Altisource Asset Management Corp
Form 10-K
February 29, 2016

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

OR

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

COMMISSION FILE NUMBER: 000-54809

Altisource Asset Management Corporation
(Exact name of registrant as specified in its charter)

UNITED STATES VIRGIN ISLANDS	66-0783125
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

36C Strand Street
Christiansted, United States Virgin Islands 00820
(Address of principal executive office)

(340) 692-1055
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)	(Name of exchange on which registered)
Common stock, par value $0.01 per share	NYSE MKT

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

Indicate by check if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large Accelerated Filer	¨		Accelerated Filer	x
Non-Accelerated Filer	¨	(Do not check if a smaller reporting company)	Smaller Reporting Company	¨

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

The aggregate market value of common stock held by non-affiliates of the registrant was $167.4 million, based on the closing share price as reported on the New York Stock Exchange on June 30, 2015 and the assumption that all Directors and executive officers of the registrant and their families and beneficial holders of 10% of the registrant's common stock are affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of February 22, 2016, 1,970,572 shares of our common stock were outstanding (excluding 596,408 shares held as treasury stock).

Portions of the registrant's definitive proxy statement for the registrant's 2016 annual meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Altisource Asset Management Corporation
December 31, 2015
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References in this report to "we," "our," "us," or the "Company" refer to Altisource Asset Management Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to “Residential” refer to Altisource Residential Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to “Altisource” refer to Altisource Portfolio Solutions S.A. and its consolidated subsidiaries, unless otherwise indicated.

Special note on forward-looking statements

Our disclosure and analysis in this Annual Report on Form 10-K contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to as the “Securities Act,” and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the “Exchange Act.” In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of thes and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

The forward-looking statements contained in this report reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. Factors that may materially affect such forward-looking statements include, but are not limited to:

- our ability to implement our business strategy and the business strategy of Residential;
- our ability to retain Residential as a client;
- our ability to retain and maintain our strategic relationships with related parties;
- the ability of Residential to generate cash available for distribution to its stockholders under our management;
- our ability to effectively compete with our competitors;
- Residential's ability to complete future or pending transactions;
- the failure of Altisource to effectively perform its obligations under their agreements with us and Residential;
- the failure of Residential’s servicers to effectively perform their services to Residential;
- general economic and market conditions; and
- governmental regulations, taxes and policies.

While forward-looking statements reflect our good faith beliefs, assumptions and expectations, they are not guarantees of future performance. Such forward-looking statements speak only as of their respective dates, and we assume no obligation to update them to reflect changes in underlying assumptions or factors, new information or otherwise. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements contained herein, please refer to the section “Item 1A. Risk factors.”

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Part I

Item 1. Business

Overview

We were incorporated in the United States Virgin Islands on March 15, 2012 (our “inception”). Subsequent to our separation from Altisource Portfolio Solutions S.A. (“Altisource”) on December 21, 2012, we immediately commenced operations. Our primary business is to provide asset management and certain corporate governance services to institutional investors. In October 2013, we applied for and were granted registration by the SEC as a registered investment adviser under section 203(c) of the Investment Advisers Act of 1940.

Our primary client currently is Altisource Residential Corporation (“Residential”), a public real estate investment trust (“REIT”) focused on acquiring and managing quality, affordable single-family rental properties for working class families throughout the United States. Residential is currently our primary source of revenue and will drive our results. We operate in a single segment focused on providing asset management and certain corporate governance services to Residential.

We initially provided services to Residential pursuant to a 15-year asset management agreement beginning December 21, 2012 (the “Original AMA”). On March 31, 2015, we entered into a new asset management agreement with Residential (the “New AMA”) under which we will continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions. The Original AMA had a different incentive fee structure that gave us a share of Residential’s cash flow available for distribution to its stockholders as well as reimbursement for certain overhead and operating expenses. Although the New AMA provides for a new fee structure in which we are entitled to a base management fee, an incentive management fee and a conversion fee for loans and real estate owned (“REO”) properties that become rental properties during each quarter, our operating results are highly dependent on Residential's operating results. See the “Asset Management Agreement” section for additional details of the New AMA.

We have concluded that Residential is a variable interest entity (“VIE”) because Residential's equity holders lack the ability through voting rights to make decisions about Residential's activities that have a significant effect on the success of Residential. We have also concluded that we are the primary beneficiary of Residential because, under the asset management agreement, we have the power to direct the activities of Residential that most significantly impact Residential's economic performance including establishing Residential's investment and business strategy. As a result, we consolidate Residential in our consolidated financial statements. As discussed in Note 1 to the consolidated financial statements, we expect to deconsolidate Residential from our consolidated financial statements effective January 1, 2016 after our adoption Accounting Standards Update (“ASU”) 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis.

In addition to the services we provide to Residential, we provide management services to NewSource Reinsurance Company Ltd. (“NewSource”), a Bermuda title insurance and reinsurance company. In October 2013, we invested $2.0 million in NewSource and received 100% of the common stock of NewSource, representing 2,000,000 shares. In September 2015, we contributed an additional $5.0 million to NewSource. Because we own 100% of voting common stock of NewSource and there are no substantive kick-out rights granted to other equity owners, we consolidate NewSource in our consolidated financial statements. On December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority (“BMA”).

Our Business Strategy

Our business strategy is to:

- provide asset management services to Residential to generate a growing stream of cash available for distribution to its shareholders and thereby growing our earnings; and
- develop additional scalable investment strategies and vehicles by leveraging the expertise of our management team.

Our Expertise

Our senior management team includes individuals with significant experience in the real estate, mortgage, housing, financial services and asset management markets. Throughout their careers, our executives have managed various real estate-related businesses and executed structured real estate and financing transactions through multiple market cycles. We have also internally developed a valuation model, more fully described below, that uses proprietary historical data to evaluate and project

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the performance of residential rental properties and residential mortgage loans. We believe that our asset evaluation process and the experience and judgment of our executive management team in identifying, assessing, valuing and acquiring new residential rental properties and related assets will help Residential to appropriately value the residential rental assets at the time of purchase and to quickly and efficiently grow its portfolio.

Strengths that AAMC Brings to Residential

We are committed to a business strategy that will enable Residential to grow and maintain a substantial single-family rental portfolio and become one of the largest nationwide single-family rental REITs. Our goal is to enhance Residential's long-term stockholder value through the execution of its business plan with a focus on its competitive strengths. Residential's strong competitive position is based on the following factors:

- Acquisition Strategy Enables Residential to Build a Portfolio that can Provide High Yields to its Stockholders. Through our personnel and technical expertise, we have developed a valuation model for Residential that uses proprietary historical data to evaluate and project the performance of single-family rental assets and residential mortgage loans. This valuation model has been built with multiple broad economic inputs as well as individual property-level inputs to determine which properties will produce the highest possible yields and how much to pay for these properties to best achieve optimal results. These internally-developed tools not only help Residential to evaluate the most attractive single-family rental portfolios for sale, but they also have assisted Residential in developing a robust one-by-one purchase program that levers the Altisource property inspection, management and rental infrastructure and related data flows to identify and acquire higher yielding assets at any progression in the loan-to-REO cycle and in any geographical location into which Residential desires to expand. We intend to continue to build this one-by-one infrastructure and employ regional teams that will focus on specified geographical areas and use their developed regional experience and anecdotal operating results to continually build a better, more predictable model meant to achieve high rental yield portfolio growth with properties marked by strong stabilized occupancy rates and optimal economic returns.

- Relationship with Altisource and its Nationwide Property Management Infrastructure. We believe that Residential is strategically positioned to operate single-family rental properties across the United States at an attractive cost structure with the support of Altisource’s nationwide vendor network, which provides services in 208 major markets across the United States. In 2015, Altisource conducted more than 247,000 inspections and 133,000 repair and maintenance orders on a monthly basis and has more than 9,300 centrally managed vendors operating nationwide. This vendor network infrastructure has been developed over many years, and we believe this infrastructure would be difficult and expensive for Residential's competitors and/or new market participants to replicate. We believe, therefore, that Residential's existing relationships with Altisource and its vendor network, as described above in “Access to Established Nationwide Property Management Infrastructure,” gives Residential a distinct advantage as it allows it to bid on large attractive portfolios at an attractive cost structure. We also believe that our established relationships with the Altisource network management team and our ongoing experience with the service providers in Altisource’s vendor network who know our renovation, maintenance and repair standards would likely provide Residential with an advantage over others in replicating and/or acquiring this nationwide property management infrastructure, if necessary.

- Depth of Management Experience. We believe the experience and technical expertise of our management team is one of Residential's key strengths. Our team has a broad and deep knowledge of the mortgage and real estate markets with decades of experience in real estate, mortgage trading, housing, financial services and asset management markets. Their experience in the real estate industry brings a wealth of understanding of the markets in which Residential interacts and can help Residential build its portfolio in locations that bring the highest potential returns to its stockholders. Management and its supporting teams have a multitude of contacts and significant business acumen that enable us to source single-family rental assets through access to auctions and sellers of single-family rental assets and obtain important financing to optimize available leverage for quick and efficient growth of Residential's portfolio. This is of tremendous value to Residential as it has been able to strategically sell non-performing and re-performing loans to create taxable income and sustain a strong dividend while using liquidity generated from these sales to increase its single-family rental portfolio by approximately 247% in 2015.

Strong Understanding and Interaction with Mortgage Loan Servicers. Our key personnel have extensive experience with Residential's mortgage loan servicers and managing mortgage loan assets that allows Residential to capitalize on the servicing capabilities of its third party servicers and ensure cost effective servicing of its residential mortgage loan portfolios. We have directed and will continue to direct Residential's mortgage servicers to employ various loan resolution methodologies with respect to its residential mortgage loans, including loan modification, collateral

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resolution and collateral disposition. To help Residential achieve its business objective, we instruct Residential's mortgage servicers to focus on (1) converting a portion of its sub-performing and non-performing loans to performing status and (2) managing the foreclosure process and timelines with respect to the remainder of those loans. Importantly, by modifying as many loans as possible, we seek to keep more families in their homes because of our efforts. In 2015, Residential substantially diversified its servicer base by engaging additional alternate mortgage loan servicers to service its loans.

Asset Management Agreement

Pursuant to the asset management agreement, we design and implement Residential's business strategy, administer its business activities and day-to-day operations and provide corporate governance services, subject to oversight by Residential's Board of Directors. We are responsible for, among other duties: (1) performing and administering all of Residential's day-to-day operations, (2) defining investment criteria in Residential's investment policy in cooperation with its Board of Directors, (3) sourcing, analyzing and executing asset acquisitions, including the related financing activities, (4) analyzing and executing sales of properties and residential mortgage loans, (5) overseeing Altisource's renovation, leasing and property management of Residential's single-family rental properties, (6) overseeing the servicing of Residential's residential mortgage loan portfolios, (7) performing asset management duties and (8) performing corporate governance and other management functions, including financial, accounting and tax management services.

We provide Residential with a management team and appropriate support personnel who have substantial experience in the management of residential mortgage loans and residential rental properties. Our management also has significant corporate governance experience that enables us to manage Residential's business and organizational structure efficiently. We have agreed not to provide the same or substantially similar services without the prior written consent of Residential's board of directors to any business or entity competing against Residential in (a) the acquisition or sale of portfolios of REO properties, (b) the carrying on of a single-family rental business, (c) the acquisition or sale of single-family rental properties, non-performing and re-performing mortgage loans or other similar assets, (d) the purchase of portfolios of sub-performing or non-performing residential mortgage loans or (e) any other activity in which Residential engages. Notwithstanding the foregoing, we may engage in any other business or render similar or different services to any businesses engaged in lending or insurance activities or any other activity other than those described above. Further, at any time following Residential's determination and announcement that it will no longer engage in any of the above-described competitive activities, we would be entitled to provide advisory or other services to businesses or entities in such competitive activities without Residential's prior consent.

On March 31, 2015, we entered into the New AMA with Residential. The New AMA, which became effective on April 1, 2015, provides for a new management fee structure, which replaces the incentive fee structure under the Original AMA, as follows:

- Base Management Fee. We are entitled to a quarterly Base Management Fee equal to 1.5% of the product of (i) Residential's average invested equity capital for the quarter multiplied by (ii) 0.25, while it has fewer than 2,500 single-family rental properties actually rented ("Rental Properties"). The Base Management Fee percentage increases to 1.75% of invested capital while Residential has between 2,500 and 4,499 Rental Properties and increases to 2.0% of invested capital while it has 4,500 or more Rental Properties;

- Incentive Management Fee. We are entitled to a quarterly Incentive Management Fee equal to 20% of the amount by which Residential's return on invested capital (based on AFFO, defined as net income attributable to holders of common stock calculated in accordance with GAAP plus real estate depreciation expense minus recurring capital expenditures on all real estate assets owned by Residential) exceeds an annual hurdle return rate of between 7.0% and 8.25% (depending on the 10-year treasury rate). The Incentive Management Fee increases to 22.5% while Residential has between 2,500 and 4,499 Rental Properties and increases to 25% while it has 4,500 or more Rental Properties; and

- Conversion Fee. We are entitled to a quarterly Conversion Fee equal to 1.5% of the market value of assets converted into leased single-family homes by Residential for the first time during the quarter.

To the extent Residential has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle for the next quarter before we are entitled to an Incentive Management Fee.

Residential has the flexibility to pay up to 25% of the Incentive Management Fee to us in shares of its common stock. Under the New AMA, Residential will not be required to reimburse us for the allocable compensation and routine overhead expenses of our employees and staff, all of which will now be covered by the Base Management Fee described above.

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Under the New AMA, we will continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to Residential achieving an average annual return on invested capital of at least 7.0% during the then-current term. The Original AMA had a 15 year term, but provided Residential with significant termination rights, including the ability to terminate the agreement if Residential's board determined, in its sole discretion, that our performance was unsatisfactory or our compensation was reasonable. However, under the New AMA, Residential's termination rights are significantly limited. Under the New AMA, neither party is entitled to terminate the New AMA prior to the end of the initial term, or each renewal term, other than termination by (a) us and/or Residential "for cause" for certain events such as a material breach of the New AMA and failure to cure such breach, (b) Residential for certain other reasons such as its failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the New AMA or (c) Residential in connection with certain change of control events.

Under the Old AMA, Residential paid us a quarterly incentive management fee as follows:

(i) 2% of all cash available for distribution by Residential to its stockholders and to us as incentive management fee, which we referred to as "available cash," until the aggregate amount per share of available cash for the quarter (based on the average number of shares of our common stock outstanding during the quarter), which we referred to as the "quarterly per share distribution amount," exceeded $0.161, then
(ii) 15% of all additional available cash for the quarter until the quarterly per share distribution amount exceeded $0.193, then
(iii) 25% of all additional available cash for the quarter until the quarterly per share distribution amount exceeded $0.257, and thereafter
(iv) 50% of all additional available cash for the quarter.

in each case set forth in clauses (i) through (iv), as such amounts would have been appropriately adjusted from time to time to take into account the effect of any stock split, reverse stock split or stock dividend, should any have occurred.

Residential distributed any quarterly distribution to its stockholders after the application of the incentive management fee payable to us.

Residential was required to reimburse us on a monthly basis for the (i) direct and indirect expenses we incurred or payments we made on Residential's behalf, including, but not limited to, the allocable compensation and routine overhead expenses of all of our employees and staff and (ii) all other reasonable operating and overhead expenses we incurred related to the asset management services we provided to Residential.

If the New AMA were terminated by Residential, our financial position and future prospects for revenues and growth would be materially adversely affected.

Residential's Business Strategy

Residential is committed to becoming and maintaining its position as one of the top single-family rental REITs serving working class American families and their communities, while also providing consistent and robust returns on equity and long-term growth for its investors. We believe Residential's business model provides it with operating capabilities that are difficult to replicate and positions Residential to opportunistically grow and effectively manage its portfolio of single-family rental properties.

First, we believe Residential's diversified acquisition strategy enables it to acquire single-family rental properties at a high yield both (a) through the purchase of rental properties either in bulk or on a one-by-one basis and (b) through the acquisition and resolution of sub-performing and non-performing mortgage loans with the expectation of converting them into single-family rental properties. We believe this diversified approach provides Residential with more avenues of growth and provides it with an advantage over other acquisition strategies.

Second, Residential's access to Altisource, which employs an established, nationwide renovation and property management infrastructure, provides Residential with immediate scale and a low cost structure that is unique in the industry today. With Altisource, Residential is not new to this industry. It is not just building a services platform, which most of its competitors are still doing. Residential does not need to determine out how to collect rents, complete renovations, manage properties on a large scale, determine how many call centers to have or how evictions really work when done carefully and thoughtfully, because Altisource has a well-developed platform to handle all of these things and more.

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Third, Residential's multi-faceted loan resolution methodologies, through its mortgage loan servicers, provide it with earnings capabilities in its non-performing loan portfolio that distinguish it from other single-family rental REITs. Residential has relationships with three separate, independent servicers who have broad experience in servicing non-performing loans and finding value in Residential's loan portfolio. If we determine to continue building Residential's single-family rental portfolio through additional non-performing and sub-performing loan portfolios, Residential's experience with these servicers and their understanding of Residential's business goals will enable it to continue to compete on various levels through the single-family rental conversion process.

We believe that Residential's acquisition strategies, nationwide renovation and property management infrastructure and multi-faceted loan resolution capabilities provide it with multiple avenues of value creation that will help Residential to achieve its business objective of generating attractive risk-adjusted returns for its stockholders over the long term.

Acquisition Strategy

Residential employs a diversified single-family rental property acquisition strategy. Commencing in the second quarter of 2015, the acquisition strategy was expanded to opportunistically acquire portfolios of single-family rental properties in order to more quickly achieve scale in our rental portfolio. We expect Residential to opportunistically source, bid on and acquire additional portfolios of single-family rental properties over the course of 2016.

In the second quarter of 2015, Residential also commenced a program to begin purchasing single-family residential properties on a one-by-one basis, sourcing listed properties from the Multiple Listing Service and alternative listing sources. The first purchases of properties under this program occurred in the third quarter of 2015. As of February 22, 2016, Residential had purchased 124 properties pursuant to this one-by-one acquisition program and is continuing efforts to expand our capabilities to acquire more properties under this program on a quick and reliable basis.

Prior to the second quarter of 2015, Residential's preferred acquisition strategy involved acquiring portfolios of sub-performing and non-performing mortgage loans. However, as market conditions evolved and the acquisition of sub-performing and non-performing mortgage loan pools became more competitive and higher-priced, Residential introduced the alternative single-family rental acquisition strategies described above. While we intend to continue to review and assess the acquisition of portfolios of sub-performing and non-performing mortgage loans, we believe that the strategy of acquiring portfolios of single-family rental properties will allow Residential to achieve scale in its rental portfolio more quickly and with more control over the value, location and projected returns on the targeted assets.

Access to Established Nationwide Property Management Infrastructure

We believe that Residential's 15-year master services agreement with Altisource, pursuant to which Altisource provides Residential with property management, leasing, renovation management and valuation services, allows Residential to operate and manage single-family rental properties with cost and operational efficiency as well as predictability. This efficiency and predictability is driven by Altisource’s technology and global workforce. Altisource has developed a nationwide operating infrastructure enabled by technology and standardized and centrally managed processes. It also has a global back office organization that qualifies property management and renovation vendors, solicits the appropriate vendors to perform requested work, assigns the work to the vendor with the best possible combination of cost and delivery capabilities, provides uniform property management and inspection criteria and technology to review and assess properties, verifies that the vendor’s work is complete and pays the vendor. This technology and organizational infrastructure allows Altisource to provide services which we believe provide Residential with the following competitive advantages:

- The cost structure associated with Altisource’s nationwide vendor network is not dependent upon scale; accordingly, unlike many of Residential's competitors, it does not require a critical size of single-family rental properties to attain the operating efficiencies provided by Altisource's property management services;
- Single-family residential property and sub-performing and non-performing loan portfolios typically contain properties that are geographically dispersed, requiring a cost-effective nationwide property management system; we believe Residential is positioned to bid effectively on portfolios with large geographic dispersion;
- Altisource provides Residential with a low-cost, single source for full lifecycle rental property management services, including due diligence and acquisition support, renovations and repairs, lease marketing, tenant management and customer care;
- Altisource’s rental marketing strategy is specifically designed to advertise listings across popular industry-focused websites, utilizing their high organic and paid search rankings to generate large volumes of prospective tenants;

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- Residential's contracted relationships with nationwide manufacturers and material suppliers, who are also used by Altisource, enable Residential to manage the ordering and delivery of flooring, appliances, paint, fixtures and lighting for all renovation and unit turn work (i.e. work associated with turnover from one tenant to the next);
- We have direct access to Altisource's inspection and estimating application which is utilized by the third-party general contracting vendors to identify required renovation work and prepare detailed scopes of work to provide a consistent end product. In addition, this application catalogs major HVAC systems, appliances and construction materials, which can enable more accurate forecasting of long term maintenance requirements; and
- Ongoing tenant management services are coordinated through an internal “24x7” customer service center.

As of December 31, 2015, Altisource managed more than 41,000 vacant pre-foreclosure and REO assets in all 50 states, and these types of properties are far more intensive to manage than tenant-occupied rentals. Altisource has the capacity to conduct more than 247,000 inspections and 133,000 repair and maintenance orders on a monthly basis and has more than 9,300 centrally managed vendors operating nationwide. Altisource also leverages sophisticated systems and strong vendor oversight to mitigate risks for its clients, stringent enough to satisfy the requirements of two top-10 bank clients and one of the largest non-bank mortgage servicers in the United States. At least one analyst firm has ranked Altisource as the number seven brokerage company in the United States, operating in 50 states and managing over 32,000 transactions annually.

We work directly with Altisource’s vendor management team on Residential's behalf, and our construction management team often interfaces with the general contractors and vendors to maintain relationships with the vendor network. Through our team, Residential coordinates with Altisource and its personnel as well as the vendor network to establish a collective approach to the renovation management, maintenance, repair and materials supply chain to create a unified look and feel for the single-family rental properties that Residential rents, owns or acquires upon resolution of its mortgage loans.

Residential's master services agreement and other support agreements with Altisource are exclusive arrangements, and we believe that these relationships and our direct access to a large vendor network through Altisource provides Residential with significant competitive advantages over third parties with respect to acquiring and maintaining single-family rental properties. We expect Residential to hold single-family rental property assets over the long-term with a focus on developing brand and franchise value.

We also believe that the forecasted growth for the single-family rental marketplace, in combination with our projected asset management and acquisition costs for Residential and its ability to acquire high yielding assets nationwide, provides Residential with a significant opportunity to establish it as a leading residential REIT.

Loan Resolution Activities

The management and/or sale of Residential's legacy portfolio of residential mortgage loans is an important focus of its business. For the mortgage loans remaining in its portfolio, Residential seeks to employ various loan resolution methodologies, through its servicers, with respect to its residential mortgage loans, including loan modification, collateral resolution and collateral disposition. To help Residential achieve its business objective, we continue to focus on converting a portion of our sub-performing and non-performing loans to performing status and managing the foreclosure process and timelines with respect to the remainder of those loans. Due to the continually evolving market dynamics and pricing of distressed mortgage loans, we are opportunistically evaluating the different alternatives with respect to our loan portfolio, including potential sales, continued resolution and possible acquisitions of such loans.

Disposition of Loans

As discussed above, Residential's loan resolution strategy has typically led to the disposition of non-performing mortgage loans primarily through short sales, refinancing, foreclosure sales and the sale of loans that had transitioned to re-performing loans from prior non-performing loan acquisitions.

In the third quarter of 2015, Residential also commenced efforts to sell certain non-performing loans to take advantage of attractive market pricing and evolving market conditions. Sales of non-performing loans that do not meet its rental property criteria are expected to be a growth engine for Residential, allowing it to recycle capital that it may use to purchase rental properties that meet its return profile. In the fourth quarter, Residential completed the first of such sales to two unaffiliated parties of 772 non-performing and re-performing loans with an aggregate unpaid principal balance ("UPB") of approximately $309.6 million, representing 15% of its loan portfolio by UPB. The final sale price for these portfolios was within approximately 1% of the balance sheet carrying value.

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In addition, in December 2015, Residential commenced an auction to sell an additional portfolio of 1,266 non-performing and re-performing mortgage loans with an aggregate UPB of $434.3 million, representing approximately 24% of its loan portfolio by UPB. On January 19, 2016, following the auction process, Residential agreed in principle to award the sale to an unrelated third party. The agreed upon price for this portfolio is within approximately 1% of Residential's balance sheet carrying value. Subject to typical confirmatory due diligence and negotiation of a definitive purchase agreement, we expect Residential to consummate this transaction in the first quarter of 2016. As is customary in these transactions, this confirmatory due diligence process may result in certain loans being removed from the sale or a repricing of certain loans; therefore, the final composition and proceeds of this portfolio sale are subject to adjustment depending on the final diligence results and further negotiation by the parties.

Following completion of the sale of this additional mortgage loan portfolio, Residential will have sold 2,227 non-performing and re-performing loans, including 189 loans sold during June 2015, with an aggregate UPB of $790.5 million. Residential may market additional portfolios of non-performing loans in the future. It is anticipated that the proceeds generated from any such transactions would be utilized, in part, to facilitate Residential's strategy to substantially grow its single-family rental assets through the purchase of portfolios of single-family residential properties and on a one-by-one basis.

Residential is currently contemplating additional sales of non-performing loan portfolios for assets that do not meet its rental criteria.

Resolution of Loans

For the non-performing and sub-performing mortgage loans that Residential continues to hold and acquire, the preferred resolution methodology has been to modify them. Once successfully modified, we expect that certain borrowers will refinance their loans with other lenders or Residential will sell the modified loans after establishing a payment history at or near the estimated value of the underlying property, potentially generating attractive returns for Residential. We believe modification followed by refinancing generates near-term cash flows, provides the highest possible economic outcome for Residential and is a socially responsible business strategy because it keeps more families in their homes.

Certain of Residential's residential mortgage loans are liquidated as a result of a short sale, third party sale of the underlying property, refinancing or full debt pay-off of the loan. Upon liquidation of a loan, Residential records net realized gains, including the reclassification of previously accumulated net unrealized gains on those mortgage loans. We expect the timeline to liquidate loans will vary significantly by loan, which could result in fluctuations in Residential's revenue recognition and operating performance from period to period. Additionally, the proceeds from loan liquidations may vary significantly depending on the resolution methodology used for each loan.

A portion of our residential mortgage loans become REO either through foreclosure or as a result of Residential's acquisition of the property via alternative resolution such as deed-in-lieu of foreclosure. Upon conversion of loans to REO, Residential marks the properties to the most recent market value and recognize net unrealized gains for the difference between the carrying value of the asset at the time of conversion and the most recent market value, which is based on broker price opinions (“BPOs”). The timeline to convert acquired loans into REO can vary significantly by loan, which can result in fluctuations in Residential's revenue recognition and our operating performance from period to period. The factors that may affect the timelines to foreclose upon a residential mortgage loan include, without limitation, state foreclosure timelines and deferrals associated therewith; unauthorized parties occupying the property; federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures; continued declines in real estate values and/or sustained high levels of unemployment that increase the number of foreclosures and that place additional pressure and/or delays on the already overburdened judicial and administrative proceedings.

We anticipate that REO properties that meet Residential's investment criteria will be converted into single-family rental properties, which we believe will generate long-term returns for Residential's stockholders. If an REO property does not meet Residential's rental investment criteria, we expect Residential to liquidate the property and generate cash for reinvestment in other acquisitions and dividend distributions.

Real Estate Assets

On August 18, 2015, Residential completed the acquisition of 1,314 single-family rental properties in the Atlanta, Georgia market, of which 94% were leased as of the acquisition date, from a third party seller for an aggregate purchase price of approximately $111.4 million. This purchase was completed following a diligence process in which Residential was able to access a large portion of the properties being sold and obtain detailed property and tenant information.

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During the third quarter of 2015, Residential also initiated purchases under a program to acquire single-family residential properties on a one-by-one basis through the MLS and alternative listing sources to acquire more single-family rental properties at attractive and predictable values. We believe that the fact that, because these properties are listed on the MLS or another listing source and are unoccupied, they are available to be inspected in order to provide more clarity to the condition of the house. Residential acquired 98 residential rental properties under this program during 2015 and is continuing efforts to expand its capabilities to acquire more properties under this program at attractive and predictable values during 2016.

During the year ended December 31, 2014, Residential acquired 237 REO properties as part of its mortgage loan portfolio acquisitions. The aggregate purchase price attributable to these acquired REO properties was $34.1 million.

During the year ended December 31, 2013, Residential acquired 40 REO properties as part of its mortgage loan portfolio acquisitions. The aggregate purchase price attributable to these acquired REO properties was $6.2 million.

As of December 31, 2015, Residential had 6,516 REO properties, consisting of 4,933 REO properties held for use and 1,583 held for sale. Of the 4,933 REO properties held for use, 2,118 properties had been leased, 264 were listed and ready for rent, and 350 were in varying stages of renovation and unit turn status. With respect to the remaining 2,201 REO properties held for use, we will make a final determination whether each property meets Residential's rental profile after (a) applicable state redemption periods have expired, (b) the foreclosure sale has been ratified, (c) Residential has recorded the deed for the property, (d) utilities have been activated and (e) we have secured access for interior inspection. A majority of the REO properties are subject to state regulations that require Residential to await the expiration of a redemption period before a foreclosure can be finalized. Residential includes these redemption periods in its portfolio pricing, which generally reduces the price it pays for the mortgage loans. Once the redemption period expires, Residential immediately proceeds to record the new deed, take possession of the property, activate utilities, and start the inspection process in order to make a final determination on whether to rent or liquidate the property. If an REO property meets Residential's rental investment criteria, we determine the extent of renovations that are needed to generate an optimal rent and maintain consistency of renovation specifications for future branding. If it is determined that the REO property will not meet Residential's rental investment criteria, the property is listed for sale, in some instances after renovations are made to optimize the sale proceeds.

As of December 31, 2014, Residential had 3,960 REO properties, consisting of 3,349 REO properties held for use and 611 properties held for sale. Of the 3,349 properties held for use, 336 had been leased, 197 were listed and ready for rent and 254 were in various stages of renovation. With respect to the remaining 2,562 REO properties at December 31, 2014, we were in the process of determining whether these properties would meet our rental profile.

The table below provides a summary of Residential's real estate assets and the carrying value by state as of December 31, 2015 ($ in thousands):

Property Location	Property Count	Carrying Value (1)	Weighted Average Age in Years (2)
Alabama	39	$4,958	23.8
Alaska	1	185	32.0
Arizona	110	22,933	21.0
Arkansas	30	2,447	36.7
California	624	199,165	36.1
Colorado	37	8,981	28.5
Connecticut	53	9,148	59.1
Delaware	21	2,821	43.5
District of Columbia	1	218	105.0

Florida	922	141,152	27.1
Georgia	1,753	164,500	36.3
Hawaii	3	530	42.2
Idaho	19	2,919	33.9
Illinois	387	58,851	42.8
Indiana	188	20,246	30.6
Iowa	12	1,125	46.5
Kansas	23	1,739	54.1

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Kentucky	58	5,797	35.3
Louisiana	21	2,004	35.9
Maine	6	668	166.2
Maryland	310	60,590	37.2
Massachusetts	56	11,335	76.3
Michigan	95	11,781	41.0
Minnesota	62	9,970	43.7
Mississippi	14	1,065	30.4
Missouri	57	5,573	43.9
Montana	3	635	28.8
Nebraska	5	520	59.8
Nevada	25	3,748	21.0
New Hampshire	13	1,868	73.4
New Jersey	89	14,688	60.4
New Mexico	34	4,838	20.4
New York	68	12,917	71.8
North Carolina	222	27,106	19.7
Ohio	118	13,293	41.2
Oklahoma	17	1,831	35.1
Oregon	16	2,718	45.5
Pennsylvania	250	31,806	54.6
Rhode Island	54	6,900	83.6
South Carolina	127	15,740	23.1
South Dakota	3	390	50.4
Tennessee	73	9,283	24.4
Texas	176	26,045	25.2
Utah	73	12,342	31.7
Vermont	5	793	108.6
Virginia	86	26,083	28.6
Washington	49	10,751	33.8
West Virginia	2	456	12.1
Wisconsin	105	10,765	50.3
Wyoming	1	209	25.0
Total real estate assets	6,516	$986,426	36.4

(1) The carrying value of an asset is based on historical cost, which generally consists of the market value at the time of acquisition plus renovation costs, net of any accumulated depreciation and impairment. Assets held for sale are carried at the lower of the carrying amount or estimated fair value less costs to sell.

(2) Weighted average age is based on the age of each property weighted by its proportion of the total carrying value for its respective state.

As of December 31, 2015, Residential's highest concentrations of real estate were in three states, California, Florida and Georgia, which accounted for 3,300 properties (50.6% of Residential's real estate assets) with an aggregate carrying value of $504.8 million (51.2% of the carrying value of Residential's real estate assets), with the remainder dispersed among 46 other states and the District of Columbia.

Mortgage Loans

Residential did not complete any residential mortgage loan portfolio acquisitions during the year ended December 31, 2015.

During 2014, Residential completed the acquisition of an aggregate of 7,326 residential mortgage loans, substantially all of which were non-performing, having an aggregate UPB of approximately $1.9 billion and an aggregate market value of underlying properties of approximately $1.8 billion. The aggregate purchase price for these acquisitions was approximately

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$1.2 billion. Additionally, in June 2014, Residential acquired 879 re-performing mortgage loans with an aggregate market value of underlying properties of $271.1 million for an aggregate purchase price of $144.6 million.

During 2013, Residential completed the acquisition of an aggregate of 8,491 residential mortgage loans, substantially all of which were non-performing, having an aggregate UPB of approximately $2.2 billion and an aggregate market value of underlying properties of approximately $1.8 billion. The aggregate purchase price for these acquisitions was approximately $1.2 billion.

As of December 31, 2015, Residential had 5,739 mortgage loans at fair value with an aggregate carrying value of $1.0 billion. The carrying value of mortgage loans is based on our proprietary pricing model. The significant unobservable inputs used in the fair value measurement of Residential's mortgage loans at fair value are discount rates, forecasts of future home prices, alternate resolution probabilities and foreclosure timelines. Significant changes in any of these inputs in isolation could result in a significant change to the fair value measurement. For a more complete description of the fair value measurements and the factors that may significantly affect the carrying value of Residential's mortgage loans at fair value, please see Note 6 to our consolidated financial statements.

Residential's sub-performing and non-performing mortgage loans become REO properties when Residential obtains legal title to the property upon completion of the foreclosure process or as a result of its acquisition of the property via alternative resolution, such as deed-in-lieu of foreclosure. Additionally, some of the portfolios Residential purchases may, from time to time, contain a small number of residential mortgage loans that have already been converted to REO.

The remainder of Residential's mortgage loans at fair value consists of a diversified pool of sub-performing and non-performing residential mortgage loans with the underlying properties located across the United States. The aggregate purchase price of Residential's mortgage loans at fair value was 67% of the aggregate market value as determined by the most recent BPO provided by the applicable seller for each property in the respective portfolio as of its cut-off date.

The table below provides a summary of Residential's mortgage loans at fair value based on the respective carrying value, UPB and market values of underlying properties as of December 31, 2015 ($ in thousands):

Location	Loan Count	Carrying Value	UPB	Market Value of Underlying Properties (1)
Alabama	26	$2,416	$3,683	$3,122
Arizona	30	6,531	8,722	8,697
Arkansas	36	2,225	3,205	3,228
California	401	158,270	180,063	213,557
Colorado	22	3,602	3,759	4,640
Connecticut	76	11,919	19,728	17,790
Delaware	37	5,153	6,973	6,790
District of Columbia	42	7,403	8,791	9,882
Florida	1,239	176,140	273,714	242,570
Georgia	138	14,891	20,538	19,648
Hawaii	21	7,992	9,893	10,816
Idaho	5	559	648	761
Illinois	196	29,216	44,667	38,602
Indiana	148	14,289	18,915	19,026
Iowa	10	595	789	922

Kansas	8	527	712	874
Kentucky	33	2,629	4,040	3,692
Louisiana	15	1,652	2,116	2,376
Maine	23	2,261	3,738	3,505
Maryland	318	54,887	79,834	71,814
Massachusetts	176	31,548	45,250	48,663
Michigan	30	3,472	4,261	4,857

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Minnesota	20	3,615	4,197	4,821
Mississippi	12	1,408	1,802	1,820
Missouri	41	2,261	3,571	3,356
Montana	1	172	257	230
Nebraska	4	314	462	436
Nevada	90	16,629	26,699	22,212
New Hampshire	6	1,232	1,807	1,689
New Jersey	739	108,953	197,781	156,328
New Mexico	104	9,852	13,121	13,335
New York	504	114,396	156,336	166,797
North Carolina	99	11,181	14,699	15,211
North Dakota	1	85	123	130
Ohio	50	4,558	6,777	6,368
Oklahoma	14	1,818	2,462	2,340
Oregon	64	13,965	17,576	17,959
Pennsylvania	132	13,552	20,102	19,170
Puerto Rico	1	105	189	190
Rhode Island	28	3,115	6,172	4,381
South Carolina	109	11,833	15,429	15,832
Tennessee	37	4,375	5,756	5,974
Texas	264	29,312	28,690	40,780
Utah	24	4,538	5,222	5,762
Vermont	5	545	822	846
Virginia	34	7,027	9,497	9,486
Washington	294	55,044	67,848	70,680
West Virginia	3	279	520	368
Wisconsin	29	2,193	3,598	3,162
Total mortgage loans at fair value	5,739	$960,534	$1,355,554	$1,325,495

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(1) Market value is based on the most recent BPO provided to us by the applicable seller for each property in the respective portfolio as of its cut-off date or an updated BPO received since the acquisition was completed. Although we performed diligence on a representative sample of the properties to confirm the accuracy of the BPOs provided by the sellers, we cannot assure you that the BPOs set forth in this table accurately reflected the actual market value of the related property at the purported time or accurately reflect such market value today.

As of December 31, 2015, Residential's highest concentrations of loans were in four states, which accounted for 2,883 loans (50.2% of Residential's mortgage loans at fair value) with an aggregate UPB of $807.9 million (59.6% of the UPB of Residential's mortgage loans at fair value), with the remainder dispersed among 43 other states, Puerto Rico and the District of Columbia.

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As set forth in the chart below, approximately 86% of Residential's mortgage loans at fair value were 60 days or more delinquent as of December 31, 2015.

Other Services Provided by Altisource

In addition to the Altisource master services agreement described above, Residential also has a trademark license agreement with Altisource that provides it with a non-exclusive, non-transferable, non-sublicensable, royalty free license to use the name “Altisource.” Residential also has a support services agreement with Altisource to provide services to it in such areas as human resources, vendor management operations, corporate services, risk management, quality assurance, consumer psychology, treasury, finance and accounting, legal, tax and compliance.

During 2015, we internalized certain of the support services that had been provided to us by Altisource by directly hiring 31 of the Altisource employees that had provided those services. We believe the direct hire of these employees has further increased our infrastructure so that we are better able to serve Residential operationally while enabling Altisource to focus on the property management, maintenance and brokerage services that matter most to Residential.

Residential's Investment Process

Acquisition Process for Bulk Single-Family Rental Properties

We have continued to hire key personnel and portfolio managers with substantial experience in the real estate market. Using deep market connections and employing advanced quantitative models and reasoning, the capital markets group focuses on sourcing, analyzing and negotiating the purchase of large, meaningful portfolios of rented single-family properties. This experience and execution of the business model has enabled Residential to purchase a portfolio of 1,314 single-family rental properties in Atlanta, of which more than 94% were occupied by tenants with a stabilized rental income. In December 2015, Residential also bid for, and was awarded, a portfolio of 627 rental properties in Illinois, North Carolina, South Carolina, Georgia and Florida. The size, composition and location of the properties were analyzed and negotiated by our portfolio management team, which is in the process of conducting advance due diligence on the properties. Such due diligence is being conducted with the assistance of Residential's property manager and involves physical inspection of the homes and analysis of the rent rolls and projected rental income for the properties. No assurance can be given that Residential will consummate this acquisition on a timely basis or at all.

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Acquisition Process for One-by-One Real Estate Purchases

Residential's program to purchase residential rental properties on a one-by-one basis targets residential real estate listed on the MLS and alternative listing sources in strategically selected markets. Through analysis of local demographic, housing and crime-related metrics, we are able to identify potentially attractive market sub-segments and pursue properties in such areas, often shortly after they become available. Our review process depends on the characteristics of each property being evaluated for purchase, and the due diligence process may include an assessment of the applicable HOA requirements, neighborhood walkthroughs, property inspections and final rental suitability evaluations, all prior to Residential acquiring the asset. Through December 31, 2015, Residential acquired 98 residential properties, and we expect Residential to continue to purchase residential rental properties throughout 2016.

Acquisition Process for Sub-performing and Non-performing Mortgage Loans

Our underwriting analysis for acquiring sub-performing and non-performing loan portfolios on a national basis relies on extensive analysis of the target portfolio’s characteristics and the use of our proprietary model in determining future cash flows and returns from various resolution methodologies. We estimate Residential's resolution timelines using advanced modeling techniques. We use regression-based models to determine the expected probabilities of different loan resolutions, including modification, rental and liquidation. We also use an extensive due diligence process to validate data accuracy, compliance with laws, and enforceability of liens among other factors.

Residential's Financing Strategy

Residential intends to continue to finance its investments with leverage, the level of which may vary based upon the particular characteristics of its portfolio and on market conditions. To the extent available at the relevant time, Residential's financing sources may include bank credit facilities, warehouse lines of credit, securitization financing, structured financing arrangements and repurchase agreements, among others. Residential may also seek to raise additional capital through public or private offerings of debt or equity securities, depending upon market conditions. For additional information on our financing arrangements, see “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.”

Investment Committee and Investment Policy

We conduct substantially all of the investment activities on behalf of Residential pursuant to the New AMA. Residential’s Board of Directors has adopted a broad investment policy designed to facilitate our management of Residential’s capital and assets and our maintenance of an investment portfolio profile that meets Residential’s objectives. We report to Residential’s Investment Committee, whose role is to act in accordance with the investment policy and guidelines approved by Residential’s Board of Directors for the investment of its capital. As part of an overall investment portfolio strategy, the investment policy provides that we can facilitate Residential’s purchase or sale of non-performing or sub-performing residential mortgage loans, residential mortgage backed securities and real estate assets. We are also authorized, on behalf of Residential, to offer leases on acquired single-family residential real estate. The investment policy may be modified by Residential’s Board of Directors without the approval of our stockholders.

The objective of Residential’s investment policy is to oversee our efforts to achieve a return on assets consistent with Residential’s business objective and to maintain adequate liquidity to meet Residential’s financial covenants and regular cash requirements.

The Investment Committee is authorized to approve the financing of Residential's investment positions through repurchase agreements, warehouse lines of credit, securitized debt and other financing arrangements provided such agreements are negotiated with counterparties approved by the Investment Committee. We are also permitted to hedge Residential's interest rate exposure on its financing activities through the use of interest rate swaps, forwards, futures and options, subject to prior approval from Residential's Investment Committee.

Investment Committee Approval of Counterparties

Residential's investment committee is authorized to consider and approve, based on our recommendations:

- the financial soundness of institutions with which Residential plans to transact business and recommendations with respect thereto;

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- Residential’s risk exposure limits with respect to the dollar amounts of total exposure with a given institution; and
- investment accounts and trading accounts to be opened with banks, broker-dealers and financial institutions.

Investment Committee Guidelines

The activities of Residential’s Investment Committee are subject to the following guidelines, which we must follow in making recommendations to the Investment Committee:

- No investment will be made that would cause Residential or any of its subsidiaries to fail to qualify as a REIT for U.S. federal income tax purposes;
- No investment will be made that would cause Residential to be required to register as an investment company under the Investment Company Act of 1940 (the “Investment Company Act”); and
- Until appropriate investments can be identified, Residential may invest available cash in interest-bearing and short-term investments that are consistent with (a) Residential’s intention to qualify as a REIT and (b) Residential’s exemption from registration as an investment company under the Investment Company Act.

Broad Investment Policy Risks

Residential's investment policy is very broad and, therefore, its Investment Committee and we have extensive latitude in determining the types of assets that are appropriate investments for Residential and to make individual investment decisions. In the future, we may make investments with lower rates of return than those anticipated under current market conditions and/or may make investments with greater risks to achieve those anticipated returns. Residential's Board of Directors will periodically review its investment policy and its investment portfolio but will not review or approve each proposed investment made by us unless it falls outside our previously approved investment policy or constitutes a related party transaction.

In addition, in conducting periodic reviews, Residential's Board of Directors will rely primarily on information provided to it by us. Furthermore, we may use complex strategies, and transactions entered into by us on behalf of Residential may be costly, difficult or impossible to unwind by the time they are reviewed by Residential's Board of Directors. Further, Residential may change its investment policy and targeted asset classes at any time without the consent of its stockholders, which could result in it making investments that are different in type from, and possibly riskier than, its current investments or the investments currently contemplated. Changes in Residential's investment strategy, investment policy and targeted asset classes may increase its exposure to interest rate risk, counterparty risk, default risk and real estate market fluctuations, which could materially and adversely affect Residential and, in turn, could adversely affect the fees we earn under our asset management agreement.

NewSource Investment

On December 21, 2012, we entered into a subscription agreement to invest $2.0 million in 100% of the voting common stock of NewSource. Residential simultaneously entered into a subscription agreement to invest $18.0 million to acquire non-voting preferred stock of NewSource. On October 17, 2013, we and Residential invested the full amount of our respective subscriptions in NewSource, and on December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority (“BMA”). In September 2015, we contributed an additional $5.0 million to NewSource.

Additionally, on November 18, 2013, NewSource entered into a management agreement with us to provide asset management and corporate governance services for an aggregate annual management fee of $840,000, and in November 2013, NewSource entered into a management agreement with Marsh IAS Management Services (Bermuda) Ltd. to administer its day-to-day business activities and operations. Effective October 1, 2015, we suspended further charges to NewSource for services under the management agreement.

NewSource commenced reinsurance activities during the second quarter of 2014, and generated approximately $5.0 million of title reinsurance premiums during 2014. However, in December 2014, NewSource determined that the economics of the initial business activities did not warrant the continuation of its initial reinsurance quota share agreement with an unrelated third party. NewSource therefore transferred all of the risk of claims and future losses underwritten to an unrelated third party for a price of $3.2 million.

NewSource is continuing to evaluate its real estate related insurance and reinsurance strategy and considering related opportunities. There is no assurance that NewSource will be able to develop or grow its business strategy or operations, or engage in insurance and reinsurance activities at all.

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On September 14, 2015, NewSource completed the repurchase of all of Residential's shares of non-voting preferred stock for aggregate proceeds of $18.0 million, which was the aggregate par value of the shares being repurchased. Until September 10, 2015, Residential was eligible to receive a 12% annual cumulative preferred dividend on its investment. In connection with the repurchase of the preferred stock, NewSource also paid to Residential the accrued but unpaid dividend on its shares from January 1, 2015 through September 10, 2015 amounting to $1.5 million.

Employees

As of December 31, 2015, we had 46 full time employees. Our executive officers are also officers of Residential.

On January 18, 2016, we hired a new dedicated General Counsel for Residential. Although he is not employed by Residential, his primary duties are to act as Residential's General Counsel, and he reports to Residential's Board of Directors. Residential also directs and approves his compensation and reimburses us for all costs associated with his employment.

Service Providers

We have entered into a support services agreement with Altisource (the “Altisource support services agreements”) pursuant to which Altisource may provide, as necessary, services to us in such areas as human resources, vendor management operations, corporate services, risk management and six sigma, quality assurance, consumer psychology, treasury, finance and accounting, legal, tax, compliance and other support services. In addition, we have entered into trademark license agreements with Altisource that provides us with non-exclusive, non-transferable, non-sublicensable, royalty free license to use the name “Altisource.” We also entered into a technology services agreement with Altisource pursuant to which Altisource provides us with technology support services for network management and telephony.

During 2015, we internalized certain of the support services that had been provided to us by Altisource by directly hiring 31 of the Altisource employees that had provided those services. We believe the direct hire of these employees has further increased our infrastructure so that we are better able to serve Residential operationally while enabling Altisource to focus on the property management, maintenance and brokerage services that matter most to Residential.

Our Competition

We are in a highly competitive market and are competing with other asset managers. Our competitors may have greater resources, more personnel, more clients, more sources of revenue and more capital than we do. Our clients may not perform as well as the clients of our competitors. Some of our competitors' clients may have significant amounts of capital, lower cost of capital or access to funding sources not available to our client. Additionally, our competitors and competitors' clients may have higher risk tolerances or may be willing to accept lower returns on investment. Some of our competitors may have better expertise or be regarded by potential clients as having better expertise to specific assets.

Residential's Competition

Residential faces competition from various sources for the acquisition of residential rental properties and residential mortgage loans. Residential's competition includes other REITs, hedge funds, private equity funds and partnerships. To effectively compete, Residential will rely upon our management team and their substantial industry expertise, which we believe provides Residential with a competitive advantage and helps Residential assess the investment risks and determine appropriate pricing. We expect Residential's integrated approach of acquiring residential rental properties, both in bulk and on a one-by-one basis, as well as converting sub-performing and non-performing residential mortgage loans into rental properties will enable Residential to compete more effectively for attractive investment opportunities. However, we cannot assure you that Residential will be able to achieve its business goals or expectations due to the competitive pricing and other risks that it faces. Residential's competitors may have greater resources and access to capital and higher risk tolerances than Residential, may be able to pay higher prices for assets or may be willing to accept lower returns on investment. As the inventory of available residential rental properties and related assets will fluctuate, the competition for assets and financing may increase.

Residential also faces significant competition in the single-family rental market from other real estate companies, including REITs, investment companies, partnerships and developers. To effectively manage rental yield and occupancy levels, Residential will rely upon the ability of our management team to supervise the renovation, yield management and property management services on its acquired properties. Despite these efforts, some of Residential's competitors' single-family rental properties may be of better quality, be in more desirable locations than its properties or have leasing terms more favorable than

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Residential offers. In addition, Residential's ability to compete and meet its return objectives depends upon, among other factors, trends of the national and local economies, the financial condition and liquidity of current and prospective tenants, availability and cost of capital, taxes and governmental regulations. Given the significant competition, complexity of the market, changing financial and economic conditions and evolving single-family tenant demographics and demands, we cannot assure you that Residential will be successful in acquiring or managing single-family rental properties that satisfy its return objectives.

Environmental Matters

As an owner of real estate, Residential is subject to various federal, state and local environmental laws, regulations and ordinances and also could be liable to third parties resulting from environmental contamination or noncompliance with environmental laws at its properties. We are tasked with monitoring these laws, regulations and ordinances for Residential. Environmental laws can impose liability on an owner or operator of real property for the investigation and remediation of contamination at or migrating from such real property without regard to whether the owner or operator knew of or was responsible for the presence of the contaminants. The costs of any required investigation or cleanup of these substances could be substantial. The liability is generally not limited under such laws and could exceed the property's value and the aggregate assets of the liable party. The presence of contamination or the failure to remediate contamination at Residential's properties also may expose it to third-party liability for personal injury or property damage or adversely affect Residential's ability to sell, lease or renovate the real estate or to borrow using the real estate as collateral. These and other risks related to environmental matters are described in more detail in “Item 1A. Risk Factors.”

Government Approval

Outside of routine business filings, we do not believe it is necessary to obtain any government approval to operate our business.

Governmental Regulations

We do not believe there are any governmental regulations that will materially affect the conduct of our business.

Available Information

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other information with the Securities and Exchange Commission (the “SEC”). These filings are available to the public over the Internet at the SEC's website at http://www.sec.gov. You may also read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1 800-SEC-0330 for further information on the public reference room.

Our principal Internet address is http://www.altisourceamc.com, and we encourage investors to use it as a way of easily finding information about us. We promptly make available on this website, free of charge, the reports that we file with or furnish to the SEC along with corporate governance information including our Corporate Governance Guidelines, our Code of Business Conduct and Ethics and select press releases. The contents of our website are available for informational purposes only and shall not be deemed incorporated by reference in this report.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. We consider the risks faced by Residential to be our risks because we rely on the performance of

Residential to determine our incentive management fee payments and result of operations. If any of the following risks actually occur, our business, operating results and financial condition could be materially adversely affected.

Risks Related to Our Business

We have a limited operating history. If we are unable to implement our business strategy as planned, we will be materially and adversely affected.

We commenced operations approximately three years ago, and our business model is relatively untested and evolving. Businesses like ours that have a limited operating history present substantial business and financial risks and may suffer significant losses. As a result we cannot predict our results of operations, financial condition and cash flows. Our results for

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prior periods are not necessarily indicative of our results for any future period, and we may not have sufficient additional capital to implement our business model. There can be no assurance that our business will remain profitable or that it will be sustainable. The earnings potential of our proposed business is unproven, and the absence of an operating history makes it difficult to evaluate our prospects. We may not be able to implement our business strategy as planned, which could materially and adversely affect us.

We are operating under a new asset management agreement with Residential that substantially changes the fee structure in which we earn fees; failure of Residential to achieve desired results could result in drastically reduced fees to us would have a material adverse effect on our operating results and financial condition.

In March 2015, we entered into the New AMA with Residential. The New AMA, which became effective on April 1, 2015, provides for a new management fee structure, which replaces the incentive fee structure under the Original AMA as described under “Item 1. Business - Asset Management Agreement.” The three components of the fee structure are the Base Management Fee, which ranges from 1.5% to 2.0% of Residential’s invested capital (as defined in the New AMA), the Conversion Fee, which is 1.5% of the market value of the single-family homes leased by Residential for the first time during the quarter, and the Incentive Management Fee, which ranges from 20% to 25% of the amount by which Residential’s return on invested capital (based on AFFO as defined in the New AMA) exceeds an annual hurdle return rate of between 7.0% and 8.25% (depending on the 10-year treasury rate). To the extent Residential has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle for the next quarter before we are entitled to an Incentive Management Fee.

Since the effective date of the New AMA, we have not yet earned any Incentive Management Fees because Residential has not achieved a return in invested capital of greater than 1.75% in any quarter since April 1, 2015. In addition, since Residential’s performance has resulted in shortfalls of the 1.75% return on invested capital for the past three quarters, those shortfalls have been added to the return on invested capital Residential must achieve before entitling us to an Incentive Management Fee. We cannot be certain as to if, or when, we will earn an Incentive Management Fee under the New AMA. If Residential is unable to achieve a return on capital that entitles us to earn an Incentive Management Fee, our operating results and financial condition would be significantly limited, which absent additional new revenue streams, could materially and adversely affect us.

Residential is our primary client and we are primarily reliant on Residential to generate our revenues. A loss of Residential as a client and/or our inability to obtain or develop new clients would materially adversely affect us.

Residential currently is our primary customer. The loss of this key customer or its failure to pay us would adversely affect our revenues, results of operations and financial condition. Despite Residential’s or our efforts, Residential may fail to substantially grow or have adverse financial performance for a number of reasons including, without limitation, failure to maintain adequate liquidity, an inability to grow through equity offerings and/or debt facilities, generation if poor or inadequate returns, or an inability to, or substantial delays in growing or monetizing its portfolio. Under the New AMA, neither party is entitled to terminate the New AMA prior to the end of the initial term or each renewal term. However, Residential has the ability to terminate us (a) “for cause” for certain events such as a material breach of the New AMA and failure to cure such breach, (b) for certain other reasons such as its failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the New AMA or (c) in connection with certain change of control events. There can be no assurance that Residential will not be able to terminate us prior to the end of the initial term or any renewal term, particularly after April 2018, if Residential’s results do not achieve the required returns in two consecutive years. Residential may also make a decision to abandon the single-family rental business, which may have the constructive effect of terminating the agreement or drastically reducing our fees under the New AMA.

We may not be able to obtain or develop additional clients on acceptable terms or at all. Our ability to attract, develop and/or maintain additional clients may depend, in large part, on the success of Residential under our management and our ability to continue to develop and implement Residential's business plan profitably and enable Residential to maintain and grow its shareholder returns and dividends. We may be unable to reduce our reliance on Residential for incentive management fees and our failure to do so could materially adversely affect our results of operation and financial condition and could adversely affect our ability to attract additional clients and the sustainability of our business model.

The success of our business is dependent on Residential and its ongoing access to sufficient and cost-effective sources of capital.

Residential commenced operations approximately two years ago and may require additional working capital to implement its investment strategies. Residential may need to utilize a variety of funding sources to provide sufficient capital to effectively

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carry out its business plan over the long-term. We will have significant responsibilities in advising Residential on its capital raising activities. Our success is dependent on Residential's ability to obtain such capital. Residential utilizes various sources of liquidity including without limitation accessing the capital markets to issue debt or equity securities, engaging in collateralized or other borrowings including repurchase agreements and warehouse facilities from third party banks or entering into securitization transactions, all or any of which may not be available or have terms that are not cost-effective, therefore having an adverse impact on Residential's financial performance. Residential currently is our primary customer. The loss of this key customer or its failure to pay us would adversely affect our revenues, results of operation, financial condition. We may not be able to obtain additional clients on acceptable terms or at all. Therefore, we may be unable to reduce our reliance on Residential for incentive management fees.

The asset management business is intensely competitive.

The asset management business is intensely competitive, driven by a variety of factors including asset performance, the quality of service provided to clients, brand recognition and business reputation. Our asset management business competes with a number of other asset managers. A number of factors serve to increase our competitive risks:

- a number of our competitors may have greater financial, technical, marketing and other resources and more personnel than we do;
- our clients may not perform as well as the clients of our competitors;
- several of our competitors and their clients have significant amounts of capital and many of them have similar management objectives to ours which may create additional competition for management opportunities;
- some of these competitors' clients may also have a lower cost of capital and access to funding sources that are not available to our clients which may create competitive disadvantages for us with respect to funding opportunities;
- some of our competitors' clients may have higher risk tolerances, different risk assessments or lower return thresholds which could allow them to facilitate the acquisition and management by their clients of a wider variety of assets and allow them to advise their clients to bid more aggressively than our clients for assets on which we would advise our clients to bid;
- there are relatively few barriers to entry impeding new asset management firms, and the successful efforts of new entrants into the asset management business is expected to continue to result in increased competition;
- some of our competitors may have better expertise or be regarded by potential clients as having better expertise with regard to specific assets and
- other industry participants will from time to time seek to recruit members of our management team and other employees away from us.

Suboptimal economics of real estate related insurance activities, or a failure to commence and/or grow the business of NewSource could adversely impact our investment in NewSource.

We invested $2.0 million in 100% of the common stock of NewSource during 2013, and we invested an additional $5.0 million in 2015. Despite the commencement in 2014 of NewSource’s title reinsurance business operations, NewSource determined that the economics of the initial business activities did not warrant the continuation of its initial reinsurance quota share agreement with an unrelated third party. NewSource therefore transferred all of the risk of claims and future losses underwritten to an unrelated third party for a price of $3.2 million.

NewSource is continuing to evaluate its real estate related insurance and reinsurance strategy and considering related opportunities. There is no assurance that NewSource will be able to develop or grow its business strategy or operations, or engage in insurance and reinsurance activities at all. In any such event, the business model for NewSource would become challenged or the growth of NewSource would become hampered, which would adversely affect the economics of our investment in NewSource and /or generate stockholder returns to us.

Our accounting and other management systems and resources may not be adequately prepared to meet the financial reporting and other requirements to which we will be subject following the separation date.

We are directly subject to reporting and other obligations under the Exchange Act. Under the Sarbanes-Oxley Act, we are required to maintain effective disclosure controls and procedures. To comply with these requirements, we may need to implement additional financial and management controls, reporting systems and procedures and hire additional accounting and finance staff. We have incurred, and expect to continue to incur, additional annual expenses for the purpose of addressing these requirements, and these expenses may be significant. If we are unable to implement additional controls, reporting systems, information technology systems and procedures in a timely and effective fashion, our ability to comply with our financial

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reporting requirements and other rules that apply to reporting companies under the Exchange Act could be impaired. Any failure to achieve and maintain effective internal controls could have a material adverse effect on our financial condition, results of operations or cash flows. In the future, we may also be required to comply with Section 404 of the Sarbanes-Oxley Act which will require annual management assessments of the effectiveness of our internal controls over financial reporting and will require a report by our independent registered public accounting firm addressing these assessments. These reporting and other obligations may place significant demands on our management, administrative and operational resources, including accounting systems and resources.

We have identified a material weakness in our internal control over financial reporting which could, if not remediated, result in material misstatements in our financial statements.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. As disclosed in Part II, Item 9A of this Annual Report on Form 10-K, during the fourth quarter of 2015, we concluded that certain material weaknesses existed as of December 31, 2014. Specifically, management identified a material weakness in our internal control over financial reporting related to (1) the review of the BPOs used to record real estate owned and real estate assets held for sale, including monitoring the internal controls that are in place at third party vendors that we use to provide fair value information for individual properties, and (2) the review of assumptions used to determine the fair value of mortgage loans.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. As of December 31, 2015, we have not yet fully remediated the material weakness relating to the review of assumptions used to determine the fair value of mortgage loans. We are currently in the process of designing, documenting and implementing additional control procedures to remediate this material weakness. If our remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our internal controls are discovered or occur in the future, we could be required to restate our financial results or experience a decline in the price of our securities.

Our success depends on our senior management team, and if we are not able to retain them, it could have a material adverse effect on us.

We are highly dependent upon the continued services and experience of our senior management team. We depend on the services of members of our senior management team to, among other things, continue the development and implementation of our growth strategies and maintain and develop our client relationships. In the event that, for any reason, we are unable to retain our key personnel, it may be difficult for us to secure suitable replacements on acceptable terms. This would adversely impact the development and implementation of our growth strategies.

The continuing unpredictability of the credit markets may restrict our access to capital and may make it difficult or impossible for us to obtain any required additional financing.

The domestic and international credit markets continue to be unpredictable. In the event that we need additional capital for our business, we may have a difficult time obtaining it and/or the terms upon which we can obtain it would have an adverse impact on our financial performance.

Our business could be significantly impacted if we suffer failure or disruptions of our information systems.

We rely heavily on communications, data processing and other information processing systems to conduct our business and support our day-to-day activities, most services of which are provided through Altisource. Thus, our business requires the continued operation of Altisource's sophisticated information technology systems and network infrastructure. These systems are vulnerable to interruption by fire, loss, system malfunction and other events which are beyond our control. Systems interruptions could reduce our ability to provide our services and could have an adverse effect on our operations and financial performance.

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Failure to retain the tax benefits provided by the United States Virgin Islands would adversely affect our financial performance.

We are incorporated under the laws of the United States Virgin Islands and are headquartered in Frederiksted, in the United States Virgin Islands. The United States Virgin Islands has an Economic Development Commission, which we refer to as the "EDC," that provides benefits, which we refer to as "EDC Benefits," to certain qualified businesses in Frederiksted that enable us to avail ourselves of significant tax benefits for a thirty year period. We received our certificate to operate as a company that qualifies for EDC Benefits as of February 1, 2013, which provides us with a 90% credit on our taxes so long as we comply with the requirements of the EDC and our certificate of benefits. It is possible that we may not be able to retain our qualifications for the EDC Benefits or that changes in U.S. federal, state, local, territorial or United States Virgin Islands taxation statutes or applicable regulations may cause a reduction in or an elimination of the EDC Benefits, all of which could result in a significant increase to our tax expense, and, therefore, adversely affect our financial condition and results of operations.

We may become subject to United States federal income taxation.

We are incorporated under the laws of the United States Virgin Islands and intend to operate in a manner that will cause us to be treated as not engaging in a trade or business within the United States which will cause us to be exempt from current United States federal income taxation on our net income. However, because there are no definitive standards provided by the Code, regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and as any such determination is essentially factual in nature, we cannot assure you that the IRS will not successfully assert that we are engaged in a trade or business within the United States.

If the IRS were to successfully assert that we have been engaged in a trade or business within the United States in any taxable year, various adverse tax consequences could result including the following:

- we may become subject to current United States federal income taxation on our net income from sources within the United States;
- we may be subject to United States federal income tax on a portion of our net investment income, regardless of its source;
- we may not be entitled to deduct certain expenses that would otherwise be deductible from the income subject to United States taxation and
- we may be subject to United States branch profits tax on profits deemed to have been distributed out of the United States.

United States persons who own shares may be subject to United States federal income taxation on our undistributed earnings and may recognize ordinary income upon disposition of shares.

Significant potential adverse United States federal income tax consequences generally apply to any United States person who owns shares in a passive foreign investment company which we refer to as a "PFIC." We cannot provide assurance that we will not be a PFIC in any future taxable year.

In general, we would be a PFIC for a taxable year if either (i) 75% or more of its income constitutes "passive income" or (ii) 50% or more of our assets produce "passive income." Passive income generally includes interest, dividends and other investment income. We believe that we are currently operating and intend to continue operating our business in a way that should not cause us to be a deemed PFIC, although we cannot assure you the IRS will not successfully challenge this conclusion.

United States persons who, directly or indirectly or through attribution rules, own 10% or more of our shares which we refer to as United States 10% shareholders, may be subject to the controlled foreign corporation, which we refer to as “CFC,” rules. Under the CFC rules, each United States 10% shareholder must annually include his pro rata share of the CFC's “subpart F income,” even if no distributions are made. In general, with respect to insurance revenues related to NewSource, we will be treated as a CFC only if United States 10% shareholders collectively own more than 25% of the total combined voting power or total value of our shares for an uninterrupted period of 30 days or more during any year. With respect to all other revenues, we will be treated as a CFC only if United States 10% shareholders collectively own more than 50% of the total combined voting power or total value of our shares for an uninterrupted period of 30 days or more during any year. We believe that the dispersion of our ordinary shares among holders will generally prevent shareholders who acquire shares from being United States 10% shareholders. We cannot assure you, however, that these rules will not apply to you. If you are a United States person, we strongly urge you to consult your own tax adviser concerning the CFC rules.

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United States tax-exempt organizations who own shares may recognize unrelated business taxable income.

If you are a United States tax-exempt organization you may recognize unrelated business taxable income with respect to our insurance-related income if a portion of our subpart F income is allocated to you. In general, subpart F income will be allocated to you if we are a CFC and you are a United States 10% shareholder and certain exceptions do not apply. In general, with respect to insurance revenues related to NewSource, we will be treated as a CFC only if United States 10% shareholders collectively own more than 25% of the total combined voting power or total value of our shares for an uninterrupted period of 30 days or more during any year. Although we do not believe that any United States persons will be allocated subpart F income, we cannot assure you that this will be the case. If you are a United States tax-exempt organization, we advise you to consult your own tax adviser regarding the risk of recognizing unrelated business taxable income.

Change in United States tax laws may be retroactive and could subject us, and/or United States persons who own shares to United States income taxation on our undistributed earnings.

The tax laws and interpretations regarding whether we are engaged in a United States trade or business, are a CFC or a PFIC are subject to change, possibly on a retroactive basis. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming from the IRS. We are not able to predict if, when or in what form such guidance will be provided and whether such guidance will have a retroactive effect.

The impact of the initiative of the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect our tax status in the United States Virgin Islands.

The Organization for Economic Cooperation and Development has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. While the United States Virgin Islands is currently a jurisdiction that has substantially implemented internationally agreed tax standards, we are not able to predict if additional requirements will be imposed and if so whether changes arising from such additional requirements will subject us to additional taxes.

Concentration of Credit Risk

We and Residential maintain our cash and cash equivalent investments and our restricted cash at financial or other intermediary institutions. The combined account balances at each institution typically exceed FDIC insurance coverage of $250,000 per depositor and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. At December 31, 2015, we and Residential had an aggregate of approximately $204.1 million at financial institutions in excess of FDIC insured limits. Any event that would cause a material portion of our and/or Residential’s cash and cash equivalents and restricted cash at financial institutions to be uninsured by the FDIC could have a material adverse effect on our financial condition and results of operations.

Risks to Us Related to Residential’s Business Risks and Operating Performance

Initially, Residential is our primary source of revenue and will drive our potential future growth. Any risk associated with Residential's business that would adversely affect its ability to generate revenue and pay distributions to its shareholders is a risk to our business, as our revenues, results of operations and financial condition significantly depend upon the incentive management fees paid to us as a percentage of Residential's cash available for distribution to its shareholders. Any risk that ultimately adversely affects Residential would adversely affect the revenues we can generate, as well as our results of operations and financial condition. The risks related to Residential’s business are provided below.

Residential has a limited operating history. If Residential is unable to implement its business strategy as planned, it will be materially and adversely affected.

Residential commenced operations approximately three years ago and its business model is relatively untested. Businesses like Residential's that have a limited operating history present substantial business and financial risks and may suffer significant losses. As a result we cannot predict Residential's results of operations, financial condition and cash flows. Residential only began to generate residential rental revenue during 2013, and its historical financial results have been largely attributable to purchasing residential mortgage loans and other rental-related assets at a discount. As a result of the changes to its acquisition strategy and its diversified approach of acquiring single-family rental properties directly, Residential did not complete any

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residential mortgage loan portfolio acquisitions during the year ended December 31, 2015. While it intends to continue to review and assess the acquisition of portfolios of residential mortgage loans, Residential may not pursue further acquisitions of such loans. Further, there can be no assurance that Residential will be able to identify and successfully acquire portfolios of single-family rental properties or related assets on favorable terms or at all.

We anticipate significant growth in Residential's rental portfolio, which may result in our inability to effectively manage its rental portfolio, including, but not limited to, delays in renovations, poor tenant selection and other operational inefficiencies that could reduce Residential's profitability or damage its reputation. Generally, we expect that Residential's single-family rental portfolios may grow at an uneven pace, if at all, as opportunities to acquire single-family rental portfolios on acceptable terms may be irregularly timed and may involve large or small portfolios of single-family rental properties. The timing and extent of Residential's success in acquiring such assets cannot be predicted due to market conditions, limited financial resources or other constraints.

Commencing in the third quarter of 2015, Residential began to package and sell portfolios of non-performing loans to unaffiliated third parties. Residential will continue to evaluate the opportunistic sale of additional portfolios of non-performing loans in the future. The timing and extent of Residential's success in selling such assets on acceptable terms or at all cannot be predicted due to market conditions, including the demand for residential mortgage loans. It is anticipated that the proceeds generated from such transactions will be utilized, in part, to facilitate Residential's strategy to purchase single-family residential properties either in bulk or on a one-by-one basis. Residential's inability to sell portfolios of residential mortgage loans on acceptable terms and/or in accordance with its preferred timing could potentially cause a strain on its liquidity, and Residential may be forced to reduce prices, continue to hold such residential mortgage loans at less than ideal leverage ratios and/or bear other costs, which could materially and adversely affect Residential's financial condition and its ability to make further acquisitions.

The success of Residential's loan resolution efforts remains an important aspect of its business. It could take longer than originally expected, and therefore be more costly, for a significant portion of loans in any given portfolio to be converted into single-family rental properties or an underlying property to be liquidated or sold. Accordingly, if Residential is not able to generate sufficient cash flows from its loan modification and refinancing or other activities, it may not have cash available for distribution to its stockholders for an extended period of time.

As a result of the foregoing developments, results from prior periods are not necessarily indicative of Residential's results for any future period, and Residential may not have sufficient additional capital to implement its business model. There can be no assurance that Residential's business will remain profitable or that its profitability will be sustainable. The earnings potential of Residential's business is unproven, and its limited operating history makes it difficult to evaluate Residential's prospects. Residential may not be able to implement its business strategy as planned, which could materially and adversely affect Residential.

Residential's business could be negatively affected as a result of shareholder activism, which could cause it to incur significant expense, hinder execution of its business strategy and impact the trading value of the its securities.

Activist shareholders are currently publicly advocating for certain governance and strategic changes at Residential, and there is no assurance that such efforts will not be successful or that Residential will not be subject to additional shareholder activity or demands in the future. Shareholder activism, including potential proxy contests, requires significant time and attention by management and the Board of Directors, potentially interfering with Residential's ability to execute its strategic plan. Additionally, such shareholder activism could give rise to perceived uncertainties as to Residential's future direction and adversely affect its relationships with key business partners. Also, Residential may be required to incur significant legal fees and other expenses related to activist shareholder matters. Any of these impacts could materially and adversely affect Residential's business and operating results. Further, the market price of Residential's common stock could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties described above.

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Residential is operating in an emerging industry, and the long-term viability of its investment strategy on an institutional scale is unproven.

Large-scale institutional investment in single-family residential homes for rent is a relatively recent phenomenon that has emerged out of the mortgage and housing crisis that began in late 2007. Prior to that time, single-family rental homes were generally not viewed as viable assets for investment on a large scale by institutional investors. Consequently, the long-term viability of the single-family rental property investment strategy on an institutional scale has not yet been proven. As a participant in this emerging industry, Residential is subject to the risk that single-family rental properties may not prove to be a viable long-term investment strategy for a permanent capital vehicle on an institutional scale. If it turns out that this investment strategy is not a viable one, Residential would be materially and adversely affected and may not be able to sustain the growth of its assets and operations that it seeks.

Residential's failure to raise equity capital and/or obtain adequate debt financing could adversely affect its ability to increase its portfolio, manage its existing assets and generate shareholder returns.

Residential's success has been, may continue to be, largely dependent on its ability to raise equity capital and obtain debt financing to increase its rental portfolio, manage its existing assets and generate attractive stockholder returns. Residential requires significant financial resources and relies heavily on cost-effective leverage to maintain its obligations under its debt facilities and to continue to acquire portfolios of single-family residential properties and residential mortgage loans. If Residential is unable to continue to raise equity capital, or leverage its portfolio through repurchase facilities and/or securitizations, its current portfolio and cash from operations may become inadequate to meet its financial obligations.

Residential uses leverage as a component of its financing strategy in an effort to enhance its returns. We can provide no assurance that Residential will be able to timely access all funds available under its financing arrangements or obtain other debt or equity financing on favorable terms or at all. To qualify as a REIT, Residential will be required to distribute at least 90% of its REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, each year to its stockholders. As a result, Residential's ability to retain earnings to support its financing activity and fund acquisitions, property renovations or other capital expenditures will be limited.

Limited availability of credit may have an adverse effect on Residential's ability to obtain financing on favorable terms, thereby increasing financing costs and/or requiring Residential to accept financing with increasing restrictions. Residential's long-term ability to grow through additional investments will be limited if it cannot obtain additional debt or equity financing, which could materially and adversely affect our ability to generate incentive management fees.

Residential may not be able to successfully operate its business or generate sufficient operating cash flows to make or sustain distributions to its stockholders.

There can be no assurance that Residential will be able to successfully operate its business or generate sufficient cash to make distributions to its stockholders. Residential's ability to make or sustain distributions to its stockholders depends on many factors, including the following: the availability of attractive risk-adjusted investment opportunities that satisfy its investment strategy and its success in identifying and consummating such opportunities on favorable terms; its ability to sell residential mortgage loans on favorable terms, or at all; the success of its loan resolution efforts; the ability of borrowers to refinance its loans with other lenders; its ability to sell modified loans on favorable terms; the availability of short-term and long-term financing on favorable terms; the length of time required to convert a distressed loan into a single-family rental property; the level and expected movement of home prices; the occupancy rates and rent levels of properties; the restoration, maintenance, marketing and other operating costs; our ability to effectively manage a significant increase in the number of properties in its single-family rental portfolio; the level and volatility of interest rates, conditions in the financial, real estate, housing and mortgage markets and the economy, as to which no assurance can be given. We cannot assure you that Residential will be able to make investments with attractive risk-adjusted returns or will not seek investments with greater risk to obtain the same level of returns or that the value of its investments in the future will not decline substantially. Existing and future government regulations may result in additional costs or delays, which could adversely affect the implementation of Residential's investment strategy, which could materially and adversely affect our results of operations and financial condition.

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Residential has leveraged its investments and expects to continue to do so, which may materially and adversely affect its return on investments and may reduce cash available for distribution to Residential's stockholders.

To the extent available, we intend to continue to leverage Residential's investments through borrowings, the level of which may vary based on the particular characteristics of Residential's investment portfolio and on market conditions. We have leveraged certain of Residential's investments to date through its repurchase agreements. When Residential enters into any repurchase agreement, it may sells securities, residential mortgage loans or residential properties to lenders (i.e., repurchase agreement counterparties) and receives cash from the lenders. The lenders are obligated to resell the same assets back to Residential at the end of the term of the transaction. Because the cash Residential receives from the lender when it initially sells the assets to the lender is less than the value of those assets, if the lender defaults on its obligation to resell the same assets back to Residential, it could incur a loss on the transaction. In addition, repurchase agreements generally allow the counterparties, to varying degrees, to determine a new market value of the collateral to reflect current market conditions or for other reasons. If such counterparty determines that the value of the collateral has decreased, it may initiate a margin call and require Residential to either post additional collateral to cover such decrease or repay a portion of the outstanding borrowing. Should this occur, in order to obtain cash to satisfy a margin call, Residential may be required to liquidate assets at a disadvantageous time, which could cause it to incur further losses. In the event Residential is unable to satisfy a margin call, its counterparty may sell the collateral, which may result in significant losses to Residential. Residential's repurchase agreements generally require it to comply with various financial covenants, including those relating to tangible net worth, profitability and its ratio of total liabilities to tangible net worth, and to maintain minimum amounts of cash or cash equivalents sufficient to maintain a specified liquidity position. We expect any future repurchase agreements or other financing arrangements will have similar provisions. In the event that Residential is unable to satisfy these requirements, it could be forced to sell additional investments at a loss which could materially and adversely affect Residential.

Residential's repurchase agreements to finance sub-performing and non-performing loans are complex and difficult to manage. In part, this is due to the fact that the residential mortgage loan portfolios and single-family rental properties that will collateralize these repurchase agreements do not produce consistent cash flows and require specific activities to be performed at specific points in time in order to preserve value. Residential's inability to comply with the terms and conditions of these agreements could materially and adversely impact it. In addition, Residential's outstanding repurchase agreements contain, and we expect any future repurchase agreements will contain, events of default, including payment defaults, substantial margin calls, breaches of financial and other covenants and/or certain representations and warranties, cross-defaults, servicer termination events, guarantor defaults, bankruptcy or insolvency proceedings and other events of default customary for these types of agreements. The remedies for such events of default are also customary for these types of agreements and include the acceleration of the outstanding principal amount, requirements that Residential repurchase a portion or all of the collateral, the liquidation by the lender of the assets then subject to the agreements and the avoidance of other repurchase transactions with Residential. Because Residential's financing agreements will typically contain cross-default provisions, a default that occurs under any one agreement could allow the lenders under its other agreements to also declare a default. Any losses Residential incurs on its repurchase agreements could materially and adversely affect Residential.

Residential has utilized repurchase facilities and securitization transactions to finance its portfolio and may in the future utilize other sources of borrowings, including bank credit facilities, warehouse lines of credit and structured financing arrangements, among others, each of which has similar risks to repurchase agreement financing and securitizations, including, but not limited to, covenant compliance, events of default, acceleration and margin calls. The percentage of leverage Residential employs, which could increase substantially in the future, varies depending on assets in its portfolios, its available capital, its ability to obtain and access financing arrangements with lenders and the lenders' and rating agencies' estimate of the stability of its investment portfolio's cash flow. There can be no assurance that new sources of financing will be available to Residential in the future or that existing sources of financing will continue to be available to it. Residential's governing documents contain no limitation on the amount of debt it may incur. Residential's return on investments and cash available for distribution to its stockholders may be reduced to the extent that changes in market conditions increase the cost of its financing relative to the income that can be derived from the investments acquired. Residential's debt service payments will reduce cash flow available for distribution to stockholders. Residential may not be able to meet its debt service obligations and, to the extent that it cannot, it risks the loss of some or all of its assets to foreclosure or sale to satisfy the obligations.

If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

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If and when non-recourse long-term financing structures become available to Residential and are utilized, such structures expose it to risks which could result in losses to Residential.

Residential may use securitization and other non-recourse long-term financing for its investments if, and to the extent, available. In such structures, Residential's lenders typically have only a claim against the assets included in the securitizations rather than a general claim against Residential as an entity. Prior to any such financing, Residential seeks to finance its investments with relatively short-term facilities until a sufficient portfolio is accumulated. Conditions in the capital markets may make the issuance of any such securitization less attractive to Residential. While Residential intends to retain the unrated equity component of securitizations and, therefore, still have exposure to any investments included in such securitizations, its inability to enter into such securitizations may increase its overall exposure to risks associated with direct ownership of such investments, including the risk of default.

Residential's inability to refinance any short-term facilities would also increase its risk because borrowings thereunder would likely be recourse to it as an entity. If Residential is unable to obtain and renew short-term facilities or to consummate securitizations to finance its investments on a long-term basis, it may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could materially and adversely affect our ability to generate incentive management fees.

Failure of Altisource to effectively perform its obligations under various agreements with Residential and us, including the master services agreement, could materially and adversely affect Residential.

Both Residential and we have engaged Altisource to provide services. If for any reason Altisource is unable to perform the services described under these agreements at the level and/or the cost that we anticipate, qualified alternate service providers may not be readily available on favorable terms, or at all, which could adversely affect our performance under the Residential asset management agreement. Altisource’s failure to perform the services under these agreements with Residential or us or our inability to retain qualified alternate service providers to replace and/or supplement Altisource could have a material adverse effect on us.

Failure of our third party mortgage servicers, including Ocwen Financial Corporation, to effectively perform their servicing obligations under our servicing agreements could have an adverse effect on Residential.

Residential is contractually obligated to service the residential mortgage loans that it acquires. Residential does not have any employees, servicing platform, licenses or technical resources necessary to service its acquired loans. Consequently, Residential has engaged mortgage servicers to service the non-performing and sub-performing and non-performing loans it acquires. Through 2014, Residential had exclusively engaged Ocwen Financial Corporation (“Ocwen”) to service the residential mortgage loans in its portfolio.

Ocwen has been and is subject to a number of pending regulatory investigations, inquiries, requests for information and legal proceedings that could result in adverse regulatory or other actions against Ocwen. As a result of these various difficulties faced by Ocwen, its debt and servicer ratings have been downgraded. Given the recent challenges and regulatory scrutiny faced by Ocwen, through our connections and experience, Residential has engaged additional alternate servicers to service Residential’s loans. Residential has begun to move certain loans to these new servicers to diversify its servicing service providers. However, a substantial number of the loans Residential owns continue to be serviced by Ocwen. It is possible, even as Residential transfers all or a portion of its mortgage loan portfolio to such other servicers, the alternate servicers may not be able to service our loans or resolve our non-performing loans. If for any reason Residential's mortgage servicers, including Ocwen, are unable to service these loans at the level and/or the cost that Residential anticipates, or if Residential fails to pay or otherwise defaults under the servicing agreements, causing one or more mortgage servicers cease to act as its servicers, alternate servicers may not be readily available on favorable terms, or at all, which could have a material adverse effect on Residential.

Residential may incur significant costs in renovating its properties, and it may underestimate the costs or amount of time necessary to complete restorations.

Before renting a property, we perform a detailed assessment, with an on-site review of the property, to identify the scope of renovation to be completed. Beyond customary repairs, Residential may undertake improvements designed to optimize overall property appeal and increase the value of the property. We expect that nearly all of Residential's rental properties will require some level of renovation immediately upon their acquisition or in the future following expiration of a lease or otherwise. Residential may acquire properties that we plan to extensively renovate and restore. In addition, in order to reposition properties

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in the rental market, Residential will be required to make ongoing capital improvements and may need to perform significant renovations and repairs from time to time. Consequently, Residential is exposed to the risks inherent in property renovation, including potential cost overruns, increases in labor and materials costs, delays by contractors in completing work, delays in the timing of receiving necessary work permits and certificates of occupancy and poor workmanship. If our assumptions regarding the cost or timing of renovations across Residential's properties prove to be materially inaccurate, it may be more difficult or take significantly more time than anticipated to develop and grow its single-family rental portfolio, which could materially and adversely affect Residential. This could, in turn, materially and adversely affect our ability to generate incentive management fees.

Difficulties in selling REO properties and/or single-family rental properties could limit Residential's flexibility and/or harm its liquidity.

Federal tax laws may limit Residential's ability to earn a gain on the sale of its properties if it is found to have held or acquired the properties with the intent to resell, and this limitation may adversely affect its willingness to sell single-family rental properties under favorable conditions or if necessary for funding purposes. Residential typically contributes properties that will not meet its rental profile to its taxable REIT subsidiary in order to sell and generate gains or losses at the taxable REIT subsidiary upon such sales. In addition, Residential's REO properties that it intends to sell can at times be difficult to dispose of quickly or at favorable prices. These potential difficulties in selling real estate in Residential's markets may limit its ability to either sell properties that it deems unsuitable for rental or change or reduce the single-family rental properties in its portfolio promptly in response to changes in economic or other conditions. Residential's failure to sell or delays in selling its REO properties could potentially cause a strain on its liquidity, and it may be forced to reduce prices and/or continue to hold such REO properties without leverage, which could materially and adversely affect our ability to generate incentive management fees.

The growth of Residential's single-family rental portfolio, at least in the short term, is expected to be dependent on its ability to sell portfolios of our non-performing and re-performing mortgage loans at or near the carrying value for those loans or at a profit. If Residential is unable to sell these portfolios of mortgage loans at optimal prices or on a timely basis, or if the market shifts, creating lower sales prices of non-performing mortgage loans, Residential's ability to utilize the equity embedded in these loans would be harmed and have a material adverse effect on its ability to convert the proceeds of such sales into buying power for the acquisition of single-family rental properties. Furthermore, a large portion of the sale proceeds of such non-performing mortgage loans are utilized to purchase the loans off of Residential's repurchase facilities for which the non-performing mortgage loans are collateral. If a higher than expected portion of the loan sale consideration must be utilized to repurchase loans off of its facilities, Residential's ability to purchase single-family rental properties may also be adversely affected, which would slow the growth of its rental portfolio.

A significant portion of the residential mortgage loans that Residential has acquired, and may continue to acquire, are, or may become, sub-performing or non-performing loans, which increases its risk of loss.

Residential has acquired, an may continue to acquire, distressed residential mortgage loans where the borrower has failed to make timely payments of principal and/or interest. As part of the residential mortgage loan portfolios Residential purchases, it also may acquire performing loans that subsequently become sub-performing or non-performing. Under current market conditions, it is likely that many of these loans will have current loan-to-value ratios in excess of 100%, meaning the amount owed on the loan exceeds the value of the underlying real estate. Further, the borrowers on such loans may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due. Even though Residential typically pays less than the amount owed on these loans to acquire them, if actual results are different from its assumptions in determining the price for such loans, it may incur significant losses. There are no limits on the percentage of sub-performing or non-performing loans Residential may hold. Any loss Residential incurs may be significant and could materially and adversely affect it, which could materially and adversely affect our results of operations and financial condition.

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Many of Residential's assets may be illiquid, and this lack of liquidity could significantly impede its ability to vary its portfolio in response to changes in economic and other conditions or to realize the value at which such assets are carried if it is required to dispose of them.

The distressed residential mortgage loans Residential has acquired are generally illiquid in that there are a limited number of qualified or interested parties to acquire the portfolios held for sale. Illiquidity may result from the absence of an established market for the distressed residential mortgage loans, as well as legal or contractual restrictions on their resale, refinancing or other disposition. Such restrictions would interfere with subsequent sales of such loans or adversely affect the terms that could be obtained upon any disposition thereof. Residential recently completed the sale of two portfolios of non-performing loans to unaffiliated third parties and will continue to evaluate the opportunistic sale of additional portfolios of non-performing loans in the future. The timing and extent of its success in selling such assets on acceptable terms or at all cannot be predicted due to their illiquid nature. Residential's inability to sell portfolios of residential mortgage loans on acceptable terms and/or in accordance with its anticipated timing could potentially cause a strain on its liquidity, which could materially and adversely affect our results of operations and financial condition

Residential mortgage loan modification and refinance programs, future legislative action, and other actions and changes may materially and adversely affect the supply of, value of and the returns on single-family rental properties and sub-performing and non-performing loans.

Residential's business model is partially dependent on the success of its single-family rental property direct purchases and loan modification and other resolution efforts and the conversion of a significant portion of those loans to REO. The number of single-family rental properties as well as sub-performing and non-performing loans available for purchase may be reduced by uncertainty in the lending industry and the governmental sector and/or as a result of general economic volatility, decline or improvement. Sellers of residential rental properties may be unwilling or unable to sell their assets. In addition, for non-performing mortgage loans, lenders may choose to delay foreclosure proceedings, renegotiate interest rates or refinance loans for borrowers who face foreclosure. In recent years, the federal government has instituted a number of programs aimed at assisting at-risk homeowners and reducing the number of properties going into foreclosure or going into non-performing status.

For example, the U.S. Government, through the Federal Reserve, the Federal Housing Administration or “FHA” and the Federal Deposit Insurance Corporation or “FDIC” has implemented a number of federal programs designed to assist homeowners, including (i) the Home Affordable Modification Program or “HAMP”, which provides homeowners with assistance in avoiding defaults on residential mortgage loans, (ii) the Hope for Homeowners Program or “H4H Program”, which allows certain distressed borrowers to refinance their residential mortgage loans into FHA-insured loans in order to avoid residential mortgage loan foreclosures and (iii) the Home Affordable Refinance Program, or the “HARP Program,” which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments without new mortgage insurance, up to an unlimited loan-to-value ratio for fixed-rate mortgages. HAMP, the H4H Program, the HARP Program and other loss mitigation programs may involve, among other things, the modification of residential mortgage loans to reduce the principal amount of the loans (through forbearance and/or forgiveness) and/or the rate of interest payable on the loans and/or to extend the payment terms of the loans. These loan modification programs, future legislative or regulatory actions including possible amendments to the bankruptcy laws that result in the modification of outstanding residential mortgage loans as well as changes in the requirements necessary to qualify for refinancing residential mortgage loans, may materially and adversely affect the value of, and the returns on, Residential's portfolio of sub-performing and non-performing loans.

Other governmental actions may affect Residential's business by hindering the pace of foreclosures. In recent periods, there has been a backlog of foreclosures, due to a combination of volume constraints and legal actions, including those brought by the U.S. Department of Justice (the “DOJ”), the Department of Housing and Urban Development (“HUD”), State Attorneys General, the Office of the Comptroller of the Currency (the “OCC”) and the Federal Reserve Board against mortgage servicers alleging wrongful foreclosure practices. Financial institutions have also been subjected to regulatory restrictions and limitations on foreclosure activity by the FDIC. Legal claims brought or threatened by the DOJ, HUD and 49 State Attorneys General against residential mortgage servicers and an enforcement action threatened by the OCC against residential mortgage servicers have both produced large settlements. A portion of the funds from each settlement will be directed to homeowners seeking to avoid foreclosure through mortgage modifications, and servicers are required to adopt specified measures to reduce mortgage obligations in certain situations. It is expected that the settlements will help many homeowners avoid foreclosures that would otherwise have occurred in the near-term. It is also possible that other residential mortgage servicers will agree to similar settlements. These developments will reduce the number of homes in the process of foreclosure and decrease the supply of properties that meet Residential's investment criteria.

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In addition, the U.S. Congress and numerous state legislatures have considered, proposed or adopted legislation to constrain foreclosures, or may do so in the future. The Dodd-Frank Act also created the Consumer Financial Protection Bureau, or "CFPB," which supervises and enforces federal consumer protection laws as they apply to banks, credit unions and other financial companies, including mortgage servicers. It remains uncertain as to whether any of these CFPB or other related
measures will have a significant impact on foreclosure volumes or what the timing or extent of that impact would be. If foreclosure volumes were to decline significantly, Residential may experience difficulty in finding target assets at attractive prices, which would materially and adversely affect Residential. Also, the number of families seeking rental housing might be reduced by such legislation, reducing rental housing demand for properties in Residential's markets.

Residential may be, or may become, subject to the regulation of various states, including licensing requirements and consumer protection statutes. Residential's failure to comply with any such laws, if applicable to it, would adversely affect its ability to implement its business strategy, which could materially and adversely affect Residential. If these risks are realized by Residential, our ability to generate incentive management fees would be harmed and our results of operations and financial condition could be materially and adversely affected.

Certain jurisdictions require licenses to purchase, hold, enforce or sell residential mortgage loans. In the event that any such licensing requirement is applicable and Residential is not able to obtain such licenses in a timely manner or at all, its ability to implement its business strategy could be adversely affected, which could materially and adversely affect Residential.

Certain jurisdictions require a license to purchase, hold, enforce or sell residential mortgage loans. Residential currently owns its loans in Delaware statutory trusts with a nationally-chartered bank as the trustee. Therefore, it does not hold any such licenses. Because Residential has contributed its acquired sub-performing and non-performing residential mortgage loans to wholly-owned trusts whose trustee is a nationally-chartered bank, it may be exempt from state licensing requirements. However, there is no assurance that Residential will ever seek or be required to obtain such licenses or, if obtained, that it will be able to maintain them. Residential's failure to obtain or maintain such licenses could restrict its ability to invest in loans in these jurisdictions if such licensing requirements become applicable. If Residential's 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 Residential 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, any of which could limit its ability to invest in residential mortgage loans in the future and have a material adverse effect on Residential. If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

The availability of portfolios of single-family residential properties for purchase on favorable terms may decline as market conditions change, our industry matures and/or additional purchasers for such portfolios emerge, and the prices for such portfolios may increase, any of which could materially and adversely affect us.

In recent years, there has been an increase in supply of single-family residential property portfolios available for sale. Because Residential operates in an emerging industry, market conditions may be volatile, and the prices at which portfolios of single-family residential properties can be acquired may increase from time to time, or permanently, due to new market participants seeking such portfolios, a decrease in the supply of desirable portfolios or other adverse changes in the geographic areas that we may target from time to time. For these reasons, the supply of single-family residential properties that Residential may acquire may decline over time, which could materially and adversely affect Residential.

Portfolios of properties that Residential has acquired or may acquire may include properties that do not fit its investment criteria, and divestiture of such properties may be costly or time consuming or both, which may adversely affect its operating results.

Residential acquired, and expects to continue to acquire, portfolios of single-family residential properties, many of which are, or will be, subject to existing leases. To the extent the management and leasing of such properties has not been consistent with its property management and leasing standards, Residential may be subject to a variety of risks, including risks relating to the condition of the properties, the credit quality and employment stability of the tenants and compliance with applicable laws, among others. In addition, financial and other information provided to Residential regarding such portfolios during our due diligence may be inaccurate, and Residential may not be able to obtain relief under contractual remedies, if any. If Residential concludes that certain properties acquired as part of a portfolio do not fit its investment criteria, it may decide to sell such properties and may be required to renovate the properties prior to sale, to hold the properties for an extended marketing period and/or sell the property at an unfavorable price, any of which could materially and adversely affect Residential.

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The supply of sub-performing and non-performing loans may decline over time as a result of higher credit standards for new loans and/or general economic improvement and the prices for sub-performing and non-performing loans may increase, which could materially and adversely affect Residential.

Over the last several years, there has been an increase in supply of sub-performing and non-performing loans available for sale. However, in response to the economic crisis, the origination of jumbo, subprime, Alt-A and second lien residential mortgage loans has dramatically declined as lenders have increased their standards of credit-worthiness in originating new loans and fewer homeowners may go into sub-performing or non-performing status on their residential mortgage loans. In addition, the prices at which sub-performing and non-performing loans can be acquired may increase from time to time, or permanently, due to the entry of new participants into the distressed loan marketplace or a lower supply of sub-performing and non-performing loans in the marketplace. For these reasons, along with the general improvement in the economy, the supply of sub-performing and non-performing residential mortgage loans that Residential may acquire may decline over time and could materially and adversely affect Residential. If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

Competition in identifying and acquiring non-performing loans could adversely affect Residential's ability to implement its business strategy, which could materially and adversely affect Residential.

Residential faces competition from various sources for investment opportunities in sub-performing and non-performing loans including REITs, hedge funds, private equity funds, partnerships and developers. Some third-party competitors have substantially greater financial resources and access to capital than Residential does and may be able to accept more risk than Residential can. Competition from these companies may reduce the number of attractive sub-performing and non-performing loan investment opportunities available to Residential or increase the bargaining power of asset owners seeking to sell, which would increase the prices for sub-performing and non-performing loans. If such events occur, Residential's ability to implement its business strategy could be adversely affected, which could materially and adversely affect Residential. Given the existing competition, complexity of the market and requisite time needed to make such investments, no assurance can be given that Residential will be successful in acquiring investments that generate attractive risk-adjusted returns. Furthermore, there is no assurance that such investments, once acquired, will perform as expected. If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

Residential's inability to promptly foreclose upon defaulted residential mortgage loans could increase its costs and/or diminish its expected return on investments.

Residential's ability seek alternative resolutions for the underlying properties and, in certain cases, where appropriate, to promptly foreclose upon defaulted residential mortgage loans plays a critical role in our valuation of the residential mortgage assets in which it invests and its expected return on those investments. We expect the timeline to convert acquired loans into single-family rental properties will vary significantly by loan. Certain of Residential's acquired loans may already be in foreclosure proceedings, in which case conversion could be as soon as three to six months following acquisition, but in other cases conversion could take up to 24 months or longer. There are a variety of factors that may inhibit Residential's ability, through its mortgage servicers, to foreclose upon a residential mortgage loan and get access to the real property within the timelines modeled as part of our valuation process. These factors include, without limitation: state foreclosure timelines and deferrals associated therewith (including with respect to litigation, bankruptcy and statute of limitations); unauthorized occupants living in the property; federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures and that serve to delay the foreclosure process; HAMP and similar programs that require specific procedures to be followed to explore the refinancing of a residential mortgage loan prior to the commencement of a foreclosure proceeding; and continued declines in real estate values and sustained high levels of unemployment that increase the number of foreclosures and place additional pressure on the already overburdened judicial and administrative systems.

In addition, certain issues, including “robo-signing,” have been identified throughout the mortgage industry that relate to affidavits used in connection with the residential mortgage loan foreclosure process. A substantial portion of Residential's investments are, and in the future may be, sub-performing and non-performing residential mortgage loans, many of which are already subject to foreclosure proceedings at the time of purchase. There can be no assurance that similar practices have not been followed in connection with residential mortgage loans that are already subject to foreclosure proceedings at the time of purchase. To the extent we determine that any of the loans Residential acquires are impacted by these issues, Residential may be required to recommence the foreclosure proceedings relating to such loans, thereby resulting in additional delay that could

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have the effect of increasing its costs and/or diminishing its expected return on its investments. The uncertainty surrounding these issues could also result in legal, regulatory or industry changes to the foreclosure process as a whole, any or all of which could lengthen the foreclosure process and negatively impact Residential's business.

If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

Residential may be materially and adversely affected by risks affecting borrowers or the single-family rental properties in which its investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions.

Residential's assets are not subject to any geographic diversification requirements or concentration limitations. Entities that sell distressed mortgage loan or residential rental portfolios may group the portfolios by location or other metrics that could result in a concentration of Residential's portfolio by geography, single-family rental property characteristics and/or borrower demographics. Such concentration could increase the risk of loss to Residential if the particular concentration in its portfolio is subject to greater risks or undergoing adverse developments. In addition, adverse conditions in the areas where the properties or borrowers are located (including business layoffs or downsizing, industry slowdowns, changing demographics, oversupply, reduced demand and other factors) may have an adverse effect on the value of its investments. A material decline in the demand for single-family housing or rentals in these or other areas where Residential owns assets may materially and adversely affect Residential. Lack of diversification can increase the correlation of non-performance and foreclosure risks among Residential's investments. If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

Short-term leases of residential property expose Residential more quickly to the effects of declining market rents.

We anticipate that a majority of Residential's leases to tenants of single-family rental properties will be for a term of one to two years. As these leases permit the residents to leave at the end of the lease term without penalty, we anticipate Residential's rental revenues will be affected by declines in market rents more quickly than if its leases were for longer terms. Short-term leases may result in high turnover, resulting in additional cost to renovate and maintain the property and lower occupancy levels. Because Residential has a limited operating history, its tenant turnover rate and related cost estimates may be less accurate than if we had more operating data upon which to base these estimates.

Residential may be unable to secure funds for future tenant or other capital improvements, which could limit its ability to attract or replace tenants.

When Residential acquires or otherwise takes title to single-family properties or when tenants fail to renew their leases or otherwise vacate their space, Residential generally will be required to expend funds for property restoration and leasing commissions in order to lease the property. If Residential has not established reserves or set aside sufficient funds for such expenditures, it may have to obtain financing from other sources, as to which no assurance can be given. Residential may also have future financing needs for other capital improvements to restore its properties. If Residential needs to secure financing for capital improvements in the future but are unable to secure such financing on favorable terms or at all, Residential may be unable or unwilling to make capital improvements or it may be required or may choose to defer such improvements. If this happens, Residential's properties may suffer from a greater risk of obsolescence or a decline in value, or a greater risk of decreased cash flow as a result of fewer potential tenants being attracted to the property or existing tenants not renewing their leases. If Residential does not have access to sufficient funding in the future, it may not be able to make necessary capital improvements to its properties, and its properties' ability to generate revenue may be significantly impaired. If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

Residential's revenue and expenses are not directly correlated, and, because a large percentage of its costs and expenses are fixed and some variable expenses may not decrease over time, it may not be able to adapt its cost structure to offset any declines in its revenue.

Many of the expenses associated with Residential's business, such as acquisition costs, restoration and maintenance costs, HOA fees, personal and real property taxes, insurance, compensation and other general expenses are fixed and would not necessarily decrease proportionally with any decrease in revenue. Residential's assets also will likely require a significant amount of ongoing capital expenditure. Residential's expenses, including capital expenditures, will be affected by, among other things, any inflationary increases, and cost increases may exceed the rate of inflation in any given period. Certain expenses, such as HOA

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fees, taxes, insurance and maintenance costs are recurring in nature and may not decrease on a per-unit basis as Residential's portfolio grows through additional property acquisitions. By contrast, Residential's revenue is affected by many factors beyond our control, such as the availability and price of alternative rental housing and economic conditions in its markets. As a result, Residential may not be able to fully, or even partially, offset any increase in its expenses with a corresponding increase in its revenues. In addition, state and local regulations may require Residential to maintain its properties, even if the cost of maintenance is greater than the potential benefit. If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

Fair values of Residential's mortgage loans are imprecise and may materially and adversely affect its operating results and credit availability, which, in turn, would materially and adversely affect Residential.

The values of Residential's mortgage loans may not be readily determinable. We measure the fair value of Residential's mortgage loans monthly, but the fair value at which Residential's mortgage loans are recorded may not be an indication of their realizable value. Ultimate realization of the value of a mortgage loan depends to a great extent on economic and other conditions that are beyond our control. Further, fair value is only an estimate based on good faith judgment of the price at which a mortgage loan can be sold since market prices of mortgage loans can only be determined by negotiation between a willing buyer and seller. In certain cases, our estimation of the fair value of Residential's mortgage loans includes inputs provided by third-party dealers and pricing services, and valuations of certain securities or other assets in which we invest are often difficult to obtain and are subject to judgments that may vary among market participants. Changes in the estimated fair values of Residential's mortgage loans are directly charged or credited to earnings for the period. If Residential were to liquidate a particular mortgage loan, the realized value may be more than or less than the amount at which such mortgage loan was recorded. We could be materially and adversely affected by negative determinations that reduce the fair value of Residential's mortgage loans, and such valuations may fluctuate over short periods of time.

We value the properties underlying Residential's mortgage loans and recognize unrealized gains in each period when Residential's mortgage loans are transferred to real estate owned. The fair value of residential properties is estimated using broker price opinions, or “BPOs,” provided by third-party brokers. BPOs are subject to the judgments of the particular broker formed by visiting the property, assessing general home values in the area, reviewing comparable listings and reviewing comparable completed sales. These judgments may vary among brokers and may fluctuate over time based on housing market activities and the influx of additional comparable listings and sales. Residential's results could be materially and adversely affected if the judgments used by the brokers prove to be incorrect or inaccurate.

If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

Challenges to the MERS® System could materially and adversely affect Residential.

MERSCORP, Inc. is a privately held company that maintains an electronic registry, referred to as the MERS System, which tracks servicing rights and ownership of loans in the United States. Mortgage Electronic Registration Systems, Inc., or “MERS,” a wholly owned subsidiary of MERSCORP, Inc., can serve as a nominee for the owner of a residential mortgage loan and in that role initiate foreclosures and/or become the mortgagee of record for the loan in local land records. We may choose to use MERS as a nominee. The MERS System is widely used by participants in the mortgage finance industry. Several legal challenges have been made disputing MERS’s legal standing to initiate foreclosures and/or act as nominee in local land records. These challenges could negatively affect MERS’s ability to serve as the mortgagee of record in some jurisdictions. In addition, where MERS is the mortgagee of record, it must execute assignments of mortgages, affidavits and other legal documents in connection with foreclosure proceedings. As a result, investigations by governmental authorities and others into the servicer foreclosure process deficiencies described with respect to “Residential's inability to promptly foreclose upon defaulted residential mortgage loans could increase its cost of doing business and/or diminish its expected return on investments” may impact MERS. Failures by MERS to apply prudent and effective process controls and to comply with legal and other requirements in the foreclosure process could pose operational, reputational and legal risks that may materially and adversely affect Residential, which could materially and adversely affect our results of operations and financial condition.

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We utilize analytical models and data in connection with the valuation of Residential's investments, and any incorrect, misleading or incomplete information used in connection therewith would subject Residential to potential risks.

Given the complexity of Residential's investments and strategies, we must rely heavily on models and data, including analytical models (both proprietary models developed by us and those supplied by third parties) and information and data supplied by third parties. Models and data are used to value investments or potential investments and also in connection with performing due diligence on Residential's investments. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on incorrect models and data, especially valuation models, Residential may be induced to buy certain investments at prices that are too high, to sell certain other investments at prices that are too low or to miss favorable opportunities altogether, all of which could adversely affect our ability to generate incentive management fees.

Our accounting and other management systems and resources may not be adequately prepared to meet the financial reporting and other requirements Residential is subject to as a stand-alone reporting public company.

Residential is subject to reporting and other obligations under the Exchange Act, as amended. Under the Sarbanes-Oxley Act of 2002, or the “Sarbanes-Oxley Act,” Residential is required to maintain effective disclosure controls and procedures. To comply with these requirements, Residential may need to implement additional financial and management controls, reporting systems and procedures. Residential has incurred, and expects to incur, additional annual expenses for the purpose of addressing these requirements, and these expenses may be significant. If Residential is unable to implement additional controls, reporting systems, information technology systems and procedures in a timely and effective fashion, its ability to comply with its financial reporting requirements and other rules that apply to reporting companies under the Exchange Act could be impaired. Any failure to achieve and maintain effective internal controls could have a material adverse effect on Residential. Residential is also required to comply with Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of its internal control over financial reporting and a report thereon by its independent registered public accounting firm. These reporting and other obligations may place significant demands on its management, administrative and operational resources, including accounting systems and resources.

Changes in global economic and capital market conditions, including periods of generally deteriorating occupancy and real estate industry fundamentals may materially and adversely affect Residential.

There are risks to the ownership of real estate and real estate related assets, including decreases in residential property values, changes in global, national, regional or local economic, demographic and real estate market conditions as well as other factors particular to the locations of Residential's investments. A prolonged recession and a slow recovery could materially and adversely affect Residential as a result of, among other items, the following:

- joblessness or unemployment rates that adversely affect the local economy;
- an oversupply of or a reduced demand for single-family rental properties for rent;
- a decline in employment or lack of employment growth;
- the inability or unwillingness of residents to pay rent increases or fulfill their lease obligations;
- a decline in rental rate which may be accentuated since we expect Residential to have rent terms of one to two years;
- rent control or rent stabilization laws or other laws regulating housing that could prevent us from raising rents to offset increases in operating costs;
- changes in interest rates, availability and terms of debt financing; and
- economic conditions that could cause an increase in Residential's operating expenses such as increases in property taxes, utilities and routine maintenance.

These conditions could also adversely impact the financial condition and liquidity of the renters that will occupy Residential's real estate properties and, as a result, their ability to pay rent to Residential.

Inflation or deflation may adversely affect Residential's results of operations and cash flows.

Increased inflation could have an adverse impact on interest rates, property management expenses and general and administrative expenses, as these costs could increase at a rate higher than Residential's rental and other revenue. Conversely, deflation could lead to downward pressure on rents and other sources of income without an accompanying reduction in Residential's expenses. Accordingly, inflation or deflation may adversely affect Residential's results of operations and cash flows, which could materially and adversely affect our ability to generate incentive management fees.

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Changes in applicable laws or noncompliance with applicable law could materially and adversely affect Residential.

As an owner of real estate, Residential is required to comply with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord-tenant laws and other laws generally applicable to business operations. Noncompliance with laws or regulations could expose Residential to liability.

Lower revenue growth or significant unanticipated expenditures may result from Residential's need to comply with changes in (i) laws imposing remediation requirements and potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other residential landlord-tenant laws or (iii) other governmental rules and regulations or enforcement policies affecting the rehabilitation, use and operation of Residential's single-family rental properties including changes to building codes and fire and life-safety codes. If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

In addition, NewSource has registered as a Class 3A Bermuda insurance company and is subject to regulation and supervision in Bermuda by the BMA. Changes in Bermuda insurance statutes, regulations and policies could result in restrictions on NewSource’s ability to pursue its business plans, issue reinsurance policies, distribute funds and execute its investment strategy. In addition, NewSource may become subject to regulation and supervision by insurance authorities in any other jurisdictions in which it operates. Failure to comply with or to obtain appropriate authorizations and/or exemptions under any applicable laws could result in restrictions on NewSource’s ability to do business or certain activities that are regulated in one or more of the jurisdictions in which it operates and could subject NewSource to fines and other sanctions, which could have a material adverse effect on NewSource’s business. As a result, the value of our investment in NewSource could decline.

Competition could limit Residential's ability to lease single-family rental properties or increase or maintain rents.

Residential's single-family rental properties, when acquired, will compete with other housing alternatives to attract residents, including rental apartments, condominiums and other single-family homes available for rent as well as new and existing condominiums and single-family homes for sale. Residential's competitors’ single-family rental properties may be better quality, in a more desirable location or have leasing terms more favorable than Residential can provide. In addition, Residential's ability to compete and generate favorable returns depends upon, among other factors, trends of the national and local economies, the financial condition and liquidity of current and prospective renters, availability and cost of capital, taxes and governmental regulations. Given Residential's significant competition, we cannot assure you that it will be successful in acquiring or managing single-family rental properties that generate favorable returns, which would materially and adversely affect our ability to generate incentive management fees.

If rents in Residential's markets do not increase sufficiently to keep pace with rising costs of operations, its operating results and cash available for distribution will decline.

The success of Residential's business model will substantially depend on conditions in the single-family rental property market in its geographic markets. Residential's asset acquisitions are premised on assumptions about, among other things, occupancy and rent levels. If those assumptions prove to be inaccurate, Residential's operating results and cash available for distribution will be lower than expected, potentially materially. This, in turn, could materially and adversely affect our ability to generate incentive management fees. Rental rates and occupancy levels have benefited in recent periods from macroeconomic trends affecting the U.S. economy and residential real estate and mortgage markets in particular, including:

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a tightening of credit that has made it more difficult to finance a home purchase, combined with efforts by consumers generally to reduce their exposure to credit;
- economic and employment conditions that have increased foreclosure rates; and
- reduced real estate values that challenged the traditional notion that homeownership is a stable investment.

If the current trend favoring renting rather than homeownership reverses, the single-family rental market could decline.

The single-family rental market is currently significantly larger than in historical periods. We do not expect the favorable trends in the single-family rental market to continue indefinitely. Eventually, a strengthening of the U.S. economy and job growth, together with the large supply of foreclosed single-family rental properties, the current availability of low residential mortgage rates and government sponsored programs promoting home ownership, may contribute to a stabilization or reversal of the current trend that favors renting rather than homeownership. In addition, we expect that as investors increasingly seek to

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capitalize on opportunities to purchase undervalued housing properties and convert them to productive uses, the supply of single-family rental properties will decrease and the competition for tenants will intensify. A softening of the rental property market in Residential's markets would adversely affect its operating results and cash available for distribution, potentially materially. This, in turn, could materially and adversely affect our ability to generate incentive management fees.

Single-family rental properties that are subject to foreclosure or short-sales are subject to risks of theft, vandalism or other damage that could impair their value.

When a single-family rental property is subject to foreclosure, it is possible that the homeowner may cease to maintain the property adequately, or that the property may be abandoned by the homeowner and become susceptible to theft or vandalism. Lack of maintenance, theft and vandalism can substantially impair the value of the property. To the extent Residential initiates foreclosure proceedings, some of its properties could be impaired.

Contingent or unknown liabilities could materially and adversely affect Residential.

Residential's acquisition activities are subject to many risks. Residential may acquire properties that are subject to unknown or contingent liabilities, including liabilities for or with respect to liens attached to properties, unpaid real estate taxes, utilities or HOA charges for which a prior owner remains liable, clean-up or remediation of environmental conditions or code violations, claims of vendors or other persons dealing with the acquired properties and tax liabilities, among other things. In each case, Residential's acquisition may be without any, or with only limited, recourse with respect to unknown or contingent liabilities or conditions. As a result, if any such liability were to arise relating to Residential's properties, or if any adverse condition exists with respect to Residential's properties that is in excess of its insurance coverage, Residential might have to pay substantial sums to settle or cure it, which could materially and adversely affect Residential. The properties Residential acquires may also be subject to covenants, conditions or restrictions that restrict the use or ownership of such properties, including prohibitions on leasing or requirements to obtain the approval of HOAs prior to leasing. We may not discover such restrictions during the acquisition process and such restrictions may adversely affect Residential's ability to operate such properties as it intends. This, in turn, could materially and adversely affect our ability to generate incentive management fees.

The costs and amount of time necessary to secure possession and control of a newly acquired property may exceed our assumptions, which would delay Residential's receipt of revenue from, and return on, the property.

Upon acquiring a property, Residential may have to evict occupants who are in unlawful possession before it can secure possession and control of the property. The holdover occupants may be the former owners or tenants of a property, or they may be squatters or others who are illegally in possession. Securing control and possession from these occupants can be both costly and time-consuming. If these costs and delays exceed our expectations, Residential's and our financial performance may suffer because of the increased expenses incurred or the unexpected delays in turning the properties into revenue-producing rental properties.

Poor tenant selection and defaults by Residential's tenants may materially and adversely affect Residential.

Residential's success will depend, in large part, upon its ability to attract and retain qualified tenants for its properties. This will depend, in turn, upon Residential's ability to screen applicants, identify good tenants and avoid tenants who may default. Residential will inevitably make mistakes in its selection of tenants, and it may rent to tenants whose default on its leases or failure to comply with the terms of the lease or HOA regulations could materially and adversely affect Residential. For example, tenants may default on payment of rent, make unreasonable and repeated demands for service or improvements, make unsupported or unjustified complaints to regulatory or political authorities, make use of Residential's properties for illegal purposes, damage or make unauthorized structural changes to its properties which may not be fully covered by security deposits, refuse to leave the property when the lease is terminated, engage in domestic violence or similar disturbances, disturb nearby residents with noise, trash, odors or eyesores, fail to comply with HOA regulations, sub-let to less desirable individuals in violation of Residential's leases or permit unauthorized persons to live with them. The process of evicting a defaulting tenant from a family residence can be adversarial, protracted and costly. Furthermore, some tenants facing eviction may damage or destroy the property. Damage to Residential's properties may significantly delay re-leasing after eviction, necessitate expensive repairs or impair the rental revenue or value of the property. In addition, Residential will incur turnover costs associated with re-leasing the properties, such as marketing expense and brokerage commissions, and will not collect revenue while the property is vacant. Although Residential will attempt to work with tenants to prevent such damage or destruction, there can be no assurance that it will be successful in all or most cases. Such tenants will not only cause Residential not to achieve its financial objectives for the properties in which they live, but may subject Residential to liability, and may damage Residential's reputation with its other tenants and in the communities where it does business. If these risks are realized by Residential, our

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ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

Eminent domain could lead to material losses on Residential's investments.

It is possible that governmental authorities may exercise eminent domain to acquire land on which Residential's properties are built in order to build roads or other infrastructure. Any such exercise of eminent domain would allow Residential to recover only the fair value of the affected properties, which we believe may be interpreted to be substantially less than the actual value of the property. Several cities are also exploring proposals to use eminent domain to acquire residential loans to assist borrowers to remain in their homes, potentially reducing the supply of single-family properties for sale in Residential's markets. Any of these events can cause a material loss to Residential, which could materially and adversely affect our ability to generate incentive management fees.

A significant uninsured property or liability loss could have a material adverse effect on Residential.

Residential will carry commercial general liability insurance and property insurance with respect to its single-family rental properties on terms we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war or earthquake) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it economically impractical. If an uninsured property loss or a property loss in excess of insured limits were to occur, Residential could lose its capital invested in a single-family rental property or group of rental properties as well as the anticipated future revenues from such single-family rental property or group of properties. If an uninsured liability to a third party were to occur, Residential would incur the cost of defense and settlement with or court ordered damages to that third party. A significant uninsured property or liability loss could materially and adversely affect Residential, which could materially and adversely affect our ability to generate incentive management fees.

A significant number of Residential's single-family rental properties may be part of homeowners' associations. Residential and its renters will be subject to the rules and regulations of such homeowners' associations which may be arbitrary or restrictive and violations of such rules may subject us to additional fees and penalties and litigation which may be costly.

A significant number of Residential's single-family rental properties, when acquired, may be subject to HOAs which are private entities that regulate the activities of and levy assessments on properties in a residential subdivision. Some of the HOAs that will govern Residential's single-family rental properties may enact onerous or arbitrary rules that restrict Residential's ability to renovate, market or lease its single-family rental properties or require it to renovate or maintain such properties at standards or costs that are in excess of our planned operating budgets. Such rules may include requirements for landscaping, limitations on signage promoting a property for lease or sale or the use of specific construction materials to be used in renovations. Some HOAs also impose limits on the number of property owners who may rent their homes which, if met or exceeded, may cause Residential to incur additional costs to sell the affected single-family rental property and opportunity costs of lost rental income. Furthermore, many HOAs impose restrictions on the conduct of occupants of homes and the use of common areas, and Residential may have renters who violate these HOA rules for which Residential may be liable as the property owner. Additionally, the boards of directors of the HOAs that will govern its single-family rental properties may not make important disclosures or may block Residential's access to HOA records, initiate litigation, restrict its ability to sell, impose assessments or arbitrarily change the HOA rules. Residential may be unaware of or unable to review or comply with certain HOA rules before acquiring a single-family rental property, and any such excessively restrictive or arbitrary regulations may cause Residential to sell such property, if possible, prevent it from renting such property or otherwise reduce its cash flow from such property. Any of the above-described occurrences may materially and adversely affect Residential's and our results of operations and financial condition.

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We rely on information supplied by prospective tenants in managing Residential's business.

We rely on information supplied to us by prospective tenants in their rental applications as part of our due diligence process to make leasing decisions, and we cannot be certain that this information is accurate. In particular, we rely on information submitted by prospective tenants regarding household income, tenure at current job, number of children and size of household. Moreover, these applications are submitted to us at the time we evaluate a prospective tenant, and we do not require tenants to provide us with updated information during the terms of their leases, notwithstanding the fact that this information can, and frequently does, change over time. Even though this information is not updated, we will use it to evaluate the overall average credit characteristics of Residential's portfolio over time. If tenant-supplied information is inaccurate or Residential's tenants' creditworthiness declines over time, we may make poor leasing decisions and Residential's portfolio may contain more credit risk than we believe exists, which could harm Residential's and our results of operations and financial condition.

We are subject to the risks of securities laws liability and related civil litigation.

We may be subject to risk of securities litigation and derivative actions from time to time as a result of being publicly traded. For example, in January 2015, a purported shareholder filed a derivative action against the members of Residential's Board of Directors, Residential and us in connection with Residential's asset management agreement with us, which Residential ultimately agreed to settle for $6.0 million. This settlement was covered by and paid for with Directors & Officers Insurance, but other ongoing and/or future claims may not be covered or partially covered, which could have a material adverse effect on our earnings in one or more periods. Other derivative actions and class actions were also filed against us and/or Residential during 2015, either as the primary defendant or as an aiding and abetting defendant. There can be no assurance that any settlement or liabilities in these actions would be covered by Residential's or our insurance policies. For more information concerning these matters, please see "Item 3. Legal Proceedings." While we and Residential and our respective Boards of Directors deny the allegations of wrongdoing in the actions initiated against us, there can be no assurance as to the ultimate outcome or timing of their resolution. The range of possible resolutions could include determinations and judgments against Residential or us or settlements that could require substantial payments by Residential or us, including the costs of defending such investigations and suits, which could have a material adverse effect on our financial condition, results of operations and cash flows. An adverse resolution of any future lawsuits or claims against Residential or us could have an adverse effect on our business, financial condition and/or operating results.

Residential likely will incur costs due to litigation, including but not limited to, class actions, tenant rights claims and consumer demands.

There are numerous tenants' rights and consumer rights organizations throughout the country. As Residential grows in scale, it may attract attention from some of these organizations and become a target of legal demands or litigation. Many such consumer organizations have become more active and better funded in connection with mortgage foreclosure-related issues and displaced home ownership. Some of these organizations may shift their litigation, lobbying, fundraising and grass roots organizing activities to focus on landlord-tenant issues as more entities engage in the single-family rental property market. Additional actions that may be targeted at Residential include eviction proceedings and other landlord-tenant disputes, challenges to title and ownership rights (including actions brought by prior owners alleging wrongful foreclosure by their lender or servicer) and issues with local housing officials arising from the condition or maintenance of a single-family rental property. While we intend to conduct Residential's rental business lawfully and in compliance with applicable landlord-tenant and consumer laws, such organizations might work in conjunction with trial and pro bono lawyers in one state or multiple states to attempt to bring claims against Residential on a class action basis for damages or injunctive relief. We cannot anticipate what form such legal actions might take or what remedies they may seek. Any of such claims may result in a finding of liability that may materially and adversely affect Residential.

Additionally, these organizations may lobby local county and municipal attorneys or state attorneys general to pursue enforcement or litigation against Residential or may lobby state and local legislatures to pass new laws and regulations to constrain Residential's business operations. If they are successful in any such endeavors, they could directly limit and constrain Residential's business operations and impose on Residential significant litigation expenses, including settlements to avoid continued litigation or judgments for damages or injunctions. Any of the above-described occurrences may materially and adversely affect Residential, which could materially and adversely affect our ability to generate incentive management fees.

Security breaches and other disruptions could compromise Residential's and/or our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of Residential's and our business, we, through Altisource or Residential's mortgage servicers, may acquire and store sensitive data on our network, such as our proprietary business information and personally identifiable

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information of Residential's prospective and current tenants. The secure processing and maintenance of this information is critical to our business strategy. Despite our security measures, our information technology and infrastructure may be subject to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption to our operations and the services we provide to customers or damage our reputation, which could materially and adversely affect Residential and/or us.

Residential may incur substantial costs due to environmental contamination or non-compliance.

Under various federal, state and local environmental and public health laws, regulations and ordinances, Residential may be required, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at its single-family rental properties (including in some cases, asbestos-containing construction materials, lead-based paints, contaminants migrating from offsite sources and natural substances such as methane, mold and radon gas) and may be held liable under these laws or common law to a governmental entity or to third parties for property, personal injury or natural resources damages and for investigation and remediation costs incurred as a result of the contamination. These damages and costs may be substantial and may exceed any insurance coverage Residential may have for such events, either of which could materially and adversely affect Residential. The presence of such substances or the failure to properly remediate the contamination may adversely affect Residential's ability to borrow against, sell or rent the affected single-family rental property. In addition, some environmental laws create or allow a government agency to impose a lien on the contaminated site in favor of the government for damages and costs it incurs as a result of the contamination, which may also adversely affect Residential's ability to borrow against, sell or rent the affected single-family rental property. If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

Residential properties will be subject to property and other taxes that may increase over time.

Residential will be responsible for property taxes for its single-family rental properties, when acquired which may increase as tax rates change and properties are reassessed by taxing authorities. If Residential fails to pay any such taxes, the applicable taxing authorities may place a lien on the property and the property may be subject to a tax sale. Increases in property taxes would also adversely affect Residential's yield from rental properties. Any such occurrence may materially and adversely affect Residential which, in turn, could materially and adversely affect us.

If Residential is deemed to be an investment company under the Investment Company Act, it would have significant adverse consequences to Residential and us.

Residential does not intend or expect to be an investment company under the Investment Company Act of 1940, as amended, which we refer to as the “Investment Company Act,” since it will not engage primarily or hold itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, Residential will be primarily engaged in the business of purchasing or otherwise acquiring real estate and mortgages on real estate, specifically single family rental assets and sub-performing and non-performing loans. To the extent that the SEC determines that Residential is in fact an investment company, Residential intends to rely on the exception from the Investment Company Act set forth in Section 3(c)(5)(C) of the Investment Company Act, which excludes from the definition of investment company "any person who is not engaged in the business of issuing redeemable securities, face-amount certificates of the installment type or periodic payment plan certificates, and who is primarily engaged in one or more of the following businesses: . . .(C) purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." The SEC has historically taken the position that an issuer may rely on the exception provided by Section 3(c)(5)(C) as long as at least 55% of its assets consist of "qualifying interests," such as mortgage loans which are secured by real estate and other liens on and interests in real estate, and an additional 25% consists of real estate-type interests. The SEC has also historically indicated that up to 20% of an issuer's total assets may be invested in miscellaneous investments. Residential believes that all of its assets will fall within the definition of "qualifying assets." Additionally, Residential does not currently expect to issue redeemable securities, face-amount certificates of the installment type or periodic payment plan certificates, as those terms are defined by the Investment Company Act. Consequently, Residential believes that it will not be required to register under the Investment Company Act.

In August 2011, the SEC issued a concept release that indicated that the SEC is reviewing whether certain mortgage related pools which rely (like Residential) on the exception from registration under Section 3(c)(5)(C), should continue to be allowed to rely on such exception from registration. Since Residential's primary investment strategy is to directly invest in REO Properties and mortgages secured by real estate, Residential does not believe that the SEC's review will have a material impact

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on its status as a non-investment company business or its ability to continue to rely on the Section 3(c)(5)(C) exception; however, Residential cannot provide any assurance that the outcome of the SEC's review will not require Residential to register under the Investment Company Act. If Residential is determined to be an investment company or it fails to qualify for this exception from registration as an investment company, or the SEC determines that companies that engage in businesses similar to Residential's are no longer able to rely on this exception, Residential may be required to register as an investment company under the Investment Company Act.

Registration under the Investment Company Act would require Residential to comply with a variety of substantive requirements that impose, among other things:

- limitations on capital structure;
- restrictions on specified investments;
- restrictions on retaining earnings;
- restrictions on leverage or senior securities;
- restrictions on unsecured borrowings;
- requirements that Residential's income be derived from certain types of assets;
- prohibitions on transactions with affiliates and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly increase Residential's operating expenses.

If Residential were required to register as an investment company but failed to do so, it would be prohibited from engaging in its business, and criminal and civil actions could be brought against it.

Registration with the SEC as an investment company would be costly, would subject Residential to a host of complex regulations and would divert attention from the conduct of Residential's business. In addition, if Residential purchases or sells any real estate assets to avoid becoming an investment company under the Investment Company Act, it could materially adversely affect its net asset value, the amount of funds available for investment and its ability to pay distributions to its shareholders. Any such occurrences would adversely impact our income from the incentive management fees paid by Residential.

Risks Related to Our Management and Our Relationships

We could have conflicts with Residential, and our former Chairman, other members of our Board of Directors or management could have conflicts of interest due to his, her or their relationship with Altisource, Ocwen or Residential, which may be resolved in a manner adverse to us.

We have engaged, and continue to engage, in a substantial amount of business with Residential. Conflicts may arise between Residential and us because of our ongoing agreement with Residential and because of the nature of our respective businesses.

Prior to his stepping down from the Board of Directors in January 2015, our former Chairman was also the Chairman of Altisource, Ocwen and Residential. As a result, he had obligations to us as well as to these other entities, which potentially could have resulted in conflicts of interest with respect to matters potentially or actually involving or affecting us and Altisource, Ocwen or Residential, as the case may be. Our former Chairman also has substantial investments in Altisource, Ocwen and Residential, and certain of our other officers own stock or options in Altisource, Ocwen and/or Residential. Such ownership interests may have created, or appeared to create, conflicts of interest with respect to matters potentially or actually involving or affecting us and Altisource, Ocwen and Residential, as the case may be.

Each of our executive officers is also an executive officer of Residential and has interests in our relationship with Residential that may be different than the interests of our stockholders. As a result, they may have obligations to us and Residential, and could have conflicts of interest with respect to matters potentially or actually involving or affecting us and Residential. In particular, these individuals have a direct interest in the financial success of Residential that may encourage these individuals to support strategies in furtherance of the financial success of Residential that could potentially adversely impact us

We follow policies, procedures and practices to avoid potential conflicts with respect to our dealings with Residential or AAMC, including where necessary, certain of our officers recusing themselves from discussions on, and approvals of transactions with Residential. We also manage potential conflicts of interest through oversight by independent members of our Board of Directors (independent directors constitute a majority of our Board of Directors), and we will also seek to manage these potential conflicts through dispute resolution and other provisions of our agreements with Residential. Although we

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continue to seek ways to lessen many of these potential conflicts of interest, there can be no assurance that such measures will be effective, that we will be able to resolve all conflicts with Residential, or that the resolution of any such conflicts will be no less favorable to us than if we were dealing with a third party that had none of the connections we have with Residential.

Our Directors have the right to engage or invest in the same or similar businesses as ours.

Our Directors may have other investments and business activities in addition to their interest in, and responsibilities to, us. Under the provisions of our Charter and our bylaws (the “Bylaws”), our Directors have no duty to abstain from exercising the right to engage or invest in the same or similar businesses as ours or employ or otherwise engage any of the other Directors. If any of our Directors who are also directors, officers or employees of any company acquires knowledge of a corporate opportunity or is offered a corporate opportunity outside of his capacity as one of our Directors, then our Bylaws provide that such Director will be permitted to pursue that corporate opportunity independently of us, so long as the Director has acted in good faith. Our Bylaws provide that, to the fullest extent permitted by law, such a Director will be deemed to have satisfied his fiduciary duties to us and will not be liable to us for pursuing such a corporate opportunity independently of us. This may create conflicts of interest between us and certain of our Directors and result in less than favorable treatment of us and our stockholders. As of this date, none of our Directors is directly involved as a director, officer or employee of a business that competes with us, but there can be no assurance that will remain unchanged in the future.

Risks Related to Residential's Qualification as a REIT

Residential’s failure to qualify as a REIT would materially and adversely affect Residential and us.

Residential made an election to be treated as a REIT for U.S. federal income tax purposes beginning with the year ended December 31, 2013. However, we cannot assure you that Residential will remain qualified as a REIT. Moreover, Residential's qualification and taxation as a REIT will depend upon its ability to meet on a continuing basis, through actual operating results, certain qualification tests set forth in the federal income tax laws. Accordingly, no assurance can be given that Residential's actual results of operations for any particular taxable year will satisfy such requirements. If Residential fails to qualify as a REIT in any taxable year, it will face serious tax consequences that will substantially reduce the funds available for distribution to its stockholders because:

- Residential would not be allowed a deduction for dividends paid to stockholders in computing its taxable income;
- Residential could be subject to the federal alternative minimum tax to a greater extent and possibly increased state and local taxes; and
- unless Residential is entitled to relief under certain federal income tax laws, it could not re-elect REIT status until the fifth calendar year after the year in which it failed to qualify as a REIT. In addition, if Residential fails to qualify as a REIT, it will no longer be required to make distributions.

As a result of all these factors, Residential's failure to qualify as a REIT could impair its ability to expand its business and raise capital, and it could materially and adversely affect Residential and the market price of its common stock. If these risks are realized by Residential, our ability to generate incentive management fees could be harmed and our results of operations and financial condition could be materially and adversely affected.

Residential's tax position with respect to the accrual of interest and market discount income with respect to distressed mortgage loans involves risk.

Residential does not accrue interest income or market discount on defaulted or delinquent loans when certain criteria are satisfied. The criteria generally relate to whether those amounts are uncollectible or of doubtful collectability. If the Internal Revenue Service were to challenge this position successfully, Residential could be subject to entity level excise tax as a result of "deficiency dividends" that it may be required to pay to its stockholders at the time of such an adjustment to its income in order to maintain its qualification as a REIT. This, in turn, could materially and adversely affect our ability to generate incentive management fees.

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Compliance with REIT requirements may cause Residential to forego otherwise attractive opportunities which may hinder or delay its ability to meet its investment objectives and reduce your overall return.

To qualify as a REIT, Residential is required at all times to satisfy certain tests relating to, among other things, the sources of our income, the nature and diversification of its assets, its financing, hedging and investment strategies, the ownership of its stock and amounts it distributes to its stockholders. Compliance with the REIT requirements may preclude Residential from certain financing or hedging strategies or cause it to forego otherwise attractive opportunities which may hinder or delay its ability to meet its investment objectives and reduce your overall return. For example, Residential may be required to pay distributions to stockholders at disadvantageous times or when it does not have funds readily available for distribution.

Compliance with REIT requirements may force Residential to liquidate otherwise attractive investments, which could materially adversely affect Residential.

To qualify as a REIT, at the end of each calendar quarter, at least 75% of Residential's assets must consist of qualified real estate assets, cash, cash items and government securities. In addition, no more than 25% of the value of Residential's assets may be represented by securities of one or more taxable REIT subsidiaries. Except for securities that qualify for purposes of the 75% asset test above and investments in Residential's qualified REIT subsidiaries and its taxable REIT subsidiaries, its investment in the value of any one issuer’s securities may not exceed 5% of the value of its total assets, and it may not own more than 10% of the total vote or value of the outstanding securities of any one issuer, except, in the case of the 10% value test, certain “straight debt” securities. In order to satisfy these requirements, Residential may be forced to liquidate otherwise attractive investments, potentially at a loss, which could materially and adversely affect Residential. This, in turn, could materially and adversely affect our ability to generate incentive management fees.

Failure to make required distributions would subject Residential to federal corporate income tax.

We intend to continue to operate Residential in a manner so as to qualify as a REIT for federal income tax purposes. In order to qualify as a REIT, Residential generally is required to distribute at least 90% of its REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, each year to its stockholders. To the extent that Residential satisfies this distribution requirement, but distribute less than 100% of its REIT taxable income, it will be subject to federal corporate income tax on its undistributed taxable income. In addition, Residential will be subject to a 4% nondeductible excise tax if the actual amount that it pays out to its stockholders in a calendar year is less than a minimum amount specified under the Code.

The IRS may deem the gains from sales of Residential's properties to be subject to a 100% prohibited transaction tax.

From time to time, Residential may be forced to sell properties that do not meet its investment objectives or it may need to sell properties, mortgage loans or other assets either because they do not meet its rental portfolio objectives or to satisfy its REIT distribution requirements. In general, REITs do not sell residential assets out of the REIT so they are not determined to be a “dealer.” If Residential were to purchase real estate assets with a view toward re-selling them, it could be considered a “dealer” of real estate, which could cause Residential to fail to meet its REIT requirements or such sales could be considered “prohibited transactions.” Because Residential has historically purchased large portfolios of mortgage loans with a view toward converting them into rental homes, there are always going to be assets that it purchases as part of all-or none portfolios that are not acceptable for its portfolio and necessary to sell. Typically, Residential contributes REO properties that it determines will not meet its rental portfolio criteria to its taxable REIT subsidiary to prevent the sales from being deemed prohibited transactions. In addition, Residential has been selling its non-performing loan portfolios from its qualified REIT subsidiaries, but Residential expects to limit such portfolios to fewer than six in any calendar year based on guidance that fewer than six sales per year would not result in these transactions being “prohibited transactions.” The IRS may deem one or more sales of Residential's properties to be “prohibited transactions.” If the IRS takes the position that Residential has engaged in a “prohibited transaction” (i.e., if Residential sells a property held by us primarily for sale in the ordinary course of our trade or business), the gain it recognizes from such sale would not disqualify Residential as a REIT, but such gains would be subject to a 100% tax. The Code sets forth a safe harbor for REITs that wish to sell property without risking the imposition of the 100% tax; however, there is no assurance that Residential will be able to qualify for the safe harbor. Residential does not intend to hold property for sale in the ordinary course of business; however, there is no assurance that its position will not be challenged by the IRS especially if it makes frequent sales or sales of property in which it has short holding periods. This, in turn, could materially and adversely affect our ability to generate incentive management fees.

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The “taxable mortgage pool” rules may increase the taxes that Residential or Residential’s stockholders may incur, and may limit the manner in which we effect future securitizations.

Securitizations by us or our subsidiaries could result in the creation of taxable mortgage pools for U.S. federal income tax purposes, resulting in “excess inclusion income.” As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we generally would not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as non-U.S. stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt U.S. 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 excess inclusion income. In the case of a stockholder that is a REIT, a regulated investment company, or RIC, common trust fund or other pass-through entity, our allocable share of our excess inclusion income could be considered excess inclusion income of such entity. 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 may incur a corporate level tax on a portion of any excess inclusion income. Because this tax generally would be imposed on us, all of our stockholders, including stockholders that are not disqualified organizations, generally would bear a portion of the tax cost associated with the classification of us or a portion of our assets as a taxable mortgage pool. A RIC, or other pass-through entity owning our stock in record name will be subject to tax at the highest U.S. federal corporate tax rate on any excess inclusion income allocated to their owners that are disqualified organizations. Moreover, we could face limitations in 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. Finally, if we were to fail to maintain our REIT qualification, any taxable mortgage pool securitizations would be treated as separate taxable corporations for U.S. federal income tax purposes that could not be included in any consolidated U.S. federal income tax return. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

In the future, Residential could be required to sell assets, borrow funds or raise equity capital to fund its distributions or to make a portion of its distributions in the form of a taxable stock distribution.

Residential's Board of Directors has the sole discretion to determine the timing, form and amount of any distributions to its stockholders, and the amount of such distributions may be limited. In the future, Residential could be required to sell assets, borrow funds or raise equity capital to fund its distributions or to make a portion of its distributions in the form of a taxable stock distribution. Residential's Board of Directors will make determinations regarding distributions based upon various factors, including its historical and projected financial condition and requirements, liquidity and results of operations, financing covenants, maintenance of its REIT qualification, applicable law and other factors, as its Board of Directors may deem relevant from time to time. To the extent that Residential is required to sell assets in adverse market conditions or borrow funds at unfavorable rates, it could be materially and adversely affected. To the extent Residential may have to raise equity capital, it may be unable to do so at attractive prices, on a timely basis or at all, which could adversely affect its ability to make distributions to its stockholders. This, in turn, could materially and adversely affect our ability to generate incentive management fees.

Even if Residential qualifies as a REIT, it may be subject to tax liabilities that could materially and adversely affect Residential.

Even if Residential qualifies for taxation as a REIT, it may be subject to certain federal, state and local taxes on its 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. In addition, Residential could, in certain circumstances, be required to pay an excise tax or penalty tax (which could be significant in amount) in order to utilize one or more of the relief provisions under the Code to maintain its qualification as a REIT. 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 sales of “dealer property,” Residential may also move or hold some of its assets or conduct activities through a TRS. In addition, if Residential lends money to a TRS, the TRS may be unable to deduct all or a portion of the interest paid to Residential, which could result in an even higher corporate level tax liability. Any of these taxes would decrease cash available for distribution to Residential's stockholders.

Furthermore, the Code imposes a 100% tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm’s length basis. We will structure Residential's transaction with any TRS on terms that we believe are arm’s length to avoid incurring the 100% excise tax described above. There can be no assurances, however, that Residential will be able to avoid application of the 100% tax. Any such additional tax liabilities would have an adverse effect on Residential and us.

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Residential may be subject to legislative or regulatory tax changes that could materially and adversely affect Residential.

At any time, the federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new federal income tax law, regulation or administrative interpretation or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. Residential and its stockholders could be materially and adversely affected by any such change in or any new, federal income tax law, regulation or administrative interpretation. This, in turn, could materially and adversely affect our ability to generate incentive management fees.

Our planned use of taxable REIT subsidiaries by Residential may cause it to fail to qualify to be taxed as a REIT.

The net income of Residential's TRSs is not required to be distributed to Residential, and income that is not distributed to Residential generally will not be subject to the REIT income distribution requirement. However, there may be limitations on Residential's ability to accumulate earnings in its TRSs and the accumulation or reinvestment of significant earnings in its TRSs could result in adverse tax treatment. In particular, if the accumulation of cash in Residential's TRSs causes the fair market value of its securities in our TRSs and certain other nonqualifying assets to exceed 25% of the fair market value of its assets, it would fail to qualify to be taxed as a REIT, which could materially and adversely affect us.

Risks related to our common stock

The market price and trading volume of our common stock may be volatile and may be affected by market conditions beyond our control.

The price at which our common stock trades has fluctuated, and may continue to fluctuate, significantly. The market price of our common stock may fluctuate in response to many things, including but not limited to:

- variations in actual or anticipated results of our operations, liquidity or financial condition;
- changes in, or the failure to meet, our financial estimates or those of by securities analysts;
- actions or announcements by our competitors;
- potential conflicts of interest, or the discontinuance of our strategic relationships with Residential, Altisource and Ocwen;
- actual or anticipated accounting problem;
- regulatory actions;
- lack of liquidity;
- changes in the financial condition or stock price of Residential;
- changes in the market outlook for the real estate, mortgage or housing markets;
- technology changes in our business;
- changes in interest rates that lead purchasers of our common stock to demand a higher yield;
- actions by our stockholders;
- speculation in the press or investment community;
- general market, economic and political conditions, including an economic slowdown or dislocation in the global credit markets;
- failure to maintain the listing of our common stock on the NYSE MKT;
- failure of Residential to qualify or maintain qualification as a REIT;
- failure of Residential to maintain its exemption from registration under the Investment Company Act;
- changes in accounting principles;

- passage of legislation or other regulatory developments that adversely affect us or our industry; and
- departure of our key personnel.

The market prices of securities of asset management service providers have experienced fluctuations that often have been unrelated or disproportionate to the operating results of these companies. These market fluctuations could result in extreme volatility in the market price of our common stock.

Furthermore, our small size and different investment characteristics may not continue to appeal to our current investor base that may seek to dispose of large amounts of our common stock. There is no assurance that there will be sufficient buying interest to offset those sales, and, accordingly, the market price of our common stock could be depressed and/or experience periods of high volatility.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive offices are 36C Strand Street, Christiansted, St. Croix, United States Virgin Islands 00820.

On April 16, 2015, we entered into a lease with respect to office space in Christiansted, St. Croix in the U.S. Virgin Islands. The lease has an initial term of five years, and we have an option to extend the lease for an additional five-year term. The office space under the lease is approximately 5,000 square feet and is located at Plot No. 56, Estate Southgate Farm, Christiansted, VI 00820.

The annual rent during the initial five-year term under the lease is $120,000, which increases to $130,800 per annum during the renewal term. The landlord is required to make renovations and build offices in the premises under the lease, and the renovations are expected to be completed during 2016. During the renovation period, the landlord has provided AAMC with approximately 4,000 square feet of temporary space, located at 36C Strand Street, Christiansted, VI 00820, at a rent of $4,000 per month.

For information concerning Residential's mortgage loans at fair value and its real estate assets, see “Item 1. Business.”

Item 3. Legal proceedings

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. Set forth below is a summary of legal proceedings to which we are a party as of December 31, 2015 or which settled during 2015:

Police Retirement System of St. Louis v. Erbey, et al. On January 15, 2015, a stockholder derivative action was filed in the Circuit Court of Maryland for Baltimore City by a purported stockholder of Residential under the caption The Police Retirement System of Saint Louis v. Erbey, et al., 24-C-15-000223. The action named as defendants William C. Erbey and each of the members of Residential’s Board of Directors and alleged that Mr. Erbey and Residential’s Directors breached their fiduciary duties in connection with the asset management agreement among Residential, Altisource Residential, L.P. and us. The action also named Altisource Residential, L.P. and AAMC as defendants and alleged that we aided and abetted the purported breaches of fiduciary duty and have been unjustly enriched by the asset management agreement. The complaint also named Residential as a nominal defendant. The plaintiff sought, among other things, an order declaring that Mr. Erbey and the director defendants have breached their fiduciary duties, an order declaring that Mr. Erbey and AAMC have been unjustly enriched, an order declaring that the asset management agreement is unenforceable and directing Residential’s Board of Directors to terminate the asset management agreement, damages, disgorgement by Mr. Erbey and AAMC of allegedly wrongful profits, changes to Residential’s corporate governance and an award of attorney’s and other fees and expenses.

On March 31, 2015, we and Residential entered into the New AMA to replace the Original AMA. This New AMA was publicly announced on March 31, 2015. In connection with the entry into the New AMA, the Defendants (including all the individual defendants, Residential, AAMC and Altisource Residential, L.P.) and Plaintiff entered into a Memorandum of Understanding (the “MOU”) to settle the action for the consideration of the New AMA and an application for an award of attorneys’ fees and litigation expenses for plaintiff’s counsel of an amount not to exceed $6.0 million.

On June 30, 2015, The Police Retirement System of Saint Louis and the defendants entered into a Stipulation and Agreement of Compromise, Settlement and Release (the “Settlement Stipulation”) for the settlement of this derivative action (the “Settlement”), and the parties filed the Settlement Stipulation with the court on the same day. By Order dated August 3, 2015, the court preliminarily approved the Settlement, scheduled a hearing on November 9, 2015 to consider final approval of the Settlement and authorized Residential to provide notice of the proposed Settlement to its stockholders.

On November 9, 2015, the Settlement was approved by the court, and no shareholders objected to the Settlement. Therefore, the matter was resolved and all claims in the action that were, or could have been, brought by or on behalf of Residential challenging the Original AMA among Residential, Altisource Residential L.P. and AAMC, or the negotiation of, the terms and provisions of, or the approval of the New AMA. Pursuant to the Settlement, the defendants paid the attorneys’ fees and expenses of plaintiff’s counsel in an amount of $6.0 million. This payment was a 100% covered claim under Residential’s and our insurance policy, and we recognized no loss in connection with this settlement.

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Hulstrom v. William C. Erbey, et al. On April 23, 2015, a shareholder derivative action was filed in the Superior Court of the Virgin Islands, Division of St. Croix, by a purported shareholder of Residential under the caption Kirk Hulstrom v. William Erbey, et al., SX-15-CV-158. The action named as defendants William C. Erbey, each of the current and former members of Residential's Board of Directors, certain officers of Residential, AAMC and Ocwen. In the complaint, plaintiff asserted claims against the individual defendants for breach of fiduciary duty, abuse of control and gross mismanagement in connection with the asset management agreement between Residential and us. As to AAMC and Ocwen, plaintiff alleged that both companies aided and abetted the purported breaches of fiduciary duty and have been unjustly enriched by the asset management agreement. The complaint also named Residential as a nominal defendant.

In November 2015, the parties agreed that plaintiff Hulstrom would become party to the Settlement in the Police Retirement System of St. Louis action described above with no additional Settlement payment by the defendants. In connection therewith, on December 10, 2015, Hulstrom filed a notice of voluntary dismissal of this matter, which released and resolved all claims asserted in this action. Therefore, there is no expected liability to us in this matter.

City of Cambridge Retirement System v. Altisource Asset Management Corp., et al. On January 16, 2015, a putative shareholder class action complaint was filed in the United States District Court of the Virgin Islands by a purported shareholder of AAMC under the caption City of Cambridge Retirement System v. Altisource Asset Management Corp., et al., 15-cv-00004. The action names as defendants AAMC, Mr. Erbey and certain officers of AAMC and alleges that the defendants violated federal securities laws by failing to disclose material information to AAMC shareholders concerning alleged conflicts of interest held by Mr. Erbey with respect to AAMC's relationship and transactions with Residential, Altisource, Home Loan Servicing Solutions, Ltd., Southwest Business Corporation, NewSource Reinsurance Company and Ocwen Financial Corporation, including allegations that the defendants failed to disclose (i) the nature of relationships between Mr. Erbey, AAMC and those entities; and (ii) that the transactions were the result of an allegedly unfair process from which Mr. Erbey failed to recuse himself. The action seeks, among other things, an award of monetary damages to the putative class in an unspecified amount and an award of attorney's and other fees and expenses. AAMC and Mr. Erbey are the only defendants who have been served with the complaint.

On May 12, 2015, the court entered an order granting the motion of Denver Employees Retirement Plan to be lead plaintiff. On May 15, 2015, the court entered a scheduling order requiring plaintiff to file an amended complaint on or before June 19, 2015, and setting a briefing schedule for any motion to dismiss. Plaintiff filed an amended complaint on June 19, 2015. On July 20, 2015, AAMC and Mr. Erbey filed a motion to dismiss the amended complaint. Briefing on the motion to dismiss was completed on September 3, 2015, and we are awaiting a decision from the court on the motion. We believe the amended complaint is without merit. At this time, we are not able to predict the ultimate outcome of this matter, nor can we estimate the range of possible loss, if any.

Kanga v. Altisource Asset Management Corporation, et al. On March 12, 2015, a shareholder derivative action was filed in the Superior Court of the Virgin Islands, Division of St. Croix, by a purported shareholder of AAMC under the caption Nanzeen Kanga v. William Erbey, et al., SX-15-CV-105. The action names as defendants William C. Erbey and each of the current and former members of AAMC's Board of Directors and alleges that Mr. Erbey and AAMC's directors breached fiduciary duties in connection with the disclosures that are the subject of the City of Cambridge Retirement System case described above and certain other matters involving the relationship of Residential and AAMC.

On May 15, 2015, the plaintiff and the defendants filed an agreed motion to stay the action until the earliest of any of the following events: (i) the City of Cambridge Retirement System action is dismissed with prejudice; (ii) any of the defendants in the City of Cambridge Retirement System action file an answer in that action; and (iii) defendants do not move to stay any later-filed derivative action purportedly brought on behalf of us arising from similar facts as the Kanga action and relating to the same time frame or such motion to stay is denied.

At this time, we are not able to predict the ultimate outcome of this matter, nor can we estimate the range of possible loss, if any.

Sokolowski v. Erbey, et al. On December 24, 2014, a shareholder derivative action was filed in the United States District Court for the Southern District of Florida by a purported shareholder of Ocwen. The action named the directors of Ocwen as defendants and alleged, among other things, various breaches of fiduciary duties by the directors of Ocwen.

On February 11, 2015, plaintiff filed an amended complaint naming the directors of Ocwen as defendants and also naming Residential, AAMC, Altisource and Home Loan Servicing Solutions, Ltd. as alleged aiders and abettors of the purported breaches of fiduciary duties. The amended complaint alleges that the directors of Ocwen breached their fiduciary duties by,

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among other things, allegedly failing to exercise oversight over Ocwen’s compliance with applicable laws, rules and regulations; failing to exercise oversight responsibilities with respect to the accounting and financial reporting processes of Ocwen; failing to prevent conflicts of interest and allegedly improper related party transactions; failing to adhere to Ocwen’s code of conduct and corporate governance guidelines; selling personal holdings of Ocwen stock on the basis of material adverse inside information; and disseminating allegedly false and misleading statements regarding Ocwen’s compliance with regulatory obligations and allegedly self-dealing transactions with related companies. Plaintiff claims that as a result of the alleged breaches of fiduciary duties, Ocwen has suffered damages, including settlements with regulatory agencies in excess of $2 billion, injury to its reputation and corporate goodwill and exposure to governmental investigations and securities and consumer class action lawsuits. In addition to the derivative claims, the plaintiff also alleges an individual claim that Ocwen’s 2014 proxy statement allegedly contained untrue statements of material fact and failed to disclose material information in violation of federal securities laws. The plaintiff seeks, among other things, an order requiring the defendants to repay to Ocwen unspecified amounts by which Ocwen has been damaged or will be damaged, an award of an unspecified amount of exemplary damages, changes to Ocwen's corporate governance and an award of attorneys’ and other fees and expenses.

On April 13, 2015, nominal defendant Ocwen and defendants Mr. Erbey and Mr. Faris filed a motion to stay the action.

On July 16, 2015, we filed a motion to dismiss all claims against us in the action, based upon, among other arguments, lack of personal jurisdiction and failure to state a claim. Co-defendant Residential filed a similar motion to dismiss the complaint as to all claims asserted against it.

On December 8, 2015, the court granted Residential's and our motions to dismiss for lack of personal jurisdiction with leave to amend the jurisdiction allegations no later than January 4, 2016.

On December 15, 2015, Hutt v. Erbey, et al., Case No. 15-cv-81709-WPD, was transferred to the Southern District of Florida from the Northern District of Georgia. That same day, a third related derivative action, Lowinger v. Erbey, et al., Case No. 15-cv-62628-WPD, was also filed in the Southern District of Florida. The court then requested that the parties file a response stating their positions as to whether the actions should be consolidated. On December 29, 2015, we filed a response stating that we took no position on the issue of consolidation, so long as our defenses were fully reserved should plaintiff Sokolowski seek to file an amended complaint. Neither plaintiff Sokolowski nor plaintiff Hutt opposed consolidation in their responses. On December 30, 2015, the court issued an order that, among other things, extended the deadline for plaintiff Sokolowski to file its amended complaint to cure the jurisdictional defects as to Residential and us until January 13, 2016. On January 8, 2016, the court issued an order consolidating the three related actions.

On February 2, 2016, Plaintiffs Sokolowski and Lowinger filed competing motions for appointment of lead counsel in the consolidated action. These motions were fully briefed on February 5, 2016. Subsequently, on February 17, 2016, the court issued an order appointing Sokolowski’s counsel as lead counsel with Lowinger’s and Hutt’s counsel serving on the executive committee of the plaintiffs. It also ordered that a consolidated complaint in the matter shall be filed no later than March 8, 2016.

We believe the complaint against us is without merit. At this time, we are not able to predict the ultimate outcome of this matter, nor can we estimate the range of possible loss, if any.

Management does not believe that we have incurred an estimable, probable or material loss by reason of any of the above actions.

Item 4. Mine safety disclosures

Not applicable.

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Part II

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

Market Information

Our common stock has been listed on the NYSE MKT under the symbol “AAMC” since December 13, 2013. The following table sets forth the high and low close of day sales prices for our common stock as reported by the New York Stock Exchange and dividends declared per share for the periods indicated:

	2015		2014	
Quarter ended	High	Low	High	Low
March 31	$342.85	$156.33	$1196.36	$769.59
June 30	259.95	140.50	1,112.37	723.06
September 30	147.10	23.55	763.75	540.00
December 31	38.00	11.34	699.92	310.12

The number of holders of record of our common stock as of February 22, 2016 was 51. The number of beneficial stockholders is substantially greater than the number of holders as a large portion of our stock is held through brokerage firms. Information regarding securities authorized for issuance under equity compensation plans is set forth in Note 10 to the consolidated financial statements.

Dividends

We will pay dividends at the sole and absolute discretion of our Board of Directors in the light of conditions then existing, including our earnings, financial condition, liquidity, capital requirements, the availability of capital, general overall economic conditions and other factors. We paid no dividends from inception to December 31, 2015.

Issuer Purchases of Equity Securities

The Board of Directors has authorized total repurchases of $300.0 million of common stock. At December 31, 2015, we have remaining approximately $50.9 million authorized by our Board of Directors for share repurchases. Repurchased shares are held as treasury stock and available for general corporate purposes. Below is a summary of our stock repurchases for the quarter ending December 31, 2015 (dollars in thousands except per share amounts).

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Value of Shares that may yet be Purchased under Plans or Programs (1)
October 2015	—	$—	292,450	$53,588
November 2015	—	—	292,450	53,588
December 2015	206,013	12.95	498,463	50,919
For the quarter ended December 31, 2015	206,013	$12.95	498,463	$50,919

(1) Since Board approval of repurchases is based on dollar amount, we cannot estimate the number of shares yet to be purchased.

(2) The number of shares above excludes shares of common stock tendered to satisfy the tax withholding on equity awards as part of our equity incentive plan. For the year ended December 31, 2015, 4,969 shares were reacquired at a weighted average per share price of $216.26 pursuant to our equity incentive plan.

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Performance Graph

The following stock price performance graph compares the performance of our common stock to the S&P 500 and the Dow Jones U.S. Asset Manager Index. The stock price performance graph assumes an investment of $100 in our common stock and the two indices on December 13, 2012 and further assumes the reinvestment of all dividends. Stock price performance is not necessarily indicative of future results.

	For the period from December 13, 2012 to December 31,			
Index	2012	2013	2014	2015
Altisource Asset Management Corporation	$546.67	$6,200.00	$2,067.47	$114.40
S&P 500	100.47	130.22	145.05	144.00
Dow Jones U.S. Asset Manager Index	102.86	147.79	159.28	140.23

The performance graph above is being furnished as part of this Annual Report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish the Company's stockholders with such information and, therefore, is not deemed to be filed, or incorporated by reference in any filing, by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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Item 6. Selected Financial Data

The following table sets forth selected financial data which is derived from our audited consolidated financial statements ($ in thousands, except per share data). The historical results presented below may not be indicative of our future performance and do not necessarily reflect what our financial position would have been had we operated as a separate, stand-alone entity since inception. The data should be read in conjunction with our consolidated financial statements and notes thereto, included elsewhere in this report, and “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.”

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013	March 15, 2012 (inception) to December 31, 2012
Total revenue	$248,099	$423,298	$72,297	$—
Net (loss) income attributable to common stockholders	(3,290)	59,679	(5,293)	(46)
(Loss) earnings per basic share	(1.59)	26.31	(2.26)	(0.02)
(Loss) earnings per diluted share	(1.59)	21.07	(2.26)	(0.02)

	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Total assets	$2,525,776	$2,760,698	$1,405,104	$105,815
Repurchase agreements	767,513	1,015,000	602,382	—
Other secured borrowings	505,630	324,082	—	—

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

Overview

Our primary business is to provide asset management and certain corporate governance services to institutional investors. In October 2013, we applied for and were granted registration by the SEC as a registered investment adviser under section 203(c) of the Investment Advisers Act of 1940. Our primary clients is Residential.

We have a capital light operating strategy. Residential is currently our primary source of revenue and will drive our results. On March 31, 2015, we entered into the New AMA with an effective date of April 1, 2015. The Original AMA had a different incentive fee structure that gave us a share of Residential’s cash flow available for distribution to its stockholders as well as reimbursement for certain overhead and operating expenses. Although the New AMA provides for a new fee structure in which we are entitled to a base management fee, an incentive management fee and a conversion fee for loans and REO properties that become rental properties during each quarter, our operating results are highly dependent on Residential's operating results.

We have concluded that Residential is a VIE because Residential’s equity holders lack the ability through voting rights to make decisions about Residential’s activities that have a significant effect on the success of Residential. We have also concluded that we are the primary beneficiary of Residential’s financial condition and results of operations because under the Residential asset management agreement we have the power to direct the activities of Residential that most significantly impact Residential’s economic performance including establishing Residential’s investment and business strategy. As a result, we consolidate Residential’s financial results in our consolidated financial statements. As discussed in Note 1 to the consolidated financial statements, we expect to deconsolidate Residential from our consolidated financial statements effective January 1, 2016 after our adoption Accounting Standards Update (“ASU”)

2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis.

Additionally, we provide management services to NewSource. On December 2, 2013, NewSource became registered as a licensed reinsurer with the BMA. Because we own 100% of voting common stock of NewSource and there are no substantive kick-out rights granted to other equity owners, we consolidate NewSource in our consolidated financial statements.

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The 2015 fiscal year has been a period of marked change for Residential. We advised Residential through many crucial steps that we believe are necessary and appropriate for Residential to become one of the preeminent single family rental operators in the industry and position it for future growth and success. Among others, these important steps include:

- We facilitated Residential's transfer of approximately two-thirds of servicing, representing almost all of its non-securitized loans, away from Ocwen to its two new mortgage loan servicing vendors, Fay Servicing and BSI Financial Services. These servicing transfers diversified Residential's servicing base and provided it with more bandwidth to service and convert its loan portfolio into single-family rentals.

- We advised Residential on its renewal, extension and upsize of its repurchase and loan facilities with its lenders throughout 2015 and continued to securitize its non-performing loan portfolios. Residential's amended repurchase and loan facilities have also provided it with substantially more financing capacity for its REO portfolio as its total portfolio has been transitioning from one dominated by non-performing loans to a portfolio with substantial REO and single-family rental properties. We expect that the amended agreements will also enable Residential to leverage and sell more properties that do not meet its rental criteria, providing it with more liquidity to purchase properties for its rental portfolio. Residential's total funding capacity under these new and amended facilities as of December 31, 2015 was $1.3 billion, and its remaining available financing capacity as of December 31, 2015 was approximately $512.4 million.

- We advised Residential on the diversification of its single-family acquisition strategies to acquire single-family rentals in bulk and/or directly purchase REOs on a one-by-one basis to more quickly and efficiently build its rental portfolio, as non-performing loans have become higher priced and economically unattractive. In August 2015, Residential purchased a portfolio of 1,314 single-family rental properties in Atlanta, of which more than 94% were occupied by tenants with stabilized rental income. In December 2015, Residential also bid for, and was awarded, a portfolio of 627 rental properties in Illinois, North Carolina, South Carolina, Georgia and Florida. On February 9, 2016, Residential executed the purchase agreement for this portfolio and, subject to completing confirmatory due diligence, expects to close this transaction prior to the end of the first quarter of 2016. Since Residential commenced this diversified acquisition strategy, it has increased its rental portfolio from properties 787 at December 31, 2014 to 2,732 properties at December 31, 2015, a 247% increase.

- We managed Residential's commencement of efforts to certain sell non-performing loans to take advantage of attractive market pricing, completing sales of non-performing loans representing approximately 15% of Residential's non-performing loan portfolio in the fourth quarter and agreeing in principal to sell 24% of its remaining non-performing loan portfolio in January 2016. The portfolios sold during the fourth quarter of 2015 were sold at a price within approximately 1% of Residential's balance sheet carrying value for the loans, and the portfolio pending sale is expected to be sold at a price within approximately 1% of its balance sheet carrying value. This evidences that, not only has the market for non-performing loans remained strong, but also that our recorded valuation of these loans was accurate. We expect that non-performing loan sales will allow Residential to recycle capital that it may use to purchase rental properties that meet its return profile.

- We have advised Residential on building and maintaining a stabilized rental portfolio with high occupancy rates and attractive long-term operating margin prospects. Residential has developed and employed internal proprietary models to identify and purchase rental properties with optimal rental return metrics in service areas that have attractive occupancy levels and rental margins. We believe Residential's initial areas of focus have begun to generate attractive rental yields. We will continue to facilitate Residential's efforts to develop its rental portfolio in targeted locations that continue to meet its objectives and where it can build scale without saturating the market.

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Residential has continued to develop its relationship with Altisource to make the services, renovation and property management processes more efficient and cost effective while also providing operational scale. We believe Altisource provides Residential with a competitive advantage by providing a low-cost, single source for full lifecycle rental property management services, including due diligence and acquisition support, renovations and repairs, lease marketing, tenant management and customer care. As of December 31, 2015, Altisource managed more than 41,000 vacant pre-foreclosure and REO assets in all 50 states, and these types of properties are far more intensive to manage than tenant-occupied rentals. Altisource has the capacity to conduct more than 247,000 inspections and 133,000 repair and maintenance orders on a monthly basis and has more than 9,300 centrally managed vendors operating nationwide. Altisource also leverages sophisticated systems and strong vendor oversight to mitigate risks for its clients, stringent enough to satisfy the requirements of two top-10 bank clients and one of the largest non-bank mortgage servicers in

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the United States. At least one analyst firm has ranked Altisource as the number seven brokerage company in the United States, operating in 50 states and managing over 32,000 transactions annually.

- We are also assisting Residential with its grass roots efforts to offer quality, affordable rental homes to working class families while offering them incentives and beneficial programs to increase their home ownership opportunities and provide them with additional opportunities to improve their living situations. For example, Residential is commencing programs to offer incentives to renters who consistently pay their rents in a timely fashion, including rent discounts and the flexibility to move to bigger and better properties within its rental portfolio. Residential is also considering implementing rent-to-own programs for qualified renters and are offering access to pre-purchase housing and other counseling through third parties to help provide information to families to improve their credit profiles. Residential is also in the process of implementing a program to offer rental homes with internet connectivity, as it believes internet capability will provide families who rent its homes with better educational capacity and availability. We believe these incentives will make Residential's rental properties highly attractive in the markets in which it competes.

Although these crucial steps have presented short-term challenges to Residential's financial performance, we believe they are critical to Residential's strategy of building long term shareholder value through the creation of a large portfolio of single-family rental homes that it targets operating at a best-in-class yield.

Observations on Current Market Opportunities

We believe that the economic crash of 2008 and other events affecting the housing and mortgage market in recent years have created a significant demand for single-family rental properties. Residential historically has had opportunities to acquire single-family properties through the acquisition of sub-performing and non-performing loan portfolios at attractive valuations. We believe that an integrated approach of acquiring sub-performing and non-performing residential mortgage loans and converting them to rental properties as well as direct purchases of rental properties has enabled Residential to compete more effectively for attractive opportunities to expand our portfolio, including, without limitation, through the acquisition of distressed mortgage loans, portfolios of single-family rental properties and REO properties.

In the first two and one-half years of Residential's operations, although we had considered the alternative approaches to acquiring single-family rental homes described above, our most opportunistic acquisition strategy involved acquiring portfolios of non-performing loans. However, as market conditions have continued to evolve and non-performing mortgage loan pools have become relatively higher priced, opportunities in these alternative acquisition strategies have increased and become more prevalent in the marketplace. Although we continue to review, assess and assist Residential in bidding on portfolios of non-performing mortgage loans, entities are seeking to sell portfolios of REO properties and rental properties. Residential has now commenced acquisitions through these other sources of single-family rental assets, including the acquisition of portfolios of single-family rental properties and the purchase of certain REO properties on a one-by-one basis, as we believe they may also provide alternative attractive avenues to grow Residential's rental portfolio.

Prior to 2015, Residential had acquired its non-performing and re-performing mortgage loans through direct acquisitions from institutions such as banks, HUD and private equity funds. We expect to continue to review and acquire portfolios of non-performing loan portfolios at attractive prices, but we expect to be disciplined in doing so, rather than acquiring non-performing loans at inflated prices that do not fit Residential's investment criteria.

Overview of Residential's Portfolio

Real Estate Assets

As of December 31, 2015, Residential owned 6,516 REO properties with an aggregate carrying value of $986.4 million, of which 4,933 were held for use and 1,583 were held for sale. Of the 4,933 REO properties held for use, 2,118 properties had been leased, 264 were listed and ready for rent, and 350 were in varying stages of renovation and unit turn status. With respect to the remaining 2,201 REO properties held for use, we will make a final determination whether each property meets Residential's rental profile after (a) applicable state redemption periods have expired, (b) the foreclosure sale has been ratified, (c) Residential has recorded the deed for the property, (d) utilities have been activated and (e) we have secured access for interior inspection.

As of December 31, 2014, Residential had 3,960 REO properties, consisting of 3,349 REO properties held for use and 611 properties held for sale. Of the 3,349 properties held for use, 336 had been leased, 197 were listed and ready for rent and 254

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were in various stages of renovation. With respect to the remaining 2,562 REO properties at December 31, 2014, we were in the process of determining whether these properties would meet Residential's rental profile.

Real Estate Acquisitions

On August 18, 2015, Residential completed the acquisition of 1,314 single-family residential properties in the Atlanta, Georgia market, of which 94% were leased as of the acquisition date, from an unrelated third party for an aggregate purchase price of approximately $111.4 million. Acquisition costs related to this portfolio acquisition of $0.6 million were recognized in general and administrative expenses. The value of in-place leases was estimated at $1.3 million based upon the costs we would have incurred to lease the properties and is being amortized over the weighted-average remaining life of the leases of 7 months as of the acquisition date. In December 2015, Residential also bid for, and was awarded, a portfolio of 627 rental properties in Illinois, North Carolina, South Carolina, Georgia and Florida. On February 9, 2016, Residential executed the purchase agreement for this portfolio and, subject to completing confirmatory due diligence, expects to close this transaction prior to the end of the first quarter of 2016.

During the third quarter of 2015, Residential initiated a program to purchase single-family residential properties on a one-by-one basis, sourcing listed properties from the Multiple Listing Service and alternative listing sources. Residential acquired 98 properties under this program during 2015.

During the year ended December 31, 2014, Residential acquired 237 REO properties as part of its mortgage loan portfolio acquisitions. The aggregate purchase price attributable to these acquired REO properties was $34.1 million.

During the year ended December 31, 2013, Residential acquired 40 REO properties as part of its mortgage loan portfolio acquisitions. The aggregate purchase price attributable to these acquired REO properties was $6.2 million.

Real Estate Dispositions

During the year ended December 31, 2015, Residential disposed of 1,321 REO properties and recorded $50.9 million of net realized gains on real estate.

During the year ended December 31, 2014, Residential disposed of 221 REO properties and recorded $9.5 million of net realized gains on real estate.

During the year ended December 31, 2013, Residential disposed of four residential properties. There were no significant gains or losses on the dispositions in 2013.

Mortgage Loan Assets

As of December 31, 2015, Residential's portfolio of mortgage loans at fair value consisted of 5,739 loans, substantially all of which were non-performing, having an aggregate UPB of approximately $1.4 billion and an aggregate market value of underlying properties of $1.3 billion. Residential also owned 1,297 mortgage loans held for sale having an aggregate UPB of approximately $440.4 million and an aggregate market value of underlying properties of approximately $465.0 million as of December 31, 2015.

As of December 31, 2014, Residential's portfolio of mortgage loans consisted of 10,963 residential mortgage loans, substantially all of which were non-performing, having an aggregate UPB of approximately $2.9 billion and an aggregate market value of underlying properties of $2.7 billion. Residential also owned 102 mortgage loans held for sale having an aggregate UPB of approximately $18.4 million and an aggregate market value of underlying properties of approximately $22.5 million as of December 31, 2014.

Mortgage Loan Acquisitions

Residential did not complete any residential mortgage loan portfolio acquisitions during the year ended December 31, 2015.

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During 2014, Residential completed the acquisition of an aggregate of 7,326 residential mortgage loans, substantially all of which were non-performing, having an aggregate UPB of approximately $1.9 billion and an aggregate market value of underlying properties of approximately $1.8 billion. The aggregate purchase price for these acquisitions was approximately $1.2 billion. Additionally, in June 2014, Residential acquired 879 re-performing mortgage loans with an aggregate market value of underlying properties of $271.1 million for an aggregate purchase price of $144.6 million.

During 2013, Residential completed the acquisition of an aggregate of 8,491 residential mortgage loans, substantially all of which were non-performing, having an aggregate unpaid principal balance (“UPB”) of approximately $2.2 billion and an aggregate market value of underlying properties of approximately $1.8 billion. The aggregate purchase price for these acquisitions was approximately $1.2 billion.

Mortgage Loan Resolutions and Dispositions

From inception through December 31, 2015, Residential modified an aggregate of 1,062 mortgage loans, converted an aggregate of 6,351 mortgage loans at fair value and 22 mortgage loans held for sale into REO properties and resolved an aggregate of 1,673 mortgage loans at fair value and 21 mortgage loans held for sale through short sale, refinancing or other liquidation events.

Residential strives to modify as many sub-performing and non-performing loans as possible. We believe modification followed by refinancing generates near-term cash flows, provides the highest possible economic outcome for Residential and is a socially responsible business strategy because it keeps more families in their homes.

As market conditions in the non-performing residential mortgage loan industry have continued to develop and pricing of non-performing loan portfolios have increased, we have been reviewing Residential's portfolio of non-performing loans that we know will not be rented by Residential to consider offering portions of Residential's portfolio for sale to eligible purchasers. We believe that such potential sales will enable Residential to recycle its assets to provide it with more liquidity and buying power to purchase additional single-family rental assets. As such, we view Residential's portfolio of non-performing loans as a potential growth engine for its business to purchase single-family assets, which we believe provides Residential with an advantage, particularly at times when it is challenging to access equity markets.

During December 2015, Residential sold a total of 306 of its mortgage loans held for sale to third party purchasers. In connection with these sales, Residential recorded $14.0 million of net realized gains on mortgage loans.

During November 2015, Residential sold 466 of its mortgage loans held for sale to a third party purchaser. In connection with this sale, Residential recorded $21.9 million of net realized gains on mortgage loans.

During June 2015, Residential sold an aggregate of 189 re-performing loans to a third party purchaser. The sale included 52 loans from the re-performing mortgage loans purchased in June 2014 and 137 loans that had transitioned to re-performing status from prior non-performing loan acquisitions. In connection with this sale, Residential recorded $0.5 million of net realized gains on mortgage loans held for sale related to the re-performing loans and $5.9 million of net realized gains on mortgage loans related to the non-performing loans that had transitioned to re-performing status.

During October 2014, Residential sold 934 re-performing loans to an unrelated third party and recognized $2.8 million of net realized gains on mortgage loans held for sale. The sale included 770 loans from the re-performing mortgage loans held for sale purchased in June 2014 and 164 loans that had transitioned to re-performing status from prior non-performing loan acquisitions that had a clean pay history of at least six months.

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The following table summarizes changes in Residential's mortgage loans at fair value and real estate portfolios for the periods indicated:

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Mortgage Loans (1)			
Beginning balance	10,963	8,054	—
Acquisitions	—	7,326	8,491
Dispositions	(727)	(735)	(211)
Transferred to held for sale	(2,054)	—	—
Mortgage loan conversions to REO	(2,507)	(3,718)	(228)
Reversions to mortgage loans (2)	64	36	2
Ending balance	5,739	10,963	8,054
Modifications	443	518	101
Loan reinstatements	205	168	28
Real Estate Assets			
Beginning balance	3,960	262	—
Acquisitions	1,412	237	40
Dispositions	(1,321)	(221)	(4)
Mortgage loan conversions to REO (3)	2,529	3,718	228
Reversions to mortgage loans (2)	(64)	(36)	(2)
Ending balance	6,516	3,960	262
Leased	2,118	336	14
Listed and ready for rent	264	197	11
Renovation or unit turn	350	254	18
Other (4)	3,784	3,173	219
	6,516	3,960	262

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(1) Excludes mortgage loans held for sale.

(2) Subsequent to the foreclosure sale, Residential may be notified that the foreclosure sale was invalidated for certain reasons.

(3) During 2015, conversions to REO included 22 properties that were previously in Residential's mortgage loans held for sale.

(4) Includes properties with a status of evaluating strategy or held for sale.

In addition, as of December 31, 2015, 97 of our mortgage loans were on trial modification plans, compared to 207 mortgage loans on trial modification plans as of December 31, 2014.

Asset Management Agreement with Residential

Pursuant to the asset management agreement, we design and implement Residential's business strategy, administer its business activities and day-to-day operations and provide corporate governance services, subject to oversight by Residential's Board of Directors. We are responsible for, among other duties: (1) performing and administering all of Residential's day-to-day operations, (2) defining investment criteria in Residential's investment policy in cooperation with its Board of Directors, (3) sourcing, analyzing and executing asset acquisitions, including the related financing activities, (4) analyzing and executing sales of properties and residential mortgage loans, (5) overseeing Altisource's renovation, leasing and property management of Residential's single-family rental properties, (6) overseeing the servicing of Residential's residential mortgage loan portfolios, (7) performing asset management duties and (8) performing corporate governance and other management functions, including financial, accounting and tax management services.

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We provide Residential with a management team and appropriate support personnel who have substantial experience in the management of residential mortgage loans and residential rental properties. Our management also has significant corporate governance experience that enables us to manage Residential's business and organizational structure efficiently. We have agreed not to provide the same or substantially similar services without the prior written consent of Residential's board of directors to any business or entity competing against Residential in (a) the acquisition or sale of portfolios of REO properties, (b) the carrying on of a single-family rental business, (c) the acquisition or sale of single-family rental properties, non-performing and re-performing mortgage loans or other similar assets, (d) the purchase of portfolios of sub-performing or non-performing residential mortgage loans or (e) any other activity in which Residential engages. Notwithstanding the foregoing, we may engage in any other business or render similar or different services to any businesses engaged in lending or insurance activities or any other activity other than those described above. Further, at any time following Residential's determination and announcement that it will no longer engage in any of the above-described competitive activities, we would be entitled to provide advisory or other services to businesses or entities in such competitive activities without Residential's prior consent.

On March 31, 2015, we entered into the New AMA with Residential. The New AMA, which became effective on April 1, 2015, provides for a new management fee structure, which replaces the incentive fee structure under the Original AMA, as follows:

- Base Management Fee. We are entitled to a quarterly Base Management Fee equal to 1.5% of the product of (i) Residential's average invested equity capital for the quarter multiplied by (ii) 0.25, while it has fewer than 2,500 single-family rental properties actually rented (“Rental Properties”). The Base Management Fee percentage increases to 1.75% of invested capital while Residential has between 2,500 and 4,499 Rental Properties and increases to 2.0% of invested capital while it has 4,500 or more Rental Properties;

- Incentive Management Fee. We are entitled to a quarterly Incentive Management Fee equal to 20% of the amount by which Residential's return on invested capital (based on AFFO, defined as net income attributable to holders of common stock calculated in accordance with GAAP plus real estate depreciation expense minus recurring capital expenditures on all real estate assets owned by Residential) exceeds an annual hurdle return rate of between 7.0% and 8.25% (depending on the 10-year treasury rate). The Incentive Management Fee increases to 22.5% while Residential has between 2,500 and 4,499 Rental Properties and increases to 25% while it has 4,500 or more Rental Properties; and

- Conversion Fee. We are entitled to a quarterly Conversion Fee equal to 1.5% of the market value of assets converted into leased single-family homes by Residential for the first time during the quarter.

Residential has the flexibility to pay up to 25% of the Incentive Management Fee to us in shares of its common stock.Under the New AMA, Residential will not be required to reimburse us for the allocable compensation and routine overhead expenses of our employees and staff, all of which will now be covered by the Base Management Fee described above.

Under the New AMA, we will continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to Residential achieving an average annual return on invested capital of at least 7.0% during the then-current term. The Original AMA had a 15 year term, but provided Residential with significant termination rights, including the ability to terminate the agreement if Residential’s board determined, in its sole discretion, that our performance was unsatisfactory or our compensation was reasonable. However, under the New AMA, Residential’s termination rights are significantly limited. Under the New AMA, neither party is entitled to terminate the New AMA prior to the end of the initial term, or each renewal term, other than termination by (a) us and/or Residential “for cause” for certain events such as a material breach of the New AMA and failure to cure such breach, (b) Residential for certain other reasons such as its failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the New AMA or (c) Residential in connection with certain change of control events.

Under the amended fee structure of the New AMA, the fees from Residential declined from $74.0 million for the year ended December 31, 2014 to $23.7 million for the year ended December 31, 2015. The $23.7 million fees due from Residential for the year ended December 31, 2015 consists of a $13.9 million Base Management Fee, a $1.0 million Conversion Fee, a $8.0 million incentive fee under the Original AMA, a $2.0 million professional fee for negotiation of the New AMA and $0.8 million of expense reimbursements under the Original AMA.

No Incentive Management Fee under the New AMA was due from Residential under the New AMA during 2015 because Residential's return on invested capital (as defined in the New AMA) for the each of the three quarters covered by the new AMA was below the required hurdle rate. Under the New AMA, to the extent Residential has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle

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for the next quarter before we are entitled to an Incentive Management Fee. As of December 31, 2015, the aggregate return shortfall from the prior three quarters under the New AMA was approximately 10.77% of invested capital. Therefore, Residential must achieve a 12.52% return on invested capital in the first quarter of 2016 before any Incentive Management Fee will be due from Residential for the first quarter of 2016. In future quarters, return on invested capital must exceed the required hurdle for the current quarter plus any carried-forward cumulative additional hurdle shortfall from the prior seven quarters before any Incentive Management Fee will be due from Residential.

If the New AMA were terminated by Residential, our financial position and future prospects for revenues and growth would be materially adversely affected.

Metrics Affecting Our Consolidated Results

As described above, our operating results depend heavily on Residential’s operating results. Residential’s results are affected by various factors, some of which are beyond our control, including the following:

Revenues

Residential’s revenues primarily consist of the following:

i. Rental revenues. Minimum contractual rents from leases are recognized on a straight-line basis over the terms of the leases in residential rental revenues. Therefore, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. As a greater number of Residential's REO properties are renovated and deemed suitable for rental and as the number of its acquired assets that are REO properties to be held for rent increases, we expect a greater portion of Residential's revenues will be rental revenues. We believe the key variables that will affect Residential's rental revenues over the long term will be average occupancy levels and rental rates.

ii. Net realized gain on mortgage loans. Residential records net realized gains, including the reclassification of previously accumulated net unrealized gains, upon the liquidation of a loan, which may consist of short sale, third party sale of the underlying property, refinancing or full debt pay-off of the loan. Residential also records realized gains upon the sale of its mortgage loans held for sale, which generally occurs in a bulk sale transaction. For loans not sold as part of a bulk sale, we expect the timeline to liquidate loans will vary significantly by loan, which could result in fluctuations in revenue recognition and operating performance from period to period. Additionally, the proceeds from loan liquidations may vary significantly depending on the resolution methodology. Residential generally expects to collect proceeds of loan liquidations in cash and, thereafter, have no continuing involvement with the asset.

iii. Net unrealized gains from the conversion of loans to REO. Upon conversion of loans to REO, Residential marks the properties to the most recent market value. The difference between the carrying value of the asset at the time of conversion and the most recent market value, based on BPOs, is recorded in Residential's statement of operations as net unrealized gain on mortgage loans. We expect the timeline to convert acquired loans into REO will vary significantly by loan, which could result in fluctuations in Residential's revenue recognition and its operating performance from period to period. The factors that may affect the timelines to foreclose upon a residential mortgage loan include, without limitation, state foreclosure timelines and deferrals associated therewith; unauthorized parties occupying the property; inadequacy of documents necessary to foreclose; bankruptcy proceedings initiated by borrowers; federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures and continued declines in real estate values and/or sustained high levels of unemployment that increase the number of foreclosures and which place additional pressure and/or delays on the judicial and administrative proceedings.

iv. Net unrealized gains from the change in fair value of loans. After Residential's sub-performing and non-performing mortgage loans are acquired, the fair value of each loan is adjusted in each subsequent reporting period as the loan proceeds to a particular resolution (i.e., modification, or conversion to real estate owned). As a loan approaches resolution, the resolution timeline for that loan decreases and costs embedded in the discounted cash flow model for loan servicing, foreclosure costs and property insurance are incurred and removed from future expenses. The shorter resolution timelines and reduced future expenses each increase the fair value of the loan. The increase in the value of the loan is recognized in net unrealized gain on mortgage loans in our consolidated statements of operations. The exact nature of resolution will be dependent on a number of factors that are beyond our control, including borrower

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willingness to pay, property value, availability of refinancing, interest rates, conditions in the financial markets, the regulatory environment and other factors.

v. Net realized gain on real estate. REO properties that do not meet Residential's investment criteria are sold out of its taxable REIT subsidiary. The realized gain or loss recognized in financial statements reflects the net amount of realized and unrealized gains on sold REOs from the time of acquisition to sale completion.

As a greater number of Residential's REO properties are renovated and deemed suitable for rental and as the number of its acquired assets that are REO properties to be held for rent increases, we expect a greater portion of Residential's revenues will be rental revenues. For the non-performing loans Residential has acquired to date, the average number of days to determine whether a property met its rental profile was 209 days for the 491 properties on which renovations began during 2015. The average renovation expense was $25,006 per property for 792 renovations completed during 2015, the average number of days between commencement of renovation and listing of the property for rent was 60 days for 491 properties for which renovation began during 2015, and the average number of days from listing to leasing a property was 27 days for 560 properties listed in 2015.

We believe the key variables that will affect Residential's rental revenues over the long term will be average occupancy levels and rental rates. We anticipate that a majority of Residential's leases of single-family rental properties to tenants will be for a term of one to two years. As these leases permit the residents to leave at the end of the lease term without penalty, we anticipate Residential's rental revenues will be affected by declines in market rents more quickly than if its leases were for longer terms. Short-term leases may result in high turnover, which involves expenses such as additional renovation costs and leasing expenses, or reduced rental revenues. Residential's occupancy rate is defined as leases in force in which the tenant is in place and occupying the property and leases in force in which the tenant is expected to move in shortly. Residential's occupancy rate at December 31, 2015 was 89%. Residential's rental properties had an average annual rental rate of $12,327 per home for the 2,118 properties that were leased at December 31, 2015.

Although Residential seeks to lease the majority of REO properties it acquires, it may also sell the properties that do not meet its rental investment criteria to generate additional cash for reinvestment in other acquisitions. The real estate market and home prices will determine proceeds from any sale of real estate. In addition, while we seek to track real estate price trends and estimate the effects of those trends on the valuations of Residential’s portfolios of residential mortgage loans, future real estate values are subject to influences beyond our control.

Expenses

Residential's expenses primarily consist of residential property operating expenses, depreciation and amortization, acquisition fees and costs, real estate and mortgage loan selling costs and impairment, mortgage loan servicing, interest expense, general and administrative expenses, expense reimbursement as well as fees to from Residential under the Original AMA or the New AMA, as applicable. Residential property operating expenses are expenses associated with Residential's ownership and operation of rental properties, including expenses such as property management fees, expenses towards repairs, utility expenses on vacant properties, turnover costs, property taxes, insurance and HOA dues. Depreciation and amortization is a non-cash expense associated with the ownership of real estate and generally remains relatively consistent each year in relation to Residential's asset levels since these properties are depreciated on a straight-line basis over a fixed life. Acquisition fees and costs include due diligence fees, property inspection fees, real estate commissions and other fees and costs involved in Residential's efforts to acquire assets. Real estate and mortgage loan selling costs and impairment represents Residential's estimate for the costs to be incurred to sell a property or mortgage loan and an amount that represents the carrying amount over the estimated fair value less costs to sell. Mortgage loan servicing costs are primarily for servicing fees, foreclosure fees and advances of residential property insurance. Interest expense consists of the costs to borrow money in connection with Residential's debt financing of its portfolios. General and administrative expenses consist of the costs related to the general operation and overall administration of Residential's and our business. Historically, expense reimbursement consisted primarily of our employee salaries in direct correlation to the services they provide on Residential’s behalf and other personnel costs and corporate overhead. Under the New AMA, there are no general expense or salary reimbursements. The fees from Residential consist of compensation due from Residential under the applicable asset management agreement. Historically, fees due from Residential were based on the amount of cash available for distribution to its stockholders for each period. Under the New AMA the management fees we receive from Residential are based on a combination of a percentage of Residential's invested capital, a conversion fee for assets that convert to single-family rentals during each period and Residential's return on invested capital. The percentage payment on each of these metrics will vary based on Residential's number of leased properties. The fees due from Residential under the respective asset management agreements are eliminated in consolidation but increase our net income by reducing the amount of net income attributable to noncontrolling interest.

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Other Factors Affecting Our Consolidated Results

We expect Residential’s results of operations to be affected by various additional factors, many of which are beyond our control, including the following:

Acquisitions

Residential’s operating results will depend on our ability to source sub-performing and non-performing loans, as well as other residential mortgage loans and REO property assets. We believe that there is currently a large supply of sub-performing and non-performing mortgage loans available to Residential for acquisition. We believe the available supply provides for a steady acquisition pipeline of assets since we plan on targeting just a small percentage of the population.

Generally, we expect that Residential’s mortgage loan portfolio may grow at an uneven pace, as opportunities to acquire distressed residential mortgage loans may be irregularly timed and may at times involve large or small portfolios of loans, and the timing and extent of Residential's success in acquiring such loans cannot be predicted. In addition, for any given portfolio of loans that we agree to acquire, we typically acquire fewer loans than originally expected, as certain loans may be resolved prior to the closing date or may fail to meet our diligence standards. Although the number of unacquired loans typically constitutes a relatively small portion of a particular portfolio, in certain cases, the number of loans we do not acquire could be a significant portion of a particular portfolio. In any case where we do not acquire the full portfolio, appropriate adjustments are made to the applicable purchase price.

Financing

Our ability to grow Residential’s business is dependent on the availability of adequate financing, including additional equity financing, debt financing or both in order to meet Residential’s objectives. We intend to leverage Residential’s investments with debt, the level of which may vary based upon the particular characteristics of its portfolio and on market conditions. To the extent available at the relevant time, Residential’s financing sources may include bank credit facilities, warehouse lines of credit, structured financing arrangements and repurchase agreements, among others. We may also seek to raise additional capital for Residential through public or private offerings of debt or equity securities, depending upon market conditions. To qualify as a REIT under the Code, Residential will need to distribute at least 90% of its taxable income each year to its stockholders. This distribution requirement limits its ability to retain earnings and thereby replenish or increase capital to support its activities.

Residential's Loan Resolution Activities

The management and/or sale of Residential's legacy portfolio of residential mortgage loans is an important focus of its business. For the mortgage loans remaining in its portfolio, Residential seeks to employ various loan resolution methodologies, through its servicers, with respect to its residential mortgage loans, including loan modification, collateral resolution and collateral disposition. To help Residential achieve its business objective, we continue to focus on (1) converting a portion of our sub-performing and non-performing loans to performing status and (2) managing the foreclosure process and timelines with respect to the remainder of those loans. Due to the continually evolving market dynamics and pricing of distressed mortgage loans, we are opportunistically evaluating the different alternatives with respect to our loan portfolio, including potential sales, continued resolution and possible acquisitions of such loans.

Disposition of Loans

As discussed above, Residential's loan resolution strategy has typically led to the disposition of non-performing mortgage loans primarily through short sales, refinancing, foreclosure sales, and sale of loans that had transitioned to re-performing loans from prior non-performing loan acquisitions.

In the third quarter of 2015, we also managed Residential's commencement of efforts to certain sell non-performing loans to take advantage of attractive market pricing and evolving market conditions. Non-performing loan sales are expected to be a growth engine for Residential, allowing it to recycle capital that may be used to purchase rental properties that meet its return profile. In the fourth quarter, Residential opportunistically sold a portfolio of non-performing loans, in two separate closings to two unaffiliated third parties. In addition, Residential commenced an auction to sell an additional portfolio of non-performing mortgage loans representing approximately 24% of its loan portfolio by UPB. To date, Residential has finalized agreements for the sale of 2,227 non-performing loans with an aggregate UPB of $790.5 million, subject to adjustment depending on the final

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diligence results and further negotiation by the parties for those sales that have not yet been consummated. Residential may market additional portfolios of non-performing loans in the future. It is anticipated that the proceeds generated from any such transactions would be utilized, in part, to facilitate Residential's strategy to substantially grow its single-family rental assets through the purchase of portfolios of single-family residential properties and on a one-by-one basis.

Resolution of Loans

For the non-performing and sub-performing mortgage loans that Residential continues to hold and acquire, the preferred resolution methodology has been to modify them. Once successfully modified, we expect that certain borrowers will refinance their loans with other lenders or Residential will sell the modified loans after establishing a payment history at or near the estimated value of the underlying property, potentially generating attractive returns for Residential. We believe modification followed by refinancing generates near-term cash flows, provides the highest possible economic outcome for Residential and is a socially responsible business strategy because it keeps more families in their homes.

Certain of Residential's residential mortgage loans are liquidated as a result of a short sale, third party sale of the underlying property, refinancing or full debt pay-off of the loan. Upon liquidation of a loan, Residential records net realized gains, including the reclassification of previously accumulated net unrealized gains on those mortgage loans. We expect the timeline to liquidate loans will vary significantly by loan, which could result in fluctuations in Residential's revenue recognition and operating performance from period to period. Additionally, the proceeds from loan liquidations may vary significantly depending on the resolution methodology used for each loan.

A portion of our residential mortgage loans become REO either through foreclosure or as a result of Residential's acquisition of the property via alternative resolution such as deed-in-lieu of foreclosure. Upon conversion of loans to REO, Residential marks the properties to the most recent market value and recognize net unrealized gains for the difference between the carrying value of the asset at the time of conversion and the most recent market value, which is based on broker price opinions (“BPOs”). The timeline to convert acquired loans into REO can vary significantly by loan, which can result in fluctuations in Residential's revenue recognition and our operating performance from period to period. The factors that may affect the timelines to foreclose upon a residential mortgage loan include, without limitation, state foreclosure timelines and deferrals associated therewith; unauthorized parties occupying the property; federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures; continued declines in real estate values and/or sustained high levels of unemployment that increase the number of foreclosures and that place additional pressure and/or delays on the already overburdened judicial and administrative proceedings.

We anticipate that REO properties that meet Residential's investment criteria will be converted into single-family rental properties, which we believe will generate long-term returns for Residential's stockholders. If an REO property does not meet Residential's rental investment criteria, we expect Residential to engage in REO liquidation to dispose of the property and generate cash for reinvestment in other acquisitions and dividend distributions.

Portfolio Size

The size of Residential’s investment portfolio will also be a key revenue driver. Generally, as the size of Residential’s investment portfolio grows, the amount of revenue it expects to generate will increase. A growing investment portfolio, however, will drive increased expenses including possibly higher servicing fees, property management fees to Altisource and fees due from Residential. Residential may also incur additional interest expense if it incurs additional debt to finance the purchase of its assets.

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Summary Management Reporting Information

In addition to evaluating our consolidated financial performance, we also evaluate the operations of AAMC on a stand-alone basis because our financial statements consolidate the results of Residential and NewSource under U.S. GAAP. In evaluating our operating performance and managing our business under the New AMA or the Original AMA, as applicable, we consider the fees due to us from Residential under the applicable asset management agreement as well as our stand-alone operating expenses. We maintain our internal management reporting on this basis.

The following tables present for the periods indicated our consolidating balance sheets and statements of operations, which are reconciled to U.S. GAAP. Accordingly, the entries necessary to consolidate AAMC's subsidiaries, including, but not limited to, elimination of investment in subsidiaries, elimination of intercompany receivables and payables, and elimination of fees paid under the asset management agreement and reimbursed expenses, are reflected in the Consolidating Entries column. The following tables include non-GAAP performance measures that we believe are useful to assist investors in gaining an understanding of the trends and operating results for our business. This information should be considered in addition to, and not as a substitute for, our financial results determined in accordance with U.S. GAAP.

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Altisource Asset Management Corporation
Consolidating Statement of Operations
Year ended December 31, 2015
(In thousands)

	Residential (GAAP)	NewSource Stand-alone (Non-GAAP)	AAMC Stand-alone (Non-GAAP)	Consolidating Entries	AAMC Consolidated (GAAP)
Revenues:					
Rental revenues	$13,233	$—	$—	$—	$13,233
Net unrealized gain on mortgage loans	88,829	—	—	—	88,829
Net realized gain on mortgage loans	58,061	—	—	—	58,061
Net realized gain on mortgage loans held for sale	36,432	—	—	—	36,432
Net realized gain on real estate	50,932	—	—	—	50,932
Interest income	611	564	—	(563)	612
Conversion fee	—	—	1,037	(1,037)	—
Base management fee	—	—	14,565	(14,565)	—
Incentive management fee	—	—	7,994	(7,994)	—
Expense reimbursements	—	—	750	(750)	—
Total revenues	248,098	564	24,346	(24,909)	248,099
Expenses:					
Residential property operating expenses	66,266	—	—	—	66,266
Real estate depreciation and amortization	7,472	—	—	—	7,472
Acquisition fees and costs	2,292	—	—	—	2,292
Real estate and mortgage loan selling costs and impairment	72,230	—	—	—	72,230
Mortgage loan servicing costs	62,346	—	—	—	62,346
Interest expense	53,694	—	—	(563)	53,131
General and administrative	9,539	199	23,158	—	32,896
Related party general and administrative	23,716	630	2,000	(26,346)	—
Total expenses	297,555	829	25,158	(26,909)	296,633
Other income	3,518	—	211	(3,729)	—
Loss before income taxes	(45,939)	(265)	(601)	(1,729)	(48,534)
Income tax expense	66	—	288	—	354
Net loss	(46,005)	(265)	(889)	(1,729)	(48,888)
Net loss attributable to noncontrolling interest in consolidated affiliate	—	—	—	45,598	45,598
Net loss attributable to common stockholders	$(46,005)	$(265)	$(889)	$43,869	$(3,290)

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Altisource Asset Management Corporation
Consolidating Statement of Operations
Year ended December 31, 2014
(In thousands)

	Residential (GAAP)	NewSource Stand-alone (Non-GAAP)	AAMC Stand-alone (Non-GAAP)	Consolidating Entries	AAMC Consolidated (GAAP)
Revenues:					
Rental revenues	$1,564	$—	$—	$—	$1,564
Net unrealized gain on mortgage loans	350,822	—	—	—	350,822
Net realized gain on mortgage loans	55,766	—	—	—	55,766
Net realized gain on mortgage loans held for sale	2,771	—	—	—	2,771
Net realized gain on real estate	9,482	—	—	—	9,482
Interest income	2,893	156	—	(156)	2,893
Base management fee	—	—	941	(941)	—
Incentive management fee	—	—	67,949	(67,949)	—
Expense reimbursements	—	—	6,070	(6,070)	—
Total revenues	423,298	156	74,960	(75,116)	423,298
Expenses:					
Residential property operating expenses	26,018	—	—	—	26,018
Real estate depreciation and amortization	1,067	—	—	—	1,067
Acquisition fees and costs	1,545	—	—	—	1,545
Related party acquisition fees and costs	1,039	—	—	(1,039)	—
Real estate selling costs and impairment	21,788	—	—	—	21,788
Mortgage loan servicing costs	68,181	—	—	—	68,181
Interest expense	35,812	—	—	(165)	35,647
General and administrative	5,502	4,168	8,676	—	18,346
Related party general and administrative	75,991	941	2,474	(73,921)	5,485
Total expenses	236,943	5,109	11,150	(75,125)	178,077
Other income	2,543	5,015	9	(2,160)	5,407
Income before income taxes	188,898	62	63,819	(2,151)	250,628
Income tax expense	45	—	2,051	—	2,096
Net income	188,853	62	61,768	(2,151)	248,532
Net income attributable to noncontrolling interest in consolidated affiliate	—	—	—	(188,853)	(188,853)
Net income attributable to common stockholders	$188,853	$62	$61,768	$(191,004)	$59,679

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Altisource Asset Management Corporation
Consolidating Statement of Operations
Year ended December 31, 2013
(In thousands)

	Residential (GAAP)	NewSource Stand-alone (Non-GAAP)	AAMC Stand-alone (Non-GAAP)	Consolidating Entries	AAMC Consolidated (GAAP)
Revenues:					
Rental revenues	$36	$—	$—	$—	$36
Net unrealized gain on mortgage loans	61,092	—	—	—	61,092
Net realized gain on mortgage loans	10,482	—	—	—	10,482
Interest income	687	—	—	—	687
Incentive management fee	—	—	4,880	(4,880)	—
Expense reimbursements	—	—	5,411	(5,411)	—
Total revenues	72,297	—	10,291	(10,291)	72,297
Expenses:					
Residential property operating expenses	767	—	—	—	767
Real estate depreciation and amortization	25	—	—	—	25
Acquisition fees and costs	1,408	—	—	—	1,408
Related party acquisition fees and costs	115	—	—	—	115
Real estate selling costs and impairment	184	—	—	—	184
Mortgage loan servicing costs	10,418	—	—	—	10,418
Interest expense	4,568	—	—	—	4,568
General and administrative	2,800	77	13,980	—	16,857
Related party general and administrative	12,416	—	1,527	(10,291)	3,652
Total expenses	32,701	77	15,507	(10,291)	37,994
Other income	—	—	—	—	—
Net income	39,596	(77)	(5,216)	—	34,303
Net income attributable to noncontrolling interest in consolidated affiliate	—	—	—	(39,596)	(39,596)
Net income attributable to common stockholders	$39,596	$(77)	$(5,216)	$(39,596)	$(5,293)

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Altisource Asset Management Corporation
Consolidating Balance Sheet
December 31, 2015
(In thousands)

	Residential (GAAP)	NewSource stand-alone (non-GAAP)	AAMC Stand-alone (Non-GAAP)	Consolidating Entries	AAMC Consolidated (GAAP)
Assets:					
Real estate held for use:					
Land	$56,346	$—	$—	$—	$56,346
Rental residential properties, net	224,040	—	—	—	224,040
Real estate owned	455,483	—	—	—	455,483
Total real estate held for use, net	735,869	—	—	—	735,869
Real estate assets held for sale	250,557	—	—	—	250,557
Mortgage loans at fair value	960,534	—	—	—	960,534
Mortgage loans held for sale	317,336	—	—	—	317,336
Cash and cash equivalents	116,702	4,583	63,259	—	184,544
Restricted cash	20,566	—	—	—	20,566
Accounts receivable	45,903	—	123	—	46,026
Related party receivables	2,180	—	—	(2,180)	—
Investment in affiliate	—	—	12,007	(12,007)	—
Deferred leasing and financing costs, net	7,886	—	—	—	7,886
Prepaid expenses and other assets	415	5	2,028	10	2,458
Total assets	$2,457,948	$4,588	$77,417	$(14,177)	$2,525,776
Liabilities:					
Repurchase agreements	$767,513	$—	$—	$—	$767,513
Other secured borrowings	505,630	—	—	—	505,630
Accounts payable and accrued liabilities	32,448	1,546	4,728	—	38,722
Related party payables	—	—	2,180	(2,180)	—
Total liabilities	1,305,591	1,546	6,908	(2,180)	1,311,865
Commitments and contingencies	—	—	—	—	—
Preferred stock	—	—	249,133	—	249,133
Equity:					
Common stock	572	—	26	(572)	26
Additional paid-in capital	1,227,385	7,000	21,089	(1,232,055)	23,419
(Accumulated deficit) retained earnings	(50,617)	(3,958)	55,245	50,008	50,678
Treasury stock	(24,983)	—	(254,984)	24,983	(254,984)
Total stockholders' equity	1,152,357	3,042	(178,624)	(1,157,636)	(180,861)
Noncontrolling interest in consolidated affiliate	—	—	—	1,145,639	1,145,639
Total equity	1,152,357	3,042	(178,624)	(11,997)	964,778
Total liabilities and equity	$2,457,948	$4,588	$77,417	$(14,177)	$2,525,776

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Altisource Asset Management Corporation
Consolidating Balance Sheet
December 31, 2014
(In thousands)

	Residential (GAAP)	NewSource stand-alone (non-GAAP)	AAMC Stand-alone (Non-GAAP)	Consolidating Entries	AAMC Consolidated (GAAP)
Assets:					
Real estate held for use:					
Land	$14,424	$—	$—	$—	$14,424
Rental residential properties, net	60,908	—	—	—	60,908
Real estate owned	457,045	—	—	—	457,045
Total real estate held for use, net	532,377	—	—	—	532,377
Real estate assets held for sale	92,230	—	—	—	92,230
Mortgage loans at fair value	1,959,044	—	—	—	1,959,044
Mortgage loans held for sale	12,535	—	—	—	12,535
Cash and cash equivalents	66,166	6,026	44,590	—	116,782
Restricted cash	13,282	—	—	—	13,282
Accounts receivable	10,313	919	1	(165)	11,068
Related party receivables	17,491	14,991	28,512	(43,503)	17,491
Investment in affiliate	18,000	—	2,000	(20,000)	—
Deferred leasing and financing costs, net	4,251	—	—	—	4,251
Prepaid expenses and other assets	373	3	1,262	—	1,638
Total assets	$2,726,062	$21,939	$76,365	$(63,668)	$2,760,698
Liabilities:					
Repurchase agreements	$1,015,000	$—	$—	$—	$1,015,000
Other secured borrowings	339,082	—	—	(15,000)	324,082
Accounts payable and accrued liabilities	11,678	3,173	2,040	(165)	16,726
Related party payables	33,391	941	349	(28,512)	6,169
Total liabilities	1,399,151	4,114	2,389	(43,677)	1,361,977
Commitments and contingencies	—	—	—	—	—
Preferred stock	—	—	248,927	—	248,927
Equity:					
Common stock	572	—	25	(572)	25
Additional paid-in capital	1,227,091	20,000	14,152	(1,247,091)	14,152
Retained earnings (accumulated deficit)	99,248	(2,175)	56,340	(99,239)	54,174
Treasury stock	—	—	(245,468)	—	(245,468)
Total stockholders' equity	1,326,911	17,825	(174,951)	(1,346,902)	(177,117)
Noncontrolling interest in consolidated affiliate	—	—	—	1,326,911	1,326,911
Total equity	1,326,911	17,825	(174,951)	(19,991)	1,149,794
Total liabilities and equity	$2,726,062	$21,939	$76,365	$(63,668)	$2,760,698

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Primary Driver of Our Stand-alone Operating Results

As described above under “Metrics Affecting Our Consolidated Results,” and “Other Factors Affecting Our Consolidated Results,” under the Original AMA, our incentive management fees were directly linked to the results of Residential. The results of Residential historically have been affected by various factors including, but not limited to, the number and performance of Residential's single-family residential property and mortgage loan acquisitions, its ability to use financing to grow its business, its ability to convert mortgage loans into residential rental properties, its operating expenses, the success of its loan resolution methodologies and the size of its portfolio.The extent to which we have been successful in managing these factors for Residential under the Original AMA affected our ability to generate incentive management fees, which were our sole source of income other than the reimbursement of our expenses pursuant to the Original AMA. Under the Original AMA, as Residential generated taxable income, our incentive management fees provided us with a share of Residential's cash available for distribution to its stockholders. If there was a decline in the cash distributable by Residential to its stockholders in any period, or if Residential was unable to make distributions to its stockholders in any period, under the Original AMA, the amount of our incentive management fees would have been adversely affected.

Under the New AMA, although our Incentive Management Fees continue to be directly linked to the results of Residential, we also are entitled to a Base Management Fee, which is derived as a percentage of Residential’s invested capital, and a Conversion Fee, which is based on the number and value of mortgage loans and/or REO properties that Residential converts to rental properties in each period. Although our quarterly Incentive Management Fee is earned only if Residential exceeds the current 7% threshold return on invested capital (as defined in the New AMA) and the Conversion Fee is affected by the number of properties we rent for the first time in a given quarter, the Base Management Fee provides us with quarterly minimum revenues that are meant to cover our employment and other overhead costs and expenses. Our performance in each particular period, however, will be affected by our ability to manage Residential’s business and rental portfolio effectively. If there are declines in Residential’s performance in either return on invested capital or in growing Residential’s rental portfolio, our fees in each such period would be adversely affected. With respect to our Incentive Management Fee, in the event Residential’s return on invested capital is below the required hurdle rate in a quarter, a return rate shortfall in Incentive Management Fees is created that is carried forward and added to the next quarter's hurdle for up to seven future quarters or until the shortfall is reduced by Residential's future performance above the hurdle rate. As of December 31, 2015, the aggregate return shortfall from the prior three quarters under the New AMA was approximately 10.77% of invested capital. Therefore, Residential must achieve a 12.52% return on invested capital in the first quarter of 2016 before any Incentive Management Fee will be due from Residential for the first quarter of 2016. In future quarters, Residential's return on invested capital must exceed the required hurdle for the current quarter plus any carried-forward cumulative additional hurdle shortfall from the prior seven quarters before any Incentive Management Fee will be due from Residential.

Results of Operations

The following sets forth discussion of our results of operations for the years ended December 31, 2015, 2014 and 2013. Because the results of Residential are consolidated into our financial statements, the results of operations disclosures set forth below include the results of Residential. We eliminate all intercompany amounts in our consolidated financial statements, including the fees due from Residential under the respective asset management agreements. However, the effect of such amounts received from Residential is still recognized in net income attributable to our stockholders through the adjustment for earnings attributable to noncontrolling interest.

Fiscal year ended December 31, 2015 compared to fiscal year ended December 31, 2014

Rental Revenues

Residential's rental revenues increased to $13.2 million for the year ended December 31, 2015 from $1.6 million for the year ended December 31, 2014. The number of leased properties increased to 2,118 leased properties at December 31, 2015 from 336 at December 31, 2014, primarily due to Residential's acquisition of 1,314 rental properties in August 2015 and its other efforts to achieve scale in our rental portfolio. We expect Residential to generate increasing rental revenues as it continues to renovate, list and rent additional residential rental properties. Residential's rental revenues will depend primarily on occupancy levels and rental rates for its residential rental properties. Because Residential's lease terms generally are expected to be two or fewer years, Residential's occupancy levels and rental rates will be highly dependent on localized residential rental markets, its ability to manage maintenance and upkeep costs and its renters’ desire to remain in its properties.

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Net Unrealized Gain on Mortgage Loans

Residential's net unrealized gains on mortgage loans decreased to $88.8 million for the year ended December 31, 2015 from $350.8 million for the year ended December 31, 2014. This decrease was primarily related to lower unrealized gains on loans converted to REO status and continued friction costs due to Residential's servicing transfers during 2015. This decline was further emphasized by the fact that Residential did not purchase any portfolios of mortgage loans in 2015, which led to fewer loans available for conversion to REO. Further, the timeline to resolution for Residential's mortgage loan portfolios may extend beyond the original expectations. In the absence of newly acquired loans, we expect the amount of unrealized gains to decline as the portfolio ages.

The net unrealized gains for the year ended December 31, 2015 and 2014 can be broken down into the following three components:

- First, Residential recognized an aggregate of $91.3 million in unrealized gains upon conversion of mortgage loans to REO for the year ended December 31, 2015 compared to $124.9 million for the year ended December 31, 2014. Upon conversion of these mortgage loans to REO, Residential marks these properties to the most recent market value. During the year ended December 31, 2015, Residential converted a net of 2,443 mortgage loans to REO status compared to a net of 3,682 mortgage loans converted to REO status during the year ended December 31, 2014;

- Second, Residential recognized an aggregate of $122.4 million in unrealized gains from the net increase in the fair value of loans for the year ended December 31, 2015 compared to $241.9 million in unrealized gains during the year ended December 31, 2014. Adjustments to the fair value of loans after acquisition represent, among other factors, a reduction in the expected time remaining to complete the foreclosure process due to the passage of time since acquisition and a reduction in future foreclosure expenses to the extent Residential has already incurred them. The reduction in time remaining to complete the foreclosure is driven by the completion of activities in the foreclosure process after Residential acquired the loans. This reduction in timeline results in reduced carrying costs and reduced future expenses for the loans, each of which increases the fair value of the loans; and

- Third, Residential reclassified an aggregate of $124.9 million from unrealized gains on mortgage loans to realized gains on real estate and mortgage loans, reflecting real estate sold and the disposition of mortgage loans for the year ended December 31, 2015. This compares to an aggregate of $22.6 million reclassified from unrealized gains on mortgage loans to realized gains for the year ended December 31, 2014.

Through its resolution of mortgage loans and the transfer of 2,054 mortgage loans to held for sale, Residential's portfolio of mortgage loans at fair value has decreased from 10,963 loans at December 31, 2014 to 5,739 loans at December 31, 2015. The fair value of mortgage loans is based on a number of factors that are difficult to predict and may be subject to positive or adverse changes in value depending on the financial condition of borrowers, as well as geographic, economic, market and other conditions. Therefore, Residential may experience unrealized losses or additional unrealized gains on its mortgage loans in the future.

Net Realized Gain on Mortgage Loans

Residential's net realized gain on mortgage loans increased to $58.1 million for the year ended December 31, 2015 from $55.8 million for the year ended December 31, 2014, primarily due to slightly improved average resolution economics. Residential disposed of 727 mortgage loans at fair value in the year ended December 31, 2015 compared to its resolution of 735 mortgage loans at fair value in the year ended December 31, 2014. These resolutions occurred primarily through short sales, refinancing or other liquidation events.

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Net Realized Gain on Mortgage Loans Held for Sale

Net realized gain on mortgage loans held for sale increased to $36.4 million for the year ended December 31, 2015 from $2.8 million for the year ended December 31, 2014. This increase was principally due to the difference in the composition of the pools of mortgage loans sold in applicable year. The 772 mortgage loans held for sale that were sold during the year ended December 31, 2015 consisted primarily of non-performing loans that Residential sold as attractive market opportunities became available. The 770 mortgage loans held for sale that were sold during the year ended December 31, 2014 consisted of re-performing loans that were acquired during June 2014 and were sold shortly after acquisition.

Net Realized Gain on Real Estate

Net realized gain on real estate was $50.9 million for the year ended December 31, 2015, during which Residential disposed of 1,321 residential properties, compared to $9.5 million for the year ended December 31, 2014, during which Residential disposed of 221 residential properties.

Interest Income

Interest income decreased to $0.6 million for year ended December 31, 2015 from $2.9 million for the year ended December 31, 2014 primarily primarily due to dispositions of the re-performing loans acquired in June 2014. During the year ended December 31, 2015, Residential accreted $0.6 million into interest income with respect to these re-performing loans compared to $2.6 million for the year ended December 31, 2014.

Residential Property Operating Expenses

Residential incurred $66.3 million of residential property operating expenses for the year ended December 31, 2015 compared to $26.0 million for the year ended December 31, 2014, primarily due to increases in the scale of its real estate portfolio. At December 31, 2015, Residential had a total of 6,516 REO properties, of which 2,118 were leased, compared to 3,960 REO properties, of which 336 were leased, as of December 31, 2014. Residential expects to incur increasing residential property operating expenses as it converts more mortgage loans to and/or acquire more residential properties. Residential's residential property operating expenses for rental properties will be dependent primarily on residential property taxes and insurance, property management fees, HOA dues and repair and maintenance expenditures. Residential's residential property operating expenses for properties held while we are evaluating strategy also will be dependent primarily on residential property taxes and insurance, property management fees, HOA dues, utilities, property preservation and repairs and maintenance.

Real Estate Depreciation and Amortization

Residential incurred $7.5 million of real estate depreciation and amortization for the year ended December 31, 2015 compared to a $1.1 million for the year ended December 31, 2014, reflecting the growth in its rental portfolio. We expect Residential to incur increasing real estate depreciation and amortization as it converts more mortgage loans to, and owns more, residential rental properties. Real estate depreciation and amortization are non-cash expenditures that generally are not expected to be indicative of the market value or condition of Residential's residential rental properties.

Acquisition Fees and Costs

Residential incurred $2.3 million of acquisition fees and costs for the year ended December 31, 2015 compared to $1.5 million for the year ended December 31, 2014. This fluctuation is primarily due to acquisition fees and costs of

$1.0 million related to services provided by Ocwen and Altisource being included in related party acquisition fees and costs in 2014.

Real Estate and Mortgage Loan Selling Costs and Impairment

Real estate selling costs of REO held for sale were $33.6 million for the year ended December 31, 2015 compared to $13.9 million for the year ended December 31, 2014. Residential also recognized $36.5 million of REO valuation impairment for the year ended December 31, 2015 compared to $7.9 million for the year ended December 31, 2014. In addition, Residential recognized $2.1 million in mortgage loan selling costs for the year ended December 31, 2015 related to its mortgage loans held for sale.

Residential records residential properties held for sale at the lower of either the carrying amount or its estimated fair value less estimated selling costs. If the carrying amount exceeds the estimated fair value, as adjusted, Residential records impairment

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equal to the amount of such excess. If an increase in fair value is noted at a subsequent measurement date, a gain is recognized to the extent of any previous impairment recognized. However, GAAP does not permit Residential to recognize a gain where market value exceeds the original carrying value. At December 31, 2015 and 2014, the carrying value of our real estate held for sale was $250.6 million and $92.2 million, respectively, with an aggregate market value of $288.0 million and $103.9 million, respectively.

Mortgage Loan Servicing Costs

Residential incurred $62.3 million of mortgage loan servicing costs, primarily for servicing fees, foreclosure fees and advances of residential property insurance for the year ended December 31, 2015 compared to $68.2 million for the year ended December 31, 2014. This reduction of servicing costs was primarily due to the conversion, sale or other disposition of Residential's mortgage loans without replenishing its loan portfolio in other loan acquisitions. Residential incurs mortgage loan servicing and foreclosure costs as its mortgage servicers provide servicing for its loans and pay for advances relating to property insurance, foreclosure attorney fees, foreclosure costs and property preservation. Residential's loan servicing costs fluctuate based on the size of its mortgage portfolio.

Interest Expense

Residential incurred $53.1 million of interest expense for the year ended December 31, 2015 related to borrowings under its repurchase and loan facilities (including amortization of deferred financing costs) compared to $35.6 million for the year ended December 31, 2014, when market interest rates were at historically low levels. The interest rate under Residential's repurchase and loan facilities is subject to change based on changes in the relevant index. We also expect Residential's interest expense to increase as its debt increases to fund and/or leverage its ownership of existing and additional portfolios.

General and Administrative Expenses

General and administrative expenses increased to $32.9 million for the year ended December 31, 2015 from $18.3 million for the year ended December 31, 2014, primarily due to increased litigation-based expenses, an increase in salaries and benefits attributable to the hiring of additional personnel to provide services on behalf of Residential, expenses related to services provided by Ocwen and Altisource that were included in related party general and administrative expenses in 2014 and higher insurance costs due to the growth in Residential's single-family rental portfolio.

Related Party General and Administrative Expenses

Related party general and administrative expenses primarily consist of salaries and benefits and professional fees attributable to services provided by Ocwen and Altisource on behalf of our and Residential's business. There were no related party general and administrative expenses for the year ended December 31, 2015, as Ocwen and Altisource are no longer considered related parties by us or Residential (see Note 9 of our consolidated financial statements). These expenses are now included in general and administrative expenses as discussed above. Residential and we incurred $4.4 million of related party general and administrative expenses for the year ended December 31, 2014.

Net (Loss) Income Attributable to Noncontrolling Interest in Consolidated Affiliate

For entities that are consolidated, but not 100% owned, a portion of the income or loss is allocated to noncontrolling interest in consolidated affiliate. For the year ended December 31, 2015, we recognized a net loss attributable to noncontrolling interest in consolidated affiliate of $45.6 million compared to net income attributable to noncontrolling interest in consolidated affiliate $188.9 million for the year ended December 31, 2014.

Management Fees and Expense Reimbursements

We recorded management incentive fees of $8.0 million and expense reimbursements of $0.8 million under the Original AMA for the year ended December 31, 2015, all of which related to the first quarter of 2015. In addition, we recorded Base Management Fees of $13.9 million and Conversion Fees of $1.0 million under the New AMA for the year ended December 31, 2015. The $8.0 million in incentive fees for the first quarter of 2015 reflects the recordation of our requirement to return a portion of the management fees paid to us by Residential in connection with the first quarter of 2015 in the amount of $6.9 million. Because the fees paid to us for the first quarter of 2015 was based on an average of the fees payable for the quarter under the Original AMA and the New AMA and Residential's annual dividend was less than a projected $2.20 per share annual dividend, we were required to true-up the first quarter incentive fee under the Original AMA, which resulted in the requirement

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that we pay $6.9 million to Residential for the over-payment of fees to us when averaging the amounts payable under the Original AMA and the New AMA. Lastly, under the New AMA, we recorded a one-time $2.0 million fee in the first quarter of 2015 in connection with the negotiation of the New AMA and the termination of the Original AMA. For the year ended December 31, 2014, we recorded management incentive fees of $67.9 million and expense reimbursements of $7.0 million under the Original AMA.

No Incentive Management Fee under the New AMA was due from Residential for 2015 because its return on invested capital (as defined in the New AMA) was below the required hurdle rate, as adjusted by the prior quarter hurdle shortfall against the required 1.75% quarterly return on invested capital hurdle rate. The amount by which return on invested capital was below the required hurdle rate during 2015 is a hurdle shortfall that is carried forward for up to seven future quarters or until the shortfall is reduced by Residential's future performance above the hurdle rate. In future quarters, return on invested capital must exceed the required hurdle for the current quarter plus any carried-forward cumulative additional hurdle shortfall from the prior seven quarters before any Incentive Management Fee will be due from Residential.

We recorded management fees of $0.6 million and $0.9 million from NewSource for the years ended December 31, 2015 and 2014, respectively. Effective October 1, 2015, we suspended further charges to NewSource for services under the related management agreement.

These management fees and expense reimbursements have been eliminated under U.S. GAAP in consolidation.

Other Income

We recognized no other income for the year ended December 31, 2015. Other income was $5.4 million for the year ended December 31, 2014, primarily reflecting NewSource’s net written reinsurance premiums of $5.0 million for the year ended December 31, 2014.

Fiscal Year ended December 31, 2014 Compared to Fiscal Year ended December 31, 2013

Rental Revenues

Residential's rental revenues increased to $1.6 million for the year ended December 31, 2014 from $36,000 for the year ended December 31, 2013. The number of leased properties increased to 336 leased properties at December 31, 2014 from 14 at December 31, 2013.

Net Unrealized Gain on Mortgage Loans

Residential's net unrealized gains on mortgage loans increased to $350.8 million for the year ended December 31, 2014 from $61.1 million for the year ended December 31, 2013. These increases were primarily related to an increase in the number of loans for which unrealized gains were estimated and the continued discounts at which Residential has been able to acquire non-performing loans into its portfolio.

The net unrealized gains for the year ended December 31, 2014 and 2013 can be broken down into the following three components:

- First, Residential recognized an aggregate of $131.5 million in unrealized gains upon conversion of mortgage loans to REO for the year ended December 31, 2014 compared to $8.4 million for the year ended December 31, 2013. Upon conversion of these mortgage loans to REO, Residential marks these properties to the most recent market value. During the year ended December 31, 2014, Residential converted a net of 3,682 mortgage loans to REO status compared to a net of 226 mortgage loans converted to REO status during the year ended December 31, 2013, respectively;

- Second, Residential recognized an aggregate of $241.9 million in unrealized gains from the net increase in the fair value of loans for the year ended December 31, 2014 compared to $54.0 million in unrealized gains during the year ended December 31, 2013. Adjustments to the fair value of loans after acquisition represent, among other factors, a reduction in the expected time remaining to complete the foreclosure process due to the passage of time since acquisition and a reduction in future foreclosure expenses to the extent Residential has already incurred them. The reduction in time remaining to complete the foreclosure is driven by the completion of activities in the foreclosure

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process after Residential acquired the loans. This reduction in timeline results in reduced carrying costs and reduced future expenses for the loans, each of which increases the fair value of the loans; and

- Third, Residential reclassified an aggregate of $22.6 million from unrealized gains on mortgage loans to realized gains on real estate and mortgage loans, reflecting real estate sold and the disposition of mortgage loans for the year ended December 31, 2014. This compares to an aggregate of $1.3 million reclassified from unrealized gains on mortgage loans to realized gains for the year ended December 31, 2013.

Through Residential's acquisitions, the number of sub-performing and non-performing loans in its mortgage loan portfolio grew from 8,054 loans at December 31, 2013 to 10,963 loans at December 31, 2014

Net Realized Gain on Mortgage Loans

Residential's net realized gain on mortgage loans increased to $55.8 million for the year ended December 31, 2014 from $10.5 million for the year ended December 31, 2013, primarily due to its disposition of mortgage loans through loan sales, refinancings, short sales and foreclosure sales. Residential disposed of 735 mortgage loans in the year ended December 31, 2014 and 211 mortgage loans in the year ended December 31, 2013, primarily from short sales and foreclosure sales.

Net Realized Gain on Mortgage Loans Held for Sale

Net realized gain on re-performing mortgage loans were $2.8 million for the year ended December 31, 2014, during which Residential disposed of 770 re-performing loans. Residential did not dispose of any re-performing loans in 2013.

Net Realized Gain on Real Estate

Net realized gain on real estate was $9.5 million for the year ended December 31, 2014, during which Residential disposed of 221 residential properties. Residential disposed of four residential properties during the year ended December 31, 2013, resulting in no meaningful gains or losses on such dispositions.

Interest Income

Interest income increased to $2.9 million for year ended December 31, 2014 from $0.7 million for the year ended December 31, 2013, primarily related to the accretion of $2.6 million into interest income with respect to Residential's re-performing loans that were acquired during 2014.

Residential Property Operating Expenses

Residential incurred $26.0 million of residential property operating expenses for the year ended December 31, 2014 compared to $0.8 million for the year ended December 31, 2013 primarily due to its REO portfolio increasing from 262 properties at December 31, 2013 to 3,960 properties at December 31, 2014.

Real Estate Depreciation and Amortization

Residential incurred $1.1 million of real estate depreciation and amortization for the year ended December 31, 2014 compared to a nominal amount of real estate depreciation and amortization for the year ended December 31, 2013 primarily due to its rental portfolio increasing from 43 properties at December 31, 2013 to 787 properties at December 31, 2014.

Acquisition Fees and Costs

Residential incurred $1.5 million of acquisition fees and costs for the year ended December 31, 2014 compared to $1.4 million for the year ended December 31, 2013 primarily due to increased acquisition activity in 2014.

Related Party Acquisition Fees and Costs

Residential incurred $1.0 million of related party acquisition fees and costs for the year ended December 31, 2014 compared to a $0.1 million for the year ended December 31, 2013 primarily due to increased acquisition activity in 2014.

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Real Estate Selling Costs and Impairment

Real estate selling costs of REO held for sale were $13.9 million for the year ended December 31, 2014 compared to $0.2 million for the year ended December 31, 2013. Residential also recognized $7.9 million impairment of its REO for the year ended December 31, 2014 compared to $0 impairment for the year ended December 31, 2013. Residential records residential properties held for sale at the lower of either the carrying amount of REO or its estimated fair value less estimated selling costs. If the carrying amount exceeds the estimated fair value, as adjusted, Residential records impairment equal to the amount of such excess.

Mortgage Loan Servicing Costs

Residential incurred $68.2 million of mortgage loan servicing costs primarily for servicing fees, foreclosure fees and advances of residential property insurance for the year ended December 31, 2014 compared to $10.4 million for the year ended December 31, 2013. Residential incurs mortgage loan servicing and foreclosure costs as its mortgage servicers provide servicing for its loans and pay for advances relating to property insurance that are made to protect its investment in mortgage loans.

Interest Expense

Residential incurred $35.6 million of interest expense for the year ended December 31, 2014 related to borrowings under its repurchase agreements (including amortization of deferred financing costs) compared to $4.6 million for the year ended December 31, 2013, primarily due to increases in the average balance of its interest-bearing liabilities.

General and Administrative Expenses

General and administrative expenses increased to $18.3 million for the year ended December 31, 2014 from $16.9 million for the year ended December 31, 2013, primarily due to increased litigation-based expenses, costs associated with transferring insurance underwriting risk of claims and future losses and higher professional fees. The effect of these increases was largely offset by a decrease in compensation costs resulting from a non-employee restricted stock award accounted for at fair value.

Related Party General and Administrative Expenses

Residential and we incurred $4.4 million of related party general and administrative expenses for the year ended December 31, 2014 compared to $3.7 million for the year ended December 31, 2013. Related party general and administrative expenses primarily consisted of personnel costs attributable to services provided to us by Altisource on behalf of our business.

Net Income Attributable to Noncontrolling Interest in Consolidated Affiliate

For the year ended December 31, 2014 and 2013, we recognized $188.9 million and $39.6 million, respectively, of net income attributable to noncontrolling interest in consolidated affiliate which is equivalent to Residential's net income because although we consolidate Residential, we had no ownership in Residential.

Incentive Management Fees and Expense Reimbursements

We recorded management incentive fees of $67.9 million for the year ended December 31, 2014 in connection with the cash available for distribution from Residential. Management incentive fees of $4.9 million were received from Residential for the year ended December 31, 2013. The management incentive fees have been eliminated under U.S.

GAAP in consolidation. For the year ended December 31, 2014 and 2013, we recognized $7.0 million and $5.4 million, respectively, of expense reimbursements from Residential and NewSource that also have been eliminated in consolidation. We are not reimbursed by Residential for certain general and administrative expenses pertaining to stock-based compensation and our expenditures that are not for the benefit of Residential.

Other Income

Other income was $5.4 million for the year ended December 31, 2014, primarily reflecting NewSource's net written reinsurance premiums of $5.0 million for the year ended December 31, 2014. NewSource commenced its reinsurance activities during the second quarter of 2014.

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Liquidity and capital resources

As of December 31, 2015, we had stand-alone cash and cash equivalents of $63.3 million compared to $44.6 million as of December 31, 2014. We believe this cash is sufficient to fund our operations since we are generating asset management fees as under the New AMA, and our only stand-alone cash expenditures to date are leasehold improvements and general and administrative expenses, including unreimbursed salaries and professional expenses.

On a consolidated basis, our cash and cash equivalents as of December 31, 2015 was $184.5 million, of which approximately $116.7 million was attributable to Residential. Residential’s liquidity reflects its ability to meet its current obligations (including its operating expenses and, when applicable, retirement of, and margin calls relating to, its financing arrangements) and make distributions to its stockholders. Residential is required to distribute at least 90% of its taxable income each year (subject to certain adjustments) to its stockholders to qualify as a REIT under the Internal Revenue Code. This distribution requirement limits Residential’s ability to retain earnings and thereby replenish or increase capital to support its activities. Our consolidated cash and cash equivalents as of December 31, 2015 also include $4.6 million attributable to NewSource.

Residential was initially funded with $100.0 million on December 21, 2012. Since its separation, its primary sources of liquidity have been proceeds from equity offerings, borrowings under its repurchase agreements and securitization financings, interest payments it receives from its portfolio of assets, cash generated from loan liquidations and cash generated from its rental portfolio. We expect Residential’s existing business strategy will require additional debt and/or equity financing. We continue to explore a variety of financing sources to support Residential’s growth, including, but not limited to, debt financing through bank warehouse lines of credit, additional and/or amended repurchase agreements, term financing, securitization transactions and additional debt or equity offerings. Based on Residential’s current borrowing capacity, leverage ratio, and anticipated additional debt financing transactions, we believe that these sources of liquidity will be sufficient to enable it to meet anticipated short-term (one year) liquidity requirements, including paying expenses on its existing residential rental and loan portfolios, funding distributions to its stockholders, paying fees to us under the asset management agreement and general corporate expenses. However, there can be no assurance as to how much additional financing capacity such efforts will produce, what form the financing will take or that such efforts will be successful. If we are unable to renew, replace or expand Residential’s sources of financing, its business, financial condition, liquidity and results of operations may be materially and adversely affected.

To date, Residential has conducted the following equity offerings, repurchase facilities and securitization transactions:

Equity Offerings

We have facilitated Residential’s completion of three public equity offerings with aggregate net proceeds of approximately $1.1 billion. On May 1, 2013, Residential completed a public offering of 17,250,000 shares of its common stock at $18.75 per share and received net proceeds of approximately $309.5 million. On October 1, 2013, Residential completed its second public offering of 17,187,000 shares of common stock at $21.00 per share and received net proceeds of $349.4 million. On January 22, 2014, Residential completed its third public offering of 14,200,000 shares of common stock at $34.00 per share and received net proceeds of approximately $467.6 million.

Repurchase Facilities and Loan Agreement

Residential entered into three separate repurchase agreements to finance the acquisition and ownership of residential mortgage loans and REO properties. The maximum aggregate funding available under these repurchase agreements initially was $425.0 million. In addition, Residential entered into a loan agreement Nomura Corporate Funding Americas, LLC (“Nomura”) for the purpose of financing its beneficial ownership of REO properties. A description of each agreement follows below:

- Credit Suisse (“CS”) is the lender on the repurchase agreement entered into on March 22, 2013, (the “CS repurchase agreement”) with an initial aggregate maximum borrowing capacity of $100.0 million. During 2014 the CS repurchase agreement was amended on several occasions, ultimately increasing the aggregate maximum borrowing capacity to $225.0 million on December 31, 2014 with a maturity date of April 20, 2015, subject to an additional one-year extension with the approval of the lender. On April 20, 2015, we entered into an amended and restated repurchase agreement with CS that increased our aggregate borrowing capacity from $225.0 million to $275.0 million, increased the REO sublimit under the facility and extended the maturity date to April 18, 2016. On Residential's behalf, we are in discussions with CS to renew and further extend the repurchase agreement with an ability to obtain additional funding. No assurance can be provided that we will be able to renew this facility on reasonable terms, on a timely basis or at all.

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- Deutsche Bank ("DB") is the lender on the repurchase agreement dated September 12, 2013 (the "DB repurchase agreement"). The DB repurchase agreement matures on March 11, 2016. Under the DB repurchase agreement, Residential has not been eligible for additional funding under the facility since March 2015, and its aggregate funding capacity was thereby reduced to $54.9 million, which was the amount outstanding under the facility on December 31, 2015. Residential expects to repay the remaining outstanding balance of the DB repurchase agreement during March 2016 primarily with available funds and then transfer of all or some of the collateral to its other existing facilities.

- Wells Fargo ("Wells") is the lender under the repurchase agreement dated September 23, 2013 (the "Wells repurchase agreement") with an initial aggregate maximum borrowing capacity of $200.0 million. Throughout 2013 and 2014, the Wells repurchase agreement was amended several times increasing the aggregate maximum borrowing capacity to a high of $1.0 billion, and on December 31, 2014 was reduced to $750.0 million, subject to certain sublimits, to reflect the securitization of a significant portion of our non-performing loans that previously had been financed under the Wells repurchase agreement. On February 20, 2015, we exercised our option to extend the termination date of this facility to March 23, 2016. On September 30, 2015, the Wells repurchase agreement was amended to extend the termination date of the facility to September 27, 2017, to re-increase the aggregate amount of available funding to $750.0 million and to further increase the sublimits of REO properties that may collateralize the facility from 10% of the aggregate funding capacity to 40% of the aggregate funding capacity, or $300.0 million of the $750.0 million.

- Nomura is the lender under a loan agreement dated April 10, 2015 (the "Nomura loan agreement") with an initial aggregate maximum funding capacity of $100.0 million. On May 12, 2015, we amended the terms of the Nomura loan agreement to increase the aggregate maximum funding capacity to $200.0 million, subject to certain sublimits, eligibility requirements and conditions precedent to each funding. The Nomura loan agreement terminates on April 8, 2016. On Residential's behalf, we are in discussions with Nomura to renew and further extend the Nomura loan agreement with an ability to obtain additional funding. No assurance can be provided that we will be able to renew this facility on reasonable terms, on a timely basis or at all.

Following all of the amendments described above, the maximum aggregate funding available to Residential under these repurchase agreements as of December 31, 2015 was $1.3 billion, subject to certain sublimits, eligibility requirements and conditions precedent to each funding. As of December 31, 2015, an aggregate of $767.5 million was outstanding under Residential's repurchase agreements. All obligations under each of these repurchase agreements are fully guaranteed by Residential.

Under the terms of each repurchase and loan agreement, as collateral for the funds Residential draws thereunder, subject to certain conditions, Residential's operating partnership will sell to the applicable lender equity interests in the Delaware statutory trust subsidiary that owns the applicable underlying real estate or mortgage assets on Residential's behalf, or the trust will directly sell such underlying mortgage assets. In the event the lender determines the value of the collateral has decreased, the lender has the right to initiate a margin call and require Residential to post additional collateral or to repay a portion of the outstanding borrowings. The price paid by the lender for each underlying mortgage asset Residential finances under the applicable repurchase agreement is subject to agreement between the lender and Residential and is based on a percentage of the market value of the underlying mortgage asset and depends on its delinquency status. Residential's cost of borrowing under the repurchase agreements generally corresponds to LIBOR, or the lender interest at the lender's cost of funds plus a margin. Residential is also required to pay certain other customary fees, administrative costs and expenses to maintain and administer the repurchase agreements.

The repurchase agreements require Residential to maintain various financial and other covenants, including maintaining a minimum adjusted tangible net worth, a maximum ratio of indebtedness to adjusted tangible net worth and specified levels of unrestricted cash. In addition, the repurchase agreements contain customary events of default.

The Nomura loan agreement requires Residential to maintain various financial and other covenants, including a minimum adjusted tangible net worth, a maximum ratio of indebtedness to adjusted tangible net worth and specified levels of unrestricted cash. In addition, the Nomura loan agreement contains events of default (subject to certain materiality thresholds and grace periods), including payment defaults, breaches of covenants and/or certain representations and warranties, cross-defaults, certain material adverse changes, bankruptcy or insolvency proceedings and other events of default customary for this type of transaction. The remedies for such events of default are also customary for this type of transaction and include the acceleration of the principal amount outstanding under the Nomura loan agreement and the liquidation by Nomura of the REO properties then subject thereto.

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Residential is currently in compliance with the covenants and other requirements with respect to its repurchase and loan agreements. We monitor Residential's banking partners' ability to perform under the repurchase and loan agreements and have concluded there is currently no reason to doubt that they will continue to perform under the repurchase and loan agreements as contractually obligated.

As amended, the three repurchase agreements provide for the lenders to finance Residential's portfolio at advance rates (or purchase prices) ranging from 40% to 80% of the “asset value” of the mortgage loans and REO properties. The amounts borrowed under the repurchase agreements are generally subject to the application of “haircuts.” A haircut is the percentage discount that a lender applies to the market value of an asset serving as collateral for a borrowing under a repurchase agreement for the purpose of determining whether such borrowing is adequately collateralized. As of December 31, 2015, the weighted average contractual haircut applicable to the assets that serve as collateral for Residential's outstanding repurchase agreements was 15.2%. Under these repurchase agreements, the “asset value” generally is an amount that is based on the market value of the mortgage loan or REO property as determined by the lender. We believe these are typical market terms that are designed to provide protection for the lender to collateralize its advances to Residential in the event the collateral declines in value. Under each of the repurchase agreements, if the carrying value of the collateral declines beyond certain limits, Residential would have to either (a) provide additional collateral or (b) repurchase certain assets under the agreement to maintain the applicable advance rate.

The decrease in amounts outstanding under Residential's repurchase agreements and the Nomura loan agreement from December 31, 2014 to December 31, 2015 relate in part to amounts paid down with the proceeds from the sale of secured notes issued in connection with our securitizations. Residential's overall advance rate under the repurchase agreements and the Nomura loan agreement declined from 55.8% at December 31, 2014 to 55.7% at December 31, 2015 as the value of the underlying collateral has increased with time due to our resolution efforts. We do not collateralize any of our repurchase facilities with cash. See Note 7 to our consolidated financial statements.

The following table sets forth data with respect to Residential's repurchase agreements as of and for the years ended as indicated ($ in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Balance at end of period	$767,513	$1,015,000	$602,382
Maximum month-end balance outstanding during the period	997,161	1,413,357	602,382
Weighted average balance	915,785	976,176	137,594
Amount of available funding at end of period	512,431	210,000	147,618

Securitizations

On June 29, 2015, Residential completed a securitization transaction in which ARLP Securitization Trust, Series 2015-1 (“ARLP 2015-1”) issued $205.0 million in ARLP 2015-1 Class A Notes with a weighted coupon of approximately 4.01% and $60.0 million in ARLP 2015-1 Class M Notes. ARLP 2015-1 is a Delaware statutory trust that is wholly-owned by Residential's operating partnership with a federally-chartered bank as its trustee. Residential retained $34.0 million of the ARLP 2015-1 Class A Notes and all of the ARLP 2015-1 Class M Notes. No interest will be paid on any ARLP 2015-1 Class M Notes while any ARLP 2015-1 Class A Notes remain outstanding. The ARLP 2015-1 Class A Notes and ARLP 2015-1 Class M Notes are non-recourse to Residential and are secured solely by the non-performing mortgage loans and REO properties of ARLP 2015-1 but not by any of Residential's other assets. The assets of ARLP 2015-1 are the only source of repayment and interest on the ARLP 2015-1 Class A Notes and the ARLP 2015-1 Class M Notes, thereby making the cash proceeds received by ARLP 2015-1 of loan payments, loan liquidations, loan sales and sales of converted REO properties the sole sources of the payment of interest and principal by ARLP 2015-1 to the bond holders. The ARLP 2015-1 Class A Notes and the ARLP 2015-1 Class M Notes mature on May 25, 2055, and Residential does not guarantee any of the obligations of ARLP 2015-1 under the terms of the indenture governing the notes or otherwise. As of December 31, 2015, the book value of the underlying securitized assets held by ARLP 2015-1 was $282.1 million.

On November 25, 2014, Residential completed a securitization transaction in which ARLP Securitization Trust, Series 2014-2 ("ARLP 2014-2") issued $270.8 million in ARLP 2014-2 Class A Notes with a weighted yield of approximately 3.85% and $234.0 million in ARLP 2014-2 Class M Notes. Residential initially retained $95.8 million of the ARLP 2014-2 Class A Notes and all of the ARLP 2014-2 Class M Notes. On February 9, 2015, Residential sold $50.7 million of the retained ARLP 2014-2 Class A Notes to an unrelated third party. No interest will be paid on any ARLP 2014-2 Class M Notes while any ARLP 2014-2

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Class A Notes remain outstanding. The ARLP 2014-2 Class A Notes and ARLP 2014-2 Class M Notes are secured solely by the non-performing mortgage loans and REO properties of ARLP 2014-2 and not by any of Residential's other assets. The assets of ARLP 2014-2 are the only source of repayment and interest on the ARLP 2014-2 Class A Notes and the ARLP 2014-2 Class M Notes. The ARLP 2014-2 Class A Notes and the ARLP 2014-2 Class M Notes mature on January 26, 2054, and Residential does not guaranty any of the obligations of ARLP 2014-2 under the terms of the indenture governing the notes or otherwise. As of December 31, 2015, the book value of the underlying securitized assets held by ARLP 2014-2 was $322.5 million.

On September 25, 2014, Residential completed a securitization transaction in which ARLP Securitization Trust, Series 2014-1 (“ARLP 2014-1”) issued $150.0 million in Class A Notes with a weighted yield of approximately 3.47% and $32.0 million in Class M Notes with a weighted yield of 4.25%. The ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes are secured solely by the non-performing mortgage loans and REO properties of ARLP 2014-1 and not by any of Residential's other assets. The assets of ARLP 2014-1 are the only source of repayment and interest on the ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes. The ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes mature on September 25, 2044, and Residential does not guaranty any of the obligations of ARLP 2014-1 under the terms of the indenture governing the notes or otherwise. As of December 31, 2015, the book value of the underlying securitized assets held by ARLP 2014-1 was $202.3 million.

Residential retained all of the Class M Notes issued by ARLP 2014-1 in its TRS. On September 30, 2014, pursuant to a master repurchase agreement, the TRS sold $15.0 million of the ARLP 2014-1 Class M Notes to NewSource. On September 22, 2015, the TRS completed its repurchase of the ARLP 2014-1 Class M notes from NewSource at a 5.0% yield.

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The following table sets forth data with respect to these notes as of December 31, 2015 and 2014 ($ in thousands):

	Interest Rate		Amount Outstanding	
December 31, 2015:				
ARLP Securitization Trust, Series 2014-1				
ARLP 2014-1 Class A Notes due September 25, 2044 (1)	3.47	%	$136,404	
ARLP 2014-1 Class M Notes due September 25, 2044 (2)	4.25	%	32,000	
ARLP Securitization Trust, Series 2014-2				
ARLP 2014-2 Class A Notes due January 26, 2054 (3)	3.63	%	244,935	
ARLP 2014-2 Class M Notes due January 26, 2054	—	%	234,010	
ARLP Securitization Trust, Series 2015-1				
ARLP 2015-1 Class A Notes due May 25, 2055 (4)	4.01	%	203,429	
ARLP 2015-1 Class M Notes due May 25, 2044	—	%	60,000	
Intercompany eliminations				
Elimination of ARLP 2014-1 Class M Notes due to ARNS, Inc.			(32,000	)
Elimination of ARLP 2014-2 Class A Notes due to ARNS, Inc.			(45,138	)
Elimination of ARLP 2014-2 Class M Notes due to ARLP			(234,010	)
Elimination of ARLP 2015-1 Class A Notes due to ARNS, Inc.			(34,000	)
Elimination of ARLP 2015-1 Class M Notes due to ARLP			(60,000	)
			$505,630	
December 31, 2014:				
ARLP Securitization Trust, Series 2014-1				
ARLP 2014-1 Class A Notes due September 25, 2044 (1)	3.47	%	$150,000	
ARLP 2014-1 Class M Notes due September 25, 2044 (2)	4.25	%	32,000	
ARLP Securitization Trust, Series 2014-2				
ARLP 2014-2 Class A Notes due January 26, 2054 (3)	3.85	%	269,820	
ARLP 2014-2 Class M Notes due January 26, 2054	—	%	234,010	
ARNS, Inc.				
Securities sold under agreement to repurchase due March 27, 2015	5.00	%	14,991	
Intercompany eliminations				
Elimination of ARLP 2014-1 Class A Notes due to ARNS, Inc.			(15,000	)
Elimination of ARLP 2014-1 Class M Notes due to ARNS, Inc.			(32,000	)
Elimination of ARLP 2014-2 Class A Notes due to ARNS, Inc.			(95,729	)
Elimination of ARLP 2014-2 Class M Notes due to ARNS, Inc.			(234,010	)
			$324,082	

(1) The expected redemption date for the Class A Notes ranges from September 25, 2017 to September 25, 2018.
(2) The expected redemption date for the Class M Notes is September 25, 2018.
(3) The expected redemption date for the Class A Notes ranges from November 27, 2017 to November 27, 2018.
(4) The expected redemption date for the Class A Notes ranges from June 25, 2018 to June 25, 2019.

Treasury Shares

At December 31, 2015, a total of $249.1 million in shares of our common stock have been repurchased under the authorization by our Board of Directors to repurchase up to $300.0 million in shares of our common stock. Repurchased shares are held as treasury stock and are available for general corporate purposes. We have an aggregate of $50.9 million remaining for repurchases under our Board-approved repurchase plan

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Cash Flows

We report and analyze our cash flows based on operating activities, investing activities and financing activities. The following table summarizes our cash flows for the periods indicated ($ in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Net cash used in operating activities	$(183,237)	$(135,359)	$(21.825)
Net cash provided by (used in) investing activities	459,657	(974,920)	(1,188.23)
Net cash (used in) provided by financing activities	(208,658)	1,087,061	1,245.041
Total cash flows	$67,762	$(23,218)	$34.986

Net cash used in operating activities for the year ended December 31, 2015, 2014 and 2013 by Residential and us consisted primarily of residential property operating expenses, mortgage loan servicing costs (including servicing fees, foreclosure fees and advances of residential property insurance on delinquent loans), interest expense, professional fees, acquisition costs and salaries and benefits.

Net cash provided by investing activities for the year ended December 31, 2015 consisted primarily of Residential's mortgage loan and real estate dispositions, partly offset by investments in real estate and renovations of rental properties. Net cash used in investing activities for the year ended December 31, 2014 consisted primarily of Residential's investments in non-performing and re-performing loan portfolios, partly offset by proceeds from the disposition of loans. Net cash used in investing activities for the year ended December 31, 2013 consisted primarily of Residential's investments in non-performing loan portfolios. During periods in which Residential purchases a significant number of real estate or mortgage loan assets and/or conducts substantial renovations of residential real estate, its cash used in investing activities is generally expected to exceed cash provided by investing activities.

Net cash used in financing activities for the year ended December 31, 2015 consisted primarily of payments for share repurchases of Residential's and our common stock under the respective share repurchase programs, payment of dividends by Residential and net repayments of Residential's borrowings. Net cash provided by financing activities for the year ended December 31, 2014 included proceeds of $250.0 million from the issuance of our preferred stock and payments for share repurchases of $240.6 million under our share repurchase program. In addition, net cash provided by financing activities for the year ended December 31, 2014 included Residential's net proceeds from the issuance of common stock, payment of dividends and net borrowings under repurchase agreements and other secured borrowings. Net cash provided by financing activities for the year ended December 31, 2013 consisted primarily of Residential's net proceeds from the issuance of common stock and net borrowings under repurchase agreements. Net cash related to financing activities will generally consist of the incurrence by Residential of debt, repayment of debt previously incurred by Residential, payment of dividends by Residential and the issuance of common stock by Residential.

Off-balance Sheet Arrangements

Residential and we have no off-balance sheet arrangements as of December 31, 2015 and did not have any off-balance sheet arrangements as of December 31, 2014.

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Contractual Obligations

The following table sets forth a summary regarding Residential's and our known contractual obligations. Residential's borrowing obligations below are based on the current principal outstanding and contractual terms of the debt obligations, including current interest rates, at December 31, 2015 ($ in thousands):

		Amount Due during the Years ending December 31,			
	Total	2016	2017 - 2018	2019 - 2020	Thereafter
Borrowings (1)	$1,273,143	$396,383	$371,130	$—	$505,630
Interest (2)	701,616	34,035	45,708	37,481	584,392
	$1,974,759	$430,418	$416,838	$37,481	$1,090,022

____

(1) Does not consider the expected redemption dates for secured notes. The securitized assets are the only source of repayment for the secured notes and are expected to provide funding for these liabilities (see Note 7).

(2) Assumes interest rates as of December 31, 2015 remain in effect for the remaining term of the borrowings. Actual payments could vary.

The table above does not include amounts due under the asset management agreement as those obligations do not have fixed and determinable payments.

We enter into certain contracts that contain a variety of indemnification obligations. The maximum potential future payment amount we could be required to pay under these indemnification obligations is unlimited. We have not incurred any costs to defend lawsuits or settle claims related to these indemnification obligations. As a result, the estimated fair value of these agreements is minimal. Accordingly, we recorded no liabilities for these agreements as of December 31, 2015 or 2014.

Recent accounting pronouncements

See Note 1, “Organization and basis of presentation - Recently issued accounting standards” to our consolidated financial statements.

Critical Accounting Judgments

Accounting standards require information in financial statements about the risks and uncertainties inherent in significant estimates, and the application of generally accepted accounting principles involves the exercise of varying degrees of judgment. Certain amounts included in or affecting our financial statements and related disclosures must be estimated requiring us to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time our consolidated financial statements are prepared. These estimates and assumptions affect the amounts we report for our assets and liabilities and our revenues and expenses during the reporting period and our disclosure of contingent assets and liabilities at the date of our consolidated financial statements. Actual results may differ significantly from our estimates and any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

We consider our critical accounting judgments to be those used in the determination of the reported amounts and disclosure related to the following:

Consolidations

The consolidated financial statements include wholly owned subsidiaries and would include those subsidiaries in which we own a majority voting interest with the ability to control operations of the subsidiaries and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interests. Additionally, we consolidate partnerships, joint ventures and limited liability companies when we control the major operating and financial policies of the entity through majority ownership, in our capacity as general partner or managing member or by contract. Lastly, we consolidate those entities deemed to be variable interest entities in which we are determined to be the primary beneficiary.

While the results of operations of consolidated entities are included in net income in our consolidated financial statements, net income attributable to common stockholders does not include the portion attributable to noncontrolling interests. Additionally, noncontrolling interest in consolidated affiliate is recorded in our consolidated balance sheets and our consolidated statements of equity within the equity section but separate from our equity.

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Income taxes

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to our judgment, we reduce a deferred tax asset by a valuation allowance if it is “more likely than not” that some or the entire deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and we recognize tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

Residential elected REIT status upon the filing of its 2013 income tax return. We believe that Residential has complied with the provisions of the federal income tax code applicable to REITs for each financial year commencing in the year ended December 31, 2013. Accordingly, we believe that Residential will not be subject to federal income tax on the portion of its REIT taxable income that was distributed to its stockholders for such years, nor do we expect Residential to be taxed on future distributions of its REIT taxable income as long as certain asset, income and share ownership tests continue to be met. If after electing to be taxed as a REIT, Residential subsequently fails to qualify as a REIT in any taxable year, it generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the IRS grants relief under certain statutory provisions. Such an event could materially adversely affect Residential’s net income and net cash available for distribution to stockholders. Its taxable REIT subsidiaries would also be subject to federal and state income taxes.

Mortgage loans at fair value

Upon the acquisition of mortgage loans, Residential records the assets at fair value which is the purchase price it paid for the loans on the acquisition date. Mortgage loans are subsequently accounted for at fair value under the fair value option election with unrealized gains and losses recorded in current period earnings. We have concluded that mortgage loans accounted for at fair value timely reflect the results of Residential’s investment performance.

We determine the purchase price for Residential’s mortgage loans at the time of acquisition by using a discounted cash flow valuation model and considering alternate loan resolution probabilities including modification, liquidation or conversion to rental property. Observable inputs to the model include current interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates, forecast of future home prices, alternate loan resolution probabilities, resolution timelines and the value of underlying properties.

After mortgage loans are acquired, the fair value of each loan is adjusted in each subsequent reporting period as the loan proceeds to a particular resolution (i.e., modification, or conversion to real estate owned). As a loan approaches resolution, the resolution timeline for that loan decreases and costs embedded in the discounted cash flow model for loan servicing, foreclosure costs and property insurance are incurred and removed from future expenses. The shorter resolution timelines and reduced future expenses each increase the fair value of the loan. The increase in the value of the loan is recognized in net unrealized gain on mortgage loans in Residential’s, and therefore, our consolidated statements of operations.

Residential also recognizes unrealized gains and losses in the fair value of the loans in each reporting period when its mortgage loans are transferred to real estate owned. The transfer to real estate owned occurs when Residential has obtained title to the property through completion of the foreclosure process. The fair value of these assets at the time of transfer to real estate owned is estimated using BPOs.

Our capital markets group determines the fair value of mortgage loans monthly and has developed procedures and controls governing the valuation process relating to these assets. The capital markets group reports to Residential’s Investment Committee, which is a committee of Residential’s Chairman, its Chief Executive Officer and its Chief Financial Officer that oversees and approves the valuations. The capital markets group also monitors the valuation model for performance against actual results which is reported to the Investment Committee and used to continuously improve the model.

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Mortgage loans held for sale

Mortgage loans held for sale are recorded at the lower of cost or fair value. Residential does not originate loans. Residential's mortgage loans held for sale include the remaining re-performing residential mortgage loans that it initially acquired in June 2014 and certain non-performing loans identified by management for sale.

Residential's re-performing loans were initially acquired for investment and had evidence of deteriorated credit quality at the time of acquisition, and the fair value option was not elected for these loans. Therefore, Residential's re-performing loans are accounted for in accordance with the provisions of ASC Topic 310-30, Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality. Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. These re-performing loans were determined to have common risk characteristics and have been accounted for as a single loan pool.

Under ASC Topic 310-30, we estimate cash flows expected to be collected, adjusted for expected prepayments and defaults expected to be incurred over the life of the loan pool. Residential determines the excess of the loan pool's contractually required principal and interest payments over the expected cash flows as an amount that should not be accreted, the nonaccretable yield. The difference between expected cash flows and the present value of the expected cash flows is referred to as the accretable yield, which represents the amount that is expected to be recorded as interest income over the remaining life of the loan pool.

Residential properties

Purchases of real estate properties are evaluated by Residential to determine whether they meet the definition of an asset acquisition or of a business combination under U.S. GAAP. For asset acquisitions, Residential capitalizes pre-acquisition costs to the extent such costs would have been capitalized had Residential owned the asset when the cost was incurred and capitalizes closing and other direct acquisition costs. Residential then allocates the total cost of the property, including the acquisition costs, between land, building and any identified intangible assets and liabilities (including in-place leases and above and below-market leases). For acquisitions that qualify as business combinations, Residential expenses the acquisition costs in the period in which the costs were incurred and allocates the cost of the property among land, building and any identified intangible assets and liabilities. Lease intangibles are recorded at the estimated fair value, which is the estimated costs that would have been incurred to lease the property net of any above or below-market lease concessions, and are amortized on a straight-line basis over the remaining life of the related lease or, in the case of acquisitions of real estate pools, over the weighted average remaining life of the related pool of leases.

Upon the acquisition of real estate through the completion of foreclosure, Residential records the assets at fair value as of the acquisition date as a component of real estate owned based on information obtained from a BPO, a full appraisal or the price given in a current contract of sale of the property. Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon management's or other third-party estimates, are often calculated based on the characteristics of the asset, the economic environment and other such factors. Based on professional judgment and knowledge of the particular situation, management determines the appropriate fair value to be utilized for such property. Residential engages third party vendors, including Altisource, to obtain and evaluate BPOs prepared by other third party brokers for its ultimate use. BPOs are subject to judgments of a particular broker formed by visiting a property, assessing general home values in an area, reviewing comparable listings and reviewing comparable completed sales. These judgments may vary among brokers and may fluctuate over time based on housing market activities and the influx of additional comparable listings and sales. Our results could be materially and adversely affected if the judgments used by a broker prove to be incorrect or inaccurate. Residential has established validation procedures to confirm the values it receives from third party vendors are consistent with its observations of market values.

These validation procedures include establishing thresholds to identify changes in value that require further analysis. Residential's current policies require that it updates the fair value estimate of each financed REO property at least every 180 days by obtaining a new BPO, which is subject to the review processes of its third party vendors. We generally perform further analysis for Residential when the value of the property per the new BPO varies from the old BPO by 25%, or $75,000 per property. If a newly obtained BPO varies from the old BPO by this established threshold, we perform additional procedures to ensure the BPO accurately reflects the current fair value of the property. These procedures include engaging additional third party vendors to compare the old BPOs to the new BPOs and to assist us in evaluating the appropriateness of comparable properties and property-specific characteristics used in Residential's valuation process. As part of this evaluation, Residential's third party vendors often discuss the differing BPOs with the providing brokers to ensure that proper comparable properties

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have been identified. These third party vendors also compare the BPOs to past appraisals, if any, of the property to ensure the BPOs are in line with those appraisals. Following the consideration and reconciliation of the BPOs, the third party provider may provide Residential with a new property value reflecting the analysis they performed or confirm the BPO value received by Residential, in which case Residential uses the new property value or the validated BPO, respectively, for its fair value estimate of the property.

After an evaluation period, Residential may perform property renovations to those properties that meet its rental investment criteria in order to optimize its rental proceeds. In some instances, Residential may also perform renovations on REO properties that do not meet its rental investment criteria in order to optimize sale proceeds. Such expenditures are part of Residential's initial investment in a property and, therefore, are classified as investing activities in our consolidated statement of cash flows. Subsequently, residential rental properties, including any renovations that improve or extend the life of the asset, are accounted for at cost. REO properties that do not meet Residential's rental investment criteria and that are held for sale are accounted for at the lower of the carrying value or estimated fair value less cost to sell. The cost basis of residential rental properties is depreciated using the straight-line method over an estimated useful life of three years to 27.5 years based on the nature of the components. Interest and other carrying costs incurred during the renovation period are capitalized until the property is ready for its intended use. Expenditures for ordinary maintenance and repairs are charged to expense as incurred.

Expenditures directly related to successful leasing efforts, such as lease commissions, are included in deferred leasing and financing costs, net and are stated at amortized cost. Such expenditures are part of Residential's operations and, therefore, are classified as operating activities in our consolidated statement of cash flows. Capitalized leasing costs are amortized on a straight-line basis over the lease term of the respective leases, which generally are from one to two years.

Residential properties are classified either as held for use or held for sale. Residential properties are classified as real estate assets held for sale when sale of the assets has been formally approved and is expected to occur in the next twelve months. Residential records residential properties held for sale at the lower of the carrying amount or estimated fair value less costs to sell. The impairment loss, if any, is the amount by which the carrying amount exceeds the estimated fair value less costs to sell.

Real estate impairment

With respect to Residential's rental properties classified as held for use, we perform an impairment analysis using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. These cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. Residential generally estimates the fair value of assets held for use by using BPOs. In some instances, appraisal information may be available and is used in addition to BPOs.

Residential rental revenues

Minimum contractual rents from leases are recognized on a straight-line basis over the terms of the leases in residential rental revenues. Therefore, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue commences when the customer takes control of the leased premises. Deferred rents receivable, net represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Contingent rental revenue is accrued when the contingency is removed. Termination fee income is recognized when the customer has vacated the rental property, the amount of the fee is determinable and collectability is reasonably assured.

Rents receivable and deferred rents receivable are reduced by an allowance for amounts that become uncollectible. We regularly evaluate the adequacy of our allowance for doubtful accounts. The evaluation takes into consideration the aging of accounts receivable and our analysis of customer personal profile and review past due account balances. Rents receivable and deferred rents receivable are written-off when Residential has deemed that the amounts are uncollectible.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The primary market risks that Residential is currently exposed to are real estate risk and interest rate risk. A substantial portion of Residential's investments are, and we expect will continue to be, comprised of non-performing loans and single-family rental properties. The primary driver of the value of both these asset classes is the fair value of the underlying real estate.

Real Estate Risk

Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to: national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values could cause Residential to suffer losses which would result in fewer or no incentive management fees being earned by us.

Interest Rate Risk

Residential will be exposed to interest rate risk from its (a) acquisition and ownership of residential mortgage loans and (b) debt financing activities. Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond Residential's control. Changes in interest rates may affect the fair value of the residential mortgage loans and real estate underlying Residential's portfolios as well as its financing interest rate expense.

We currently do not intend to hedge the risk associated with the residential mortgage loans and real estate underlying Residential's portfolios. However, although we have not yet done so, we may undertake risk mitigation activities with respect to Residential's debt financing interest rate obligations. We expect that Residential's debt financing will at times be based on a floating rate of interest calculated on a fixed spread over the relevant index, as determined by the particular financing arrangement. A significantly rising interest rate environment could have an adverse effect on the cost of Residential's financing. To mitigate this risk, we may use derivative financial instruments such as interest rate swaps and interest rate options in an effort to reduce the variability of earnings caused by changes in the interest rates Residential pays on its debt.

These derivative transactions will be entered into solely for risk management purposes, not for investment purposes. When undertaken, these derivative instruments likely will expose Residential to certain risks such as price and interest rate fluctuations, timing risk, volatility risk, credit risk, counterparty risk and changes in the liquidity of markets. Therefore, although we expect to transact in these derivative instruments purely for risk management, they may not adequately protect Residential from fluctuations in its financing interest rate obligations.

Residential currently borrows funds on its repurchase facilities at variable rates using secured financings. At December 31, 2015, Residential had $767.5 million of variable rate debt outstanding not protected by interest rate hedge contracts. The estimated aggregate fair market value of this debt was $767.5 million. If the weighted average interest rate on this variable rate debt had been 100 basis points higher or lower, the annual interest expense would increase or decrease by $7.7 million, respectively.

Item 8. Consolidated Financial Statements and Supplementary Data

See our consolidated financial statements starting on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Subsequent to the filing of our Form 10-K for the year ended December 31, 2014, the Public Company Accounting Oversight Board conducted an inspection of our independent registered public accounting firm's audit of the Company's 2014 consolidated financial statements and internal control over financial reporting. Following this inspection, during the fourth quarter of 2015, our independent registered public accounting firm requested a re-evaluation of certain internal controls. In re-evaluating these controls, management identified two control deficiencies in internal control over financial reporting and determined that these deficiencies were material weaknesses at December 31, 2014. The material weaknesses were in the design of 1) the review of the broker price opinions used to record real estate owned and real estate assets held for sale, including monitoring the internal controls that are in place at the vendors utilized by the Company to provide fair value information for individual properties and 2) the review of the assumptions used to determine the fair value of mortgage loans. The material weaknesses had no impact on the Company's financial position, results of operations or cash flows as of and for the year ended December 31, 2014.

As of December 31, 2015, the Company had remediated the material weakness relating to the review of the broker price opinions used to record real estate owned and real estate assets held for sale by, among other things, designing and implementing control activities to address the control deficiency, including the addition of internal controls to monitor the controls that are in place at the vendors utilized to provide fair value information for individual properties.

The Company is in the process of remediating the other material weakness relating to the review of the assumptions used to determine the fair value of mortgage loans. Specifically, management is designing, documenting and implementing additional control procedures related to the review of the assumptions, including consideration of market transactions utilized in its determination of the fair value of the mortgage loans.

The Company carried out an evaluation required by the 1934 Act, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the 1934 Act, as of December 31, 2015. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2015, our disclosure controls and procedures were not effective solely due to the unremediated material weakness in our internal controls over the accounting for mortgage loans at fair value discussed above.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the 1934 Act. Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2015 based on criteria established in Internal Control-Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Subsequent to the filing of our Form10-K for the year ended December 31, 2014, the Public Company Accounting Oversight Board conducted an inspection of our independent registered public accounting firm's audit of the Company's 2014 consolidated financial statements and internal control over financial reporting. Following this inspection, during the fourth quarter of 2015, our independent registered public accounting firm requested a re-evaluation of certain internal controls. In re-evaluating these controls, management identified two control deficiencies in internal control over financial reporting and determined that these deficiencies were material weaknesses at December 31, 2014. The material weaknesses were in the design of 1) the review of the broker price opinions used to record real estate owned and real estate assets held for sale, including monitoring the internal controls that are in place at the vendors utilized by the Company to provide fair value information for individual properties and 2) the review of the assumptions used to determine the fair value of the mortgage loans.

These control deficiencies did not result in a material misstatement to the Company's consolidated financial statements for the years ended December 31, 2014 or December 31, 2015. However, a material weakness is present even in the absence of a material misstatement if there is a reasonable possibility that a material misstatement could have occurred. Accordingly, our management has determined that the control deficiencies constitute material weaknesses.

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Solely as a result of the material weakness over the accounting for mortgage loans at fair value, which has not been remediated as of December 31, 2015, management has concluded that our internal control over financial reporting was not effective as of December 31, 2015. Our internal control over financial reporting includes those policies and procedures that 1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; 2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report that appears herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Altisource Asset Management Corporation:

We have audited the internal control over financial reporting of Altisource Asset Management Corporation and subsidiaries (the “Company”) as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management’s assessment: the Company did not design and maintain effective internal controls related to the review of assumptions used to determine the fair value of mortgage loans. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2015 of the Company and this report does not affect our report on such financial statements and financial statement schedules.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2015 of the Company and our report dated February 29, 2016 expressed an unqualified opinion on those consolidated financial statements

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and financial statement schedules and included an explanatory paragraph related to the significance of the revenue generated from Altisource Residential Corporation, a consolidated variable interest entity that will be deconsolidated effective January 1, 2016 and the Company’s reliance upon the performance of service providers, including Altisource Portfolio Solutions S.A. and Ocwen Financial Corporation (related parties through January 16, 2015).

/s/ DELOITTE & TOUCHE LLP
Atlanta, Georgia
February 29, 2016

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Changes in Internal Control over Financial Reporting

In Management's Report on Internal Control over Financial Reporting included in our Annual Report on Form 10-K for the year-ended December 31, 2014, our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, concluded that we maintained effective internal control over financial reporting as of December 31, 2014. As described above, we have subsequently concluded that the material weaknesses described above existed as of December 31, 2014. As a result of the material weakness over the accounting for mortgage loans at fair value, which has not yet been remediated, management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2015, based on the criteria in Internal Control-Integrated Framework (2013), issued by the COSO.

Remediation of Material Weaknesses

As of December 31, 2015, the Company had remediated the material weakness relating to the review of the broker price opinions used to record real estate owned and real estate assets held for sale by, among other things, designing and implementing control activities to address the control deficiency, including the addition of internal controls to monitor the controls that are in place at the vendors utilized to provide fair value information for individual properties.

The Company is in the process of remediating the other material weakness relating to the review of the assumptions used to determine the fair value of mortgage loans. Specifically, management is designing, documenting and implementing additional control procedures related to the review of the assumptions, including consideration of market transactions, utilized in its determination of the fair value of the mortgage loans and real estate owned.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

Item 9B. Other Information

None.

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Part III

We will file a definitive Proxy Statement for our 2016 Annual Meeting of Stockholders, which we refer to as the “2016 Proxy Statement,” with the Securities and Exchange Commission, pursuant to Regulation 14A, not later than 120 days after December 31, 2015. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2016 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is hereby incorporated by reference from our 2016 Proxy Statement under the captions “Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Code of Ethics.”

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from our 2016 Proxy Statement under the captions “Executive Compensation” and “Director Compensation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is hereby incorporated by reference from our 2016 Proxy Statement under the caption “Security Ownership of Certain Beneficial Owners and Management.”

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from our 2016 Proxy Statement under the captions “Transactions with Related Persons” and “Information Regarding the Board of Directors and Corporate Governance.”

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is hereby incorporated by reference from our 2016 Proxy Statement under the captions “Independent Registered Public Accounting Firm Fees” and “Pre-Approval Policy and Procedures.”

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Part IV

Item 15. Exhibits
Exhibits

Exhibit Number	Description
2.1	Separation Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and Altisource Portfolio Solutions S.A. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the Commission on December 28, 2012).
3.1	Amended and Restated Articles of Incorporation of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form 10 filed with the Commission on December 5, 2012).
3.2	First Amended and Restated Bylaws of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10 filed with the Commission on December 5, 2012).
3.3	Certificate of Designations establishing the Company’s Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant’s Current Report on Form 8-K filed with the Commission on March 19, 2014).
10.1	Support Services Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and Altisource Solutions S.à r.l. (incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed with the Commission on December 28, 2012).
10.2	Tax Matters Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and Altisource Solutions S.à r.l. (incorporated by reference to Exhibit 10.2 of the Registrant’s Current Report on Form 8-K filed with the Commission on December 28, 2012).
10.3	Asset Management Agreement, dated as of December 21, 2012, between Altisource Residential Corporation, Altisource Residential, L.P. and Altisource Asset Management Corporation (incorporated by reference to Exhibit 10.3 of the Registrant’s Current Report on Form 8-K filed with the Commission on December 28, 2012).
10.4	Trademark License Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and Altisource Solutions S.à r.l. (incorporated by reference to Exhibit 10.4 of the Registrant’s Current Report on Form 8-K filed with the Commission on December 28, 2012).
10.5	Subscription Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and NewSource Reinsurance Company Ltd. (incorporated by reference to Exhibit 10.5 of the Registrant’s Current Report on Form 8-K filed with the Commission on December 28, 2012).
10.6	Technology Products Services Agreement, between Altisource Asset Management Corporation and Altisource Solutions S.à r.l. (incorporated by reference to Exhibit 10.6 of the Registrant’s Current Report on Form 8-K filed with the Commission on December 28, 2012).
10.7†	Altisource Asset Management Corporation 2012 Equity Incentive Plan. (incorporated by reference to Exhibit 10.7 of the Registrant’s Current Report on Form 8-K filed with the Commission on December 28, 2012).
10.8 †	Altisource Asset Management Corporation 2012 Special Equity Incentive Plan. (incorporated by reference to Exhibit 10.8 of the Registrant’s Current Report on Form 8-K filed with the Commission on December 28, 2012).
10.9	Asset Management Agreement, dated March 31, 2015, among Altisource Residential Corporation, Altisource Residential, L.P. and Altisource Asset Management Corporation (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Commission on April 2, 2015).
10.10	Amendment to Asset Management Agreement, dated April 7, 2015, among Altisource Residential Corporation, Altisource Residential, L.P. and Altisource Asset Management Corporation

	(incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Commission on April 13, 2015).
10.11	Commercial Lease, dated April 16, 2015 by and between St. Croix Financial Center, Inc. and Altisource Asset Management Corporation (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Commission on April 22, 2015).
21*	Schedule of Subsidiaries
23*	Consent of Deloitte & Touche LLP

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24*	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)
31.1*	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2*	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act
32.1*	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act
32.2*	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act
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 Extension Labels Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
† Denotes management contract or compensatory arrangement.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

				Altisource Asset Management Corporation
Date:	February 29, 2016	By:	/s/	George G. Ellison
				George G. Ellison
				Chief Executive Officer
Date:	February 29, 2016	By:	/s/	Robin N. Lowe
				Robin N. Lowe
				Chief Financial Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints George G. Ellison and Robin N. Lowe and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission in connection with the Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated:

Signature	Title	Date
/s/ George G. Ellison	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	February 29, 2016
George G. Ellison		
/s/ Paul T. Bossidy	Director	February 29, 2016
Paul T. Bossidy		
/s/ Ricardo C. Byrd	Director	February 29, 2016
Ricardo C. Byrd		
/s/ Dale Kurland	Director	February 29, 2016
Dale Kurland		
/s/ Nathaniel Redleaf	Director	February 29, 2016
Nathaniel Redleaf		
/s/ Robin N. Lowe	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 29, 2016
Robin N. Lowe		

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Index to Consolidated Financial Statements

Certain information contained herein is presented as of February 22, 2016, which we have concluded is the latest practicable date for financial information prior to the filing of this report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Altisource Asset Management Corporation:

We have audited the accompanying consolidated balance sheets of Altisource Asset Management Corporation and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Altisource Asset Management Corporation and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company generates substantially all of its revenue through its asset management agreement with Altisource Residential Corporation, a consolidated variable interest entity that will be deconsolidated effective January 1, 2016 with the adoption of ASU 2015-02, Consolidation. Additionally, as discussed in Notes 1 and 9, the Company is reliant upon the performance of service providers, including Altisource Portfolio Solutions S.A. and Ocwen Financial Corporation (related parties through January 16, 2015).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2016 expressed an adverse opinion on the Company’s internal control over financial reporting because of a material weakness.

/s/DELOITTE & TOUCHE LLP
Atlanta, Georgia
February 29, 2016

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Altisource Asset Management Corporation
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	December 31, 2015	December 31, 2014
Assets:		
Real estate held for use:		
Land (from consolidated VIE)	$56,346	$14,424
Rental residential properties (net of accumulated depreciation of $7,127 and $1,062, respectively - from consolidated VIE)	224,040	60,908
Real estate owned (from consolidated VIE)	455,483	457,045
Total real estate held for use, net	735,869	532,377
Real estate assets held for sale (from consolidated VIE)	250,557	92,230
Mortgage loans at fair value (from consolidated VIE)	960,534	1,959,044
Mortgage loans held for sale (from consolidated VIE)	317,336	12,535
Cash and cash equivalents (including from consolidated VIE $116,702 and $66,166, respectively)	184,544	116,782
Restricted cash (from consolidated VIE)	20,566	13,282
Accounts receivable, net (including from consolidated VIE $45,903 and $10,313, respectively)	46,026	11,068
Related party receivables (from consolidated VIE)	—	17,491
Deferred leasing and financing costs, net (from consolidated VIE)	7,886	4,251
Prepaid expenses and other assets (including from consolidated VIE $415 and $373, respectively)	2,458	1,638
Total assets	$2,525,776	$2,760,698
Liabilities:		
Repurchase agreements (from consolidated VIE)	$767,513	$1,015,000
Other secured borrowings (from consolidated VIE)	505,630	324,082
Accounts payable and accrued liabilities (including from consolidated VIE $32,448 and $11,678, respectively)	38,722	16,726
Related party payables (including from consolidated VIE $0 and $4,879, respectively)	—	6,169
Total liabilities	1,311,865	1,361,977
Commitments and contingencies (Note 7)		
Redeemable preferred stock:		
Preferred stock, $0.01 par value, 250,000 shares issued and outstanding as of December 31, 2015 and 2014; redemption value $250,000	249,133	248,927
Equity:		
Common stock, $.01 par value, 5,000,000 authorized shares; 2,556,828 and 2,048,223 shares issued and outstanding, respectively, as of December 31, 2015 and 2,452,101 and 2,188,136 shares issued and outstanding, respectively as of December 31, 2014	26	25
Additional paid-in capital	23,419	14,152
Retained earnings (accumulated deficit)	50,678	54,174
Treasury stock, at cost, 508,605 shares as of December 31, 2015 and 263,965 as of December 31, 2014	(254,984)	(245,468)
Total stockholders' equity (deficit)	(180,861)	(177,117)
Noncontrolling interest in consolidated affiliate	1,145,639	1,326,911
Total equity	964,778	1,149,794
Total liabilities and equity	$2,525,776	$2,760,698

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Consolidated Statements of Operations
(In thousands, except share and per share amounts)

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Revenues:			
Rental revenues	$13,233	$1,564	$36
Net unrealized gain on mortgage loans	88,829	350,822	61,092
Net realized gain on mortgage loans	58,061	55,766	10,482
Net realized gain on mortgage loans held for sale	36,432	2,771	—
Net realized gain on real estate	50,932	9,482	—
Interest income	612	2,893	687
Total revenues	248,099	423,298	72,297
Expenses:			
Residential property operating expenses	66,266	26,018	767
Real estate depreciation and amortization	7,472	1,067	25
Acquisition fees and costs	2,292	1,545	1,408
Related party acquisition fees and costs	—	1,039	115
Real estate and mortgage loan selling costs and impairment	72,230	21,788	184
Mortgage loan servicing costs	62,346	68,181	10,418
Interest expense	53,131	35,647	4,568
General and administrative	32,896	18,346	16,857
Related party general and administrative	—	4,446	3,652
Total expenses	296,633	178,077	37,994
Other income	—	5,407	—
(Loss) income before income taxes	(48,534)	250,628	34,303
Income tax expense	354	2,096	—
Net (loss) income	(48,888)	248,532	34,303
Net (income) loss attributable to noncontrolling interest in consolidated affiliate	45,598	(188,853)	(39,596)
Net (loss) income attributable to common stockholders	$(3,290)	$59,679	$(5,293)
(Loss) earnings per share of common stock – basic:			
(Loss) earnings per basic share	$(1.59)	$26.31	$(2.26)
Weighted average common stock outstanding – basic	2,202,815	2,261,968	2,346,993
(Loss) earnings per share of common stock – diluted:			
(Loss) earnings per diluted share	$(1.59)	$21.07	$(2.26)
Weighted average common stock outstanding – diluted	2,202,815	2,832,188	2,346,993

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Consolidated Statements of Equity
(In thousands, except share amounts)

	Common stock		Additional paid-in capital	Retained earnings (accumulated deficit)	Treasury stock	Noncontrolling interest in consolidated affiliate	Total equity
	Number of shares	Amount					
December 31, 2012	2,343,213	$23	$4,993	$(46)	$—	$99,911	$104,881
Issuance of common stock	11,561	1	20	—	—	—	21
Capital contribution from noncontrolling interest	—	—	—	—	—	659,007	659,007
Distribution from noncontrolling interest	—	—	—	—	—	(13,087)	(13,087)
Share-based compensation	—	—	7,842	—	—	—	7,842
Net loss	—	—	—	(5,293)	—	39,596	34,303
December 31, 2013	2,354,774	24	12,855	(5,339)	—	785,427	792,967
Issuance of common stock, including option exercises	97,327	1	46	—	—	—	47
Treasury shares repurchased	—	—	—	—	(245,468)	—	(245,468)
Capital contribution from noncontrolling interest	—	—	—	—	—	468,429	468,429
Distribution from noncontrolling interest	—	—	—	—	—	(116,025)	(116,025)
Amortization of preferred stock issuance costs	—	—	—	(166)	—	—	(166)
Share-based compensation	—	—	1,251	—	—	227	1,478
Net income (loss)	—	—	—	59,679	—	188,853	248,532
December 31, 2014	2,452,101	25	14,152	54,174	(245,468)	1,326,911	1,149,794
Issuance of common stock, including option exercises	104,727	1	72	—	—	—	73
Treasury shares repurchased	—	—	—	—	(9,516)	—	(9,516)
Capital contribution from noncontrolling interest	—	—	—	—	—	111	111
Distribution from noncontrolling interest	—	—	—	—	—	(103,649)	(103,649)
Repurchase of noncontrolling interest in subsidiaries by affiliate	—	—	—	—	—	(24,983)	(24,983)
Acquisition of noncontrolling interest in affiliate	—	—	2,330	—	—	(7,337)	(5,007)
Amortization of preferred stock issuance costs	—	—	—	(206)	—	—	(206)

Share-based compensation	—	—	6,865	—	—	184	7,049
Net loss	—	—	—	(3,290)	—	(45,598)	(48,888)
December 31, 2015	2,556,828	$26	$23,419	$50,678	$(254,984)	$1,145,639	$964,778

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Consolidated Statements of Cash Flows
(In thousands)

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Operating activities:			
Net income (loss)	$(48,888)	$248,532	$34,303
Adjustments to reconcile net income to net cash used in operating activities:			
Net unrealized gain on mortgage loans	(88,829)	(350,822)	(61,092)
Net realized gain on mortgage loans	(58,061)	(55,766)	(10,482)
Net realized gain on mortgage loans held for sale	(36,432)	(2,771)	—
Net realized gain on sale of real estate	(50,932)	(9,482)	—
Real estate depreciation and amortization	7,472	1,067	25
Real estate and mortgage loan selling costs and impairment	72,230	21,788	—
Accretion of interest on re-performing mortgage loans	(551)	(2,610)	—
Share-based compensation	6,865	1,478	7,842
Amortization of deferred financing costs	7,348	3,425	1,102
Loss on retirement of leasehold improvements	212	—	—
Changes in operating assets and liabilities:			
Accounts receivable, net	(21,919)	(4,227)	—
Related party receivables	17,491	8,199	(515)
Prepaid expenses and other assets	(1,023)	(1,106)	(124)
Deferred leasing costs	(88)	—	—
Accounts payable and accrued liabilities	18,037	3,650	4,761
Related party payables	(6,169)	3,286	2,355
Net cash used in operating activities	(183,237)	(135,359)	(21,825)
Investing activities:			
Investment in mortgage loans	—	(1,265,890)	(1,212,620)
Investment in real estate	(119,977)	(34,104)	(6,198)
Investment in renovations	(27,410)	(12,721)	(465)
Investment in affiliate	(5,007)	—	—
Real estate tax advances	(29,862)	(33,719)	(6,472)
Mortgage loan dispositions	468,111	334,366	38,967
Mortgage loan payments	26,206	20,900	4,901
Disposition of real estate	154,880	23,652	685
Acquisition-related deposits	—	—	(1,150)
Change in restricted cash	(7,284)	(7,404)	(5,878)
Net cash provided by (used in) investing activities	459,657	(974,920)	(1,188,230)

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Consolidated Statements of Cash Flows (continued)
(In thousands)

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Financing activities:			
Proceeds from issuance of preferred stock	—	250,000	—
Cost of issuance of preferred stock	—	(1,237)	—
Issuance of common stock, including stock option exercises	833	12,389	935
Repurchase of common stock	(9,516)	(245,468)	—
Payment of tax withholdings on exercise of stock options	(760)	(12,342)	(914)
Cost of issuance of common stock	—	—	—
Capital contribution from noncontrolling interest	111	468,429	659,007
Distribution to noncontrolling interest	(98,123)	(116,025)	(13,087)
Repurchase of noncontrolling interest in subsidiaries by affiliate	(24,983)	—	—
Proceeds from issuance of other secured debt	220,931	324,426	—
Repayments of secured notes	(39,832)	(344)	—
Proceeds from repurchase agreement	347,077	1,094,042	689,490
Repayments of repurchase agreement	(594,564)	(681,424)	(87,108)
Payment of deferred financing costs	(9,832)	(5,385)	(3,282)
Related party payables	—	—	—
Net cash (used in) provided by financing activities	(208,658)	1,087,061	1,245,041
Net increase (decrease) in cash and cash equivalents	67,762	(23,218)	34,986
Cash and cash equivalents as of beginning of the period	116,782	140,000	105,014
Cash and cash equivalents as of end of the period	$184,544	$116,782	$140,000
Supplemental disclosure of cash flow information:			
Cash paid for interest	$46,559	$31,053	$2,445
Income taxes paid	265	2,778	—
Transfer of mortgage loans to real estate owned, net	470,221	587,268	31,014
Transfer of mortgage loans at fair value to mortgage loans held for sale	535,836	—	—
Change in accrued capital expenditures	(1,388)	4,151	—
Changes in receivables from mortgage loan dispositions, payments and real estate tax advances, net	(592)	10,024	9,812
Changes in receivables from real estate owned dispositions	15,252	4,640	—
Acquisition-related payable	—	—	1,209
Unpaid distribution to noncontrolling interest	5,526	—	—

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Notes to Consolidated Financial Statements
December 31, 2015

1. Organization and basis of presentation

We were incorporated in the United States Virgin Islands on March 15, 2012 (our "inception"). Subsequent to our separation from Altisource Portfolio Solutions S.A. ("Altisource") on December 21, 2012, we immediately commenced operations. Our primary business is to provide asset management and certain corporate governance services to institutional investors. In October 2013, we applied for and were granted registration by the SEC as a registered investment adviser under section 203(c) of the Investment Advisers Act of 1940.

Our primary client currently is Altisource Residential Corporation ("Residential"), a public real estate investment trust ("REIT") focused on acquiring and managing quality, affordable single-family rental properties for working class families throughout the United States. Substantially all of our standalone revenue for all periods presented was generated through our asset management agreement with Residential.

Residential focuses on acquiring, owning and managing single-family rental properties throughout the United States and conducts substantially all of its activities through its wholly owned subsidiary Altisource Residential, L.P. ("ARLP") and its subsidiaries. Initially, Residential acquired our rental properties primarily through the acquisition of sub-performing and non-performing mortgage loan portfolios; however, commencing in the second quarter of 2015, it refocused its acquisition strategy to opportunistically acquire portfolios of single-family rental properties, both individually and in pools, as an avenue to more quickly achieve scale in its rental portfolio.

The Company and Residential both have long-term service agreements with Altisource, a leading provider of real estate and mortgage portfolio management, asset recovery and customer relationship management services. Residential also has servicing agreements with three separate servicers. The Company's and Residential's ability to execute their business strategies are reliant, in large part, on the performance of these service providers. Altisource and one of the three servicers, Ocwen Financial Corporation ("Ocwen"), were related parties through January 16, 2015 (see Note 9).

We initially provided services to Residential pursuant to a 15-year asset management agreement beginning December 21, 2012 (the "Original AMA"). On March 31, 2015, we entered into a new asset management agreement with Residential (the "New AMA") under which we will continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions. The Original AMA had a different incentive fee structure that gave us a share of Residential's cash flow available for distribution to its stockholders as well as reimbursement for certain overhead and operating expenses. The New AMA provides for a new fee structure in which we are entitled to a base management fee, an incentive management fee and a conversion fee for loans and real estate owned ("REO") properties that become rental properties during each quarter. Accordingly, our operating results continue to be highly dependent on Residential's operating results. See Note 9 for additional details of the New AMA.

Since Residential commenced operations, it has completed three public equity offerings with aggregate net proceeds of approximately $1.1 billion.

We ceased to be a development stage enterprise in the second quarter of 2013.

Basis of presentation and use of estimates

The accompanying audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

The consolidated financial statements include wholly owned subsidiaries and those subsidiaries in which we own a majority voting interest with the ability to control operations of the subsidiaries and where no substantive participating rights or

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substantive kick out rights have been granted to the noncontrolling interests. Additionally, we would consolidate partnerships, joint ventures and limited liability companies when we control the major operating and financial policies of the entity through majority ownership in our capacity as general partner or managing member or by contract. In addition, we consolidate those entities deemed to be variable interest entities (“VIEs”) in which we are determined to be the primary beneficiary.

Our financial statements include the accounts of our wholly owned subsidiaries as well as one VIE of which we are the primary beneficiary as well as three VIEs of which Residential is the primary beneficiary. We eliminate intercompany accounts and transactions in consolidation.

We have concluded that Residential is a VIE because Residential’s equity holders lack the ability through voting rights to make decisions about Residential’s activities that have a significant effect on the success of Residential. We have also concluded that we are the primary beneficiary of Residential because under the asset management agreement we have the power to direct the activities of Residential that most significantly impact Residential’s economic performance including establishing Residential’s investment and business strategy. As a result, we consolidate Residential in our consolidated financial statements. As discussed within Recently issued accounting standards, upon the adoption of ASU 2015-02, we will deconsolidated Residential from our Consolidated Financial Statements effective January 1, 2016.

For entities that are consolidated, but not 100% owned, a portion of the income or loss and corresponding equity is allocated to noncontrolling interests. While the results of operations of consolidated entities are included in net income (loss) in our consolidated financial statements, net income (loss) attributable to common stockholders does not include the portion attributable to noncontrolling interests. Additionally, noncontrolling interest in consolidated affiliates is recorded in our consolidated balance sheets and our consolidated statements of equity within the equity section but separate from our equity. Historically, amounts recognized as noncontrolling interest in our consolidated financial statements were equivalent to Residential's net income and equity because we had no ownership interest in Residential. In the third quarter of 2015, we acquired 324,465, or approximately 0.58%, of Residential's outstanding shares. Subsequent to our acquisition of these shares, the noncontrolling interest in consolidated affiliate represents the remaining 99.42% ownership interest held by non-affiliated shareholders of Residential's common stock.

Residential also has three securitization trusts, ARLP Securitization Trust, Series 2014-1 (“ARLP 2014-1”), ARLP Securitization Trust, Series 2014-2 (“ARLP 2014-2”) and ARLP Securitization Trust, Series 2015-1 (“ARLP 2015-1”), that are special purpose entities (“SPEs”) and are classified as VIEs. Because Residential is the primary beneficiary, these entities are included in the consolidated financial statements of Residential. See Note 7 for more information regarding these securitization trusts.

Additionally, we provide management services to NewSource Reinsurance Company Ltd. (“NewSource”), a title insurance and reinsurance company in Bermuda. In October 2013, we invested $2.0 million in 100% of the common stock of NewSource, and in September 2015, we contributed an additional $5.0 million to NewSource. On December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority (“BMA”). Because we own 100% of voting common stock of NewSource, we consolidate NewSource in our consolidated financial statements.

Preferred stock

During the first quarter of 2014, we issued $250.0 million of convertible preferred stock. All of the outstanding shares of preferred stock are redeemable by us in March 2020, the sixth anniversary of the date of issuance, and every five years thereafter. On these same redemption dates, each holder of preferred stock may cause us to redeem all the shares of preferred stock held by such holder at a redemption price equal to $1,000 per share. Accordingly, we classify these shares as mezzanine equity, outside of permanent stockholders' equity.

The holders of shares of Series A Preferred Stock will not be entitled to receive dividends with respect to the Series A Preferred Stock. The shares of Series A Preferred Stock are convertible into shares of our common stock at a conversion price of $1,250 per share, subject to certain anti-dilution adjustments.

Upon a change of control or upon a liquidation, dissolution or winding up of the Company, holders of the Series A Preferred Stock will be entitled to receive an amount in cash per Series A Preferred Stock equal to the greater of:

(i) $1,000 plus the aggregate amount of cash dividends paid on the number of shares of Common Stock into which such share of Series A Preferred Stock was convertible on each ex-dividend date for such dividends; and

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(ii) the number of shares of Common Stock into which the Series A Preferred Stock is then convertible multiplied by the then current market price of the Common Stock.

The Series A Preferred Stock confers no voting rights to holders, except with respect to matters that materially and adversely affect the voting powers, rights or preferences of the Series A Preferred Stock or as otherwise required by applicable law.

With respect to the distribution of assets upon the liquidation, dissolution or winding up of the Company, the Series A Preferred Stock ranks senior to our common stock and on parity with all other classes of preferred stock that may be issued by us in the future.

Recently issued accounting standards

In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-01 (Subtopic 825-10) - Financial Instruments - Overall. ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments also require an entity to present separately in other comprehensive income the portion of the total change in the 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 for financial instruments. In addition, the amendments eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement for to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We do not expect the impact of adopting this standard to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs are presented on the balance sheet as a deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 provides additional guidance to ASU 2015-03, which did not address presentation or subsequent measurement of debt issuance costs related to line of credit arrangements. ASU 2015-15 noted that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. These standards require retrospective application and represent a change in accounting principle. The standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We do not expect the impact of adopting these standards to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis. ASU 2015-02 makes targeted amendments to the current consolidation guidance that change the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance addresses concerns that current accounting might require a reporting entity to consolidate another legal entity in situations in which the reporting entity’s contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity’s voting rights, or the reporting entity is not exposed to a majority of the legal entity’s economic benefits or obligations.

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ASU 2015-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Upon adoption of this amendment on January 1, 2016, we will deconsolidate Residential using the modified retrospective approach, which allows for a cumulative-effect adjustment to equity in the period of adoption. As a result, periods ending prior to the adoption will not be impacted. The adoption will effectively remove those balances disclosed as from consolidated VIE on our consolidated balance sheets and will result in a reduction in consolidated assets and liabilities of $2.4 billion and $1.3 billion, respectively, on January 1, 2016, resulting in a net deficit of $180.9 million. In addition, the impact of the adoption on noncontrolling interests in consolidated affiliate will be a reduction of $1.1 billion on January 1, 2016. Subsequent to adoption, our consolidated revenues will consist primarily of fees received from Residential under the New AMA, and our consolidated expenses will consist primarily of general and administrative expenses, including salaries and employee benefits, professional and legal fees, occupancy expenses and other general and administrative expenses. See Note 9 for further discussion of the New AMA. Such revenues and expenses for the years ended December 31, 2015, 2014 and 2013 are presented below ($ in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Fee revenue from Residential	23,716	74,019	10,291
Expenses	25,357	15,318	15,584

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 may be applied using either a full retrospective or a modified retrospective approach. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which effectively delayed the adoption date of ASU 2014-09 by one year. ASU 2014-09 is therefore effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2016. We are currently evaluating the impact of ASU 2014-09 on our consolidated financial statements.

2. Summary of significant accounting policies

Cash equivalents

We consider highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

We maintain our cash and cash equivalents at banking institutions. Certain account balances exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

Consolidations

The consolidated financial statements include wholly owned subsidiaries and would include those subsidiaries in which we own a majority voting interest with the ability to control operations of the subsidiaries and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interests. Additionally, we consolidate partnerships, joint ventures and limited liability companies when we control the major operating and financial policies of the entity through majority ownership, in our capacity as general partner or managing member or by contract. Lastly, we consolidate those entities deemed to be variable interest entities in which we are determined to be the primary beneficiary.

While the results of operations of consolidated entities are included in net income in our consolidated financial statements, net income attributable to common stockholders does not include the portion attributable to noncontrolling interests. Additionally, noncontrolling interest in consolidated affiliate is recorded in our consolidated balance sheets and our consolidated statements of equity within the equity section but separate from our equity.

Comprehensive income

Because comprehensive income (loss) equals net income (loss), separate statements of comprehensive income (loss) are not presented as part of our consolidated financial statements.

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Earnings per share

Basic earnings per share is computed by dividing net income (loss) less amortization of preferred stock issuance costs by the weighted average common stock outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) by the weighted average common stock outstanding for the period plus the dilutive effect of stock options and restricted stock outstanding using the treasury stock method and if converted method, respectively. Weighted average common stock outstanding - basic excludes the impact of unvested restricted stock since dividends paid on such restricted stock are non-participating.

Fees under the asset management agreement

In accordance with the asset management agreement, we receive compensation from Residential on a quarterly basis for our efforts in the management of Residential's business. We recognize these fees in the fiscal quarter in which they are earned. Refer to Note 9 for details of the fee structure under the asset management agreement. Our revenue and Residential's corresponding expense related to these fees are eliminated in consolidation.

Fair value of financial instruments

We designate fair value measurements into three levels based on the lowest level of substantive input used to make the fair value measurement. Those levels are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Income taxes

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to our judgment, we reduce a deferred tax asset by a valuation allowance if it is “more likely than not” that some or the entire deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and we recognize tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

Residential elected REIT status upon the filing of its 2013 income tax return. We believe that Residential has complied with the provisions of the federal income tax code applicable to REITs for each financial year commencing in the year ended December 31, 2013. Accordingly, we believe that Residential will not be subject to federal income tax on the portion of its REIT taxable income that was distributed to its stockholders for such years, nor do we expect Residential to be taxed on future distributions of its REIT taxable income as long as certain asset, income and share ownership tests continue to be met. If Residential fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its REIT taxable income at regular corporate income tax rates. If after electing to be taxed as a

REIT, Residential subsequently fails to qualify as a REIT in any taxable year, it generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the IRS grants relief under certain statutory provisions. Such an event could materially adversely affect Residential's net income and net cash available for distribution to stockholders. Its taxable REIT subsidiaries would also be subject to federal and state income taxes.

Mortgage loans at fair value

Upon the acquisition of mortgage loans, Residential records the assets at fair value which is the purchase price it paid for the loans on the acquisition date. Mortgage loans are subsequently accounted for at fair value under the fair value option election

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with unrealized gains and losses recorded in current period earnings. We have concluded that mortgage loans accounted for at fair value timely reflect the results of Residential’s investment performance.

We determine the purchase price for Residential’s mortgage loans at the time of acquisition by using a discounted cash flow valuation model and considering alternate loan resolution probabilities including modification, liquidation or conversion to rental property. Observable inputs to the model include current interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates, forecast of future home prices, alternate loan resolution probabilities, resolution timelines and the value of underlying properties.

After mortgage loans are acquired, the fair value of each loan is adjusted in each subsequent reporting period as the loan proceeds to a particular resolution (i.e., modification, or conversion to real estate owned). As a loan approaches resolution, the resolution timeline for that loan decreases and costs embedded in the discounted cash flow model for loan servicing, foreclosure costs and property insurance are incurred and removed from future expenses. The shorter resolution timelines and reduced future expenses each increase the fair value of the loan. The increase in the value of the loan is recognized in net unrealized gain on mortgage loans in Residential’s, and therefore, our consolidated statements of operations.

Residential also recognizes unrealized gains and losses in the fair value of the loans in each reporting period when its mortgage loans are transferred to real estate owned. The transfer to real estate owned occurs when Residential has obtained title to the property through completion of the foreclosure process. The fair value of these assets at the time of transfer to real estate owned is estimated using broker price opinions (“BPOs”).

Our capital markets group determines the fair value of mortgage loans monthly and has developed procedures and controls governing the valuation process relating to these assets. The capital markets group reports to Residential’s Investment Committee, which is a committee of Residential’s Chairman, its Chief Executive Officer and its Chief Financial Officer that oversees and approves the valuations. The capital markets group also monitors the valuation model for performance against actual results which is reported to the Investment Committee and used to continuously improve the model.

Mortgage loans held for sale

Mortgage loans held for sale are recorded at the lower of cost or fair value. Residential does not originate loans. Residential's mortgage loans held for sale include the remaining re-performing residential mortgage loans that it initially acquired in June 2014 and certain non-performing loans identified by management for sale.

Residential's re-performing loans were initially acquired for investment and had evidence of deteriorated credit quality at the time of acquisition, and the fair value option was not elected for these loans. Therefore, Residential's re-performing loans are accounted for in accordance with the provisions of ASC Topic 310-30, Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality. Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. These re-performing loans were determined to have common risk characteristics and have been accounted for as a single loan pool.

Under ASC Topic 310-30, we estimate cash flows expected to be collected, adjusted for expected prepayments and defaults expected to be incurred over the life of the loan pool. Residential determines the excess of the loan pool's contractually required principal and interest payments over the expected cash flows as an amount that should not be accreted, the nonaccretable yield. The difference between expected cash flows and the present value of the expected cash flows is referred to as the accretable yield, which represents the amount that is expected to be recorded as interest income over the remaining life of the loan pool.

Residential properties

Purchases of real estate properties are evaluated by Residential to determine whether they meet the definition of an asset acquisition or of a business combination under U.S. GAAP. For asset acquisitions, Residential capitalizes pre-acquisition costs to the extent such costs would have been capitalized had Residential owned the asset when the cost was incurred and capitalizes closing and other direct acquisition costs. Residential then allocates the total cost of the property, including the acquisition costs, between land, building and any identified intangible assets and liabilities (including in-place leases and above and below-market leases). For acquisitions that qualify as business combinations, Residential expenses the acquisition costs in the period in which the costs were incurred and allocates the cost of the property among land, building and any identified intangible assets and liabilities. Lease intangibles are recorded at the estimated fair value, which is the estimated costs that would have been incurred to lease the property net of any above or below-market lease concessions, and are amortized on a straight-line basis

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over the remaining life of the related lease or, in the case of acquisitions of real estate pools, over the weighted average remaining life of the related pool of leases.

Upon the acquisition of real estate through the completion of foreclosure, Residential records the assets at fair value as of the acquisition date as a component of real estate owned based on information obtained from a BPO, a full appraisal or the price given in a current contract of sale of the property. Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon management's or other third-party estimates, are often calculated based on the characteristics of the asset, the economic environment and other such factors. Based on professional judgment and knowledge of the particular situation, management determines the appropriate fair value to be utilized for such property. Residential engages third party vendors, including Altisource, to obtain and evaluate BPOs prepared by other third party brokers for its ultimate use. BPOs are subject to judgments of a particular broker formed by visiting a property, assessing general home values in an area, reviewing comparable listings and reviewing comparable completed sales. These judgments may vary among brokers and may fluctuate over time based on housing market activities and the influx of additional comparable listings and sales. Our results could be materially and adversely affected if the judgments used by a broker prove to be incorrect or inaccurate. Residential has established validation procedures to confirm the values it receives from third party vendors are consistent with its observations of market values.

These validation procedures include establishing thresholds to identify changes in value that require further analysis. Residential’s current policies require that it updates the fair value estimate of each financed REO property at least every 180 days by obtaining a new BPO, which is subject to the review processes of its third party vendors. We generally perform further analysis for Residential when the value of the property per the new BPO varies from the old BPO by 25%, or $75,000 per property. If a newly obtained BPO varies from the old BPO by this established threshold, we perform additional procedures to ensure the BPO accurately reflects the current fair value of the property. These procedures include engaging additional third party vendors to compare the old BPOs to the new BPOs and to assist us in evaluating the appropriateness of comparable properties and property-specific characteristics used in Residential’s valuation process. As part of this evaluation, Residential’s third party vendors often discuss the differing BPOs with the providing brokers to ensure that proper comparable properties have been identified. These third party vendors also compare the BPOs to past appraisals, if any, of the property to ensure the BPOs are in line with those appraisals. Following the consideration and reconciliation of the BPOs, the third party provider may provide Residential with a new property value reflecting the analysis they performed or confirm the BPO value received by Residential, in which case Residential uses the new property value or the validated BPO, respectively, for its fair value estimate of the property.

After an evaluation period, Residential may perform property renovations to those properties that meet its rental investment criteria in order to optimize its rental proceeds. In some instances, Residential may also perform renovations on REO properties that do not meet its rental investment criteria in order to optimize sale proceeds. Such expenditures are part of Residential's initial investment in a property and, therefore, are classified as investing activities in our consolidated statement of cash flows. Subsequently, residential rental properties, including any renovations that improve or extend the life of the asset, are accounted for at cost. REO properties that do not meet Residential's rental investment criteria and that are held for sale are accounted for at the lower of the carrying value or estimated fair value less cost to sell. The cost basis of residential rental properties is depreciated using the straight-line method over an estimated useful life of three years to 27.5 years based on the nature of the components. Interest and other carrying costs incurred during the renovation period are capitalized until the property is ready for its intended use. Expenditures for ordinary maintenance and repairs are charged to expense as incurred.

Expenditures directly related to successful leasing efforts, such as lease commissions, are included in deferred leasing and financing costs, net and are stated at amortized cost. Such expenditures are part of Residential's operations and, therefore, are classified as operating activities in our consolidated statement of cash flows. Capitalized leasing costs are amortized on a straight-line basis over the lease term of the respective leases, which generally are from one to two years.

Residential properties are classified either as held for use or held for sale. Residential properties are classified as real estate assets held for sale when sale of the assets has been formally approved and is expected to occur in the next twelve months. Residential records residential properties held for sale at the lower of the carrying amount or estimated fair value less costs to sell. The impairment loss, if any, is the amount by which the carrying amount exceeds the estimated fair value less costs to sell.

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Real estate impairment

With respect to Residential's rental properties classified as held for use, we perform an impairment analysis using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. These cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. Residential generally estimates the fair value of assets held for use by using BPOs. In some instances, appraisal information may be available and is used in addition to BPOs.

Residential rental revenues

Minimum contractual rents from leases are recognized on a straight-line basis over the terms of the leases in residential rental revenues. Therefore, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue commences when the customer takes control of the leased premises. Deferred rents receivable, net represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Contingent rental revenue is accrued when the contingency is removed. Termination fee income is recognized when the customer has vacated the rental property, the amount of the fee is determinable and collectability is reasonably assured.

Rents receivable and deferred rents receivable are reduced by an allowance for amounts that become uncollectible. We regularly evaluate the adequacy of our allowance for doubtful accounts. The evaluation takes into consideration the aging of accounts receivable and our analysis of customer personal profile and review past due account balances. Rents receivable and deferred rents receivable are written-off when Residential has deemed that the amounts are uncollectible.

Restricted cash

Restricted cash represents cash deposits that are legally restricted or held by third parties on Residential’s or our behalf, as applicable, such as escrows and reserves for debt service established pursuant to certain of our repurchase agreements.

Treasury Stock

We account for repurchased common stock under the cost method and include such treasury stock as a component of total shareholders’ equity. We have repurchased shares of our common stock (i) under our Board approval to repurchase up to $300.0 million in shares of our common stock and (ii) upon our withholding of shares of our common stock to satisfy tax withholding obligations in connection with the vesting of our restricted stock.

3. Asset acquisitions and dispositions

Real estate assets

Acquisitions, including those accounted for as business combinations

On August 18, 2015, Residential completed the acquisition of 1,314 single-family residential properties in the Atlanta, Georgia market, of which 94% were leased as of the acquisition date, from an unrelated third party for an aggregate purchase price of approximately $111.4 million. Residential recognized acquisition fees and costs related to this portfolio acquisition of $0.6 million. The value of in-place leases was estimated at $1.3 million based upon the costs Residential would have incurred to lease the properties and is being amortized over the weighted-average remaining life of the leases of 7 months as of the acquisition date.

During the third quarter of 2015, Residential initiated a program to purchase single-family residential properties on a one-by-one basis, sourcing listed properties from the Multiple Listing Service and alternative listing sources. Residential acquired 98 properties under this program during 2015.

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The aggregate purchase price attributable to these acquired properties was $120.0 million for the year ended December 31, 2015.

During the year ended December 31, 2014, Residential acquired 237 single-family residential properties. The aggregate purchase price attributable to these acquired properties was $34.1 million.

Dispositions

During the year ended December 31, 2015, Residential disposed of 1,321 residential properties and recorded $50.9 million of net realized gains on real estate. Residential disposed of 221 residential properties during the year ended December 31, 2014 and recorded $9.5 million of net realized gains on real estate.

Mortgage loan assets

Acquisitions

Residential did not acquire any mortgage loans during the year ended December 31, 2015. During the year ended December 31, 2014, Residential acquired an aggregate of 8,205 mortgage loans, consisting of the following:

Acquisitions of non-performing residential mortgage loans

During the year ended December 31, 2014, Residential acquired an aggregate of 7,326 residential mortgage loans, substantially all of which were non-performing, having an aggregate UPB of approximately $1.9 billion and an aggregate market value of underlying properties of $1.8 billion. The aggregate purchase price for these acquisitions was $1.2 billion.

Acquisition of re-performing residential mortgage loans

On June 27, 2014, Residential acquired 879 re-performing mortgage loans with an aggregate market value of underlying properties of $271.1 million for an aggregate purchase price of $144.6 million.

Throughout this report, all unpaid principal balance and market value amounts for the portfolios acquired are provided as of “cut-off date” for each transaction unless otherwise indicated. The “cut-off date” for each acquisition is a date shortly before the closing used to identify the final loans being purchased and the related unpaid principal balance, market value of underlying properties and other characteristics of the loans.

Resolutions and dispositions

During the year ended December 31, 2015, Residential resolved 590 mortgage loans, primarily through short sales, refinancing and foreclosure sales. In addition, Residential sold 137 loans that had transitioned to re-performing status from prior non-performing loan acquisitions to a third party purchaser during June 2015. In connection with these disposals, Residential recorded $58.1 million of net realized gains on mortgage loans.

During December 2015, Residential sold a total of 306 of our mortgage loans held for sale to third party purchasers. In connection with these sales, Residential recorded $14.0 million of net realized gains on mortgage loans held for sale.

During November 2015, Residential sold 466 of our mortgage loans held for sale to a third party purchaser. In connection with this sale, Residential recorded $21.9 million of net realized gains on mortgage loans held for sale.

During June 2015, Residential sold 52 loans from the re-performing mortgage loans purchased in June 2014 to a third party purchaser. In connection with this sale, Residential recorded $0.5 million of net realized gains on mortgage loans held for sale.

During the year ended December 31, 2014, Residential resolved 735 mortgage loans, primarily through short sales, refinancing and foreclosure sales. In connection with these resolutions, Residential recorded $55.8 million of net realized gains on mortgage loans. During October 2014, Residential sold 934 re-performing loans to an unrelated third party and recognized $2.8 million of net realized gains on mortgage loans held for sale. The sale included 770 loans from the re-performing mortgage loans held for sale purchased in June 2014 and 164 loans that had transitioned to re-performing status from prior non-performing loan acquisitions that had a clean pay history of at least six months.

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Transfers of mortgage loans to real estate owned

During the years ended December 31, 2015 and 2014, Residential transferred an aggregate of 2,443 and 3,682 mortgage loans, respectively, to REO at an aggregate fair value based on BPOs of $470.2 million and $587.3 million, respectively. Such transfers occur when the foreclosure sale is complete. In connection with these transfers to REO, Residential recorded $91.3 million and $124.9 million (net of $6.6 million of gains reclassified on REO sold), respectively, in net unrealized gains on mortgage loans.

Due diligence costs

During the years ended December 31, 2015, 2014 and 2013, Residential recognized $0.4 million, $3.1 million and $3.5 million, respectively, for due diligence costs related to these and other transactions in general and administrative expense during the year ended December 31, 2015 and in both general and administrative expense and related party general and administrative expense during the years ended December 31, 2014 and 2013.

4. Real estate assets, net

Real estate held for use

As of December 31, 2015, Residential had 4,933 single-family residential properties held for use. Of these properties, 2,118 had been leased, 264 were listed and ready for rent and 350 were in varying stages of renovation and unit turn status. With respect to the remaining 2,201 REO properties, we will make a final determination whether each property meets Residential's rental profile after (a) applicable state redemption periods have expired, (b) the foreclosure sale has been ratified, (c) Residential has recorded the deed for the property, (d) utilities have been activated and (e) we have secured access for interior inspection. A majority of the REO properties are subject to state regulations that require Residential to await the expiration of a redemption period before a foreclosure can be finalized. Residential includes these redemption periods in its portfolio pricing, which generally reduces the price it pays for the mortgage loans. Once the redemption period expires, Residential immediately proceeds to record the new deed, take possession of the property, activate utilities, and start the inspection process in order to make a final determination on whether to rent or liquidate the property. If an REO property meets Residential's rental investment criteria, we determine the extent of renovations that are needed to generate an optimal rent and maintain consistency of renovation specifications for future branding. If it is determined that the REO property will not meet Residential's rental investment criteria, the property is listed for sale, in some instances after renovations are made to optimize the sale proceeds.

As of December 31, 2014, Residential had 3,349 REO properties held for use. Of these properties,336 had been leased, 197 were listed and ready for rent and 254 were in various stages of renovation. With respect to the remaining 2,562 REO properties, we were in the process of determining whether these properties would meet Residential's rental profile.

We generally rent our REO properties under non-cancelable leases with a term of one to two years. Future minimum rental revenues under leases existing for the 2,118 properties that were leased as of December 31, 2015 are as follows ($ in thousands):

2016	$16,661
2017	1,311
2018	159
2019	167
2020 and thereafter	—

$18,298

Residential recognized $36.5 million, $7.9 million and $0 of REO valuation impairment for the years ended December 31, 2015, 2014 and 2013, respectively.

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Real estate held for sale

As of December 31, 2015, Residential classified 1,583 properties having an aggregate carrying value of $250.6 million as real estate held for sale as they do not meet its residential rental property investment criteria. As of December 31, 2014, Residential had 611 REO properties having an aggregate carrying value of $92.2 million held for sale.

5. Mortgage loans

The following table sets forth the fair value of Residential's mortgage loans, the related unpaid principal balance and market value of underlying properties by delinquency status as of December 31, 2015 and December 31, 2014 ($ in thousands):

	Number of Loans	Carrying Value	Unpaid Principal Balance	Market Value of Underlying Properties
December 31, 2015				
Current	730	$124,595	$165,645	$177,348
30	80	12,003	18,142	21,858
60	38	5,688	8,088	8,766
90	984	130,784	216,717	196,963
Foreclosure	3,907	687,464	946,962	917,671
Mortgage loans at fair value	5,739	$960,534	$1,355,554	$1,322,606
December 31, 2014				
Current	670	$107,467	$159,731	$160,654
30	109	15,424	22,629	24,046
60	57	7,921	11,624	12,510
90	2,286	361,434	569,930	544,709
Foreclosure	7,841	1,466,798	2,172,047	1,951,606
Mortgage loans at fair value	10,963	$1,959,044	$2,935,961	$2,693,525

The following table sets forth the carrying value of Residential's mortgage loans held for sale, the related unpaid principal balance and market value of underlying properties by delinquency status as of December 31, 2015 and December 31, 2014 ($ in thousands):

	Number of Loans	Carrying Value	Unpaid Principal Balance	Market Value of Underlying Properties
December 31, 2015				
Current	58	$10,864	$13,466	$17,776
30	26	7,616	10,013	12,200
60	6	668	775	1,063
90	328	73,164	101,121	103,395
Foreclosure	879	$225,024	$314,991	$330,573
Mortgage loans held for sale	1,297	$317,336	$440,366	$465,007
December 31, 2014				
Current	68	$8,317	$11,938	$15,154
30	6	1,118	1,667	2,004

60	4	359	644	670
90	24	2,741	4,149	4,624
Mortgage loans held for sale	102	$12,535	$18,398	$22,452

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Residential's mortgage loans held for sale include our remaining re-performing residential mortgage loans that it initially acquired in June 2014 and certain non-performing loans identified by management for sale. Residential transferred these mortgage loans to mortgage loans held for sale to take advantage of attractive market pricing and because it does not expect them to be rental candidates.

In addition, in December 2015, Residential commenced an auction to sell an additional portfolio of 1,266 non-performing and re-performing mortgage loans with an aggregate UPB of $434.3 million, representing approximately 24% of its loan portfolio by UPB. On January 19, 2016, following the auction process, we agreed in principle to award the sale to an unrelated third party.

Re-performing residential mortgage loans

For the year ended December 31, 2015 and 2014, Residential recognized no provision for loan loss and no adjustments to the amount of the accretable yield. For the year ended December 31, 2015 and 2014, Residential accreted $0.6 million and $2.6 million into interest income with respect to these re-performing loans. As of December 31, 2015 and 2014, these re-performing loans, having a UPB of $6.0 million and $18.4 million, respectively, and a carrying value of $4.0 million and $12.5 million, respectively, were included in mortgage loans held for sale.

The following table presents information regarding the estimates of the contractually required payments and the cash flows expected to be collected as of the date of the acquisition of June 27, 2014 ($ in thousands):

Contractually required principal and interest at the date of acquisition	$325,000	
Non-accretable yield	(96,263	)
Expected cash flows to be collected	228,737	
Accretable yield	(84,728	)
Fair value at the date of acquisition	$144,009	

The following table presents changes in the balance of the accretable yield for the periods indicated:

Accretable Yield	Year ended December 31, 2015		Year ended December 31, 2014	
Balance at the beginning of the period	$7,640		$—	
Acquisitions	—		84,728	
Loans sold	(4,943	)	(74,478	)
Accretion	(551	)	(2,610	)
Balance at the end of the period	$2,146		$7,640	

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6. Fair value of financial instruments

The following table sets forth the fair value of financial assets and liabilities by level within the fair value hierarchy as of December 31, 2015 and December 31, 2014 ($ in thousands):

	Level 1 Quoted Prices in Active Markets	Level 2 Observable Inputs Other Than Level 1 Prices	Level 3 Unobservable Inputs
December 31, 2015			
Recurring basis (assets)			
Mortgage loans at fair value	$—	$—	$960,534
Nonrecurring basis (assets)			
Real estate assets held for sale	—	—	250,557
Not recognized on consolidated balance sheets at fair value (assets)			
Mortgage loans held for sale	—	—	317,336
Not recognized on consolidated balance sheets at fair value (liabilities)			
Repurchase agreements at fair value	—	767,513	—
Other secured borrowings	—	502,268	—
December 31, 2014			
Recurring basis (assets)			
Mortgage loans at fair value	$—	$—	$1,959,044
Nonrecurring basis (assets)			
Real estate assets held for sale	—	—	96,041
Not recognized on consolidated balance sheets at fair value (assets)			
Mortgage loans held for sale	—	—	12,535
Not recognized on consolidated balance sheets at fair value (liabilities)			
Repurchase agreements at fair value	—	1,015,000	—
Other secured borrowings	—	321,409	—

No assets were transferred from one level to another level during the year ended December 31, 2015 or 2014.

The carrying values of Residential's and our cash and cash equivalents, restricted cash, related party receivables, accounts payable and accrued liabilities, related party payables, preferred stock, and investment in NewSource are equal to or approximate fair value. The fair value of mortgage loans at fair value and non-performing mortgage loans held for sale is estimated using our proprietary pricing model. The fair value of re-performing mortgage loans held for sale is estimated using the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The fair value of the repurchase agreements is estimated using the income approach based on credit spreads available currently in the market for similar floating rate debt. The fair value of other secured borrowings is estimated using observable market data.

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The following table sets forth the changes in Residential's level 3 assets that are measured at fair value on a recurring basis ($ in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Mortgage loans at fair value		
Beginning balance	$1,959,044	$1,207,163
Investment in mortgage loans at fair value	—	1,122,408
Net unrealized gain on mortgage loans at fair value	177,545	350,822
Net realized gain on mortgage loans at fair value	58,061	55,766
Transfers of mortgage loans at fair value to mortgage loans held for sale	(535,836)	—
Mortgage loans at fair value dispositions and payments	(257,505)	(235,743)
Real estate tax advances to borrowers	29,261	36,842
Reclassification of realized gains on real estate sold from unrealized gains	—	9,054
Transfer of real estate owned to mortgage loans at fair value	15,974	8,400
Transfer of mortgage loans at fair value to real estate owned	(486,010)	(595,668)
Ending balance at December 31	$960,534	$1,959,044
Net unrealized gain on mortgage loans at fair value held at the end of the period	$78,453	$222,034

The significant unobservable inputs used in the fair value measurement of Residential's mortgage loans are discount rates, forecasts of future home prices, alternate loan resolution probabilities, resolution timelines and the value of underlying properties. Significant changes in any of these inputs in isolation could result in a significant change to the fair value measurement. A decline in the discount rate in isolation would increase the fair value. A decrease in the housing pricing index in isolation would decrease the fair value. Individual loan characteristics such as location and value of underlying collateral affect the loan resolution probabilities and timelines. An increase in the loan resolution timeline in isolation would decrease the fair value. A decrease in the value of underlying properties in isolation would decrease the fair value.

The following table sets forth quantitative information about the significant unobservable inputs used to measure the fair value of Residential's mortgage loans as of December 31, 2015 and December 31, 2014:

Input	December 31, 2015	December 31, 2014
Equity discount rate	15.0%	15.0%
Debt to asset ratio	65.0%	65.0%
Cost of funds	3.5% over 1 month LIBOR	3.5% over 1 month LIBOR
Annual change in home pricing index	0.0% to 10.2%	-0.1% to 7.6%
Loan resolution probabilities — modification	0% to 44.7%	0% to 44.7%
Loan resolution probabilities — rental	0% to 100.0%	0% to 100.0%
Loan resolution probabilities — liquidation	0% to 100.0%	0% to 100.0%
Loan resolution timelines (in years)	0.1 to 5.6	0.1 - 5.3
Value of underlying properties	$3,000 - $4,500,000	$3,000 - $5,300,000

7. Borrowings

Repurchase and loan agreements

Residential's operating partnership and certain of its Delaware Statutory Trust subsidiaries, as applicable, have entered into master repurchase agreements with major financial institutions. The purpose of these repurchase agreements is to finance the acquisition and ownership of mortgage loans and REO properties in its portfolio. Residential has effective control of the assets associated with these agreements and therefore has concluded these are financing arrangements. As of December 31, 2015, the weighted average annualized interest rate on borrowing under Residential's repurchase and loan agreements was 3.35%, excluding amortization of deferred financing costs.

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Residential has entered into three separate repurchase agreements and a loan agreement to finance the acquisition and ownership of its residential mortgage loans and REO properties. Below is a description of each agreement:

- Credit Suisse ("CS") is the lender on the repurchase agreement entered into on March 22, 2013, (the "CS repurchase agreement") with an initial aggregate maximum borrowing capacity of $100.0 million. During 2014 the CS repurchase agreement was amended on several occasions, ultimately increasing the aggregate maximum borrowing capacity to $225.0 million on December 31, 2014 with a maturity date of April 20, 2015, subject to an additional one-year extension with the approval of the lender. On April 20, 2015, Residential entered into an amended and restated repurchase agreement with CS that increased its aggregate borrowing capacity from $225.0 million to $275.0 million, increased the REO sublimit under the facility and extended the maturity date to April 18, 2016. On Residential's behalf, we are in discussions with CS to renew and further extend the repurchase agreement with an ability to obtain additional funding. No assurance can be provided that we will be able to renew this facility on reasonable terms, on a timely basis or at all.

- Deutsche Bank ("DB") is the lender on the repurchase agreement dated September 12, 2013 (the "DB repurchase agreement"). The DB repurchase agreement matures on March 11, 2016. Under the DB repurchase agreement, Residential has not been eligible for additional funding under the facility since March 2015, and its aggregate funding capacity was thereby reduced to $54.9 million, which was the amount outstanding under the facility on December 31, 2015. Residential expects to repay the remaining outstanding balance of the DB repurchase agreement during March 2016 primarily with available funds and then transfer of all or some of the collateral to its other existing facilities.

- Wells Fargo ("Wells") is the lender under the repurchase agreement dated September 23, 2013 (the "Wells repurchase agreement") with an initial aggregate maximum borrowing capacity of $200.0 million. Throughout 2013 and 2014, the Wells repurchase agreement was amended several times increasing the aggregate maximum borrowing capacity to a high of $1.0 billion, and on December 31, 2014 was reduced to $750.0 million, subject to certain sublimits, to reflect the securitization of a significant portion of Residential's non-performing loans that previously had been financed under the Wells repurchase agreement. On February 20, 2015, Residential exercised its option to extend the termination date of this facility to March 23, 2016. On September 30, 2015, the Wells repurchase agreement was amended to extend the termination date of the facility to September 27, 2017, to re-increase the aggregate amount of available funding to $750.0 million and to further increase the sublimits of REO properties that may collateralize the facility from 10% of the aggregate funding capacity to 40% of the aggregate funding capacity, or $300.0 million of the $750.0 million.

- Nomura Corporate Funding Americas, LLC ("Nomura") is the lender under a loan agreement dated April 10, 2015 (the "Nomura loan agreement") with an initial aggregate maximum funding capacity of $100.0 million. On May 12, 2015, Residential amended the terms of the Nomura loan agreement to increase the aggregate maximum funding capacity to $200.0 million, subject to certain sublimits, eligibility requirements and conditions precedent to each funding. The Nomura loan agreement terminates on April 8, 2016. On Residential's behalf, we are in discussions with Nomura to renew and further extend the Nomura loan agreement with an ability to obtain additional funding. No assurance can be provided that we will be able to renew this facility on reasonable terms, on a timely basis or at all.

Following all of the amendments described above, the maximum aggregate funding available to Residential under these repurchase and loan agreements as of December 31, 2015 was $1.3 billion, subject to certain sublimits, eligibility requirements and conditions precedent to each funding. As of December 31, 2015, an aggregate of $767.5 million was outstanding under these repurchase and loan agreements. All obligations under each of these repurchase and loan agreements are fully guaranteed by Residential.

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The following table sets forth data with respect to Residential's repurchase and loan agreements as of December 31, 2015 and December 31, 2014 ($ in thousands):

	Maximum Borrowing Capacity	Book Value of Collateral	Amount Outstanding	Amount of Available Funding
December 31, 2015				
CS repurchase agreement due April 18, 2016	$275,000	$335,184	$194,346	$80,654
Wells repurchase agreement due September 27, 2017	750,000	708,275	371,130	378,870
DB repurchase agreement due March 11, 2016	54,944	130,863	54,944	—
Nomura loan agreement due April 8, 2016	200,000	204,578	147,093	52,907
	$1,279,944	$1,378,900	$767,513	$512,431
December 31, 2014				
CS repurchase agreement due April 20, 2015	$225,000	$332,618	$222,044	$2,956
Wells repurchase agreement due March 23, 2015	750,000	1,036,409	569,509	180,491
DB repurchase agreement due March 11, 2016	250,000	450,532	223,447	26,553
	$1,225,000	$1,819,559	$1,015,000	$210,000

Under the terms of each repurchase agreements, as collateral for the funds Residential draws thereunder, subject to certain conditions, Residential's operating partnership will sell to the applicable lender equity interests in its Delaware statutory trust subsidiaries that owns the applicable underlying assets on its behalf, or the trust will directly sell such underlying mortgage assets. In the event the lender determines the value of the collateral has decreased, the lender has the right to initiate a margin call and require Residential, or the applicable trust subsidiary, to post additional collateral or to repay a portion of the outstanding borrowings. The price paid by the lender for each mortgage asset Residential finances under the repurchase agreements is based on a percentage of the market value of the mortgage asset and may depend on its delinquency status. With respect to funds drawn under the repurchase agreements, Residential's operating partnership is required to pay the lender interest based on LIBOR or at the lender's cost of funds plus a spread calculated based on the type of applicable mortgage assets collateralizing the funding, as well as certain other customary fees, administrative costs and expenses to maintain and administer the repurchase agreements. Residential does not collateralize any of its repurchase facilities with cash.

Pursuant to the CS repurchase agreement, Residential is entitled to collateralize a portion of the facility with securities. As of December 31, 2015, approximately $19.8 million of the amounts outstanding under the CS repurchase agreement was collateralized by $32.0 million of the Class M Notes issued and retained by Residential in connection with the securitization completed in September 2014 by ARLP 2014-1, approximately $29.2 million of the amounts outstanding under the CS repurchase agreement was collateralized by $45.1 million of the Class A-2 Notes issued and retained by Residential in connection with the securitization completed in November 2014 by ARLP 2014-2, and approximately $21.0 million of the amounts outstanding under the CS repurchase agreement was collateralized by $34.0 million of the Class A-2 Notes issued and retained by Residential in connection with the securitization completed in July 2015 by ARLP 2015-1.

The repurchase agreements require Residential to maintain various financial and other covenants, including maintaining a minimum adjusted tangible net worth, a maximum ratio of indebtedness to adjusted tangible net worth and specified levels of unrestricted cash. In addition, the repurchase agreements contain customary events of default. Residential is restricted by the terms of its repurchase agreements from paying dividends greater than its REIT taxable income in a calendar year.

Under the terms of the Nomura loan agreement, subject to certain conditions, Nomura may advance funds to Residential from time to time, with such advances collateralized by REO properties. The advances paid under the

Nomura loan agreement with respect to the REO properties from time to time will be based on a percentage of the market value of the applicable REO properties. Under the terms of the Nomura loan agreement, Residential is required to pay interest based on the one-month LIBOR plus a spread and certain other customary fees, administrative costs and expenses in connection with Nomura's structuring, management and ongoing administration of the facility.

The Nomura loan agreement requires Residential to maintain various financial and other covenants, including a minimum adjusted tangible net worth, a maximum ratio of indebtedness to adjusted tangible net worth and specified levels of unrestricted cash. In addition, the Nomura loan agreement contains events of default (subject to certain materiality thresholds and grace periods), including payment defaults, breaches of covenants and/or certain representations and warranties, cross-defaults, certain material adverse changes, bankruptcy or insolvency proceedings and other events of default customary for this type of transaction. The remedies for such events of default are also customary for this type of transaction and include the acceleration

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of the principal amount outstanding under the Nomura loan agreement and the liquidation by Nomura of the REO properties then subject thereto.

Residential is currently in compliance with the covenants and other requirements with respect to its repurchase and loan agreements. We monitor Residential's banking partners' ability to perform under the repurchase and loan agreements and have concluded there is currently no reason to doubt that they will continue to perform under the repurchase and loan agreements as contractually obligated.

Other secured debt

On June 29, 2015, Residential completed a securitization transaction in which ARLP 2015-1 issued $205.0 million in ARLP 2015-1 Class A Notes with a weighted coupon of approximately 4.01% and $60.0 million in ARLP 2015-1 Class M Notes. ARLP 2015-1 is a Delaware statutory trust that is wholly-owned by Residential's operating partnership with a federally-chartered bank as its trustee. Residential retained $34.0 million of the ARLP 2015-1 Class A Notes and all of the ARLP 2015-1 Class M Notes. No interest will be paid on any ARLP 2015-1 Class M Notes while any ARLP 2015-1 Class A Notes remain outstanding. The ARLP 2015-1 Class A Notes and ARLP 2015-1 Class M Notes are non-recourse to Residential and are secured solely by the non-performing mortgage loans and REO properties of ARLP 2015-1 but not by any of Residential's other assets. The assets of ARLP 2015-1 are the only source of repayment and interest on the ARLP 2015-1 Class A Notes and the ARLP 2015-1 Class M Notes, thereby making the cash proceeds received by ARLP 2015-1 of loan payments, loan liquidations, loan sales and sales of converted REO properties the sole sources of the payment of interest and principal by ARLP 2015-1 to the bond holders. The ARLP 2015-1 Class A Notes and the ARLP 2015-1 Class M Notes mature on May 25, 2055, and Residential does not guarantee any of the obligations of ARLP 2015-1 under the terms of the indenture governing the notes or otherwise. As of December 31, 2015, the book value of the underlying securitized assets held by ARLP 2015-1 was $282.1 million.

On November 25, 2014, Residential completed a securitization transaction in which ARLP 2014-2 issued $270.8 million in ARLP 2014-2 Class A Notes with a weighted yield of approximately 3.85% and $234.0 million in ARLP 2014-2 Class M Notes. Residential initially retained $95.8 million of the ARLP 2014-2 Class A Notes and all of the ARLP 2014-2 Class M Notes. On February 9, 2015, Residential sold $50.7 million of the retained ARLP 2014-2 Class A Notes to an unrelated third party. No interest will be paid on any ARLP 2014-2 Class M Notes while any ARLP 2014-2 Class A Notes remain outstanding. The ARLP 2014-2 Class A Notes and ARLP 2014-2 Class M Notes are secured solely by the non-performing mortgage loans and REO properties of ARLP 2014-2 and not by any of Residential's other assets. The assets of ARLP 2014-2 are the only source of repayment and interest on the ARLP 2014-2 Class A Notes and the ARLP 2014-2 Class M Notes. The ARLP 2014-2 Class A Notes and the ARLP 2014-2 Class M Notes mature on January 26, 2054, and Residential does not guaranty any of the obligations of ARLP 2014-2 under the terms of the indenture governing the notes or otherwise. As of December 31, 2015, the book value of the underlying securitized assets held by ARLP 2014-2 was $322.5 million.

On September 25, 2014, Residential completed a securitization transaction in which ARLP 2014-1 issued $150.0 million in Class A Notes with a weighted yield of approximately 3.47% and $32.0 million in Class M Notes with a weighted yield of 4.25%. The ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes are secured solely by the non-performing mortgage loans and REO properties of ARLP 2014-1 and not by any of Residential's other assets. The assets of ARLP 2014-1 are the only source of repayment and interest on the ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes. The ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes mature on September 25, 2044, and Residential does not guaranty any of the obligations of ARLP 2014-1 under the terms of the indenture governing the notes or otherwise. As of December 31, 2015, the book value of the underlying securitized assets held by ARLP 2014-1 was $202.3 million.

Residential retained all of the Class M Notes issued by ARLP 2014-1 in its TRS. On September 30, 2014, pursuant to a master repurchase agreement, the TRS sold $15.0 million of the ARLP 2014-1 Class M Notes to NewSource. On September 22, 2015, the TRS completed its repurchase of the ARLP 2014-1 Class M notes from NewSource at a 5.0% yield.

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The following table sets forth data with respect to these notes as of December 31, 2015 and 2014 ($ in thousands):

	Interest Rate		Amount Outstanding	
December 31, 2015:				
ARLP Securitization Trust, Series 2014-1				
ARLP 2014-1 Class A Notes due September 25, 2044 (1)	3.47	%	$136,404	
ARLP 2014-1 Class M Notes due September 25, 2044 (2)	4.25	%	32,000	
ARLP Securitization Trust, Series 2014-2				
ARLP 2014-2 Class A Notes due January 26, 2054 (3)	3.63	%	244,935	
ARLP 2014-2 Class M Notes due January 26, 2054	—	%	234,010	
ARLP Securitization Trust, Series 2015-1				
ARLP 2015-1 Class A Notes due May 25, 2055 (4)	4.01	%	203,429	
ARLP 2015-1 Class M Notes due May 25, 2044	—	%	60,000	
Intercompany eliminations				
Elimination of ARLP 2014-1 Class M Notes due to ARNS, Inc.			(32,000	)
Elimination of ARLP 2014-2 Class A Notes due to ARNS, Inc.			(45,138	)
Elimination of ARLP 2014-2 Class M Notes due to ARLP			(234,010	)
Elimination of ARLP 2015-1 Class A Notes due to ARNS, Inc.			(34,000	)
Elimination of ARLP 2015-1 Class M Notes due to ARLP			(60,000	)
			$505,630	
December 31, 2014:				
ARLP Securitization Trust, Series 2014-1				
ARLP 2014-1 Class A Notes due September 25, 2044 (1)	3.47	%	$150,000	
ARLP 2014-1 Class M Notes due September 25, 2044 (2)	4.25	%	32,000	
ARLP Securitization Trust, Series 2014-2				
ARLP 2014-2 Class A Notes due January 26, 2054 (3)	3.85	%	269,820	
ARLP 2014-2 Class M Notes due January 26, 2054	—	%	234,010	
ARNS, Inc.				
Securities sold under agreement to repurchase due March 27, 2015	5.00	%	14,991	
Intercompany eliminations				
Elimination of ARLP 2014-1 Class A Notes due to ARNS, Inc.			(15,000	)
Elimination of ARLP 2014-1 Class M Notes due to ARNS, Inc.			(32,000	)
Elimination of ARLP 2014-2 Class A Notes due to ARNS, Inc.			(95,729	)
Elimination of ARLP 2014-2 Class M Notes due to ARNS, Inc.			(234,010	)
			$324,082	

(1) The expected redemption date for the Class A Notes ranges from September 25, 2017 to September 25, 2018.
(2) The expected redemption date for the Class M Notes is September 25, 2018.
(3) The expected redemption date for the Class A Notes ranges from November 27, 2017 to November 27, 2018.
(4) The expected redemption date for the Class A Notes ranges from June 25, 2018 to June 25, 2019.

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8. Commitments and contingencies

Litigation, claims and assessments

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. Set forth below is a summary of legal proceedings to which we are a party as of December 31, 2015 or which settled during 2015:

Police Retirement System of St. Louis v. Erbey, et al. On January 15, 2015, a stockholder derivative action was filed in the Circuit Court of Maryland for Baltimore City by a purported stockholder of Residential under the caption The Police Retirement System of Saint Louis v. Erbey, et al., 24-C-15-000223. The action named as defendants William C. Erbey and each of the members of Residential's Board of Directors and alleged that Mr. Erbey and Residential's Directors breached their fiduciary duties in connection with the asset management agreement among Residential, Altisource Residential, L.P. and us. The action also named Altisource Residential, L.P. and AAMC as defendants and alleged that we aided and abetted the purported breaches of fiduciary duty and have been unjustly enriched by the asset management agreement. The complaint also named Residential as a nominal defendant. The plaintiff sought, among other things, an order declaring that Mr. Erbey and the director defendants have breached their fiduciary duties, an order declaring that Mr. Erbey and AAMC have been unjustly enriched, an order declaring that the asset management agreement is unenforceable and directing Residential's Board of Directors to terminate the asset management agreement, damages, disgorgement by Mr. Erbey and AAMC of allegedly wrongful profits, changes to Residential's corporate governance and an award of attorney's and other fees and expenses.

On March 31, 2015, we and Residential entered into the New AMA to replace the Original AMA. This New AMA was publicly announced on March 31, 2015. In connection with the entry into the New AMA, the Defendants (including all the individual defendants, Residential, AAMC and Altisource Residential, L.P.) and Plaintiff entered into a Memorandum of Understanding (the "MOU") to settle the action for the consideration of the New AMA and an application for an award of attorneys' fees and litigation expenses for plaintiff's counsel of an amount not to exceed $6.0 million.

On June 30, 2015, The Police Retirement System of Saint Louis and the defendants entered into a Stipulation and Agreement of Compromise, Settlement and Release (the "Settlement Stipulation") for the settlement of this derivative action (the "Settlement"), and the parties filed the Settlement Stipulation with the court on the same day. By Order dated August 3, 2015, the court preliminarily approved the Settlement, scheduled a hearing on November 9, 2015 to consider final approval of the Settlement and authorized Residential to provide notice of the proposed Settlement to its stockholders.

On November 9, 2015, the Settlement was approved by the court, and no shareholders objected to the Settlement. Therefore, the matter was resolved and all claims in the action that were, or could have been, brought by or on behalf of Residential challenging the Original AMA among Residential, Altisource Residential L.P. and AAMC, or the negotiation of, the terms and provisions of, or the approval of the New AMA. Pursuant to the Settlement, the defendants paid the attorneys' fees and expenses of plaintiff's counsel in an amount of $6.0 million. This payment was a 100% covered claim under Residential's and our insurance policy, and we recognized no loss in connection with this settlement.

Hulstrom v. William C. Erbey, et al. On April 23, 2015, a shareholder derivative action was filed in the Superior Court of the Virgin Islands, Division of St. Croix, by a purported shareholder of Residential under the caption Kirk Hulstrom v. William Erbey, et al., SX-15-CV-158. The action named as defendants William C. Erbey, each of the current and former members of Residential's Board of Directors, certain officers of Residential, AAMC and Ocwen. In the complaint, plaintiff asserted claims against the individual defendants for breach of fiduciary duty, abuse of control and gross mismanagement in connection with the asset management agreement between Residential and us. As to AAMC and Ocwen, plaintiff alleged that both companies aided and abetted the purported breaches of fiduciary duty and have been unjustly enriched by the asset management agreement. The complaint also named Residential as a nominal defendant.

In November 2015, the parties agreed that plaintiff Hulstrom would become party to the Settlement in the Police Retirement System of St. Louis action described above with no additional Settlement payment by the defendants. In connection therewith, on December 10, 2015, Hulstrom filed a notice of voluntary dismissal of this matter, which released and resolved all claims asserted in this action. Therefore, there is no expected liability to us in this matter.

City of Cambridge Retirement System v. Altisource Asset Management Corp., et al. On January 16, 2015, a putative shareholder class action complaint was filed in the United States District Court of the Virgin Islands by a purported shareholder of AAMC under the caption City of Cambridge Retirement System v. Altisource Asset Management Corp., et al., 15-cv-00004. The action names as defendants AAMC, Mr. Erbey and certain officers of AAMC and alleges that the defendants violated federal securities laws by failing to disclose material information to AAMC shareholders concerning alleged conflicts of interest held by Mr.

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Erbey with respect to AAMC’s relationship and transactions with Residential, Altisource, Home Loan Servicing Solutions, Ltd., Southwest Business Corporation, NewSource Reinsurance Company and Ocwen, including allegations that the defendants failed to disclose (i) the nature of relationships between Mr. Erbey, AAMC and those entities; and (ii) that the transactions were the result of an allegedly unfair process from which Mr. Erbey failed to recuse himself. The action seeks, among other things, an award of monetary damages to the putative class in an unspecified amount and an award of attorney’s and other fees and expenses.AAMC and Mr. Erbey are the only defendants who have been served with the complaint.

On May 12, 2015, the court entered an order granting the motion of Denver Employees Retirement Plan to be lead plaintiff. On May 15, 2015, the court entered a scheduling order requiring plaintiff to file an amended complaint on or before June 19, 2015, and setting a briefing schedule for any motion to dismiss. Plaintiff filed an amended complaint on June 19, 2015. On July 20, 2015, AAMC and Mr. Erbey filed a motion to dismiss the amended complaint. Briefing on the motion to dismiss was completed on September 3, 2015, and we are awaiting a decision from the court on the motion. We believe the amended complaint is without merit. At this time, we are not able to predict the ultimate outcome of this matter, nor can we estimate the range of possible loss, if any.

Kanga v. Altisource Asset Management Corporation, et al. On March 12, 2015, a shareholder derivative action was filed in the Superior Court of the Virgin Islands, Division of St. Croix, by a purported shareholder of AAMC under the caption Nanzeen Kanga v. William Erbey, et al., SX-15-CV-105. The action names as defendants William C. Erbey and each of the current and former members of AAMC's Board of Directors and alleges that Mr. Erbey and AAMC’s directors breached fiduciary duties in connection with the disclosures that are the subject of the City of Cambridge Retirement System case described above and certain other matters involving the relationship of Residential and AAMC.

On May 15, 2015, the plaintiff and the defendants filed an agreed motion to stay the action until the earliest of any of the following events: (i) the City of Cambridge Retirement System action is dismissed with prejudice; (ii) any of the defendants in the City of Cambridge Retirement System action file an answer in that action; and (iii) defendants do not move to stay any later-filed derivative action purportedly brought on behalf of us arising from similar facts as the Kanga action and relating to the same time frame or such motion to stay is denied.

At this time, we are not able to predict the ultimate outcome of this matter, nor can we estimate the range of possible loss, if any.

Sokolowski v. Erbey, et al. On December 24, 2014, a shareholder derivative action was filed in the United States District Court for the Southern District of Florida by a purported shareholder of Ocwen. The action named the directors of Ocwen as defendants and alleged, among other things, various breaches of fiduciary duties by the directors of Ocwen.

On February 11, 2015, plaintiff filed an amended complaint naming the directors of Ocwen as defendants and also naming Residential, AAMC, Altisource and Home Loan Servicing Solutions, Ltd. as alleged aiders and abettors of the purported breaches of fiduciary duties. The amended complaint alleges that the directors of Ocwen breached their fiduciary duties by, among other things, allegedly failing to exercise oversight over Ocwen’s compliance with applicable laws, rules and regulations; failing to exercise oversight responsibilities with respect to the accounting and financial reporting processes of Ocwen; failing to prevent conflicts of interest and allegedly improper related party transactions; failing to adhere to Ocwen’s code of conduct and corporate governance guidelines; selling personal holdings of Ocwen stock on the basis of material adverse inside information; and disseminating allegedly false and misleading statements regarding Ocwen’s compliance with regulatory obligations and allegedly self-dealing transactions with related companies. Plaintiff claims that as a result of the alleged breaches of fiduciary duties, Ocwen has suffered damages, including settlements with regulatory agencies in excess of $2 billion, injury to its reputation and corporate goodwill and exposure to governmental investigations and securities and consumer class action lawsuits. In addition to the derivative claims, the plaintiff also alleges an individual claim that Ocwen’s 2014 proxy statement allegedly contained untrue statements of material fact and failed to disclose material information in violation of federal securities laws. The plaintiff seeks, among other things, an order requiring the defendants to repay to Ocwen unspecified amounts by which Ocwen has been damaged or will be damaged, an award of an unspecified amount of exemplary damages, changes to Ocwen's corporate governance and an award of attorneys’ and other fees and expenses.

On April 13, 2015, nominal defendant Ocwen and defendants Mr. Erbey and Mr. Faris filed a motion to stay the action.

On July 16, 2015, we filed a motion to dismiss all claims against us in the action, based upon, among other arguments, lack of personal jurisdiction and failure to state a claim. Co-defendant Residential filed a similar motion to dismiss the complaint as to all claims asserted against it.

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On December 8, 2015, the court granted Residential's and our motions to dismiss for lack of personal jurisdiction with leave to amend the jurisdiction allegations no later than January 4, 2016.

On December 15, 2015, Hutt v. Erbey, et al., Case No. 15-cv-81709-WPD, was transferred to the Southern District of Florida from the Northern District of Georgia. That same day, a third related derivative action, Lowinger v. Erbey, et al., Case No. 15-cv-62628-WPD, was also filed in the Southern District of Florida. The court then requested that the parties file a response stating their positions as to whether the actions should be consolidated. On December 29, 2015, we filed a response stating that we took no position on the issue of consolidation, so long as our defenses were fully reserved should plaintiff Sokolowski seek to file an amended complaint. Neither plaintiff Sokolowski nor plaintiff Hutt opposed consolidation in their responses. On December 30, 2015, the court issued an order that, among other things, extended the deadline for plaintiff Sokolowski to file its amended complaint to cure the jurisdictional defects as to Residential and us until January 13, 2016. On January 8, 2016, the court issued an order consolidating the three related actions.

On February 2, 2016, Plaintiffs Sokolowski and Lowinger filed competing motions for appointment of lead counsel in the consolidated action. These motions were fully briefed on February 5, 2016. Subsequently, on February 17, 2016, the court issued an order appointing Sokolowski’s counsel as lead counsel with Lowinger’s and Hutt’s counsel serving on the executive committee of the plaintiffs. It also ordered that a consolidated complaint in the matter shall be filed no later than March 8, 2016.

We believe the complaint against us is without merit. At this time, we are not able to predict the ultimate outcome of this matter, nor can we estimate the range of possible loss, if any.

Management does not believe that we have incurred an estimable, probable or material loss by reason of any of the above actions.

9. Related-party transactions

Through January 16, 2015, William C. Erbey served as our Chairman as well as the Executive Chairman of Ocwen, Chairman of Altisource and Chairman of Residential. Effective January 16, 2015, Mr. Erbey stepped down as the Executive Chairman of Ocwen and Chairman of each of us, Altisource and Residential and is no longer a member of the Board of Directors for any of these companies. Accordingly, at that point, Ocwen and Altisource are no longer considered related parties of Residential or AAMC as defined by FASB Accounting Standards Codification (“ASC”) Topic 850, Related Party Disclosures.

Asset Management Agreement with Residential

Pursuant to the asset management agreement, we design and implement Residential's business strategy, administer its business activities and day-to-day operations and provide corporate governance services, subject to oversight by Residential's Board of Directors. We are responsible for, among other duties: (1) performing and administering all of Residential's day-to-day operations, (2) defining investment criteria in Residential's investment policy in cooperation with its Board of Directors, (3) sourcing, analyzing and executing asset acquisitions, including the related financing activities, (4) analyzing and executing sales of properties and residential mortgage loans, (5) overseeing Altisource’s renovation, leasing and property management of Residential's single-family rental properties, (6) overseeing the servicing of Residential's residential mortgage loan portfolios, (7) performing asset management duties and (8) performing corporate governance and other management functions, including financial, accounting and tax management services.

We provide Residential with a management team and appropriate support personnel who have substantial experience in the management of residential mortgage loans and residential rental properties. Our management also has significant corporate governance experience that enables us to manage Residential's business and organizational structure efficiently. We have agreed not to provide the same or substantially similar services without the prior written consent of Residential's board of directors to any business or entity competing against Residential in (a) the acquisition or sale of portfolios of REO properties, (b) the carrying on of a single-family rental business, (c) the acquisition or sale of single-family rental properties, non-performing and re-performing mortgage loans or other similar assets, (d) the purchase of portfolios of sub-performing or non-performing residential mortgage loans or (e) any other activity in which Residential engages. Notwithstanding the foregoing, we may engage in any other business or render similar or different services to any businesses engaged in lending or insurance activities or any other activity other than those described above. Further, at any time following Residential's determination and announcement that it will no longer engage in any of the above-described competitive activities, we would be entitled to provide advisory or other services to businesses or entities in such competitive activities without Residential's prior consent.

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On March 31, 2015, we entered into the New AMA with Residential. The New AMA, which became effective on April 1, 2015, provides for a new management fee structure, which replaces the incentive fee structure under the Original AMA, as follows:

- Base Management Fee. We are entitled to a quarterly Base Management Fee equal to 1.5% of the product of (i) Residential's average invested equity capital for the quarter multiplied by (ii) 0.25, while it has fewer than 2,500 single-family rental properties actually rented ("Rental Properties"). The Base Management Fee percentage increases to 1.75% of invested capital while Residential has between 2,500 and 4,499 Rental Properties and increases to 2.0% of invested capital while it has 4,500 or more Rental Properties;
- Incentive Management Fee. We are entitled to a quarterly Incentive Management Fee equal to 20% of the amount by which Residential's return on invested capital (based on AFFO, defined as net income attributable to holders of common stock calculated in accordance with GAAP plus real estate depreciation expense minus recurring capital expenditures on all real estate assets owned by Residential) exceeds an annual hurdle return rate of between 7.0% and 8.25% (depending on the 10-year treasury rate). The Incentive Management Fee increases to 22.5% while Residential has between 2,500 and 4,499 Rental Properties and increases to 25% while it has 4,500 or more Rental Properties; and
- Conversion Fee. We are entitled to a quarterly Conversion Fee equal to 1.5% of the market value of assets converted into leased single-family homes by Residential for the first time during the quarter.

Residential has the flexibility to pay up to 25% of the Incentive Management Fee to us in shares of its common stock. Under the New AMA, Residential will not be required to reimburse us for the allocable compensation and routine overhead expenses of our employees and staff, all of which will now be covered by the Base Management Fee described above.

Under the New AMA, we will continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to Residential achieving an average annual return on invested capital of at least 7.0% during the then-current period. The Original AMA had a 15 year term, but provided Residential with significant termination rights including the ability to terminate the agreement if Residential's board determined, in its sole discretion, that our performance was unsatisfactory or our compensation was reasonable. However, under the New AMA, Residential's termination rights are significantly limited. Under the New AMA, neither party is entitled to terminate the New AMA prior to the end of the initial term, or each renewal term, other than termination by (a) us and/or Residential "for cause" for certain events such as a material breach of the New AMA and failure to cure such breach, (b) Residential for certain other reasons such as its failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the New AMA or (c) Residential in connection with certain change of control events.

Under the Old AMA, Residential paid us a quarterly incentive management fee as follows:

(i) 2% of all cash available for distribution by Residential to its stockholders and to us as incentive management fee, which we referred to as "available cash," until the aggregate amount per share of available cash for the quarter (based on the average number of shares of our common stock outstanding during the quarter), which we referred to as the "quarterly per share distribution amount," exceeded $0.161, then
(ii) 15% of all additional available cash for the quarter until the quarterly per share distribution amount exceeded $0.193, then
(iii) 25% of all additional available cash for the quarter until the quarterly per share distribution amount exceeded $0.257, and thereafter
(iv) 50% of all additional available cash for the quarter,

in each case set forth in clauses (i) through (iv), as such amounts would have been appropriately adjusted from time to time to take into account the effect of any stock split, reverse stock split or stock dividend, should any have occurred.

Residential distributed any quarterly distribution to its stockholders after the application of the incentive management fee payable to us.

Residential was required to reimburse us on a monthly basis for the (i) direct and indirect expenses we incurred or payments we made on Residential’s behalf, including, but not limited to, the allocable compensation and routine overhead expenses of all of our employees and staff and (ii) all other reasonable operating and overhead expenses we incurred related to the asset management services we provided to Residential.

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Agreements with Altisource

We have engaged Altisource to provide services for us as detailed below. If for any reason Altisource is unable to perform the services described under these agreements at the level and/or the cost that we anticipate, alternate service providers may not be readily available on favorable terms, or at all, which could adversely affect our performance. Altisource’s failure to perform the services under these agreements with Residential or us could have a material adverse effect on us.

Support services agreements

Under separate support services agreement with each of Residential and us, Altisource may provide services in such areas as human resources, vendor management operations, corporate services, risk management, quality assurance, consumer psychology, treasury, finance and accounting, legal, tax, compliance and other support services where Residential or we may need assistance and support. The support services agreement provides generally that Altisource will undertake to provide the support services in a manner generally consistent with the manner and level of care with which such service, if any, was performed or provided prior to our separation from Altisource. Each support services agreement may be extended for two years after the separation and automatically renews every year thereafter, but may be terminated earlier under certain circumstances including a default. The fees for all support services provided pursuant to each support services agreement are based on the fully-allocated cost of providing the service. “Fully-allocated cost” means the all-in cost of providing such service, including direct charges and allocable amounts reflecting compensation and benefits, technology expenses, occupancy and equipment expense and third-party payments (but not taxes incurred in connection therewith).

During 2015, we internalized certain of the support services that had been provided to us by Altisource by directly hiring 31 of the Altisource employees that had provided those services. We believe the direct hire of these employees has further increased our infrastructure so that we are better able to serve Residential operationally while enabling Altisource to focus on the property management, maintenance and brokerage services that matter most to Residential.

The total fees incurred by Residential or us under these agreements are dependent upon business activity and the level of services required in connection therewith. In the event our asset management agreement with Residential expires or is terminated, the support services agreements will terminate within 30 days.

Technology services agreement

Under the technology services agreement, Altisource provides certain technology products and services to us, including telephone and network administration. The total fees incurred by us under this agreement will be dependent upon our business activity and the level of services required.

Tax matters agreement

The tax matters agreement with Altisource sets our each party's rights and obligations with respect to deficiencies and refunds, if any, of Luxembourg, U.S. federal, state, local or other foreign taxes for periods before and after our separation from Altisource and related matters such as the filing of tax returns and the conduct of IRS and other audits. In general, under this agreement, we are responsible for taxes attributable to our business incurred after the separation, and Altisource is responsible for taxes attributable to our business incurred prior to the separation.

Trademark license agreement

Under the trademark license agreement, Altisource granted us a non-exclusive, non-transferable, non-sublicensable, royalty free license to use the name “Altisource.” The agreement has no specified term and may be terminated by either party upon 30 days’ written notice, with or without cause. In the event that this agreement is terminated, all rights and licenses granted thereunder, including, but not limited to, the right to use “Altisource” in our name will terminate.

In the event our asset management agreement with Residential expires or is terminated, the trademark license agreement will terminate within 30 days.

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Agreement Residential has with Altisource

Master services agreement

Residential has engaged Altisource to provide property management, leasing, renovation management and valuation services associated with the single-family rental properties they acquire upon conversion of residential mortgage loans that continue to be sub-performing or non-performing. The agreement provides for an initial term of 15 years, which term will automatically renew for successive two-year terms unless either party sends a notice of non-renewal to the other party at least nine months before the completion of the initial or renewal term, as applicable. We work directly with Altisource's vendor management team on behalf of Residential, and our construction management team often interfaces with the general contractors and vendors to maintain relationships with the vendor network. Through our team, Residential coordinates with Altisource and its personnel as well as the vendor network to establish a collective approach to the renovation management, maintenance, repair and materials supply chain. We believe our experience and these coordinated efforts with Altisource provide us with the capabilities to replicate Altisource's vendor network, if necessary.

The total fees incurred by Residential under this agreement will be dependent upon the property management, leasing and renovation management services required on an asset-specific basis and will vary significantly based upon the location and condition of the asset as well as current market conditions and tenant turnover.

In the event Residential's asset management agreement with us is terminated without cause by Residential, the master services agreement with Altisource may be terminated at its sole discretion.

Agreements with Ocwen

Support services agreement

Under the support services agreement, Ocwen may provide us with business development services, as well as analytical services in connection with our management and valuation of Residential's portfolio and administrative services in connection with the operation of our business. The support services agreement may be terminated by either us or Ocwen upon 30 days prior notice. The fees for all support services provided pursuant to the support services agreement are based on the fully-allocated cost of providing the service. "Fully-allocated cost" means the all-in cost of providing such service, including direct charges and allocable amounts reflecting compensation and benefits, technology expenses, occupancy and equipment expense and third-party payments (but not taxes incurred in connection therewith). The Ocwen support services agreement was terminated in February 2016.

The total fees incurred by us under this agreement are dependent upon our business activity and the level of services required in connection therewith.

Aircraft time sharing agreement

On November 15, 2013, we entered into an Aircraft Time Sharing Agreement, or the "Timeshare Agreement," with Ocwen pursuant to which Ocwen will make its corporate plane available to us for business-related travel from time to time. Under the Time Sharing Agreement, Ocwen agreed to provide us, on a time sharing basis, access to its plane in consideration of our reimbursement to Ocwen of the sum of its direct expenses of operating the plane plus an additional charge equal to 100% of such expenses. The amounts actually charged to us in any period will directly correlate to our use of the aircraft in each period, which will vary depending on our needs and business use. The Timeshare Agreement was terminated in February 2016.

Sublease

Until the second quarter of 2015, we subleased approximately 2,000 square feet from Ocwen. The annual rent under the sublease was $40,000 per year until June 30, 2014 and $45,000 per year until the termination date of the lease, plus 50% of the lease-related operating expenses and leasehold improvements. The sublease was terminated in April 2015.

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Agreement Residential has with Ocwen

Servicing agreement

Residential has engaged Ocwen to service certain of its residential mortgage loans and to provide loan modification, assisted deed-in-lieu, assisted deed-for-lease and other loss mitigation programs. The agreement provides for an initial term of 15 years. In the event Residential’s asset management agreement with us expires or is terminated, the servicing agreement will terminate within 30 days. From Residential's inception through 2014, Residential had exclusively engaged Ocwen to service the residential mortgage loans in its portfolio. During 2015, Residential transferred servicing of a portion of its portfolio to two additional mortgage servicers.

The total fees incurred by Residential under this agreement are dependent upon the number and type of acquired residential mortgage loans that Ocwen services pursuant to the terms of the agreement.

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Related party transaction summary

Our consolidated statements of operations include the following significant related party transactions for the periods indicated ($ in thousands):

	Amount	Counter-party	Location within Consolidated Statements of Operations
Year ended December 31, 2015			
Base management fee	$13,935	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
Conversion fee	1,037	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
Expense reimbursements	750	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
Management incentive fee	7,994	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
Professional fee sharing for negotiation of AMA	2,000	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
Year ended December 31, 2014			
Residential property operating expenses (1)	$21,612	Ocwen/Altisource	Residential property operating expenses
Mortgage loan servicing costs	65,363	Ocwen	Mortgage loan servicing costs
Acquisition fees and costs	1,039	Altisource	Related party acquisition fees and costs
Office and occupancy costs	349	Ocwen	Related party general and administrative expenses
Salaries and benefits	2,028	Ocwen/Altisource	Related party general and administrative expenses
Other general and administrative expenses	2,069	Altisource	Related party general and administrative expenses
Expense reimbursements	6,070	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
Management incentive fee	67,949	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
Year ended December 31, 2013			
Residential property operating expenses (1)	$767	Ocwen/Altisource	Residential property operating expenses
Mortgage loan servicing costs	9,335	Ocwen	Mortgage loan servicing costs
Acquisition fees and costs	115	Altisource	Related party acquisition fees and costs
Office and occupancy costs	256	Ocwen	Related party general and administrative expenses
Salaries and benefits	1,273	Ocwen/Altisource	Related party general and administrative expenses
Other general and administrative expenses	2,123	Altisource	Related party general and administrative expenses
Expense reimbursements	5,411	Residential	Net loss (income) attributable to noncontrolling interest in consolidated affiliate
Management incentive fee	4,880	Residential	

Net loss (income) attributable to noncontrolling interest in consolidated affiliate

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(1) Residential property operating expenses include costs associated with Residential's ownership and operation of rental properties, including valuation services. Residential engages third party vendors, including Altisource, to obtain and evaluate BPOs prepared by other third party brokers for its ultimate use.

No Incentive Management Fee under the New AMA was earned by us during 2015 because Residential's return on invested capital (as defined in the New AMA) for the three quarters covered by the new AMA was below the required hurdle rate. Under the New AMA, to the extent Residential has an aggregate shortfall in its return rate over the previous seven quarters, that

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aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle for the next quarter before we are entitled to an Incentive Management Fee. As of December 31, 2015, the aggregate return shortfall from the prior three quarters under the New AMA was approximately 10.77% of invested capital. Therefore, Residential must achieve a 12.52% return on invested capital in the first quarter of 2016 before any Incentive Management Fee will be payable to us for the first quarter of 2016. In future quarters, return on invested capital must exceed the required hurdle for the current quarter plus any carried-forward cumulative additional hurdle shortfall from the prior seven quarters before any Incentive Management Fee will be payable to us.

In September 2015, we contributed an additional $5.0 million to NewSource.

In the third quarter of 2015, we acquired 324,465 shares of Residential's common stock in open market transactions, representing approximately 0.58% of Residential's outstanding common stock as of December 31, 2015.

Transactions under our agreements with Ocwen and Altisource for the period January 1, 2015 through January 16, 2015 were not material to our consolidated results of operations.

On September 30, 2014, pursuant to a master repurchase agreement, Residential's TRS sold $15.0 million of the ARLP 2014-1 Class M Notes to NewSource. On September 22, 2015, the TRS completed its repurchase of the ARLP 2014-1 Class M Notes from NewSource at a 5.0% yield.

During the year ended December 31, 2013, Residential acquired a portfolio from Ocwen Financial Corporation ("Ocwen") of non-performing first lien residential mortgage loans having aggregate market value of underlying properties of $94 million. The aggregate purchase price for this portfolio was $64 million.

10. Incentive compensation and share-based payments

Long-Term Incentive Compensation

Our named executives and certain employees participate in an annual non-equity incentive program whereby they are eligible for incentive cash payments based on a percentage of their annual base salary. Each officer has a target annual non-equity incentive payment percentage that ranges from 0% to 150% of base salary. The officer's actual incentive payment for the year is determined by (i) the Company's performance versus the objectives established in the corporate scorecard (80%) and (ii) a performance appraisal (20%).

Our named executive officers and certain employees have and will receive grants of stock options and restricted stock under the 2012 Equity Incentive Plan (the “2012 Plan”). In addition, a special grant of stock options and restricted stock was made to certain Ocwen employees related to the separation under the 2012 Special Equity Incentive Plan (the “2012 Special Plan”). Dividends received on restricted stock are forfeitable and are accumulated until the time of vesting at the same rate and on the same date as on shares of common stock. The aggregate number of shares of common stock that may be issued under the 2012 Plan is approximately 15% of our outstanding shares, subject to proportionate adjustment in the event of stock splits and similar events. Upon the vesting of stock options and restricted stock, we may withhold up to the statutory minimum to satisfy the resulting employee tax obligation.

The 2012 Plan also allows for the grant of performance awards and other awards such as purchase rights, equity appreciation rights, shares of common stock awarded without restrictions or conditions, convertible securities, exchangeable securities or other rights convertible or exchangeable into shares of common stock, as the Compensation Committee in its discretion may determine.

The following table sets forth the number of shares of common stock reserved for future issuance:

	December 31, 2015
Stock options outstanding	181,702
Possible future issuances under equity incentive plan	114,196
	295,898

As of December 31, 2015, we had 2,951,777 remaining shares of common stock authorized to be issued under our charter.

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Stock options

The following table sets forth the activity of our outstanding options:

	Number of Options		Weighted Average Exercise Price per Share
December 31, 2012	305,824		1.36
Exercised	(10,215	)	1.89
Forfeited or canceled	(14,388	)	5.87
December 31, 2013	281,221		1.11
Exercised	(41,685	)	1.16
Forfeited or canceled	(476	)	1.51
December 31, 2014	239,060		1.10
Exercised	(54,261	)	1.35
Forfeited or canceled	(3,097	)	4.14
December 31, 2015 (1) (2)	181,702		0.98

(1) The outstanding options as of December 31, 2015 had a weighted average remaining life of 2.9 years with total intrinsic value of $2.9 million.
(2) We have 181,211 options exercisable as of December 31, 2015 with a weighted average exercise price of $0.97, weighted average remaining life of 2.9 years and intrinsic value of $2.9 million. Of these exercisable options, none had exercise prices higher than the market price of our common stock as of December 31, 2015.

Restricted stock

During the year ended December 31, 2015 and 2014, we granted 52,409 and 30,663 shares, respectively, of market-based restricted stock to certain members of executive management under the 2012 Plan with a weighted average grant date fair value per share of $174.59 and $695.78, respectively.

Restricted stock granted in 2015 and 2014 generally vests based on achievement of the following performance hurdles and vesting schedule:

- Twenty-five percent (25%) of the grant will vest in accordance with the vesting schedule set forth below if the market value of our stock meets both of the following conditions: (i) the market value has realized a compounded annual gain of at least twenty percent (20%) over the market value on the date of the grant; and (ii) the market value is at least double the market value on the date of the grant;
- Fifty percent (50%) of the grant will vest in accordance with the vesting schedule set forth below if the market value of our stock meets both of the following conditions: (i) the market value has realized a compounded annual gain of at least twenty-two and a half percent (22.5%) over the market value on the date of the grant; and (ii) the market value is at least triple the market value on the date of the grant and
- Twenty-five percent (25%) of the grant will vest in accordance with the vesting schedule set forth below if the market value of Company stock meets both of the following conditions: (i) the market value has realized a compounded annual gain of at least twenty-five percent (25%) over the market value on the date of the grant; and (ii) the market value is at least quadruple the market value on the date of the grant.
- After the performance hurdles have been achieved, 25% of the restricted stock will vest on the first anniversary of the date that the performance hurdle for that tranche was met and the remaining 75% of that tranche will vest on the second anniversary of the date that the performance hurdle was met.

Restricted stock granted in 2013 vests based on achievement of the following performance hurdles and vesting schedule:

- Twenty-five percent (25%) of the grant will vest in accordance with the vesting schedule set forth below if the market value of our stock meets all three of the following conditions: (i) the market value is at least equal to $250 million; (ii) the market value has realized a compounded annual gain of at least twenty percent (20%) over the market value on the date of the grant; and (iii) the market value is at least double the market value on the date of the grant;
- Fifty percent (50%) of the grant will vest in accordance with the vesting schedule set forth below if the market value of our stock meets all three of the following conditions: (i) the market value is at least equal to $500 million; (ii) the

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- market value has realized a compounded annual gain of at least twenty-two and a half percent (22.5%) over the market value on the date of the grant; and (iii) the market value is at least triple the market value on the date of the grant and Twenty-five percent (25%) of the grant will vest in accordance with the vesting schedule set forth below if the market value of Company stock meets all three of the following conditions: (i) the market value is at least equal to $750 million; (ii) the market value has realized a compounded annual gain of at least twenty-five percent (25%) over the market value on the date of the grant; and (iii) the market value is at least quadruple the market value on the date of the grant.
- After the performance hurdles have been achieved, 25% of the restricted stock will vest on each of the first four anniversaries of the date that the performance hurdles were met.

We granted shares of restricted stock under the 2012 Plan and 2012 Special Plan related to the separation. We include no share-based compensation in our Consolidated Financial Statements for the portion of these grants made to Altisource employees.

Additionally, our Directors each receive annual grants of restricted stock equal to $60,000 based on the market value of our common stock at the time of the annual stockholders meeting. This restricted stock vests and is issued after a one-year service period subject to each Director attending at least 75% of the Board and committee meetings. No dividends are paid on the shares until the award is issued. During the years ended December 31, 2015 and 2014, we granted 1,122 and 214 shares of stock, respectively, pursuant to our 2013 Director Equity Plan with a weighted average grant date fair value per share of $162.66 and $940.32, respectively.

We recorded $6.9 million and $1.3 million of compensation expense related to these grants for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, we had $18.7 million and $21.1 million, respectively, of total unrecognized share-based compensation cost to be recognized over a weighted average remaining estimated term of 2.9 years and 3.0 years, respectively.

The following table sets forth the activity of our restricted stock:

	Number of Shares	Weighted Average Grant Date Fair Value
December 31, 2012	205,512	$5.90
Granted	32,667	70.16
Vested [(1)]	(660)	5.90
Forfeited or canceled	(8,765)	5.90
December 31, 2013	228,754	15.32
Granted	30,877	697.48
Vested [(1)]	(56,328)	16.53
Forfeited or canceled	(27,814)	294.59
December 31, 2014	175,489	90.51
Granted	53,531	174.34
Vested (1)	(51,305)	11.53
Forfeited or canceled	(23,389)	6.65
December 31, 2015	154,326	158.84

(1) The vesting date fair value of restricted stock that vested during the year ended December 31, 2015, 2014 and 2013 was $11.6 million, $52.6 million and $0.2 million, respectively.

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Restricted stock granted to our employees

We calculate the grant date fair value of restricted stock using a Monte Carlo simulation and amortize the resulting compensation expense over the respective vesting or service period. The fair value of restricted stock granted was determined using the following assumptions, weighted by number of shares:

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Risk Free Interest Rate (1)	2.89% to 3.27%	3.07% to 3.73%	3.18%
Common Stock Dividend Yield (2)	0%	0%	0%
Expected Volatility (3)	92.04% to 96.46%	74.61% to 82.66%	36.31%

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(1) Represents the interest rate as of the grant date on US treasury bonds having the same life as the estimated life of the restricted stock grants.
(2) At the date of grant, we had no history of dividend payments.
(3) Based on the historical volatility of comparable companies, adjusted for our expected additional cash flow volatility.

On December 31, 2015, we modified 74,307 unvested shares of restricted stock related to three employees. Subsequent to the modification, the performance hurdles that must be met prior to vesting are measured based on the market value as of the modification date. We recognized a nominal amount of expense in connection with these modifications during the year ended December 31, 2015. At December 31, 2015, we had approximately $59,000 of unrecognized share-based compensation cost related to the modified awards that will be recognized over a weighted average remaining estimated term of 2.6 years.

Restricted stock granted to an Ocwen employee

As part of the separation, we granted restricted stock to an employee of Ocwen. We calculated the fair value of non-employee restricted stock using a Monte Carlo simulation until each market hurdle was met. Subsequent to the market hurdle being met, we calculate the fair value of non-employee restricted stock based on the market value of shares quoted on the NYSE. The fair value is re-measured each accounting period with amortization of the resulting servicing expense over the vesting period. These instruments qualify for equity classification.

11. Income taxes

We are domiciled in the United States Virgin Islands ("USVI") and under current USVI law are obligated to pay taxes in the USVI on our income and/or capital gains. We applied for tax benefits from the USVI Economic Development Commission and received our certificate of benefits, effective as of February 1, 2013. Under the certificate of benefits, so long as we comply with the provisions of the certificate, we will receive a 90% exemption on our USVI-sourced income taxes until 2043. NewSource is considered a controlled foreign corporation ("CFC") to AAMC. CFC Subpart F income generated is taxed currently in the USVI and does not receive the reduced tax rate under the certificate of benefits.

During the years ended December 31, 2015 and 2014, Residential qualified as a REIT, distributed the necessary amount of taxable income and, therefore, incurred no federal income tax expense; accordingly, the only federal income taxes included in the accompanying consolidated financial statements are in connection with its taxable REIT subsidiary.

The following table sets forth the components of income (loss) before income taxes:

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
U.S. Virgin Islands	$(1,249)	$70,670	$(5,261)
Other	(1,687)	(8,895)	(32)
(Loss) income before income taxes	$(2,936)	$61,775	$(5,293)

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The following table sets forth the components of our deferred tax assets:

	December 31, 2015	December 31, 2014
Deferred tax assets:		
Stock compensation and other	$531	$339
Accrued expenses	387	172
Real estate and mortgage loan fair value adjustments	1,492	2,981
Other	6	—
Net operating loss	21,592	468
	24,008	3,960
Deferred tax liability:		
Depreciation	4	4
	24,004	3,956
Valuation allowance	(23,100)	(3,491)
Deferred tax asset, net	$904	$465

The following table sets for the reconciliation of the statutory USVI income tax rate to our effective income tax rate:

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
U.S. Virgin Islands income tax rate	38.5 %	38.5 %	38.5 %
State and local income tax rates	4.7	(0.1)	—
Excluded REIT income	2.6	(27.3)	(40.5)
EDC benefits	(0.7)	(8.9)	4.8
Rate differential	(3.5)	(2.6)	(3.9)
Permanent and other	(1.7)	—	—
Valuation allowance	(40.6)	1.2	1.1
Effective income tax rate	(0.7)%	0.8 %	— %

As of December 31, 2015 and 2014, neither Residential nor we accrued interest or penalties associated with any unrecognized tax benefits during the year ended December 31, 2015 and 2014. Residential recorded nominal state and local tax expense along with nominal penalties and interest on income and property for the years ended December 31, 2015 and 2014. Our subsidiaries and we remain subject to tax examination for the period from inception to December 31, 2015.

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12. Earnings per share

The following table sets forth the components of diluted earnings per share (in thousands, except share and per share amounts):

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Numerator			
Net (loss) income	$(3,290)	$59,679	$(5,293)
Amortization of preferred stock issuance costs	206	166	—
Numerator for basic EPS - (loss) income available to common stockholders	(3,496)	59,513	(5,293)
Add back amortization of preferred stock issuance costs	—	166	—
Numerator for diluted EPS - (loss) income available to common stockholders after assumed conversions	$(3,496)	$59,679	$(5,293)
Denominator			
Weighted average common stock outstanding – basic	2,202,815	2,261,968	2,346,993
Stock options using treasury method	—	251,967	—
Restricted stock	—	160,475	—
Preferred shares, if converted	—	157,778	—
Weighted average common stock outstanding – diluted	2,202,815	2,832,188	2,346,993
(Loss) earnings per basic share	$(1.59)	$26.31	$(2.26)
(Loss) earnings per diluted share	$(1.59)	$21.07	$(2.26)

We excluded the items presented below from the calculation of diluted earnings per share as they were antidilutive for the periods indicated:

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Numerator (in dollars)			
Amortization of preferred stock issuance costs	$206	$—	$—
Denominator (in weighted-average shares)			
Stock options	222,566	—	286,264
Restricted stock	85,121	—	226,481
Preferred stock, if converted	200,000	—	—

13. Segment information

Our primary business is to provide asset management and certain corporate governance services to Residential. Residential's primary business is the acquisition and ownership of single-family rental assets. Residential's primary sourcing strategy is to acquire these assets by purchasing sub-performing and non-performing mortgage loans and single-family rental properties, either on an individual basis or in pools. As a result, we operate in a single segment focused on the acquisition and management of Residential's resolution of sub-performing and non-performing mortgages and acquisition and ownership of rental residential properties.

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14. Quarterly financial information (unaudited)

The following tables set forth our quarterly financial information (unaudited, $ in thousands except per share amounts):

	2015				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Total revenues	$88,915	$76,519	$58,523	$24,142	$248,099
Net income (loss)	6,888	743	(1,980)	(8,941)	(3,290)
Earnings (loss) per share of common stock – basic:					
Earnings (loss) per share basic	3.10	0.31	(0.92)	(4.12)	(1.59)
Earnings (loss) per share of common stock – diluted:					
Earnings (loss) per share diluted	2.50	0.27	(0.92)	(4.12)	(1.59)

	2014				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Total revenues	$74,628	$117,357	$109,102	$122,211	$423,298
Net income	6,828	13,230	17,698	21,923	59,679
Earnings per share of common stock – basic:					
Earnings per share basic	2.88	5.87	7.91	9.99	26.31
Earnings per share of common stock – diluted:					
Earnings per share diluted	2.39	4.60	6.25	7.92	21.07

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Altisource Asset Management Corporation
Schedule III - Real Estate and Accumulated Depreciation
December 31, 2015
($ in thousands)

State	No. of Props	Type	Encum-brances	Initial Cost to Company	Capitalized Costs Subsequent to Acquisition	Gross Amount at which Carried at Close of Period (2)	Accum Depr and Reserves	WA Age (1)	Date Acquired	Life on which Depr is Calc
Alabama	39	SFR	$1,754	$5,225	$174	$5,399	$441	23.8	2014 - 2015	3-27.5 years
Alaska	1	SFR	84	185	—	185	—	32.0	2014 - 2014	
Arizona	110	SFR	6,719	23,369	585	23,954	1,021	21.0	2013 - 2015	3-27.5 years
Arkansas	30	SFR	667	2,955	192	3,147	700	36.7	2013 - 2015	3-27.5 years
California	624	SFR	59,306	205,838	3,157	208,995	9,830	36.1	2013 - 2015	3-27.5 years
Colorado	37	SFR	1,558	9,027	362	9,389	408	28.5	2014 - 2015	3-27.5 years
Connecticut	53	SFR	4,024	9,789	203	9,992	844	59.1	2013 - 2015	3-27.5 years
Delaware	21	SFR	875	3,146	30	3,176	355	43.5	2014 - 2015	3-27.5 years
District of Columbia	1	SFR	136	241	3	244	26	105.0	2014 - 2014	3-27.5 years
Florida	922	SFR	40,610	140,032	9,158	149,189	8,037	27.1	2013 - 2015	3-27.5 years
Georgia	1,753	SFR	99,034	163,913	4,189	168,102	3,602	36.3	2013 - 2015	3-27.5 years
Hawaii	3	SFR	112	534	—	534	4	42.2	2013 - 2015	3-27.5 years
Idaho	19	SFR	1,139	2,941	87	3,029	110	33.9	2014 - 2015	3-27.5 years
Illinois	387	SFR	19,006	63,216	3,334	66,551	7,700	42.8	2013 - 2015	3-27.5 years
Indiana	188	SFR	6,854	19,903	2,005	21,909	1,663	30.6	2013 - 2015	3-27.5 years
Iowa	12	SFR	258	1,146	6	1,152	27	46.5	2014 - 2015	3-27.5 years
Kansas	23	SFR	531	1,755	173	1,928	189	54.1	2014 - 2015	3-27.5 years
Kentucky	58	SFR	2,425	6,538	236	6,774	977	35.3	2013 - 2015	3-27.5 years
Louisiana	21	SFR	732	2,205	135	2,339	335	35.9	2013 - 2015	3-27.5 years
Maine	6	SFR	371	805	2	807	139	166.2		3-27.5 years

									2014 - 2015	
Maryland	310	SFR	12,430	61,255	1,383	62,638	2,048	37.2	2013 - 2015	3-27.5 years
Massachusetts	56	SFR	2,267	11,187	523	11,710	375	76.3	2014 - 2015	3-27.5 years
Michigan	95	SFR	3,617	12,428	546	12,974	1,193	41.0	2014 - 2015	3-27.5 years
Minnesota	62	SFR	2,928	10,616	437	11,054	1,084	43.7	2014 - 2015	3-27.5 years
Mississippi	14	SFR	387	1,349	50	1,399	334	30.4	2014 - 2015	3-27.5 years
Missouri	57	SFR	1,634	5,783	567	6,350	777	43.9	2013 - 2015	3-27.5 years
Montana	3	SFR	364	790	3	793	158	28.8	2014 - 2015	3-27.5 years
Nebraska	5	SFR	234	725	7	731	211	59.8	2014 - 2015	3-27.5 years
Nevada	25	SFR	1,448	3,787	93	3,880	132	21.0	2013 - 2015	3-27.5 years
New Hampshire	13	SFR	574	2,086	1	2,087	219	73.4	2014 - 2015	3-27.5 years
New Jersey	89	SFR	3,626	14,960	530	15,490	802	60.4	2013 - 2015	3-27.5 years
New Mexico	34	SFR	1,739	4,584	380	4,964	126	20.4	2013 - 2015	3-27.5 years
New York	68	SFR	3,310	13,255	362	13,617	700	71.8	2013 - 2015	3-27.5 years
North Carolina	222	SFR	10,835	26,953	2,539	29,492	2,386	19.7	2013 - 2015	3-27.5 years
Ohio	118	SFR	4,516	14,513	747	15,260	1,967	41.2	2013 - 2015	3-27.5 years
Oklahoma	17	SFR	455	1,757	138	1,894	63	35.1	2014 - 2015	3-27.5 years
Oregon	16	SFR	697	2,714	4	2,718	—	45.5	2014 - 2015	
Pennsylvania	250	SFR	8,695	34,491	1,487	35,978	4,172	54.6	2013 - 2015	3-27.5 years
Rhode Island	54	SFR	1,480	6,572	679	7,251	351	83.6	2014 - 2015	3-27.5 years
South Carolina	127	SFR	5,668	15,796	879	16,676	936	23.1	2013 - 2015	3-27.5 years
South Dakota	3	SFR	166	390	—	390	—	50.4	2014 - 2015	

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Tennessee	73	SFR	3,609	9,372	771	10,143	860	24.4	2014 - 2015	3-27.5 years
Texas	176	SFR	7,192	25,243	2,241	27,485	1,440	25.2	2013 - 2015	3-27.5 years
Utah	73	SFR	5,853	13,247	428	13,674	1,332	31.7	2013 - 2015	3-27.5 years
Vermont	5	SFR	293	866	1	866	73	108.6	2014 - 2015	3-27.5 years
Virginia	86	SFR	4,983	26,715	706	27,421	1,338	28.6	2013 - 2015	3-27.5 years
Washington	49	SFR	2,613	10,733	291	11,023	272	33.8	2013 - 2015	3-27.5 years
West Virginia	2	SFR	139	475	—	476	20	12.1	2014 - 2015	3-27.5 years
Wisconsin	105	SFR	4,097	12,188	450	12,638	1,873	50.3	2014 - 2015	3-27.5 years
Wyoming	1	SFR	—	275	—	275	66	25.0	2014 - 2014	3-27.5 years
Total (2)	6,516		342,044	1,007,868	40,274	1,048,142	61,716	36.4		

(1) Weighted average age is based on the age of the property weighted by gross amount at which carried at close of period.

(2) The following table sets forth the activity of real estate assets and accumulated depreciation ($ in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Real estate assets:			
Beginning balance	$643,974	$37,113	$—
Acquisitions through foreclosure	470,221	587,268	31,014
Other acquisitions	118,297	34,104	6,198
Improvements	25,802	16,872	586
Cost of real estate sold	(210,152)	(31,383)	(685)
Ending balance (1)	$1,048,142	$643,974	$37,113
Accumulated depreciation and reserves for selling costs and impairment:			
Beginning balance	$19,367	$25	$—
Depreciation expense	6,414	1,067	25
Selling cost and impairment	70,124	21,788	—
Real estate sold	(34,189)	(3,513)	—
Ending balance	$61,716	$19,367	$25

(1) The aggregate cost for federal income tax purposes is $1,049.6 million as of December 31, 2015.

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Altisource Asset Management Corporation
Schedule IV - Mortgage Loans on Real Estate
December 31, 2015
($ in thousands)

Description (Face Value of Loan)	Loan Count	Interest Rate	Maturity	Carrying Amount of Mortgages (1)	Principal Amount of Loans Subject to Delinquent Principal or Interest
$0-49,999	310	2.000% - 15.875%	05/01/2009 - 01/01/2054	$11,835	$9,040
$50,000-99,999	710	0.000% - 13.600%	06/01/2010 - 04/01/2055	43,369	45,871
$100,000-149,999	1,043	2.000% - 13.600%	10/01/2010 - 04/01/2055	95,719	111,846
$150,000-199,999	978	1.375% - 12.480%	08/01/2010 - 07/01/2055	116,429	148,364
$200,000-249,999	787	1.500% - 12.000%	10/01/2015 - 10/01/2054	115,591	153,693
$250,000+	1,911	1.000% - 12.375%	03/01/2011 - 06/01/2055	577,591	721,094
Total (2) (3)	5,739			$960,534	$1,189,908

(1) The carrying value of an asset is based on our fair value model. The significant unobservable inputs used in the fair value measurement of our mortgage loans are discount rates, forecasts of future home prices, alternate loan resolution probabilities, resolution timelines and the value of underlying properties. Significant changes in any of these inputs in isolation could result in a significant change to the fair value measurement. The substantial majority of the mortgage loans are significantly delinquent and have varying monthly payment requirements. For a more complete description of the fair value measurements and the factors that may significantly affect the carrying value of our assets, please see Note 6 to our consolidated financial statements.
(2) The aggregate cost for federal income tax purposes is $1,200.2 million as of December 31, 2015.
(3) The following table sets forth the activity of mortgage loans ($ in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Mortgage loans			
Beginning balance	$1,959,044	$1,207,163	$—
Investment in mortgage loans	—	1,122,408	1,213,811
Net unrealized gain on mortgage loans	177,545	350,822	61,092
Cost of mortgages sold	(174,894)	(151,624)	(38,297)
Mortgage loan payments	(24,550)	(19,299)	(4,901)
Real estate tax advances to borrowers	29,261	36,842	6,472
Transfer of mortgage loans to held for sale	(535,836)	—	—
Transfer of real estate owned to mortgage loans	15,974	8,400	—
Transfer of mortgage loans to real estate owned	(486,010)	(595,668)	(31,014)
Ending balance	$960,534	$1,959,044	$1,207,163