stock Option and Incentive Award Plan (the "Plan"), which provides for the grant of equity-based awards, including restricted stock, stock options, stock appreciation rights ("SARs"), performance awards, tandem awards and other equity-based and non-equity based awards, in each case to our Manager, to the directors, officers, employees, service providers, consultants and advisor of our Manager who perform services for us, and to our directors, officers, employees, service providers, consultants and advisors. We reserved 30,000,000 shares of our common stock for issuance under the Plan. On the first day of each fiscal year beginning during the ten-year term of the Plan and in and after calendar year 2014, that number will be increased by a number of shares of our common stock equal to 10% of the number of shares of our common stock newly issued by us during the immediately preceding fiscal year (and, in the case of fiscal year 2013, after the effective date of the Plan). For a more detailed description of the Plan, see "Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities." In connection with any offering of our common stock, we will issue to our Manager

options to purchase shares of our common stock, representing 10% of the number of shares being offered. Our board of directors may also determine to issue options to the Manager that are not subject to the Plan, provided that the number of shares underlying any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to NYSE rules.

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

We may in the future incur or issue debt or issue equity or equity-related securities. In the event of our liquidation, lenders and holders of our debt and holders of our preferred stock (if any) would receive a distribution of our available assets before common stockholders. Any future incurrence or issuance of debt would increase our interest cost and could adversely affect our results of operations and cash flows. We are not required to offer any additional equity securities to existing common stockholders on a preemptive basis. Therefore, additional issuances of common stock, directly or through convertible or exchangeable securities (including limited partnership interests in our operating partnership), warrants or options, will dilute the holdings of our existing common stockholders and such issuances, or the perception of such issuances, may reduce the market price of our common stock.

Any preferred stock issued by us would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common stockholders. Because our decision to incur or issue debt or issue equity or equity-related securities in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, nature or success of our future capital raising efforts. Thus, common stockholders bear the risk that our future incurrence or issuance of debt or issuance of equity or equity-related securities will adversely affect the market price of our common stock.

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

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

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

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

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

It is unclear whether and to what extent we will be able to pay taxable dividends in cash and stock in later years. Moreover, various aspects of such a taxable cash/stock dividend are uncertain and have not yet been addressed by the

IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/stock dividends have not been met.

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

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

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

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

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

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

ERISA may restrict investments by plans in our common stock.

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

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

On May 7, 2014, a former employee of the Manager exercised 215,000 options with a weighted average exercise price of \$2.81, for an aggregate exercise price of \$0.6 million. Upon exercise, 215,000 shares of common stock of New Residential were issued to the former employee. This transaction was exempt from registration pursuant to Section 4(a)(2) of the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

On August 5, 2014, we entered into the Second Amended and Restated Management and Advisory Agreement (the "Agreement") with FIG LLC, our Manager. The Agreement amends and restates the Amended and Restated Management and Advisory Agreement, dated as of August 1, 2013, solely to eliminate unrealized gains (losses) from the calculation of Incentive Compensation (as defined in the Agreement) and any related deferred tax liability (asset).

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The effect of the amendment in the second quarter of 2014 is a reduction in the amount of Incentive Compensation that would have otherwise been payable by us to our Manager, mainly as a result of the exclusion of unrealized gains on our investment in servicer advances from the calculation of Incentive Compensation.

The foregoing summary is not complete and is qualified in its entirety by reference to the Agreement, which is filed as an exhibit hereto.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
2.1	Separation and Distribution Agreement dated April 26, 2013, between New Residential Investment Corp. and Newcastle Investment Corp. (incorporated by reference to Amendment No. 6 of New Residential Investment Corp.'s Registration Statement on Form 10, filed April 29, 2013)
2.2	Purchase Agreement, among the Sellers listed therein, HSBC Finance Corporation and SpringCastle Acquisition LLC, dated March 5, 2013 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed March 11, 2013)
2.3	Master Servicing Rights Purchase Agreement between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
2.4	Sale Supplement (Shuttle 1) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
2.5	Sale Supplement (Shuttle 2) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
2.6	Sale Supplement (First Tennessee) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
3.1	Amended and Restated Certificate of Incorporation of New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed May 3, 2013)
3.2	Amended and Restated Bylaws of New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed May 3, 2013)
4.1	Amended and Restated Indenture among NRZ Servicer Advance Receivables Trust BC (f/k/a Nationstar Servicer Advance Receivables Trust 2013-BC), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator, as owner of the rights to the servicing rights and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Barclays Bank PLC, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
4.2	Series 2013-VF1 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust BC (f/k/a Nationstar Servicer Advance Receivables Trust 2013-BC), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Barclays Bank PLC, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)

4.3 Amended and Restated Indenture among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator, as owner of the rights to the servicing rights and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Credit Suisse AG, New York Branch, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)

4.4 Series 2013-VF1 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Credit Suisse AG, New York Branch, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)

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Exhibit Number	Exhibit Description
4.5	Series 2013-VF2 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Natixis, New York Branch, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
4.6	Series 2013-VF3 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Morgan Stanley Bank, N.A., as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
10.1	Management and Advisory Agreement between New Residential Investment Corp. and FIG LLC (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed May 17, 2013)
10.2	Amended and Restated Management and Advisory Agreement between New Residential Investment Corp. and FIG LLC, dated August 1, 2013 (incorporated by reference to New Residential Investment Corp.'s Quarterly Report on Form 10-Q, filed August 8, 2013)
10.3	Second Amended and Restated Management and Advisory Agreement between New Residential Investment Corp. and FIG LLC, dated August 6, 2014
10.4	Form of Indemnification Agreement by and between New Residential Investment Corp. and its directors and officers (incorporated by reference to Amendment No. 3 of New Residential Investment Corp.'s Registration Statement on Form 10, filed March 27, 2013)
10.5	New Residential Investment Corp. Nonqualified Stock Option and Incentive Award Plan (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed May 3, 2013)
10.6	Investment Guidelines (incorporated by reference to Amendment No. 4 of New Residential Investment Corp.'s Registration Statement on Form 10, filed April 9, 2013)
10.7	Excess Servicing Spread Sale and Assignment Agreement, by and between Nationstar Mortgage LLC and NIC MSR I LLC, dated December 8, 2011 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed March 15, 2012)
10.8	Excess Spread Refinanced Loan Replacement Agreement, by and between Nationstar Mortgage LLC and NIC MSR I LLC, dated December 8, 2011 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed March 15, 2012)
10.9	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR IV LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current

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Report on Form 8-K, filed May 15, 2012)

10.10 Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR V LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed May 15, 2012)

10.11 Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VI LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed May 15, 2012)

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Exhibit Number	Exhibit Description
10.12	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VII, LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed May 15, 2012)
10.13	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR III LLC, dated May 31, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 6, 2012)
10.14	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR III LLC, dated May 31, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 6, 2012)
10.15	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.16	Amended and Restated Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.17	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.18	Amended and Restated Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.19	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.20	Amended and Restated Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed June 7, 2012)
10.21	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR V LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed July 5, 2012)
10.22	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR IV LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed July 5, 2012)

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- 10.23 Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VI LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed July 5, 2012)
- 10.24 Amended and Restated Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VII LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed July 5, 2012)
- 10.25 Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR VIII LLC, dated December 31, 2012 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)

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Exhibit Number	Exhibit Description
10.26	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR VIII LLC, dated December 31, 2012 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.27	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and MSR IX LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.28	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and MSR IX LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.29	Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR X LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.30	Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR X LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.31	Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR XI LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.32	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR XI LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.33	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XII LLC, dated January 6, 2013, (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.34	Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XII LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.35	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XIII LLC, dated January 6, 2013, (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.36	Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XIII LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)
10.37	Interim Servicing Agreement, among the Interim Servicers listed therein, HSBC Finance Corporation, as Interim Servicer Representative, HSBC Bank USA, National Association, SpringCastle America, LLC, SpringCastle Credit, LLC, SpringCastle Finance, LLC, Wilmington Trust, National Association,

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as Loan Trustee, and SpringCastle Finance LLC, as Owner Representative (incorporated by reference to Amendment No. 4 to New Residential Investment Corp.'s Registration Statement on Form 10, filed April 9, 2013)

10.38 Amended and Restated Limited Liability Company Agreement of SpringCastle Acquisition LLC, dated April 1, 2013 (incorporated by reference to the confidential submission by the Registrant of the draft Registration Statement on Form S-11 on August 19, 2013)

10.39 Amended and Restated Receivables Sale Agreement among Nationstar Mortgage LLC, as initial receivables seller and as servicer, Advance Purchaser LLC, as receivables seller and as servicer, and NRZ Servicer Advance Facility Transferor BC, LLC (f/k/a Nationstar Servicer Advance Facility Transferor, LLC 2013-BC), as depositor, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)

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Exhibit Number	Exhibit Description
10.40	Amended and Restated Receivables Pooling Agreement between NRZ Servicer Advance Facility Transferor BC, LLC, as depositor, and NRZ Servicer Advance Receivables Trust BC (f/k/a Nationstar Servicer Advance Receivables Trust 2013-BC), as issuer, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
21.1	List of Subsidiaries of New Residential Investment Corp.
31.1	Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Audited Consolidated and Combined Financial Statements of SpringCastleAmerica, LLC, SpringCastle Credit, LLC, SpringCastle Finance, LLC and SpringCastle Acquisition, LLC
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101 .PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

* XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

The following amended and restated limited liability company agreements of the Consumer Loan Companies are substantially identical in all material respects, except as to the parties thereto and the initial capital contributions required under each agreement, to the Amendment and Restated Limited Liability Company Agreement of SpringCastle Acquisition LLC that is filed as Exhibit 10.37 hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

Amended and Restated Limited Liability Company Agreement of SpringCastle America, LLC, dated as of April 1, 2013.

Amended and Restated Limited Liability Company Agreement of SpringCastle Credit, LLC, dated as of April 1, 2013.

Amended and Restated Limited Liability Company Agreement of SpringCastle Finance, LLC, dated as of April 1, 2013.

In addition, the following Amended and Restated Receivables Sale Agreement and Amended and Restated Receivables Pooling Agreement are substantially identical in all material respects, except as to the parties thereto, to the Amended and Restated Receivables Sale Agreement and Amended and Restated Receivables Pooling Agreement that are filed as Exhibits 10.38 and 10.39, respectively, hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

Amended and Restated Receivables Sale Agreement among Nationstar Mortgage LLC, as initial receivables seller and as servicer, Advance Purchaser LLC, as receivables seller and as servicer, and NRZ Servicer Advance Facility Transferor CS, LLC (f/k/a Nationstar Servicer Advance Facility Transferor, LLC 2013-CS), as depositor, dated as of December 17, 2013.

Amended and Restated Receivables Pooling Agreement between NRZ Servicer Advance Facility Transferor CS, LLC, as depositor, and NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, dated as of December 17, 2013.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

NEW RESIDENTIAL INVESTMENT CORP.

By: /s/ Michael Nierenberg
Michael Nierenberg
Chief Executive Officer and President

August 6, 2014

By: /s/ Susan Givens
Susan Givens
Chief Financial Officer and Treasurer

August 6, 2014

By: /s/ Jonathan R. Brown
Jonathan R. Brown
Chief Accounting Officer
(Principal Accounting Officer)

August 6, 2014