

Edgar Filing: New Residential Investment Corp. - Form 10-Q

New Residential Investment Corp.  
Form 10-Q  
May 11, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35777

New Residential Investment Corp.  
(Exact name of registrant as specified in its charter)  
Delaware  
(State or other jurisdiction of  
incorporation or organization)

45-3449660  
(I.R.S. Employer Identification No.)

1345 Avenue of the Americas, New York, NY  
(Address of principal executive offices)

10105  
(Zip Code)

(212) 798-3150  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Common stock, \$0.01 par value per share: 198,934,905 shares outstanding as of May 1, 2015.

---

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, which statements involve substantial risks and uncertainties. Such forward-looking statements relate to, among other things, the operating performance of our investments, the stability of our earnings, our financing needs and the size and attractiveness of market opportunities. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “endeavor,” “seek,” “anticipate,” “estimate,” “overestimate,” “underestimate,” “believe,” “could,” “project,” “predict,” “continue” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations, cash flows or financial condition or state other forward-looking information. Our ability to predict results or the actual outcome of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- reductions in cash flows received from our investments;
- the quality and size of the investment pipeline and our ability to take advantage of investment opportunities at attractive risk-adjusted prices;
- servicer advances may not be recoverable or may take longer to recover than we expect, which could cause us to fail to achieve our targeted return on our investment in servicer advances;
- our ability to deploy capital accretively and the timing of such deployment;
- our counterparty concentration and default risks in Nationstar, Springleaf and other third parties;
- a lack of liquidity surrounding our investments, which could impede our ability to vary our portfolio in an appropriate manner;
- the impact that risks associated with subprime mortgage loans and consumer loans, as well as deficiencies in servicing and foreclosure practices, may have on the value of our Excess MSR, servicer advances, RMBS and consumer loan portfolios;
- the risks that default and recovery rates on our Excess MSR, servicer advances, real estate securities, residential mortgage loans and consumer loans deteriorate compared to our underwriting estimates;
- changes in prepayment rates on the loans underlying certain of our assets, including, but not limited to, our Excess MSR;
- the risk that projected recapture rates on the portfolios underlying our Excess MSR are not achieved;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- the relative spreads between the yield on the assets we invest in and the cost of financing;
- changes in economic conditions generally and the real estate and bond markets specifically;
- adverse changes in the financing markets we access affecting our ability to finance our investments on attractive terms, or at all;
- changing risk assessments by lenders that potentially lead to increased margin calls, not extending our repurchase agreements or other financings in accordance with their current terms or not entering into new financings with us;
- changes in interest rates and/or credit spreads, as well as the success of any hedging strategy we may undertake in relation to such changes;
- impairments in the value of the collateral underlying our investments and the relation of any such impairments to our judgments as to whether changes in the market value of our securities or loans are temporary or not and whether circumstances bearing on the value of such assets warrant changes in carrying values;
- the availability and terms of capital for future investments;
- competition within the finance and real estate industries;

the legislative/regulatory environment, including, but not limited to, the impact of the Dodd-Frank Act, U.S. government programs intended to stabilize the economy, the federal conservatorship of Fannie Mae and Freddie Mac and legislation that permits modification of the terms of loans;

---

our ability to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and the potentially onerous consequences that any failure to maintain such qualification would have on our business; our ability to maintain our exclusion from registration under the 1940 Act and the fact that maintaining such exclusion imposes limits on our operations; and the risks related to the Acquisition (as defined herein).

We also direct readers to other risks and uncertainties referenced in this report, including those set forth under “Risk Factors.” We caution that you should not place undue reliance on any of our forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statement, whether written or oral, that we may make from time to time, whether as a result of new information, future events or otherwise.

---

## SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about New Residential Investment Corp. (the “Company,” “New Residential” or “we,” “our” and “us”) the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements provide to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Quarterly Report on Form 10-Q and the Company’s other public filings, which are available without charge through the SEC’s website at <http://www.sec.gov>.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

---

NEW RESIDENTIAL INVESTMENT CORP.  
FORM 10-Q

INDEX

|  | PAGE      |
|--|-----------|
| <u>Part I. Financial Information</u>   | <u>1</u>  |
| <u>Item 1. Financial Statements</u>  | <u>1</u>  |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2015 (Unaudited) and December 31, 2014</u>                              | <u>1</u>  |
| <u>Condensed Consolidated Statements of Income (Unaudited) for the three months ended March 31, 2015 and 2014</u>                | <u>2</u>  |
| <u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three months ended March 31, 2015 and 2014</u>  | <u>3</u>  |
| <u>Condensed Consolidated Statement of Changes in Stockholders' Equity (Unaudited) for the three months ended March 31, 2015</u> | <u>4</u>  |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2015 and 2014</u>            | <u>5</u>  |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>  | <u>7</u>  |
| <u>Note 1. Organization</u>  | <u>7</u>  |
| <u>Note 2. Other Income, Assets and Liabilities</u>  | <u>8</u>  |
| <u>Note 3. Segment Reporting</u>   | <u>10</u> |
| <u>Note 4. Investments in Excess Mortgage Servicing Rights</u>   | <u>12</u> |
| <u>Note 5. Investments in Excess Mortgage Servicing Rights, Equity Method Investees</u>  | <u>14</u> |
| <u>Note 6. Investments in Servicer Advances</u>  | <u>16</u> |
| <u>Note 7. Investments in Real Estate Securities</u>   | <u>18</u> |
| <u>Note 8. Investments in Residential Mortgage Loans</u>   | <u>21</u> |
| <u>Note 9. Investments in Consumer Loans, Equity Method Investees</u>  | <u>25</u> |
| <u>Note 10. Derivatives</u>  | <u>26</u> |
| <u>Note 11. Debt Obligations</u>   | <u>29</u> |
| <u>Note 12. Fair Value of Financial Instruments</u>  | <u>31</u> |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|  |           |
|--|-----------|
| <u>Note 13. Equity and Earnings Per Share</u>  | <u>35</u> |
| <u>Note 14. Commitments and Contingencies</u>  | <u>37</u> |
| <u>Note 15. Transactions with Affiliates and Affiliated Entities</u>                                 | <u>39</u> |
| <u>Note 16. Reclassification from Accumulated Other Comprehensive Income into Net Income</u>         | <u>40</u> |
| <u>Note 17. Income Taxes</u>   | <u>41</u> |
| <u>Note 18. Recent Activities</u>  | <u>41</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>46</u> |
| <u>General</u>   | <u>46</u> |
| <u>Market Considerations</u>   | <u>46</u> |
| <u>Our Portfolio</u>   | <u>47</u> |
| <u>Application of Critical Accounting Policies</u>   | <u>59</u> |
| <u>Recent Accounting Pronouncements</u>  | <u>65</u> |

---



|  |            |
|--|------------|
| <u>Results of Operations</u>   | <u>67</u>  |
| <u>Liquidity and Capital Resources</u>                                     | <u>70</u>  |
| <u>Interest Rate, Credit and Spread Risk</u>                               | <u>76</u>  |
| <u>Off-Balance Sheet Arrangements</u>                                      | <u>76</u>  |
| <u>Contractual Obligations</u>   | <u>76</u>  |
| <u>Inflation</u>   | <u>77</u>  |
| <u>Core Earnings</u>   | <u>77</u>  |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>78</u>  |
| <u>Item 4. Controls and Procedures</u>                                     | <u>81</u>  |
| <u>Part II. Other Information</u>  | <u>82</u>  |
| <u>Item 1. Legal Proceedings</u>   | <u>82</u>  |
| <u>Item 1A. Risk Factors</u>   | <u>83</u>  |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>126</u> |
| <u>Item 3. Defaults Upon Senior Securities</u>                             | <u>126</u> |
| <u>Item 4. Mine Safety Disclosures</u>                                     | <u>126</u> |
| <u>Item 5. Other Information</u>   | <u>126</u> |
| <u>Item 6. Exhibits</u>  | <u>128</u> |
| <u>Signatures</u>  | <u>134</u> |

---

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

|   | March 31, 2015<br>(Unaudited) | December 31, 2014 |
|---|-------------------------------|-------------------|
| Assets  |                               |                   |
| Investments in:   |                               |                   |
| Excess mortgage servicing rights, at fair value   | \$526,662                     | \$417,733         |
| Excess mortgage servicing rights, equity method investees, at fair value  | 225,111                       | 330,876           |
| Servicer advances, at fair value  | 3,245,457                     | 3,270,839         |
| Real estate securities, available-for-sale  | 2,324,915                     | 2,463,163         |
| Residential mortgage loans, held-for-investment   | 44,967                        | 47,838            |
| Residential mortgage loans, held-for-sale   | 500,174                       | 1,126,439         |
| Real estate owned   | 35,905                        | 61,933            |
| Consumer loans, equity method investees   | —                             | —                 |
| Cash and cash equivalents   | 459,334                       | 212,985           |
| Restricted cash   | 28,325                        | 29,418            |
| Derivative assets   | 71                            | 32,597            |
| Other assets  | 76,701                        | 99,869            |
|   | \$7,467,622                   | \$8,093,690       |
| Liabilities and Equity  |                               |                   |
| Liabilities   |                               |                   |
| Repurchase agreements   | \$2,339,389                   | \$3,149,090       |
| Notes payable   | 2,999,418                     | 2,913,209         |
| Trades payable  | 196,000                       | 2,678             |
| Due to affiliates   | 6,465                         | 57,424            |
| Dividends payable   | 53,745                        | 53,745            |
| Deferred tax liability  | 13,414                        | 15,114            |
| Accrued expenses and other liabilities  | 44,777                        | 52,505            |
|   | 5,653,208                     | 6,243,765         |
| Commitments and Contingencies   |                               |                   |
| Equity  |                               |                   |
| Common Stock, \$0.01 par value, 2,000,000,000 shares authorized,<br>141,434,905 and 141,434,905 issued and outstanding at March 31, 2015<br>and December 31, 2014, respectively | 1,414                         | 1,414             |
| Additional paid-in capital  | 1,328,587                     | 1,328,587         |
| Retained earnings   | 217,689                       | 237,769           |
| Accumulated other comprehensive income, net of tax  | 19,825                        | 28,319            |
| Total New Residential stockholders' equity  | 1,567,515                     | 1,596,089         |
| Noncontrolling interests in equity of consolidated subsidiaries   | 246,899                       | 253,836           |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|              |             |             |
|--------------|-------------|-------------|
| Total Equity | 1,814,414   | 1,849,925   |
|              | \$7,467,622 | \$8,093,690 |

See notes to condensed consolidated financial statements.

1

---

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

|  | Three Months Ended March 31, |             |
|--|------------------------------|-------------|
|  | 2015                         | 2014        |
| Interest income  | \$84,373                     | \$71,490    |
| Interest expense   | 33,979                       | 38,997      |
| Net Interest Income  | 50,394                       | 32,493      |
| Impairment   |                              |             |
| Other-than-temporary impairment (“OTTI”) on securities   | 1,071                        | 328         |
| Valuation provision on loans and real estate owned   | 977                          | 164         |
|  | 2,048                        | 492         |
| Net interest income after impairment   | 48,346                       | 32,001      |
| Other Income   |                              |             |
| Change in fair value of investments in excess mortgage servicing rights                          | (1,761                       | ) 6,602     |
| Change in fair value of investments in excess mortgage servicing rights, equity method investees | 4,921                        | 6,374       |
| Change in fair value of investments in servicer advances   | (7,669                       | ) —         |
| Earnings from investments in consumer loans, equity method investees                             | —                            | 16,360      |
| Gain on settlement of investments, net   | 14,767                       | 4,357       |
| Other income (loss), net   | 2,037                        | 1,357       |
|  | 12,295                       | 35,050      |
| Operating Expenses   |                              |             |
| General and administrative expenses  | 8,560                        | 1,985       |
| Management fee to affiliate  | 5,126                        | 4,486       |
| Incentive compensation to affiliate  | 3,693                        | 3,338       |
| Loan servicing expense   | 4,891                        | 90          |
|  | 22,270                       | 9,899       |
| Income Before Income Taxes   | 38,371                       | 57,152      |
| Income tax expense (benefit)   | (3,427                       | ) 287       |
| Net Income   | \$41,798                     | \$56,865    |
| Noncontrolling Interests in Income of Consolidated Subsidiaries                                  | \$5,823                      | \$8,093     |
| Net Income Attributable to Common Stockholders   | \$35,975                     | \$48,772    |
| Net Income Per Share of Common Stock   |                              |             |
| Basic  | \$0.25                       | \$0.39      |
| Diluted  | \$0.25                       | \$0.38      |
| Weighted Average Number of Shares of Common Stock Outstanding                                    |                              |             |
| Basic  | 141,434,905                  | 126,604,510 |
| Diluted  | 144,911,309                  | 129,919,967 |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|  |        |        |
|--|--------|--------|
| Dividends Declared per Share of Common Stock | \$0.38 | \$0.35 |
|--|--------|--------|

See notes to condensed consolidated financial statements.

2

---

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

|   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2015                         | 2014     |
| Comprehensive income (loss), net of tax                             |                              |          |
| Net income  | \$41,798                     | \$56,865 |
| Other comprehensive income (loss)                                   |                              |          |
| Net unrealized gain on securities                                   | 15,132                       | 10,878   |
| Reclassification of net realized (gain) on securities into earnings | (23,626                      | ) (4,164 |
|   | (8,494                       | ) 6,714  |
| Total comprehensive income  | \$33,304                     | \$63,579 |
| Comprehensive income attributable to noncontrolling interests       | \$5,823                      | \$8,093  |
| Comprehensive income attributable to common stockholders            | \$27,481                     | \$55,486 |

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)  
FOR THE THREE MONTHS ENDED March 31, 2015  
(dollars in thousands, except share data)

|  | Common Stock |          |                            | Retained Earnings | Accumulated Other Comprehensive Income | Total New Residential Stockholders' Equity | Noncontrolling Interests in Equity of Consolidated Subsidiaries | Total Equity |
|--|--------------|----------|----------------------------|-------------------|--|--|---|--------------|
|  | Shares       | Amount   | Additional Paid-in Capital |                   |  |  |   |              |
| Equity - December 31, 2014   | 141,434,905  | \$ 1,414 | \$ 1,328,587               | \$ 237,769        | \$ 28,319                              | \$ 1,596,089                               | \$ 253,836  | \$ 1,849,925 |
| Dividends declared   | —            | —        | —                          | (53,745 )         | —                                      | (53,745 )                                  | —   | (53,745 )    |
| Capital contributions  | —            | —        | —                          | —                 | —                                      | —  | —   | —            |
| Capital distributions  | —            | —        | —                          | —                 | —                                      | —  | (12,760 )   | (12,760 )    |
| Modified retrospective adjustment for the adoption of ASU No. 2014-11    | —            | —        | —                          | (2,310 )          | —                                      | (2,310 )                                   | —   | (2,310 )     |
| Comprehensive income (loss) (net of tax)                                 |              |          |                            |                   |  |  |   |              |
| Net income (loss)  | —            | —        | —                          | 35,975            | —                                      | 35,975                                     | 5,823   | 41,798       |
| Net unrealized gain (loss) on securities                                 | —            | —        | —                          | —                 | 15,132                                 | 15,132                                     | —   | 15,132       |
| Reclassification of net realized (gain) loss on securities into earnings | —            | —        | —                          | —                 | (23,626 )                              | (23,626 )                                  | —   | (23,626 )    |
| Total comprehensive income (loss)  |              |          |                            |                   |  | 27,481                                     | 5,823   | 33,304       |
| Equity - March 31, 2015  | 141,434,905  | \$ 1,414 | \$ 1,328,587               | \$ 217,689        | \$ 19,825                              | \$ 1,567,515                               | \$ 246,899  | \$ 1,814,414 |

See notes to condensed consolidated financial statements.

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

|   | Three Months Ended March 31, |                |
|---|------------------------------|----------------|
|   | 2015                         | 2014           |
| <b>Cash Flows From Operating Activities</b>   |                              |                |
| Net income  | \$41,798                     | \$56,865       |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:     |                              |                |
| Change in fair value of investments in excess mortgage servicing rights                         | 1,761                        | (6,602 )       |
| Change in fair value of investments in excess mortgage servicer rights, equity method investees | (4,921                       | ) (6,374 )     |
| Change in fair value of investments in servicer advances  | 7,669                        | —              |
| Earnings from consumer loan equity method investees   | —                            | (16,360 )      |
| Change in fair value of investments in derivative assets  | 7,030                        | (1,357 )       |
| Accretion and other amortization  | (61,345                      | ) (56,650 )    |
| (Gain) / loss on settlement of investments (net)  | (17,701                      | ) (4,357 )     |
| (Gain) / loss on transfer of loans to REO   | 544                          | —              |
| Loss on extinguishment of debt  | 2,934                        | —              |
| (Gain) / loss on mortgage servicing rights recapture agreement                                  | (730                         | ) —            |
| Other-than-temporary impairment (“OTTI”)  | 1,071                        | 328            |
| Valuation provision on loans and real estate owned  | 977                          | 164            |
| Unrealized loss on other ABS  | 290                          | —              |
| Non-cash directors’ compensation  | —                            | 78             |
| Deferred income tax expense   | (3,007                       | ) —            |
| Changes in:   |                              |                |
| Restricted cash   | 1,093                        | (1,269 )       |
| Other assets  | (1,849                       | ) 5,531        |
| Due to affiliates   | (50,959                      | ) (11,172 )    |
| Accrued expenses and other liabilities  | 618                          | 1,179          |
| Other operating cash flows:   |                              |                |
| Interest received from excess mortgage servicing rights   | 12,692                       | 13,816         |
| Interest received from servicer advance investments   | 23,168                       | 16,304         |
| Interest received from Non-Agency RMBS  | 8,050                        | —              |
| Distributions of earnings from excess mortgage servicing rights, equity method investees        | 12,226                       | 11,940         |
| Net cash provided by (used in) operating activities   | (18,591                      | ) 2,064        |
| <b>Cash Flows From Investing Activities</b>   |                              |                |
| Acquisition of investments in excess mortgage servicing rights                                  | (23,831                      | ) (19,132 )    |
| Purchase of servicer advance investments  | (1,765,294                   | ) (2,205,070 ) |
| Purchase of Agency RMBS   | (1,026,525                   | ) (37,922 )    |
| Purchase of Non-Agency RMBS   | (26,649                      | ) (1,038,721 ) |
| Purchase of residential mortgage loans  | (19,032                      | ) —            |
| Purchase of derivative assets   | —                            | (71,923 )      |
| Payments for settlement of derivatives  | (25,007                      | ) —            |
| Return of investments in excess mortgage servicing rights                                       | 17,122                       | 8,121          |



Edgar Filing: New Residential Investment Corp. - Form 10-Q

|  |           |              |
|--|-----------|--------------|
| Return of investments in excess mortgage servicing rights, equity method investees 202 |           | 8,893        |
| Principal repayments from servicer advance investments                                 | 1,802,188 | 1,442,648    |
| Principal repayments from Agency RMBS  | 46,967    | 75,470       |
| Principal repayments from Non-Agency RMBS  | 14,952    | 13,890       |
| Principal repayments from non-performing loans   | —         | 1,900        |
| Principal repayments from residential mortgage loans, held-for-investment              | 9,022     | —            |
| Proceeds from sale of residential mortgage loans                                       | 627,719   | —            |
| Proceeds from sale of Agency RMBS  | 1,060,569 | 162,897      |
| Proceeds from sale of Non-Agency RMBS  | 389,719   | 258,449      |
| Proceeds from settlement of derivatives  | 2,417     | —            |
| Proceeds from sale of real estate owned  | 34,930    | —            |
| Net cash provided by (used in) investing activities                                    | 1,119,469 | (1,400,500 ) |

Continued on next page.

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

|  | Three Months Ended March 31, |              |
|--|------------------------------|--------------|
|  | 2015                         | 2014         |
| Cash Flows From Financing Activities   |                              |              |
| Repayments of repurchase agreements  | (2,016,777                   | ) (1,080,197 |
| Margin deposits under repurchase agreements and derivatives                    | (123,289                     | ) (43,270    |
| Repayments of notes payable  | (396,125                     | ) (3,117,213 |
| Payment of deferred financing fees   | (666                         | ) (5,660     |
| Common stock dividends paid  | (53,745                      | ) (63,297    |
| Borrowings under repurchase agreements   | 1,121,121                    | 1,618,664    |
| Return of margin deposits under repurchase agreements and derivatives          | 145,378                      | 66,899       |
| Borrowings under notes payable   | 482,334                      | 3,862,782    |
| Noncontrolling interest in equity of consolidated subsidiaries - contributions | —                            | 142,024      |
| Noncontrolling interest in equity of consolidated subsidiaries - distributions | (12,760                      | ) (113,795   |
| Net cash provided by (used in) financing activities                            | (854,529                     | ) 1,266,937  |
| Net Increase (Decrease) in Cash and Cash Equivalents                           | 246,349                      | (131,499     |
| Cash and Cash Equivalents, Beginning of Period                                 | 212,985                      | 271,994      |
| Cash and Cash Equivalents, End of Period                                       | \$459,334                    | \$140,495    |
| Supplemental Disclosure of Cash Flow Information                               |                              |              |
| Cash paid during the period for interest                                       | \$32,880                     | \$35,194     |
| Cash paid during the period for income taxes                                   | 305                          | —            |
| Supplemental Schedule of Non-Cash Investing and Financing Activities           |                              |              |
| Dividends declared but not paid  | \$53,745                     | \$44,312     |
| Application of ASU No. 2014-11 non-cash activity from investing to financing   | 85,955                       | —            |
| Purchase of Non-Agency RMBS settled after quarter end                          | 196,000                      | —            |

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
March 31, 2015  
(dollars in tables in thousands, except share data)

1. ORGANIZATION

New Residential Investment Corp. (together with its subsidiaries, “New Residential”) is a Delaware corporation that was formed as a limited liability company in September 2011 for the purpose of making real estate related investments and commenced operations on December 8, 2011. On December 20, 2012, New Residential was converted to a corporation. Newcastle Investment Corp. (“Newcastle”) was the sole stockholder of New Residential until the spin-off (Note 13), which was completed on May 15, 2013. Newcastle is listed on the New York Stock Exchange (“NYSE”) under the symbol “NCT.”

Following the spin-off, New Residential is an independent publicly traded real estate investment trust (“REIT”) primarily focused on investing in residential mortgage related assets. New Residential is listed on the NYSE under the symbol “NRZ.”

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

New Residential has entered into a management agreement (the “Management Agreement”) with FIG LLC (the “Manager”), an affiliate of Fortress Investment Group LLC (“Fortress”), pursuant to which the Manager provides for a management team and other professionals who are responsible for implementing New Residential’s business strategy, subject to the supervision of New Residential’s board of directors. For its services, the Manager is entitled to management fees and incentive compensation, both defined in, and in accordance with the terms of, the Management Agreement. The Manager also manages Newcastle and investment funds that own a majority of Nationstar Mortgage LLC (“Nationstar”), a leading residential mortgage servicer, and Springleaf Holdings, Inc. (“Springleaf”), managing member of the Consumer Loan Companies (Note 9).

As of March 31, 2015, New Residential conducted its business through the following segments: (i) investments in Excess MSR, (ii) investments in servicer advances, (iii) investments in real estate securities, (iv) investments in real estate loans, (v) investments in consumer loans and (vi) corporate.

Approximately 2.4 million shares of New Residential’s common stock were held by Fortress, through its affiliates, and its principals as of March 31, 2015. In addition, Fortress, through its affiliates, held options to purchase approximately 8.5 million shares of New Residential’s common stock as of March 31, 2015.

The accompanying condensed consolidated financial statements and related notes of New Residential have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of New Residential’s financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated

financial statements should be read in conjunction with New Residential's consolidated financial statements for the year ended December 31, 2014 and notes thereto included in New Residential's Annual Report on Form 10-K filed with the Securities and Exchange Commission. Capitalized terms used herein, and not otherwise defined, are defined in New Residential's consolidated financial statements for the year ended December 31, 2014.

Certain prior period amounts have been reclassified to conform to the current period's presentation. In addition, New Residential completed a one-for-two reverse stock split in October 2014 (Note 13). The impact of this reverse stock split has been retroactively applied to all periods presented.

#### Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenues from Contracts with Customers (Topic 606). The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In effect, companies

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
March 31, 2015  
(dollars in tables in thousands, except share data)

will be required to exercise further judgment and make more estimates prospectively. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 is effective for New Residential in the first quarter of 2017. Early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in ASU No. 2014-09. New Residential is currently evaluating the new guidance to determine the impact it may have on its condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The standard changes the accounting for repurchase-to-maturity transactions and linked repurchase financing transactions to secured borrowing accounting. ASU No. 2014-11 also expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers accounted for as secured borrowings. ASU No. 2014-11 is effective for New Residential in the first quarter of 2015. Early adoption is not permitted. Disclosures are not required for comparative periods presented before the effective date. New Residential has determined that, as of January 1, 2015, its linked transactions (Note 10) are accounted for as secured borrowings.

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

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The standard amends the consolidation considerations when evaluating certain limited partnerships, variable interest entities and investment funds. ASU No. 2015-02 is effective for New Residential in the first quarter of 2016. Early adoption is permitted. New Residential does not expect the adoption of this new guidance to have an impact on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest. The standard amends the balance sheet presentation requirements for debt issuance costs such that they are no longer recognized as deferred charges but are rather presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. ASU No. 2015-03 is effective for New Residential in the first quarter of 2016. Early adoption is permitted. New Residential has not yet adopted ASU No. 2015-03 but has determined that the adoption of ASU No. 2015-03 will result in an immaterial reclassification of its Deferred Financing Costs, Net (Note 2) to an offset of its Notes Payable (Note 11).

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

## 2. OTHER INCOME, ASSETS AND LIABILITIES

Edgar Filing: New Residential Investment Corp. - Form 10-Q

Other income, net, is comprised of the following:

|  | Three Months Ended March 31, |           |
|--|------------------------------|-----------|
|  | 2015                         | 2014      |
| Unrealized gain (loss) on derivative instruments | \$(7,030                     | ) \$1,357 |
| Gain (loss) on transfer of loans to REO          | (544                         | ) —       |
| Gain on consumer loans investment                | 10,447                       | —         |
| Other income (loss)                              | (836                         | ) —       |
|  | \$2,037                      | \$1,357   |

8

---

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

|   | Three Months Ended March 31, |         |
|---|------------------------------|---------|
|   | 2015                         | 2014    |
| Gain on sale of real estate securities, net                               | \$24,697                     | \$4,492 |
| Gain (loss) on sale of residential mortgage loans, net                    | 20,830                       | —       |
| Gain (loss) on settlement of derivatives                                  | (22,590                      | ) (135  |
| Gain (loss) on liquidated residential mortgage loans, held-for-investment | 400                          | —       |
| Gain (loss) on sale of REO <sup>(A)</sup>                                 | (5,636                       | ) —     |
| Other gains (losses)  | (2,934                       | ) —     |
|   | \$14,767                     | \$4,357 |

(A) Includes approximately \$3.2 million loss on REO sold as a part of the residential mortgage loan sales described in Note 8.

Other assets and liabilities are comprised of the following:

|  | Other Assets   |                   |                        | Accrued Expenses and Other Liabilities |                   |
|--|----------------|-------------------|------------------------|--|-------------------|
|  | March 31, 2015 | December 31, 2014 |                        | March 31, 2015                         | December 31, 2014 |
| Margin receivable, net                       | \$36,934       | \$59,021          | Interest payable       | \$7,516                                | \$7,857           |
| Interest and other receivables               | 11,320         | 10,455            | Accounts payable       | 16,068                                 | 28,059            |
| Deferred financing costs, net <sup>(A)</sup> | 2,817          | 4,446             | Derivative liabilities | 21,127                                 | 14,220            |
| Principal paydown receivable                 | 3,761          | 3,595             | Current taxes payable  | 47                                     | 2,349             |
| Receivable from government agency            | 9,380          | 9,108             | Other liabilities      | 19                                     | 20                |
| Call rights                                  | 3,828          | 3,728             |                        | \$44,777                               | \$52,505          |
| Other assets                                 | 8,661          | 9,516             |                        |  |                   |
|  | \$76,701       | \$99,869          |                        |  |                   |

(A) Deferred financing costs are net of accumulated amortization of \$5.4 million and \$8.8 million as of March 31, 2015 and December 31, 2014, respectively.

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

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2015                         | 2014     |
| Accretion of servicer advance interest income        | \$42,349                     | \$45,716 |
| Accretion of excess mortgage servicing rights income | 15,037                       | 13,816   |
| Accretion of net discount on securities and loans    | 5,399                        | 356      |
| Amortization of deferred financing costs             | (1,440                       | ) (3,238 |
|  | \$61,345                     | \$56,650 |





NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

### 3. SEGMENT REPORTING

New Residential conducts its business through the following segments: (i) investments in Excess MSR, (ii) investments in servicer advances, (iii) investments in real estate securities, (iv) investments in real estate loans, (v) investments in consumer loans, and (vi) corporate. The corporate segment consists primarily of (i) general and administrative expenses, (ii) the management fees and incentive compensation owed to the Manager by New Residential following the spin-off, (iii) corporate cash and related interest income, and (iv) the secured corporate loan and related interest expense during the period it was outstanding.

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

|  | Servicing Related Assets |                   | Residential Securities and Loans |                   |                |            | Total    |
|--|--------------------------|-------------------|----------------------------------|-------------------|----------------|------------|----------|
|  | Excess MSR               | Servicer Advances | Real Estate Securities           | Real Estate Loans | Consumer Loans | Corporate  |          |
| Three Months Ended March 31, 2015                                      |                          |                   |                                  |                   |                |            |          |
| Interest income  | \$15,037                 | \$42,349          | \$14,263                         | \$12,724          | \$—            | \$—        | \$84,373 |
| Interest expense   | —                        | 23,637            | 3,480                            | 6,093             | —              | 769        | 33,979   |
| Net interest income (expense)  | 15,037                   | 18,712            | 10,783                           | 6,631             | —              | (769)      | 50,394   |
| Impairment   | —                        | —                 | 1,071                            | 977               | —              | —          | 2,048    |
| Other income   | 3,890                    | (10,727)          | (5,090)                          | 13,775            | 10,447         | —          | 12,295   |
| Operating expenses   | 88                       | 575               | (102)                            | 6,104             | 57             | 15,548     | 22,270   |
| Income (Loss) Before Income Taxes                                      | 18,839                   | 7,410             | 4,724                            | 13,325            | 10,390         | (16,317)   | 38,371   |
| Income tax expense (benefit)   | —                        | (3,240)           | —                                | (187)             | —              | —          | (3,427)  |
| Net Income (Loss)  | \$18,839                 | \$10,650          | \$4,724                          | \$13,512          | \$10,390       | \$(16,317) | \$41,798 |
| Noncontrolling interests in income (loss) of consolidated subsidiaries | \$—                      | \$5,823           | \$—                              | \$—               | \$—            | \$—        | \$5,823  |
| Net income (loss) attributable to common stockholders                  | \$18,839                 | \$4,827           | \$4,724                          | \$13,512          | \$10,390       | \$(16,317) | \$35,975 |

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

|   | Servicing Related Assets |                   | Residential Securities and Loans |                   |                |           | Corporate   | Total |
|---|--------------------------|-------------------|----------------------------------|-------------------|----------------|-----------|-------------|-------|
|   | Excess MSR               | Servicer Advances | Real Estate Securities           | Real Estate Loans | Consumer Loans |           |             |       |
| March 31, 2015  |                          |                   |                                  |                   |                |           |             |       |
| Investments   | \$751,773                | \$3,245,457       | \$2,324,915                      | \$581,046         | \$—            | \$—       | \$6,903,191 |       |
| Cash and cash equivalents                                       | 267                      | 69,180            | 5,288                            | 5,895             | —              | 378,704   | 459,334     |       |
| Restricted cash   | 37                       | 28,288            | —                                | —                 | —              | —         | 28,325      |       |
| Derivative assets   | —                        | 71                | —                                | —                 | —              | —         | 71          |       |
| Other assets  | 34                       | 6,622             | 51,610                           | 15,925            | 543            | 1,967     | 76,701      |       |
| Total assets  | \$752,111                | \$3,349,618       | \$2,381,813                      | \$602,866         | \$543          | \$380,671 | \$7,467,622 |       |
| Debt  | \$—                      | \$2,875,412       | \$1,928,891                      | \$434,504         | \$—            | \$100,000 | \$5,338,807 |       |
| Other liabilities   | 2,921                    | 19,642            | 219,603                          | 5,680             | 58             | 66,497    | 314,401     |       |
| Total liabilities   | 2,921                    | 2,895,054         | 2,148,494                        | 440,184           | 58             | 166,497   | 5,653,208   |       |
| Total equity  | 749,190                  | 454,564           | 233,319                          | 162,682           | 485            | 214,174   | 1,814,414   |       |
| Noncontrolling interests in equity of consolidated subsidiaries | —                        | 246,899           | —                                | —                 | —              | —         | 246,899     |       |
| Total New Residential stockholders' equity                      | \$749,190                | \$207,665         | \$233,319                        | \$162,682         | \$485          | \$214,174 | \$1,567,515 |       |
| Investments in equity method investees                          | \$225,111                | \$—               | \$—                              | \$—               | \$—            | \$—       | \$225,111   |       |

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



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

#### 4. INVESTMENTS IN EXCESS MORTGAGE SERVICING RIGHTS

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

|                                   | Servicer   |                    | Total      |
|-----------------------------------|------------|--------------------|------------|
|                                   | Nationstar | SLS <sup>(A)</sup> |            |
| Balance as of December 31, 2014   | \$409,076  | \$8,657            | \$417,733  |
| Transfers from indirect ownership | 98,258     | —                  | 98,258     |
| Purchases                         | 26,479     | —                  | 26,479     |
| Interest income                   | 14,856     | 181                | 15,037     |
| Other income                      | 730        | —                  | 730        |
| Proceeds from repayments          | (29,544)   | ) (270)            | ) (29,814) |
| Change in fair value              | (1,472)    | ) (289)            | ) (1,761)  |
| Balance as of March 31, 2015      | \$518,383  | \$8,279            | \$526,662  |

(A) Specialized Loan Servicing LLC ("SLS"). See Note 6 for a description of the SLS Transaction.

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

On January 16, 2015, New Residential invested approximately \$23.8 million to acquire a 33.3% interest in the Excess MSR on a portfolio of Freddie Mac residential mortgage loans with an aggregate UPB of \$8.4 billion.

Fortress-managed funds and Nationstar each agreed to acquire a 33.3% interest in the Excess MSRs. Nationstar as servicer will perform all servicing and advancing functions, and retain the ancillary income, servicing obligations and liabilities as the servicer of the underlying loans in each of the portfolios. Under the terms of the investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations.

New Residential has entered into a "Recapture Agreement" in each of the Excess MSR investments through March 31, 2015, including those Excess MSR investments made through investments in joint ventures (Note 5). Under such Recapture Agreements, New Residential is generally entitled to a pro rata interest in the Excess MSRs on any initial or subsequent refinancing by Nationstar of a loan in the original portfolio. These Recapture Agreements do not apply to New Residential's investments in servicer advances (Note 6).

New Residential elected to record its investments in Excess MSRs at fair value pursuant to the fair value option for financial instruments in order to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors on the Excess MSRs.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

|  | March 31, 2015  |                        |                           |            | Weighted<br>Average<br>Life<br>Years <sup>(A)</sup> | Amortized<br>Cost<br>Basis <sup>(B)</sup> | December<br>31, 2014             |                                  |
|--|---|------------------------|---------------------------|------------|---|---|----------------------------------|----------------------------------|
|  | Unpaid<br>Principal<br>Balance<br>("UPB") of<br>Underlying<br>Mortgages | Interest in Excess MSR |                           |            |   |   | Carrying<br>Value <sup>(C)</sup> | Carrying<br>Value <sup>(C)</sup> |
|  |   | New<br>Residential     | Fortress-managed<br>funds | Nationstar |   |   |                                  |                                  |
| Agency<br>Original and<br>Recaptured<br>Pools                    | \$54,829,877  | 32.5%-66.7%            | 0.0%-33.3%                | 33.3%-35%  | 5.9   | \$161,109                                 | \$209,114                        | \$188,733                        |
| Recapture<br>Agreements  | —   | 32.5%-66.7%            | 0.0%-33.3%                | 33.3%-35%  | 12.9  | 9,927                                     | 29,865                           | 28,786                           |
|  | 54,829,877  |                        |                           |            | 6.3   | 171,036                                   | 238,979                          | 217,519                          |
| Non-Agency <sup>(D)</sup><br>Original and<br>Recaptured<br>Pools | \$108,742,559   | 33.3%-80.0%            | 0.0%-50.0%                | 0.0%-33.3% | 4.9   | \$231,228                                 | \$270,365                        | \$189,812                        |
| Recapture<br>Agreements  | —   | 33.3%-80.0%            | 0.0%-50.0%                | 0.0%-33.3% | 11.8  | 16,638                                    | 17,318                           | 10,402                           |
|  | 108,742,559   |                        |                           |            | 5.4   | 247,866                                   | 287,683                          | 200,214                          |
| Total  | \$163,572,436   |                        |                           |            | 5.8   | \$418,902                                 | \$526,662                        | \$417,733                        |

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

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

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

(D) Excess MSR investments in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2015 (Note 6).

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

|                               | Three Months Ended March 31, |           |
|-------------------------------|------------------------------|-----------|
|                               | 2015                         | 2014      |
| Original and Recaptured Pools | \$(1,976                     | ) \$7,088 |
| Recapture Agreements          | 215                          | (486      |
|                               | \$(1,761                     | ) \$6,602 |

In the first quarter of 2015, a weighted average discount rate of 9.6% was used to value New Residential's investments in Excess MSR (directly and through equity method investees).



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

| State Concentration | Percentage of Total Outstanding Unpaid Principal Amount as of |   |                   |
|---------------------|---|---|-------------------|
|                     | March 31, 2015  |   | December 31, 2014 |
| California          | 33.0  | % | 31.5 %            |
| Florida             | 9.3   | % | 7.7 %             |
| New York            | 4.9   | % | 4.3 %             |
| Maryland            | 3.8   | % | 4.0 %             |
| Texas               | 3.6   | % | 4.2 %             |
| New Jersey          | 3.5   | % | 3.2 %             |
| Virginia            | 3.2   | % | 3.3 %             |
| Illinois            | 3.2   | % | 3.2 %             |
| Washington          | 3.2   | % | 3.6 %             |
| Arizona             | 2.7   | % | 3.2 %             |
| Other U.S.          | 29.6  | % | 31.8 %            |
|                     | 100.0   | % | 100.0 %           |

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

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

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

During the first quarter of 2015, New Residential and the Fortress-managed funds restructured their investments in two of the Excess MSR joint ventures and now each directly owns its share of the underlying assets of the joint ventures.

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

|                              | March 31, 2015 | December 31, 2014 |        |
|------------------------------|----------------|-------------------|--------|
| Excess MSR assets            | \$440,714      | \$653,293         |        |
| Other assets                 | 9,508          | 8,472             |        |
| Other liabilities            | —              | (13               | )      |
| Equity                       | \$450,222      | \$661,752         |        |
| New Residential's investment | \$225,111      | \$330,876         |        |
| New Residential's ownership  | 50.0           | %                 | 50.0 % |

Three Months Ended March 31,

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|                     | 2015     | 2014     |   |
|---------------------|----------|----------|---|
| Interest income     | \$11,701 | \$18,493 |   |
| Other income (loss) | (1,835   | ) (5,705 | ) |
| Expenses            | (25      | ) (40    | ) |
| Net income          | \$9,841  | \$12,748 |   |

14

---



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

New Residential's investments in equity method investees changed during the three months ended March 31, 2015 as follows:

|  |           |   |
|--|-----------|---|
| Balance at December 31, 2014                                   | \$330,876 |   |
| Contributions to equity method investees                       | —         |   |
| Transfers to direct ownership                                  | (98,258)  | ) |
| Distributions of earnings from equity method investees         | (12,226)  | ) |
| Distributions of capital from equity method investees          | (202)     | ) |
| Change in fair value of investments in equity method investees | 4,921     |   |
| Balance at March 31, 2015                                      | \$225,111 |   |

The following is a summary of New Residential's Excess MSR investments made through equity method investees:  
 March 31, 2015

|                               | Unpaid<br>Principal<br>Balance | Investee<br>Interest in<br>Excess MSR <sup>(A)</sup> | New<br>Residential<br>Interest in<br>Investees | Amortized<br>Cost Basis <sup>(B)</sup> | Carrying<br>Value <sup>(C)</sup> | Weighted<br>Average<br>Life<br>(Years) <sup>(D)</sup> |
|-------------------------------|--------------------------------|--|--|--|----------------------------------|---|
| Agency                        |                                |  |  |  |                                  |   |
| Original and Recaptured Pools | \$84,000,746                   | 66.7   | % 50.0   | % \$289,745                            | \$358,909                        | 5.5   |
| Recapture Agreements          | —                              | 66.7   | % 50.0   | % 62,190                               | 81,805                           | 11.7  |
| Total                         | \$84,000,746                   |  |  | \$351,935                              | \$440,714                        | 6.6   |

(A) The remaining interests are held by Nationstar.

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

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

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

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

In the first quarter of 2015, a weighted average discount rate of 9.6% was used to value New Residential's investments in Excess MSRs (directly and through equity method investees).

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

| State Concentration | Percentage of Total Outstanding Unpaid Principal Amount as of<br>March 31, 2015 | December 31, 2014 |   |
|---------------------|---|-------------------|---|
| California          | 13.1  | % 23.5            | % |
| Florida             | 7.4   | % 8.9             | % |
| Texas               | 6.1   | % 4.8             | % |
| Georgia             | 5.6   | % 4.1             | % |
| New York            | 5.5   | % 5.6             | % |
| New Jersey          | 4.1   | % 3.9             | % |
| Illinois            | 4.0   | % 3.5             | % |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|              |       |   |       |   |
|--------------|-------|---|-------|---|
| Virginia     | 3.2   | % | 3.2   | % |
| Maryland     | 3.2   | % | 3.3   | % |
| Pennsylvania | 3.0   | % | 2.3   | % |
| Other U.S.   | 44.8  | % | 36.9  | % |
|              | 100.0 | % | 100.0 | % |

15

---

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
March 31, 2015  
(dollars in tables in thousands, except share data)

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

## 6. INVESTMENTS IN SERVICER ADVANCES

In December 2013, New Residential and third-party co-investors, through a joint venture entity (Advance Purchaser LLC, the "Buyer") consolidated by New Residential, agreed to purchase the outstanding servicer advances on a portfolio of loans, which is a subset of the same portfolio of loans in which New Residential invests in a portion of the Excess MSR's (Notes 4 and 5), including the basic fee component of the related MSR's. As of March 31, 2015, New Residential and third-party co-investors had settled \$2.9 billion of servicer advances, net of recoveries, financed with \$2.7 billion of notes payables outstanding (Note 11). A taxable wholly owned subsidiary of New Residential is the managing member of the Buyer and owned an approximately 44.5% interest in the Buyer as of March 31, 2015. As of March 31, 2015, noncontrolling third-party investors, owning the remaining interest in the Buyer have funded capital commitments to the Buyer of \$389.6 million and New Residential has funded capital commitments to the Buyer of \$312.7 million. The Buyer may call capital up to the commitment amount on unfunded commitments and recall capital to the extent the Buyer makes a distribution to the co-investors, including New Residential. As of March 31, 2015, the third-party co-investors and New Residential have previously funded their commitments, however the Buyer may recall \$238.4 million and \$188.3 million of capital distributed to the third-party co-investors and New Residential, respectively. Neither the third-party co-investors nor New Residential is obligated to fund amounts in excess of their respective capital commitments, regardless of the capital requirements of the Buyer that holds its investment in servicer advances.

The Buyer has purchased servicer advances from Nationstar, is required to purchase all future servicer advances made with respect to these pools from Nationstar, and receives cash flows from advance recoveries and the basic fee component of the related MSR's, net of compensation paid back to Nationstar in consideration of Nationstar's servicing activities. The compensation paid to Nationstar as of March 31, 2015 was approximately 9.2% of the basic fee component of the related MSR's plus a performance fee that represents a portion (up to 100%) of the cash flows in excess of those required for the Buyer to obtain a specified return on its equity.

In December 2014, New Residential agreed to acquire (the "SLS Transaction") 50% of the Excess MSR's, all of the servicer advances and related basic fee portion of the MSR's (the "Advance Fee"), and a portion of the call rights related to an underlying pool of residential mortgage loans with a UPB of approximately \$3.0 billion which is serviced by SLS. Fortress-managed funds acquired the other 50% of the Excess MSR's. The aggregate purchase price was approximately \$229.7 million. The par amount of the total advance commitments for the SLS Transaction was \$219.2 million (with related financing of \$195.5 million). As of December 31, 2014, the closed portion of the purchase of \$93.8 million included \$8.4 million for 50% of the Excess MSR's, \$83.8 million for servicer advances and Advance Fee (of which \$74.3 million was financed as of December 31, 2014), and \$1.6 million to fund a portion of the call rights on 57 of the 99 underlying securitization trusts. The remaining portion of the purchase price of \$135.9 million included servicer advances and Advance Fee unfunded commitments of approximately \$133.8 million that were funded in January 2015 (with approximately \$121.2 million of related financing) and \$2.1 million to fund the remaining portion of the call rights on 57 of the 99 underlying securitization trusts. As of March 31, 2015, New Residential had settled \$168.4 million of servicer advances, net of recoveries, financed with \$150.1 million of notes payable outstanding (Note 11). SLS will continue to service the loans in exchange for a servicing fee of 10.75 bps and

an incentive fee (the "Incentive Fee") which is based on the ratio of the outstanding servicer advances to the UPB of the underlying loans.

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

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

The following is a summary of the investments in servicer advances, including the right to the basic fee component of the related MSR:

|                         | Amortized<br>Cost Basis | Carrying<br>Value <sup>(A)</sup> | Weighted<br>Average<br>Discount Rate | Weighted<br>Average Life<br>(Years) <sup>(B)</sup> |
|-------------------------|-------------------------|----------------------------------|--------------------------------------|--|
| March 31, 2015          |                         |                                  |                                      |  |
| Servicer advances       | \$3,168,909             | \$3,245,457                      | 5.4                                  | % 3.9  |
| As of December 31, 2014 |                         |                                  |                                      |  |
| Servicer advances       | \$3,186,622             | \$3,270,839                      | 5.4                                  | % 4.0  |

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

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

|  | Three Months Ended March 31, |       |
|--|------------------------------|-------|
|  | 2015                         | 2014  |
| Changes in Fair Value Recorded in Other Income | \$(7,669                     | ) \$— |

The following is additional information regarding the servicer advances and related financing:

|                                     | UPB of<br>Underlying<br>Residential<br>Mortgage<br>Loans | Outstanding<br>Servicer<br>Advances | Servicer<br>Advances to<br>UPB of<br>Underlying<br>Residential<br>Mortgage<br>Loans | Carrying<br>Value of<br>Notes<br>Payable | Loan-to-Value |                    | Cost of Funds <sup>(B)</sup> |       |   |
|-------------------------------------|--|-------------------------------------|---|--|---------------|--------------------|------------------------------|-------|---|
|                                     |  |                                     |   |  | Gross         | Net <sup>(A)</sup> | Gross                        | Net   |   |
| March 31, 2015                      |  |                                     |   |  |               |                    |                              |       |   |
| Servicer<br>advances <sup>(C)</sup> | \$92,159,246   | \$3,068,306                         | 3.3   | % \$2,875,412                            | 91.5 %        | 90.6 %             | 2.6 %                        | 2.2 % | % |
| December 31, 2014                   |  |                                     |   |  |               |                    |                              |       |   |
| Servicer<br>advances <sup>(C)</sup> | \$96,547,773   | \$3,102,492                         | 3.2   | % \$2,890,230                            | 91.4 %        | 90.4 %             | 3.0 %                        | 2.3 % | % |

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

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

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

|  | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Principal and interest advances                | \$737,845      | \$729,713         |
| Escrow advances (taxes and insurance advances) | 1,514,848      | 1,600,713         |
| Foreclosure advances                           | 815,613        | 772,066           |
| Total  | \$3,068,306    | \$3,102,492       |



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

|   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2015                         | 2014     |
| Interest income, gross of amounts attributable to servicer compensation | \$63,357                     | \$67,138 |
| Amounts attributable to base servicer compensation                      | (6,601)                      | (6,280)  |
| Amounts attributable to incentive servicer compensation                 | (14,407)                     | (15,142) |
| Interest income from investments in servicer advances                   | \$42,349                     | \$45,716 |

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

|   | March 31, 2015 | December 31, 2014 |
|---|----------------|-------------------|
| Total Advance Purchaser LLC equity                    | \$445,041      | \$457,545         |
| Others' ownership interest                            | 55.5           | % 55.5            |
| Others' interest in equity of consolidated subsidiary | \$246,899      | \$253,836         |

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

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2015                         | 2014     |
| Net Advance Purchaser LLC income                                   | \$10,496                     | \$13,511 |
| Others' ownership interest as a percent of total <sup>(A)</sup>    | 55.5                         | % 59.9   |
| Others' interest in net income (loss) of consolidated subsidiaries | \$5,823                      | \$8,093  |

(A) As a result, New Residential owned 44.5% and 40.1% of the Buyer, on average during the three months ended March 31, 2015 and 2014, respectively.

7. INVESTMENTS IN REAL ESTATE SECURITIES

During the three months ended March 31, 2015, New Residential acquired \$257.8 million face amount of Non-Agency RMBS for approximately \$222.1 million and \$979.8 million face amount of Agency RMBS for approximately \$1.0 billion. New Residential sold Non-Agency RMBS with a face amount of approximately \$441.1 million and an amortized cost basis of approximately \$385.9 million for approximately \$389.7 million, recording a gain on sale of approximately \$3.8 million. Furthermore, New Residential sold Agency RMBS with a face amount of \$1.0 billion and an amortized cost basis of approximately \$1.0 billion for approximately \$1.1 billion, recording a gain on sale of approximately \$20.9 million.

See Note 10 for a discussion of transactions formerly accounted for as linked transactions.

The following is a summary of New Residential's real estate securities, all of which are classified as available-for-sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired and except for securities which New Residential elected to carry at fair value and record changes to valuation through the income statement.

| Asset Type | Outstanding Face Amount | Amortized Cost Basis | Gross Unrealized |        | Carrying Value <sup>(A)</sup> | Weighted Average     |                       |              | Life (Years) <sup>(C)</sup> | Principal Subordinated | December 31, 2014 |
|------------|-------------------------|----------------------|------------------|--------|-------------------------------|----------------------|-----------------------|--------------|-----------------------------|------------------------|-------------------|
|            |                         |                      | Gains            | Losses |                               | Number of Securities | Rating <sup>(B)</sup> | Coupon Yield |                             |                        |                   |
|            |                         |                      |                  |        |                               |                      |                       |              |                             |                        |                   |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|   |             |             |          |           |             |     |      |       |       |     |       |        |
|---|-------------|-------------|----------|-----------|-------------|-----|------|-------|-------|-----|-------|--------|
| Agency<br>RMBS <sup>(E)(F)</sup>                | \$1,575,759 | \$1,659,781 | \$7,510  | \$(2,295) | \$1,664,996 | 102 | AAA  | 3.11% | 2.18% | 5.4 | N/A   | \$1,74 |
| Non-Agency<br>RMBS <sup>(G)</sup>               | 1,820,536   | 647,915     | 14,641   | (2,637)   | 659,919     | 137 | BBB- | 0.76% | 5.74% | 9.7 | 26.0% | 723,0  |
| <sup>(H)</sup><br>Total/<br>Weighted<br>Average | \$3,396,295 | \$2,307,696 | \$22,151 | \$(4,932) | \$2,324,915 | 239 | AA-  | 2.45% | 3.18% | 6.6 |       | \$2,46 |

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



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. This excludes the ratings of the collateral underlying 20 bonds which either have never been rated or for which rating information is no longer provided. For each security rated by multiple rating agencies, the lowest rating is used. New Residential used an implied AAA rating for the Agency RMBS. Ratings provided were determined by third party rating agencies, and represent the most recent credit ratings available as of the reporting date and may not be current.

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

(D) Percentage of the outstanding face amount of securities that is subordinate to New Residential's investments.

(E) Includes securities issued or guaranteed by U.S. Government agencies such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac").

(F) The total outstanding face amount was \$979.8 million for fixed rate securities and \$595.9 million for floating rate securities as of March 31, 2015.

The total outstanding face amount was \$1.2 billion (including \$927.5 million of residual and interest-only notional amount) for fixed rate securities and \$654.0 million (including \$101.1 million of residual and interest-only notional amount) for floating rate securities as of March 31, 2015.

(H) Includes Other ABS consisting primarily of interest-only securities which New Residential elected to carry at fair value and record changes to valuation through the income statement and representing 8.5% of the carrying value of the Non-Agency RMBS portfolio.

| Asset Type | Outstanding Face Amount | Amortized Cost Basis | Gross Unrealized |            | Carrying Value | Number of Securities | Weighted Average |        |        | Life (Years) | Principal Subordination |
|------------|-------------------------|----------------------|------------------|------------|----------------|----------------------|------------------|--------|--------|--------------|-------------------------|
|            |                         |                      | Gains            | Losses     |                |                      | Rating           | Coupon | Yield  |              |                         |
| Other ABS  | \$ 984,460              | \$ 56,414            | \$ 829           | \$ (1,119) | \$ 56,124      | 8                    | AA+              | 1.98 % | 8.65 % | 4.0          | — %                     |

Unrealized losses that are considered other than temporary are recognized currently in earnings. During the three months ended March 31, 2015, New Residential recorded other-than-temporary impairment charges ("OTTI") of \$1.1 million with respect to real estate securities. Any remaining unrealized losses on New Residential's securities were primarily the result of changes in market factors, rather than issue-specific credit impairment. New Residential performed analyses in relation to such securities, using management's best estimate of their cash flows, which support its belief that the carrying values of such securities were fully recoverable over their expected holding period. New Residential has no intent to sell, and is not more likely than not to be required to sell, these securities.

The following table summarizes New Residential's securities in an unrealized loss position as of March 31, 2015.

| Securities in an Unrealized Loss Position | Outstanding Face Amount | Amortized Cost Basis |                                 |                                 | Gross Unrealized Losses | Carrying Value | Number of Securities | Weighted Average      |        |        | Life (Years) |
|---|-------------------------|----------------------|---------------------------------|---------------------------------|-------------------------|----------------|----------------------|-----------------------|--------|--------|--------------|
|   |                         | Before Impairment    | Other-Than-Temporary Impairment | After Impairment <sup>(A)</sup> |                         |                |                      | Rating <sup>(B)</sup> | Coupon | Yield  |              |
| Less than Twelve Months                   | \$ 1,297,224            | \$ 494,733           | \$ (1,071)                      | \$ 493,662                      | \$ (3,202)              | \$ 490,460     | 70                   | AA-                   | 1.37 % | 2.20 % | 7.2          |
| Twelve or More Months                     | 128,605                 | 123,794              | —                               | 123,794                         | (1,730)                 | 122,064        | 22                   | AA+                   | 2.39 % | 1.96 % | 4.4          |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|                           |             |           |           |           |           |           |    |    |       |       |     |
|---------------------------|-------------|-----------|-----------|-----------|-----------|-----------|----|----|-------|-------|-----|
| Total/Weighted<br>Average | \$1,425,829 | \$618,527 | \$(1,071) | \$617,456 | \$(4,932) | \$612,524 | 92 | AA | 1.57% | 2.15% | 6.7 |
|---------------------------|-------------|-----------|-----------|-----------|-----------|-----------|----|----|-------|-------|-----|

(A) This amount represents other-than-temporary impairment recorded on securities that are in an unrealized loss position as of March 31, 2015.

(B) The weighted average rating of securities in an unrealized loss position for less than twelve months excludes the rating of 20 bonds which either have never been rated or for which rating information is no longer provided.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

|  | March 31, 2015 |                                       | Unrealized Losses     |                           |
|--|----------------|---------------------------------------|-----------------------|---------------------------|
|  | Fair Value     | Amortized Cost Basis After Impairment | Credit <sup>(A)</sup> | Non-Credit <sup>(B)</sup> |
| Securities New Residential intends to sell <sup>(C)</sup>  | \$—            | \$—                                   | \$—                   | \$—                       |
| Securities New Residential is more likely than not to be required to sell <sup>(D)</sup>                 | —              | —                                     | —                     | N/A                       |
| Securities New Residential has no intent to sell and is not more likely than not to be required to sell: |                |                                       |                       |                           |
| Credit impaired securities   | 107,612        | 108,440                               | (1,071                | ) (828                    |
| Non-credit impaired securities   | 504,912        | 509,016                               | —                     | (4,104                    |
| Total debt securities in an unrealized loss position   | \$612,524      | \$617,456                             | \$(1,071              | ) \$(4,932                |

This amount is required to be recorded as other-than-temporary impairment through earnings. In measuring the portion of credit losses, New Residential's management estimates the expected cash flow for each of the securities. This evaluation includes a review of the credit status and the performance of the collateral supporting (A) those securities, including the credit of the issuer, key terms of the securities and the effect of local, industry and broader economic trends. Significant inputs in estimating the cash flows include management's expectations of prepayment speeds, default rates and loss severities. Credit losses are measured as the decline in the present value of the expected future cash flows discounted at the investment's effective interest rate.

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

(C) A portion of securities New Residential intends to sell have a fair value equal to their amortized cost basis after impairment and, therefore, do not have unrealized losses reflected in other comprehensive income as of March 31, 2015.

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

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

|  | Three Months Ended<br>March 31, 2015 |
|--|--------------------------------------|
| Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income                          | \$1,127                              |
| Increases to credit losses on securities for which an OTTI was previously recognized and a portion of an OTTI was recognized in other comprehensive income | 6                                    |
| Additions for credit losses on securities for which an OTTI was not previously recognized  | 1,065                                |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|   |         |   |
|---|---------|---|
| Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis | —       |   |
| Reduction for credit losses on securities for which no OTTI was recognized in other comprehensive income at the current measurement date  | —       |   |
| Reduction for securities sold during the period   | (228    | ) |
| Ending balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income  | \$1,970 |   |

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

| Geographic Location  | March 31, 2015          |                                 | December 31, 2014       |                                 |   |
|----------------------|-------------------------|---------------------------------|-------------------------|---------------------------------|---|
|                      | Outstanding Face Amount | Percentage of Total Outstanding | Outstanding Face Amount | Percentage of Total Outstanding |   |
| Western U.S.         | \$614,391               | 33.6                            | % \$779,930             | 41.1                            | % |
| Southeastern U.S.    | 479,970                 | 26.4                            | % 409,755               | 21.6                            | % |
| Northeastern U.S.    | 327,308                 | 18.0                            | % 344,716               | 18.2                            | % |
| Midwestern U.S.      | 160,246                 | 8.8                             | % 190,480               | 10.0                            | % |
| Southwestern U.S.    | 238,127                 | 13.1                            | % 170,829               | 9.0                             | % |
| Other <sup>(A)</sup> | 494                     | 0.1                             | % 440                   | 0.1                             | % |
|                      | \$1,820,536             | 100.0                           | % \$1,896,150           | 100.0                           | % |

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

New Residential evaluates the credit quality of its real estate securities, as of the acquisition date, for evidence of credit quality deterioration. As a result, New Residential identified a population of real estate securities for which it was determined that it was probable that New Residential would be unable to collect all contractually required payments. For securities acquired during the three months ended March 31, 2015, excluding residual and interest-only securities, the face amount of these real estate securities was \$36.4 million, with total expected cash flows of \$45.5 million and a fair value of \$21.9 million on the dates that New Residential purchased the respective securities.

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

|                   | Outstanding Face Amount | Carrying Value |
|-------------------|-------------------------|----------------|
| March 31, 2015    | \$234,289               | \$147,137      |
| December 31, 2014 | 536,342                 | 414,298        |

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

|   | Three Months Ended March 31, 2015 |   |
|---|-----------------------------------|---|
| Balance at December 31, 2014                          | \$181,671                         |   |
| Additions   | 23,599                            |   |
| Accretion   | (4,321)                           | ) |
| Reclassifications from (to) non-accretable difference | (3,605)                           | ) |
| Disposals   | (100,536)                         | ) |
| Balance at March 31, 2015                             | \$96,808                          |   |

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

## 8. INVESTMENTS IN RESIDENTIAL MORTGAGE LOANS

Edgar Filing: New Residential Investment Corp. - Form 10-Q

During the three months ended March 31, 2015, New Residential sold several portfolios of reperforming and non-performing residential mortgage loans as discussed below:

On February 27, 2015, New Residential sold a portfolio of non-performing residential mortgage loans with a UPB of approximately \$135.2 million and a carrying value of approximately \$102.4 million at a price of \$102.8 million and recorded a gain of \$0.4 million.

- On March 19, 2015, New Residential sold a portfolio of reperforming residential mortgage loans with a UPB of approximately \$176.5 million and a carrying value of approximately \$142.1 million at a price of \$148.6 million and recorded a gain of \$6.5 million.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

On March 26, 2015, New Residential sold a portfolio of reperforming residential mortgage loans with a UPB of approximately \$6.4 million and a carrying value of approximately \$5.1 million at a price of \$5.3 million and recorded a gain of \$0.2 million.

On March 27, 2015, New Residential sold a portfolio of non-performing residential mortgage loans and REO with a UPB of approximately \$469.6 million and a carrying value of approximately \$362.0 million at a price of \$373.0 million and recorded a gain of \$11.0 million.

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

Loans Held-for-Investment:

Reverse Mortgage Loans

Performing Loans

Purchased Credit Impaired ("PCI") Loans

Loans Held-for-Sale ("HFS")

Real Estate Owned ("REO")

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

March 31, 2015

| Loan Type   | Outstanding Face Amount | Carrying Value | Loan Count | Weighted Average Yield | Weighted Average Life (Years) <sup>(A)</sup> | Floating Rate Loans as a % of Face Amount | Loan to Value Ratio ("LTV") <sup>(B)</sup> | Weighted Avg. Delinquency | Weighted Average FICO <sup>(D)</sup> | December 31, 2014 Carrying Value |
|---|-------------------------|----------------|------------|------------------------|--|---|--|---------------------------|--------------------------------------|----------------------------------|
| Reverse Mortgage Loans <sup>(E)(F)</sup>                              | \$42,306                | \$23,294       | 182        | 10.0 %                 | 4.0  | 21.4 %                                    | 109.6 %                                    | 78.2 %                    | N/A                                  | \$24,965                         |
| Performing Loans <sup>(G)</sup>                                       | 23,548                  | 21,673         | 709        | 8.7 %                  | 5.8  | 17.9 %                                    | 79.6 %                                     | 0.3 %                     | 620                                  | 22,873                           |
| Total Residential Mortgage Loans, held-for-investment                 | \$65,854                | \$44,967       | 891        | 9.6 %                  | 4.7  | 19.4 %                                    | 98.5 %                                     | 53.0 %                    | 620                                  | \$47,838                         |
| Performing Loans, held-for-sale <sup>(G)</sup>                        | \$268,731               | \$270,407      | 4,832      | 4.9 %                  | 7.0  | 27.6 %                                    | 82.1 %                                     | — %                       | 621                                  | \$388,485                        |
| Purchased Credit Impaired ("PCI") Loans, held-for-sale <sup>(H)</sup> | 300,598                 | 229,767        | 2,133      | 5.9 %                  | 2.4  | 32.4 %                                    | 105.9 %                                    | 87.4 %                    | 547                                  | 737,954                          |
| Residential Mortgage Loans, held-for-sale                             | \$569,329               | \$500,174      | 6,965      | 5.4 %                  | 4.5  | 30.1 %                                    | 94.7 %                                     | 46.2 %                    | 582                                  | \$1,126,439                      |

- (A) The weighted average life is based on the expected timing of the receipt of cash flows.
- (B) LTV refers to the ratio comparing the loan's unpaid principal balance to the value of the collateral property.
- (C) Represents the percentage of the total principal balance that are 60+ days delinquent.
- (D) The weighted average FICO score is based on the weighted average of information updated and provided by the loan servicer on a monthly basis.  
Represents a 70% interest that New Residential holds in reverse mortgage loans. The average loan balance outstanding based on total UPB is \$0.3 million. 76% of these loans have reached a termination event. As a result, the borrower can no longer make draws on these loans. Each loan matures upon the occurrence of a termination event.
- (E) FICO scores are not used in determining how much a borrower can access via a reverse mortgage loan.  
Includes loans that are current or less than 30 days past due at acquisition where New Residential expects to collect all contractually required principal and interest payments. Presented net of unamortized premiums of \$0.7 million.  
Includes loans with evidence of credit deterioration since origination where it is probable that New Residential will not collect all contractually required principal and interest payments. As of March 31, 2015, New Residential has placed all of these loans on nonaccrual status.

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



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

| State Concentration | Percentage of Total Outstanding Unpaid Principal Amount as of |                   |   |
|---------------------|---|-------------------|---|
|                     | March 31, 2015  | December 31, 2014 |   |
| New York            | 11.2  | % 12.2            | % |
| California          | 9.0   | % 15.0            | % |
| Florida             | 7.1   | % 6.3             | % |
| New Jersey          | 5.5   | % 7.0             | % |
| Georgia             | 4.8   | % 3.6             | % |
| Texas               | 4.7   | % 4.1             | % |
| Pennsylvania        | 4.7   | % 3.9             | % |
| North Carolina      | 4.6   | % 3.0             | % |
| Ohio                | 4.4   | % 3.1             | % |
| Illinois            | 4.1   | % 4.4             | % |
| Other U.S.          | 39.9  | % 37.4            | % |
|                     | 100.0   | % 100.0           | % |

#### Reverse Mortgage Loans

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

#### Performing Loans

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

March 31, 2015

| Days Past Due         | Delinquency Status <sup>(A)</sup> |   |
|-----------------------|-----------------------------------|---|
| Current               | 86.1                              | % |
| 30-59                 | 13.9                              | % |
| 60-89                 | —                                 | % |
| 90-119 <sup>(B)</sup> | —                                 | % |
| 120+ <sup>(C)</sup>   | —                                 | % |
|                       | 100.0                             | % |

(A) Represents the percentage of the total principal balance that corresponds to loans that are in each delinquency status.

(B) Includes loans 90-119 days past due and still accruing because they are generally placed on nonaccrual status at 120 days or more past due.

(C) Represents nonaccrual loans.



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

|  | For the Three Months Ended March 31, 2015 |                  |
|--|---|------------------|
|  | Reverse Mortgage Loans                    | Performing Loans |
| Balance at December 31, 2014   | \$24,965                                  | \$22,873         |
| Purchases/additional fundings  | 340                                       | —                |
| Proceeds from repayments   | —   | (854)            |
| Accretion of loan discount (premium) and other amortization          | 1,274                                     | (228)            |
| Provision for loan losses  | (202)                                     | (118)            |
| Transfer of loans to other assets                                    | (2,720)                                   | —                |
| Transfer of loans to real estate owned                               | (363)                                     | —                |
| Transfer of loans to held-for-sale                                   | —   | —                |
| Reversal of valuation provision on loans transferred to other assets | —   | —                |
| Balance at March 31, 2015  | \$23,294                                  | \$21,673         |

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

|  | For the Three Months Ended March 31, 2015 |                  |
|--|---|------------------|
|  | Reverse Mortgage Loans                    | Performing Loans |
| Balance at December 31, 2014   | \$1,518                                   | \$1,447          |
| Allowance for loan losses <sup>(A)</sup>                             | 202                                       | 118              |
| Charge-offs <sup>(B)</sup>   | —   | (1,371)          |
| Reversal of valuation provision on loans transferred to other assets | —   | —                |
| Balance at March 31, 2015  | \$1,720                                   | \$194            |

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

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

#### Purchased Credit Impaired Loans

All of New Residential's PCI loans were classified as held-for-sale at December 31, 2014 and throughout the three months ended March 31, 2015, and therefore, are not subject to the accounting in ASC 310-30.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

Loans Held-for-Sale

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

|   | For the Three Months Ended<br>March 31, 2015 |   |
|---|--|---|
|   | Loans Held-for-Sale                          |   |
| Balance at December 31, 2014                | \$ 1,126,439                                 |   |
| Purchases <sup>(A)</sup>                    | —  |   |
| Sales                                       | (606,155                                     | ) |
| Transfer of loans to real estate owned      | (15,417                                      | ) |
| Adoption of ASU 2014-11 <sup>(B)</sup>      | 1,831  |   |
| Proceeds from repayments                    | (5,682                                       | ) |
| Valuation provision on loans <sup>(C)</sup> | (842   | ) |
| Balance at March 31, 2015                   | \$ 500,174                                   |   |

(A) Represents loans acquired with the intent to sell.

(B) Represents loans financed with the selling counterparty that were previously accounted for as linked transactions.

(C) Represents the fair value adjustments to loans upon transfer to held-for-sale and provision recorded on certain purchased held-for-sale loans.

Real estate owned (REO)

During the three months ended March 31, 2015, New Residential received properties in satisfaction of non-performing residential mortgage loans. As a result, New Residential has recognized REO assets totaling approximately \$15.2 million during the three months ended March 31, 2015. As of March 31, 2015, New Residential had non-performing residential mortgage loans that were in the process of foreclosure with an unpaid principal balance of \$204.8 million.

Linked Transactions

See Note 10 for a discussion of transactions formerly accounted for as linked transactions.

9. INVESTMENTS IN CONSUMER LOANS, EQUITY METHOD INVESTEEES

In April 2013, New Residential completed, through newly formed limited liability companies (together, the “Consumer Loan Companies”), a co-investment in a portfolio of consumer loans. The portfolio included personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. The Consumer Loan Companies acquired the portfolio from HSBC Finance Corporation and its affiliates. New Residential acquired 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf acquired 47% and an affiliate of Blackstone Tactical Opportunities Advisors L.L.C. acquired 23%. Springleaf acts as the managing member of the Consumer Loan Companies. The Consumer Loan Companies initially financed approximately 73% of the original purchase price with asset-backed notes. In September 2013, the Consumer Loan Companies issued and sold additional asset-backed notes that were subordinate to the debt issued in April 2013. The Consumer Loan Companies were formed on March 19, 2013, for the purpose of making this investment, and commenced operations upon the completion of the investment. After a servicing transition period, Springleaf became the servicer of the loans and provides all servicing and advancing functions for the portfolio.

On October 3, 2014, the Consumer Loan Companies refinanced the outstanding asset-backed notes with an asset-backed securitization for approximately \$2.6 billion. The proceeds in excess of the refinanced debt were distributed to the respective co-investors. New Residential received approximately \$337.8 million, which reduced New Residential's basis in the consumer loans investment to \$0.0 million and resulted in a gain of approximately \$80.1 million. Subsequent to this refinancing, New Residential has discontinued recording its share of the underlying earnings of the Consumer Loan Companies until such time as their cumulative earnings exceed their cumulative distributions. During the three months ended March 31, 2015, the Consumer Loan Companies distributed \$10.4 million to New Residential in excess of its basis, resulting in a corresponding gain.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

|  | March 31, 2015               | December 31, 2014 |   |   |
|--|------------------------------|-------------------|---|---|
| Consumer loan assets (amortized cost basis)                      | \$ 1,981,271                 | \$ 2,088,330      |   |   |
| Other assets   | 92,028                       | 92,051            |   |   |
| Debt   | (2,282,438                   | (2,411,421        | ) | ) |
| Other liabilities  | (5,854                       | (12,340           | ) | ) |
| Equity   | \$(214,993                   | \$(243,380        | ) | ) |
| New Residential's investment                                     | \$—                          | \$—               |   |   |
| New Residential's ownership                                      | 30.0                         | % 30.0            |   | % |
|  | Three Months Ended March 31, |                   |   |   |
|  | 2015                         | 2014              |   |   |
| Interest income  | \$ 121,869                   | \$ 142,815        |   |   |
| Interest expense   | (23,107                      | (22,195           | ) | ) |
| Provision for finance receivable losses                          | (19,636                      | (34,156           | ) | ) |
| Other expenses, net  | (15,964                      | (20,452           | ) | ) |
| Change in fair value of debt                                     | —                            | (16,867           | ) | ) |
| Net income   | \$ 63,162                    | \$ 49,145         |   |   |
| New Residential's equity in net income (through October 3, 2014) | \$—                          | \$ 16,360         |   |   |
| New Residential's ownership                                      | 30.0                         | % 30.0            |   | % |

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

|                   | Unpaid<br>Principal<br>Balance <sup>(A)</sup> | Interest in<br>Consumer<br>Loan<br>Companies | Carrying<br>Value <sup>(B)</sup> | Weighted<br>Average<br>Coupon <sup>(C)</sup> | Weighted<br>Average<br>Yield | Weighted<br>Average<br>Expected<br>Life<br>(Years) <sup>(D)</sup> |
|-------------------|---|--|----------------------------------|--|------------------------------|---|
| March 31, 2015    | \$ 2,460,743                                  | 30.0 %                                       | \$ 1,981,271                     | 18.2 %                                       | 16.3 %                       | 3.6   |
| December 31, 2014 | \$ 2,589,748                                  | 30.0 %                                       | \$ 2,088,330                     | 18.1 %                                       | 16.1 %                       | 3.6   |

(A) Represents the February 28, 2015 and November 30, 2014 balances, respectively.

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

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

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

## 10. DERIVATIVES

As of March 31, 2015, New Residential's derivative instruments included economic hedges that were not designated as hedges for accounting purposes. New Residential uses economic hedges to hedge a portion of its interest rate risk exposure. Interest rate risk is sensitive to many factors including governmental monetary and tax policies, domestic and international economic and political considerations, as well as other factors. New Residential's credit risk with respect to economic hedges and linked transactions is the risk of default on New Residential's investments that results

from a borrower's or counterparty's inability or unwillingness to make contractually required payments.

As of March 31, 2015, New Residential held to-be-announced forward contract positions ("TBAs") of \$980.0 million in a short notional amount of Agency RMBS and any amounts or obligations owed by or to New Residential are subject to the right of set-off with the TBA counterparty. New Residential's net short position in TBAs of \$980.0 million notional was entered into as an

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

economic hedge in order to mitigate New Residential's interest rate risk on certain residential mortgage loans and specified mortgage backed securities.

As of March 31, 2015, New Residential held TBA positions of \$980.0 million in a short notional amount of Agency RMBS and any amounts or obligations owed by or to New Residential are subject to the right of set-off with the TBA counterparty. As part of executing these trades, New Residential has entered into agreements with its TBA counterparties that govern the transactions for the TBA purchases or sales made, including margin maintenance, payment and transfer, events of default, settlements, and various other provisions. New Residential has fulfilled all obligations and requirements entered into under these agreements.

As a result of ASU No. 2014-11 (Note 2), New Residential has determined that, as of January 1, 2015, its linked transactions are accounted for as secured borrowings. As a result, \$32.4 million carrying amount of derivatives was removed from the balance sheet and replaced with \$116.8 million carrying amount of Non-Agency RMBS, \$1.8 million carrying amount of Residential Mortgage Loans, Held-for-Investment, \$86.0 million of Repurchase Agreements, and \$0.2 million of other liabilities.

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

|                                       | Balance Sheet Location                 | March 31, 2015 | December 31, 2014 |
|---------------------------------------|--|----------------|-------------------|
| Derivative assets                     |  |                |                   |
| Real Estate Securities <sup>(A)</sup> | Derivative assets                      | \$—            | \$32,090          |
| Non-Performing Loans <sup>(A)</sup>   | Derivative assets                      | —              | 312               |
| Interest Rate Caps                    | Derivative assets                      | 71             | 195               |
|                                       |  | \$71           | \$32,597          |
| Derivative liabilities                |  |                |                   |
| TBAs                                  | Accrued expenses and other liabilities | \$8,539        | \$4,985           |
| Interest Rate Swaps                   | Accrued expenses and other liabilities | 12,588         | 9,235             |
|                                       |  | \$21,127       | \$14,220          |

For December 31, 2014, investments purchased from, and financed by, the selling counterparty that New Residential accounted for as linked transactions are reflected as derivatives. Upon the adoption of ASU 2014-11 on January 1, 2015, these transactions are accounted for as secured borrowings.

The following table summarizes notional amounts related to derivatives:

|  | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Non-Performing Loans <sup>(A)</sup>                | \$—            | \$2,931           |
| Real Estate Securities <sup>(B)</sup>              | —              | 186,694           |
| TBAs, short position <sup>(C)</sup>                | 980,000        | 1,234,000         |
| Interest Rate Caps <sup>(D)</sup>                  | 210,000        | 210,000           |
| Interest Rate Swaps, short position <sup>(E)</sup> | 1,107,000      | 1,107,000         |

(A) For December 31, 2014, represents the UPB of the underlying loans of the non-performing loan pools within linked transactions.

(B) For December 31, 2014, represents the face amount of the real estate securities within linked transactions.

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



(D) Caps LIBOR at 3.0%.

(E) Receive LIBOR and pay a fixed rate.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

|  | For the Three Months Ended March 31, |           |
|--|--------------------------------------|-----------|
|  | 2015                                 | 2014      |
| Other income (loss)                      |                                      |           |
| Non-Performing Loans <sup>(A)</sup>      | \$—                                  | \$671     |
| TBAs                                     | (3,554                               | ) 362     |
| Interest Rate Swaps                      | (3,352                               | ) (84     |
| U.S.T. Short Positions                   | —                                    | 408       |
| Interest Rate Caps                       | (124                                 | ) —       |
|  | (7,030                               | ) 1,357   |
| Gain (loss) on settlement of investments |                                      |           |
| Real Estate Securities <sup>(A)</sup>    | —                                    | —         |
| TBAs                                     | (16,033                              | ) 43      |
| Interest Rate Swaps                      | (6,557                               | ) (178    |
|  | (22,590                              | ) (135    |
| Total gains (losses)                     | \$(29,620                            | ) \$1,222 |

For December 31, 2014, investments purchased from, and financed by, the selling counterparty that New Residential accounts for as linked transactions are reflected as derivatives. Upon the adoption of ASU 2014-11 on January 1, 2015, these transactions are accounted for as secured borrowings.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

11. DEBT OBLIGATIONS

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

March 31, 2015

| Debt Obligations/Collateral               | Month Issued | Outstanding Face Amount | Carrying Value | Final Stated Maturity | Weighted Average Funding Cost | Weighted Average Life (Years) | Collateral       |                      | Carrying Value | Weighted Average Life (Years) |
|---|--------------|-------------------------|----------------|-----------------------|-------------------------------|-------------------------------|------------------|----------------------|----------------|-------------------------------|
|   |              |                         |                |                       |                               |                               | Outstanding Face | Amortized Cost Basis |                |                               |
| Repurchase Agreements <sup>(A)</sup>      |              |                         |                |                       |                               |                               |                  |                      |                |                               |
| Agency RMBS <sup>(B)</sup>                | Various      | \$1,612,972             | \$1,612,972    | Apr-15 to May-15      | 0.36%                         | 0.1                           | \$1,575,759      | \$1,659,781          | \$1,664,996    | 5.4                           |
| Non-Agency RMBS <sup>(C)</sup>            | Various      | 315,919                 | 315,919        | Apr-15 to Jun-15      | 1.77%                         | 0.1                           | 1,500,816        | 428,696              | 439,579        | 9.0                           |
| Residential Mortgage Loans <sup>(D)</sup> | Various      | 392,521                 | 392,521        | May-15 to Aug-16      | 2.37%                         | 0.8                           | 584,085          | 514,109              | 514,109        | 4.6                           |
| Real Estate Owned <sup>(E)</sup>          | Various      | 17,977                  | 17,977         | May-15 to Aug-16      | 2.82%                         | 1.1                           | N/A              | N/A                  | 33,408         | N/A                           |
| Total Repurchase Agreements               |              | 2,339,389               | 2,339,389      |                       | 0.91%                         | 0.2                           |                  |                      |                |                               |
| Notes Payable Secured                     |              |                         |                |                       |                               |                               |                  |                      |                |                               |
| Corporate Loan <sup>(F)</sup>             | Jan-15       | 100,000                 | 100,000        | Jul-15                | 3.93%                         | 0.3                           | 105,939,876      | 239,540              | 279,404        | 5.3                           |
| Servicer Advances <sup>(G)</sup>          | Various      | 2,875,412               | 2,875,412      | Dec-15 to Mar-17      | 2.62%                         | 1.4                           | 3,068,306        | 3,168,909            | 3,245,457      | 3.9                           |
| Residential Mortgage Loans <sup>(H)</sup> | Oct-14       | 23,604                  | 23,604         | Oct-15                | 3.08%                         | 0.6                           | 42,306           | 25,013               | 23,294         | 4.0                           |
| Real Estate Owned <sup>(H)</sup>          | Oct-14       | 402                     | 402            | Oct-15                | 3.08%                         | 0.6                           | N/A              | N/A                  | 397            | N/A                           |
| Total Notes Payable                       |              | 2,999,418               | 2,999,418      |                       | 2.66%                         | 1.3                           |                  |                      |                |                               |
| Total/ Weighted Average                   |              | \$5,338,807             | \$5,338,807    |                       | 1.90%                         | 0.8                           |                  |                      |                |                               |

(A) These repurchase agreements had approximately \$2.0 million of associated accrued interest payable as of March 31, 2015.

The counterparties of these repurchase agreements are Mizuho (\$89.6 million), Morgan Stanley (\$73.3 million), (B) Barclays (\$788.7 million), Daiwa (\$338.9 million) and Jefferies (\$322.5 million) and were subject to customary margin call provisions. All of the Agency RMBS repurchase agreements have a fixed rate.

(C) The counterparties of these repurchase agreements are Barclays (\$5.6 million), Credit Suisse (\$107.3 million), Royal Bank of Canada (\$10.2 million), Bank of America, N.A. (\$80.1 million), Goldman Sachs (\$60.9 million) and UBS (\$51.8 million) and were subject to customary margin call provisions. All of the Non-Agency repurchase agreements have LIBOR-based floating interest rates.

(D) The counterparties on these repurchase agreements are Bank of America N.A. (\$39.5 million maturing in August 2016), Nomura (\$68.7 million maturing in May 2016), Citibank (\$4.8 million maturing in May 2015) and Credit Suisse (\$279.5 million maturing in November 2015). All of these repurchase agreements have LIBOR-based floating interest rates.

(E) The counterparties of these repurchase agreements are Credit Suisse (\$1.2 million), Bank of America, N.A. (\$2.0 million), Citibank (\$0.4 million) and Nomura (\$14.4 million). All of these repurchase agreements have LIBOR-based floating interest rates.

(F) The loan bears interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a margin of 3.75%. The outstanding face of the collateral represents the UPB of the residential mortgage loans underlying the Excess MSR that secure this corporate loan.

(G) \$0.7 billion face amount of the notes have a fixed rate while the remaining notes bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR or a cost of funds rate, as applicable, and (ii) a margin ranging from 1.9% to 2.0%.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

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

New Residential has margin exposure on \$2.3 billion of repurchase agreements. To the extent that the value of the collateral underlying these repurchase agreements declines, New Residential may be required to post margin, which could significantly impact its liquidity.

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

|  | Servicer<br>Advances | Real Estate<br>Securities | Real Estate<br>Loans | Other     | Total        |
|--|----------------------|---------------------------|----------------------|-----------|--------------|
| Balance at December 31, 2014 <sup>(A)</sup>                              | \$2,890,230          | \$2,246,651               | \$925,418            | \$—       | \$6,062,299  |
| Repurchase Agreements  |                      |                           |                      |           |              |
| Borrowings   | —                    | 1,089,257                 | 31,864               | —         | 1,121,121    |
| Modified retrospective adjustment for<br>the adoption of ASU No. 2014-11 | —                    | 84,649                    | 1,306                | —         | 85,955       |
| Repayments   | —                    | (1,491,666 )              | (525,111 )           | —         | (2,016,777 ) |
| Notes Payable  |                      |                           |                      |           |              |
| Borrowings   | 380,702              | —                         | 1,632                | 100,000   | 482,334      |
| Repayments   | (395,520 )           | —                         | (605 )               | —         | (396,125 )   |
| Balance at March 31, 2015  | \$2,875,412          | \$1,928,891               | \$434,504            | \$100,000 | \$5,338,807  |

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

#### Servicer Advances

During the first quarter of 2015, the Buyer entered into agreements to increase financing pursuant to one servicer advance facility and one of the notes, which settled in March 2015. The facility increased capacity from \$500.0 million to \$1.0 billion, and the note increased from \$650.0 million to \$800.0 million with a fixed interest rate equal to 2.50% and an expected repayment date of March 2017.

#### Other

During the first quarter of 2015, New Residential entered into a \$100.0 million secured corporate loan with Credit Suisse First Boston Mortgage Capital LLC, an affiliate of Credit Suisse Securities (USA) LLC. The loan bears interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 3.75%. The loan agreement contains customary covenants and event of default provisions.

#### Maturities

New Residential's debt obligations as of March 31, 2015 had contractual maturities as follows:

| Year                              | Nonrecourse | Recourse    | Total       |
|-----------------------------------|-------------|-------------|-------------|
| April 1 through December 31, 2015 | \$150,128   | \$2,338,753 | \$2,488,881 |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|      |             |             |             |
|------|-------------|-------------|-------------|
| 2016 | 2,107,255   | 41,473      | 2,148,728   |
| 2017 | 701,198     | —           | 701,198     |
|      | \$2,958,581 | \$2,380,226 | \$5,338,807 |

30

---

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

### Borrowing Capacity

The following table represents New Residential's borrowing capacity as of March 31, 2015:

| Debt Obligations/ Collateral     | Collateral Type   | Borrowing Capacity | Balance Outstanding | Available Financing |
|----------------------------------|-------------------|--------------------|---------------------|---------------------|
| Repurchase Agreements            |                   |                    |                     |                     |
| Residential Mortgage Loans       | Real Estate Loans | \$ 1,720,000       | \$ 410,498          | \$ 1,309,502        |
| Notes Payable                    |                   |                    |                     |                     |
| Servicer Advances <sup>(A)</sup> | Servicer Advances | 3,300,000          | 2,875,412           | 424,588             |
|                                  |                   | \$ 5,020,000       | \$ 3,285,910        | \$ 1,734,090        |

New Residential's unused borrowing capacity is available if New Residential has additional eligible collateral to (A)pledge and meets other borrowing conditions as set forth in the applicable agreements, including any applicable advance rate. New Residential pays a 0.3% fee on the unused borrowing capacity.

Certain of the debt obligations are subject to customary loan covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline over any 12-month period or a 35% decline over any 3-month period and a 4:1 indebtedness to tangible net worth provision. New Residential was in compliance with all of its debt covenants as of March 31, 2015.

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values and fair values of New Residential's financial assets recorded at fair value on a recurring basis, as well as other financial instruments for which fair value is disclosed, as of March 31, 2015 were as follows:

|   | Principal Balance or Notional Amount | Carrying Value | Fair Value |           |            | Total      |
|---|--------------------------------------|----------------|------------|-----------|------------|------------|
|   |                                      |                | Level 1    | Level 2   | Level 3    |            |
| Assets:   |                                      |                |            |           |            |            |
| Investments in:   |                                      |                |            |           |            |            |
| Excess mortgage servicing rights, at fair value <sup>(A)</sup>                          | \$ 163,572,436                       | \$ 526,662     | \$—        | \$—       | \$ 526,662 | \$ 526,662 |
| Excess mortgage servicing rights, equity method investees, at fair value <sup>(A)</sup> | 84,000,746                           | 225,111        | —          | —         | 225,111    | 225,111    |
| Servicer advances   | 3,068,306                            | 3,245,457      | —          | —         | 3,245,457  | 3,245,457  |
| Real estate securities, available-for-sale  | 3,396,295                            | 2,324,915      | —          | 1,664,996 | 659,919    | 2,324,915  |
| Residential mortgage loans, held-for-investment   | 65,854                               | 44,967         | —          | —         | 45,900     | 45,900     |
| Residential mortgage loans, held-for-   | 569,329                              | 500,174        | —          | —         | 506,986    | 506,986    |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|                           |             |             |           |             |             |             |
|---------------------------|-------------|-------------|-----------|-------------|-------------|-------------|
| sale                      |             |             |           |             |             |             |
| Non-hedge derivatives     | 210,000     | 71          | —         | 71          | —           | 71          |
| Cash and cash equivalents | 459,334     | 459,334     | 459,334   | —           | —           | 459,334     |
| Restricted cash           | 28,325      | 28,325      | 28,325    | —           | —           | 28,325      |
|                           |             | \$7,355,016 | \$487,659 | \$1,665,067 | \$5,210,035 | \$7,362,761 |
| Liabilities:              |             |             |           |             |             |             |
| Repurchase agreements     | \$2,339,389 | \$2,339,389 | \$—       | \$1,928,891 | \$410,498   | \$2,339,389 |
| Notes payable             | 2,999,418   | 2,999,418   | —         | —           | 2,999,418   | 2,999,418   |
| Derivative liabilities    | 2,087,000   | 21,127      | —         | 21,127      | —           | 21,127      |
|                           |             | \$5,359,934 | \$—       | \$1,950,018 | \$3,409,916 | \$5,359,934 |



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

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

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

|   | Level 3                    |           | Excess MSRs in Equity Method Investees <sup>(A)(B)</sup> |            | Servicer Advances | Non-Agency RMBS | Linked Transactions | Total       |
|---|----------------------------|-----------|--|------------|-------------------|-----------------|---------------------|-------------|
|   | Excess MSRs <sup>(A)</sup> |           | Agency   | Non-Agency |                   |                 |                     |             |
| Balance at December 31, 2014  | \$217,519                  | \$200,214 | \$232,618  | \$98,258   | \$3,270,839       | \$723,000       | \$32,402            | \$4,774,850 |
| Transfers <sup>(C)</sup>  |                            |           |  |            |                   |                 |                     |             |
| Transfers from Level 3  | —                          | —         | —  | —          | —                 | —               | —                   | —           |
| Transfers to Level 3  | —                          | —         | —  | —          | —                 | —               | —                   | —           |
| Transfers from investments in excess mortgage servicing rights, equity method investees, to investments in excess mortgage servicing rights | —                          | 98,258    | —  | (98,258 )  | —                 | —               | —                   | —           |
| Gains (losses) included in net income   |                            |           |  |            |                   |                 |                     |             |
| Included in other-than-temporary impairment ("OTTI") on securities <sup>(D)</sup>   | —                          | —         | —  | —          | —                 | (1,071 )        | —                   | (1,071 )    |
| Included in change in fair value of investments in excess mortgage servicing rights <sup>(D)</sup>  | (234 )                     | (1,527 )  | —  | —          | —                 | —               | —                   | (1,761 )    |
| Included in change in fair value of investments in excess mortgage servicing rights, equity method investees <sup>(D)</sup>                 | —                          | —         | 4,921  | —          | —                 | —               | —                   | 4,921       |
| Included in change in fair value of investments in servicer advances  | —                          | —         | —  | —          | (7,669 )          | —               | —                   | (7,669 )    |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|  |           |           |           |     |              |            |           |              |
|--|-----------|-----------|-----------|-----|--------------|------------|-----------|--------------|
| Included in gain on settlement of investments, net                               | —         | —         | —         | —   | —            | 3,808      | —         | 3,808        |
| Included in other income <sup>(D)</sup>  | 730       | —         | —         | —   | —            | —          | —         | 730          |
| Gains (losses) included in other comprehensive income, net of tax <sup>(E)</sup> | —         | —         | —         | —   | —            | (481 )     | —         | (481 )       |
| Interest income  | 6,458     | 8,579     | —         | —   | 42,349       | 8,450      | —         | 65,836       |
| Purchases, sales, repayments and transfers                                       |           |           |           |     |              |            |           |              |
| Purchases  | 26,479    | —         | —         | —   | 1,765,294    | 222,102    | —         | 2,013,875    |
| Proceeds from sales  | —         | —         | —         | —   | —            | (389,719 ) | —         | (389,719 )   |
| Proceeds from repayments   | (11,973 ) | (17,841 ) | (12,428 ) | —   | (1,825,356 ) | (23,002 )  | —         | (1,890,600 ) |
| De-linked transactions <sup>(F)</sup>  | —         | —         | —         | —   | —            | 116,832    | (32,402 ) | 84,430       |
| Balance at March 31, 2015  | \$238,979 | \$287,683 | \$225,111 | \$— | \$3,245,457  | \$659,919  | \$—       | \$4,657,149  |

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

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

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

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

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

(F) See Note 10 for a discussion of transactions formerly accounted for as linked transactions.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

Investments in Excess MSR and Excess MSR Equity Method Investees Valuation

The following table summarizes certain information regarding the weighted average inputs used in valuing the Excess MSR owned directly and through equity method investees as of March 31, 2015:

Significant Inputs<sup>(A)</sup>

| Directly Held (Note 4)                         | Prepayment Speed <sup>(B)</sup> | Delinquency <sup>(C)</sup> | Recapture Rate <sup>(D)</sup> | Excess Mortgage Servicing Amount (bps) <sup>(E)</sup> |
|--|---------------------------------|----------------------------|-------------------------------|---|
| Agency   |                                 |                            |                               |   |
| Original and Recaptured Pools                  | 10.1                            | % 5.4                      | % 31.5                        | % 21  |
| Recapture Agreement                            | 7.9                             | % 5.0                      | % 19.9                        | % 21  |
|  | 10.0                            | % 5.4                      | % 30.8                        | % 21  |
| Non-Agency <sup>(F)</sup>                      |                                 |                            |                               |   |
| Original and Recaptured Pools                  | 12.7                            | % N/A                      | 10.2                          | % 14  |
| Recapture Agreement                            | 8.0                             | % N/A                      | 20.0                          | % 20  |
|  | 12.5                            | % N/A                      | 10.7                          | % 14  |
| Total/Weighted Average--Directly Held          | 11.5                            | % 5.4                      | % 18.9                        | % 17  |
| Held through Equity Method Investees (Note 5)  |                                 |                            |                               |   |
| Agency   |                                 |                            |                               |   |
| Original and Recaptured Pools                  | 13.0                            | % 6.5                      | % 33.5                        | % 19  |
| Recapture Agreement                            | 8.0                             | % 5.0                      | % 20.0                        | % 23  |
| Total/Weighted Average--Held through Investees | 12.1                            | % 6.2                      | % 31.1                        | % 19  |
| Total/Weighted Average--All Pools              | 11.7                            | % 5.7                      | % 24.5                        | % 18  |

(A) Weighted by amortized cost basis of the mortgage loan portfolio.

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

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

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

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

(F) For certain pools, the Excess MSR will be paid on the total UPB of the mortgage portfolio (including both performing and delinquent loans until REO). For these pools, no delinquency assumption is used.

As of March 31, 2015, a weighted average discount rate of 9.6% was used to value New Residential's investments in Excess MSR (directly and through equity method investees).

Investments in Servicer Advances Valuation

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

Significant Inputs

Edgar Filing: New Residential Investment Corp. - Form 10-Q

|                | Weighted Average<br>Outstanding<br>Servicer Advances<br>to UPB of<br>Underlying<br>Residential<br>Mortgage Loans | Prepayment<br>Speed | Delinquency | Mortgage<br>Servicing<br>Amount <sup>(A)</sup> | Discount<br>Rate |
|----------------|--|---------------------|-------------|--|------------------|
| March 31, 2015 | 2.1  | % 12.5              | % 14.3      | % 19.4   | bps 5.4 %        |

(A) Mortgage servicing amount excludes the amounts New Residential pays Nationstar and SLS as a monthly servicing fee.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

Real Estate Securities Valuation

As of March 31, 2015, New Residential's securities valuation methodology and results are further detailed as follows:

| Asset Type                     | Outstanding<br>Face Amount | Amortized<br>Cost Basis | Fair Value                        |                                | Total       | Level |
|--------------------------------|----------------------------|-------------------------|-----------------------------------|--------------------------------|-------------|-------|
|                                |                            |                         | Multiple<br>Quotes <sup>(A)</sup> | Single<br>Quote <sup>(B)</sup> |             |       |
| Agency RMBS                    | \$1,575,759                | \$1,659,781             | \$1,664,996                       | \$—                            | \$1,664,996 | 2     |
| Non-Agency RMBS <sup>(C)</sup> | 1,820,536                  | 647,915                 | 650,746                           | 9,173                          | 659,919     | 3     |
| Total                          | \$3,396,295                | \$2,307,696             | \$2,315,742                       | \$9,173                        | \$2,324,915 |       |

(A) Management generally obtained pricing service quotations or broker quotations from two sources, one of which was generally the seller (the party that sold New Residential the security) for Non-Agency RMBS. Management selected one of the quotes received as being most representative of the fair value and did not use an average of the quotes. Even if New Residential receives two or more quotes on a particular security that come from non-selling brokers or pricing services, it does not use an average because management believes using an actual quote more closely represents a transactable price for the security than an average level. Furthermore, in some cases there is a wide disparity between the quotes New Residential receives. Management believes using an average of the quotes in these cases would not represent the fair value of the asset. Based on New Residential's own fair value analysis, management selects one of the quotes which is believed to more accurately reflect fair value. New Residential never adjusts quotes received. These quotations are generally received via email and contain disclaimers which state that they are "indicative" and not "actionable" — meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price.

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

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances, such as when there is evidence of impairment. For residential mortgage loans held-for-sale and foreclosed real estate accounted for as REO, New Residential applies the lower of cost or fair value accounting and may be required, from time to time, to record a nonrecurring fair value adjustment.

At March 31, 2015 and December 31, 2014, assets measured at fair value on a nonrecurring basis were \$213.1 million and \$666.6 million, respectively. The \$213.1 million represents residential mortgage loans held-for-sale and the \$666.6 million includes approximately \$610.1 million of residential mortgage loans held-for-sale and \$56.5 million of REO. The fair value of New Residential's mortgage loans held-for-sale are estimated based on a discounted cash flow model analysis using internal pricing models and categorized within Level 3 of the fair value hierarchy. The following table summarizes the inputs used in valuing these residential mortgage loans as of March 31, 2015:

| March 31, 2015 | Fair Value | Discount Rate | Weighted<br>Average Life<br>(Years) <sup>(A)</sup> | Prepayment<br>Rate | CDR <sup>(B)</sup> | Loss<br>Severity <sup>(C)</sup> |
|----------------|------------|---------------|--|--------------------|--------------------|---------------------------------|
| PCI Loans      | \$213,058  | 5.5           | % 2.4  | 3.0                | % N/A              | 50.0 %                          |

- (A) The weighted average life is based on the expected timing of the receipt of cash flows.
- (B) Represents the annualized rate of the involuntary prepayments (defaults) as a percentage of the total principal balance.
- (C) Loss severity is the expected amount of future realized losses resulting from the ultimate liquidation of a particular loan, expressed as the net amount of loss relative to the outstanding loan balance.

The fair value of REO is estimated using a broker's price opinion discounted based upon New Residential's experience with actual liquidation values and, therefore, is categorized within Level 3 of the fair value hierarchy. These discounts to the broker price opinion are generally 10%. As of March 31, 2015, New Residential's REO did not show evidence of impairment and continued to be measured at cost.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

The total change in the recorded value of assets for which a fair value adjustment was included in the Consolidated Statements of Income for the period ended March 31, 2015 was a reduction of approximately \$0.8 million for residential mortgage loans held-for-sale.

#### Residential Mortgage Loans for Which Fair Value is Only Disclosed

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

The following table summarizes the inputs used in valuing residential mortgage loans as of March 31, 2015:

|                                       | Carrying Value | Fair Value | Valuation Provision/ (Reversal) In Current Year | Discount Rate | Weighted Average Life (Years) <sup>(A)</sup> | Prepayment Rate | CDR <sup>(B)</sup> | Loss Severity <sup>(C)</sup> |
|---------------------------------------|----------------|------------|---|---------------|--|-----------------|--------------------|------------------------------|
| Reverse Mortgage Loans <sup>(D)</sup> | \$23,294       | \$23,294   | \$202   | 10.0          | % 4.0  | N/A             | N/A                | 6.3 %                        |
| Performing Loans                      | 292,080        | 296,970    | N/A   | 4.9           | % 6.9  | 6.0             | % 2.1              | % 46.1 %                     |
| PCI Loans                             | 16,709         | 19,564     | N/A   | 5.5           | % 2.4  | 3.0             | % N/A              | 50.0 %                       |
| Total/Weighted Average                | \$332,083      | \$339,828  | \$202   | 5.3           | % 6.4  |                 |                    | 43.5 %                       |

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

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

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

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

#### Derivative Valuation

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

#### Liabilities for Which Fair Value is Only Disclosed

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

Short-term repurchase agreements and short-term notes payable have an estimated fair value equal to their carrying value due to their short duration and generally floating interest rates. Longer-term notes payable are valued based on

internal models utilizing both observable and unobservable inputs. As of March 31, 2015, these longer-term notes have an estimated fair value of \$2,875.4 million and a carrying value of \$2,875.4 million.

### 13. EQUITY AND EARNINGS PER SHARE

#### Equity and Dividends

New Residential's Board of Directors authorized a one-for-two reverse stock split on August 5, 2014, subject to stockholder approval. In a special meeting on October 15, 2014, New Residential's stockholders approved the reverse split. On October 17, 2014, New Residential effected the one-for-two reverse stock split of its common stock. As a result of the reverse stock split, every two shares of New Residential's common stock were converted into one share of common stock, reducing the number of issued and outstanding shares of New Residential's common stock from approximately 282.8 million to approximately 141.4 million. The impact of this reverse stock split has been retroactively applied to all periods presented.



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

On December 18, 2014, New Residential's board of directors declared a fourth quarter 2014 dividend of \$0.38 per common share or \$53.7 million, which was paid on January 30, 2015 to stockholders of record as of December 30, 2014.

On March 16, 2015, New Residential's board of directors declared a first quarter 2015 dividend of \$0.38 per common share or \$53.7 million, which was paid on April 30, 2015 to stockholders of record as of March 26, 2015.

Approximately 2.4 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals at March 31, 2015.

### Option Plan

As of March 31, 2015, New Residential's outstanding options were summarized as follows:

|  | Issued Prior to<br>2011 | Issued in<br>2011-2014 | Total      |
|--|-------------------------|------------------------|------------|
| Held by the Manager  | 343,440                 | 8,173,847              | 8,517,287  |
| Issued to the Manager and subsequently transferred to certain of<br>the<br>Manager's employees | 90,560                  | 1,959,247              | 2,049,807  |
| Issued to the independent directors  | 1,000                   | 4,000                  | 5,000      |
| Total  | 435,000                 | 10,137,094             | 10,572,094 |

The following table summarizes New Residential's outstanding options as of March 31, 2015. The last sales price on the New York Stock Exchange for New Residential's common stock in the quarter ended March 31, 2015 was \$15.03 per share.

| Recipient                | Date of<br>Grant/<br>Exercise <sup>(A)</sup> | Number of<br>Options | Options<br>Exercisable<br>as of<br>March 31,<br>2015 | Weighted<br>Average<br>Exercise<br>Price <sup>(B)</sup> | Intrinsic<br>Value as of<br>March 31,<br>2015<br>(millions) |
|--------------------------|--|----------------------|--|---|---|
| Directors                | Various                                      | 6,000                | 5,000  | \$17.54   | \$—   |
| Manager <sup>(C)</sup>   | 2003 - 2007                                  | 1,226,555            | 434,000  | 31.36   | —   |
| Manager <sup>(C)</sup>   | Mar-11                                       | 838,417              | 547,583  | 6.58  | 4.6   |
| Manager <sup>(C)</sup>   | Sep-11                                       | 1,269,917            | 849,916  | 4.98  | 8.5   |
| Manager <sup>(C)</sup>   | Apr-12                                       | 948,750              | 920,983  | 6.82  | 7.6   |
| Manager <sup>(C)</sup>   | May-12                                       | 1,150,000            | 1,117,333  | 7.34  | 8.6   |
| Manager <sup>(C)</sup>   | Jul-12                                       | 1,265,000            | 1,234,783  | 7.34  | 9.5   |
| Manager <sup>(C)</sup>   | Jan-13                                       | 2,875,000            | 2,491,665  | 10.24   | 11.9  |
| Manager <sup>(C)</sup>   | Feb-13                                       | 1,150,000            | 958,332  | 11.48   | 3.4   |
| Manager <sup>(C)</sup>   | Apr-14                                       | 1,437,500            | 527,083  | 12.20   | 1.5   |
| Exercised <sup>(D)</sup> | 2013-2014                                    | (802,492)            | ) N/A  | 5.81  | N/A   |
| Expired unexercised      | 2003-2005                                    | (792,553)            | ) N/A  | N/A   | N/A   |
| Outstanding              |  | 10,572,094           | 9,086,678  |   |   |

(A) Options expire on the tenth anniversary from date of grant.

(B) The strike prices are subject to adjustment in connection with return of capital dividends.

36

---

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

(C) The Manager assigned certain of its options to Fortress's employees as follows:

| Date of Grant | Range of Strike Prices | Total Unexercised Inception to Date |
|---------------|------------------------|-------------------------------------|
| 2004 - 2007   | \$29.92 to \$33.80     | 90,560                              |
| 2012          | \$6.82 to \$7.34       | 600,000                             |
| 2013          | \$10.24 to \$11.48     | 1,100,497                           |
| 2014          | \$12.20                | 258,750                             |
| Total         |                        | 2,049,807                           |

(D) Exercised by employees of Fortress, subsequent to their assignment, or by directors. The options exercised had an intrinsic value of \$4.5 million.

#### Income and Earnings Per Share

New Residential is required to present both basic and diluted earnings per share ("EPS"). Basic EPS is calculated by dividing net income by the weighted average number of shares of common stock outstanding. Diluted EPS is computed by dividing net income by the weighted average number of shares of common stock outstanding plus the additional dilutive effect, if any, of common stock equivalents during each period. New Residential's common stock equivalents are its outstanding stock options. During the three months ended March 31, 2015, based on the treasury stock method, New Residential had 3,476,404 dilutive common stock equivalents outstanding. During the three months ended March 31, 2014, based on the treasury stock method, New Residential had 3,315,457 dilutive common stock equivalents outstanding.

#### Noncontrolling Interests

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

#### 14. COMMITMENTS AND CONTINGENCIES

Litigation – New Residential may, from time to time, be a defendant in legal actions from transactions conducted in the ordinary course of business. As of March 31, 2015, New Residential is not subject to any material litigation, individually or in the aggregate, nor, to management's knowledge, is any material litigation currently threatened against New Residential, except as described below.

Following the Acquisition (see Note 18 for related defined terms), material potential claims, lawsuits, and other proceedings, of which New Residential is currently aware, are as follows. New Residential has not accrued losses in connection with these legal contingencies because management does not believe there is probable and reasonably estimable loss.

Three putative class action lawsuits have been filed against HLSS and certain of its current and former officers and directors in the United States District Court for the Southern District of New York entitled: (i) Oliveira v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-652 (S.D.N.Y.), filed on January 29, 2015; (ii) Berglan v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-947 (S.D.N.Y.), filed on February 9, 2015; and (iii) W. Palm Beach Police

Pension Fund v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-1063 (S.D.N.Y.), filed on February 13, 2015. These three lawsuits, which are collectively referred to as the “New York Actions,” were consolidated by an order dated April 2, 2015. On April 28, 2015, lead plaintiff, lead counsel and liaison counsel were appointed in the New York Actions.

The New York Actions name as defendants HLSS, former HLSS Chairman William C. Erbey, HLSS Director, President, and Chief Executive Officer John P. Van Vlack, and HLSS Chief Financial Officer James E. Lauter. The New York Actions assert causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on certain public disclosures made by HLSS relating to its relationship with Ocwen. These actions allege that HLSS misled investors by failing to disclose, among other things, the extent of HLSS’s dependence on Ocwen, information regarding governmental investigations of Ocwen’s business practices, and HLSS’s own purportedly inadequate internal controls. New Residential intends to vigorously defend the New York Actions.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
March 31, 2015

(dollars in tables in thousands, except share data)

Two shareholder derivative actions have been filed purportedly on behalf of Ocwen Financial Corporation naming as defendants HLSS and certain current and former directors and officers of Ocwen, including former HLSS Chairman William C. Erbey, entitled (i) Sokolowski v. Erbey, et al., No. 9:14-CV-81601 (S.D. Fla.), filed on December 24, 2014 (the “Sokolowski Action”), and (ii) Moncavage v. Faris, et al., No. 2015CA003244 (Fla. Palm Beach Cty. Ct.), filed on March 20, 2015 (collectively, with the Sokolowski Action, the “Ocwen Derivative Actions”). The original complaint in the Sokolowski Action named as defendants certain current and former directors and officers of Ocwen, including former HLSS Chairman William C. Erbey. On February 11, 2015, plaintiff in the Sokolowski Action filed an amended complaint naming additional defendants, including HLSS. The Ocwen Derivative Actions assert a cause of action for aiding and abetting certain alleged breaches of fiduciary duty under Florida law against HLSS and others, and claim that HLSS (i) substantially assisted Ocwen’s alleged wrongful conduct by purchasing Ocwen’s mortgage servicing rights and (ii) received improper benefits as a result of its business dealings with Ocwen due to Mr. Erbey’s purported control over both HLSS and Ocwen. Additionally, the Sokolowski Action asserts a cause of action for unjust enrichment against HLSS and others.

On March 11, 2015, plaintiff David Rattner filed a shareholder derivative action purportedly on behalf of HLSS entitled Rattner v. Van Vlack, et al., No. 2015CA002833 (Fla. Palm Beach Cty. Ct.) (the “HLSS Derivative Action”). The lawsuit names as defendants HLSS directors John P. Van Vlack, Robert J. McGinnis, Kerry Kennedy, Richard J. Lochrie, and David B. Reiner (collectively, the “Director Defendants”), New Residential Investment Corp., and Hexagon Merger Sub, Ltd. The HLSS Derivative Action alleges that the Director Defendants breached their fiduciary duties of due care, diligence, loyalty, honesty and good faith and the duty to act in the best interests of HLSS under Cayman law and claims that the Director Defendants approved a proposed merger with New Residential Investment Corp. that (i) provided inadequate consideration to HLSS’s shareholders, (ii) included unfair deal protection devices, (iii) and was the result of an inadequate process due to conflicts of interest.

On September 15, 2014, HLSS received a subpoena from the SEC requesting that it provide certain information related to HLSS’s prior accounting conventions for and valuations of its Notes receivable - Rights to MSR that resulted in the restatement of HLSS’s consolidated financial statements for the years ended December 31, 2013 and 2012 and for the quarter ended March 31, 2014 during August 2014. On December 22, 2014, HLSS received a subpoena from the SEC requesting that it provide information related to certain governance documents and transactions and certain communications regarding the same. New Residential and HLSS are cooperating with the SEC in these matters.

HLSS has been and continues to be subject to other inquiries by government and other entities, as disclosed in HLSS’s filings with the SEC. New Residential is, from time to time, subject to inquiries by government entities in the ordinary course of business. New Residential currently does not believe any of these inquiries would result in a material adverse effect on New Residential’s business.

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

**Capital Commitments** — As of March 31, 2015, New Residential had outstanding capital commitments related to investments in the following investment types (also refer to Note 18 for additional capital commitments entered into

subsequent to March 31, 2015):

**Excess MSR**s — As of March 31, 2015, New Residential had outstanding capital commitments related to the acquisition of Excess MSR on portfolios of Agency residential mortgage loans as discussed in Note 18. See Notes 4 and 5 for information on New Residential's investments in Excess MSR.

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

**Residential Mortgage Loans** — As part of its investment in residential mortgage loans, New Residential may be required to outlay capital. These capital outflows primarily consist of advance escrow and tax payments, residential maintenance and property

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

disposition fees. The actual amount of these outflows is subject to significant uncertainty. See Note 8 for information on New Residential's investments in residential mortgage loans.

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

Certain Tax-Related Covenants — If New Residential is treated as a successor to Newcastle under applicable U.S. federal income tax rules, and if Newcastle fails to qualify as a REIT, New Residential could be prohibited from electing to be a REIT. Accordingly, Newcastle has (i) represented that it has no knowledge of any fact or circumstance that would cause New Residential to fail to qualify as a REIT, (ii) covenanted to use commercially reasonable efforts to cooperate with New Residential as necessary to enable New Residential to qualify for taxation as a REIT and receive customary legal opinions concerning REIT status, including providing information and representations to New Residential and its tax counsel with respect to the composition of Newcastle's income and assets, the composition of its stockholders, and its operation as a REIT; and (iii) covenanted to use its reasonable best efforts to maintain its REIT status for each of Newcastle's taxable years ending on or before December 31, 2014 (unless Newcastle obtains an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS to the effect that Newcastle's failure to maintain its REIT status will not cause New Residential to fail to qualify as a REIT under the successor REIT rule referred to above). Additionally, New Residential covenanted to use its reasonable best efforts to qualify for taxation as a REIT for its taxable year ended December 31, 2013.

#### 15. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES

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

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

In addition, effective May 15, 2013, the Manager is entitled to receive annual incentive compensation in an amount equal to the product of (A) 25% of the dollar amount by which (1) (a) New Residential's funds from operations before the incentive compensation, excluding funds from operations from investments in the Consumer Loan Companies and any unrealized gains or losses from mark-to-market valuation changes on investments and debt (and any deferred tax impact thereof), per share of common stock, plus (b) earnings (or losses) from the Consumer Loan Companies computed on a level-yield basis (such that the loans are treated as if they qualified as loans acquired with a discount for credit quality as set forth in ASC 310-30, as such codification was in effect on June 30, 2013) as if the Consumer Loan Companies had been acquired at their GAAP basis on May 15, 2013, earnings (or losses) from equity method investees invested in Excess MSRs as if such equity method investees had not made a fair value election, and gains (or

losses) from debt restructuring and gains (or losses) from sales of property and other assets, in each case per share of common stock, exceed (2) an amount equal to (a) the weighted average of the book value per share of the equity transferred by Newcastle on the date of the spin-off and the prices per share of New Residential's common stock in any offerings (adjusted for prior capital dividends or capital distributions) multiplied by (b) a simple interest rate of 10% per annum, multiplied by (B) the weighted average number of shares of common stock outstanding. "Funds from operations" means net income (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and gains (or losses) from sales of property, plus depreciation on real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. Funds from operations will be computed on an unconsolidated basis. The computation of funds from operations may be adjusted at the direction of New Residential's independent directors based on changes in, or certain applications of, GAAP. Funds from operations is determined from the date of the spin-off and without regard to Newcastle's prior performance.

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



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

Due to affiliates is comprised of the following amounts:

|                                  | March 31, 2015 | December 31, 2014 |
|----------------------------------|----------------|-------------------|
| Management fees                  | \$1,709        | \$1,710           |
| Incentive compensation           | 3,693          | 54,334            |
| Expense reimbursements and other | 1,063          | 1,380             |
|                                  | \$6,465        | \$57,424          |

Affiliate expenses and fees were comprised of:

|                                       | Three Months Ended March 31, |         |
|---------------------------------------|------------------------------|---------|
|                                       | 2015                         | 2014    |
| Management fees                       | \$5,126                      | \$4,486 |
| Incentive compensation                | 3,693                        | 3,338   |
| Expense reimbursements <sup>(A)</sup> | 125                          | 125     |
| Total                                 | \$8,944                      | \$7,949 |

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

See Notes 4, 5, 6, 7, 8, 11, 14 and 18 for a discussion of transactions with Nationstar. As of March 31, 2015, 98.9% and 97.0% of the UPB of the loans underlying New Residential's investments in Excess MSRs and servicer advances, respectively, was serviced or master serviced by Nationstar. As of March 31, 2015, a total face amount of \$1.5 billion of New Residential's Non-Agency RMBS portfolio and approximately \$88.3 million of New Residential's Agency RMBS portfolio was serviced or master serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately \$6.0 billion as of March 31, 2015. New Residential holds a limited right to cleanup call options with respect to certain securitization trusts serviced or master serviced by Nationstar with an aggregate UPB of underlying mortgage loans of approximately \$92.8 billion whereby, when the outstanding balance falls below a pre-determined threshold, it can effectively purchase the underlying mortgage loans by repaying all of the outstanding securitization financing at par, in exchange for a fee paid to Nationstar. As of March 31, 2015, \$243.5 million UPB of New Residential's residential mortgage loans and \$24.8 million of New Residential's REO were being serviced by Nationstar. As a result of these relationships, New Residential routinely has receivables from, and payables to, Nationstar, which are included in Other Assets and Accrued Expenses and Other Liabilities, respectively.

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

#### 16. RECLASSIFICATION FROM ACCUMULATED OTHER COMPREHENSIVE INCOME INTO NET INCOME

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

| Accumulated Other Comprehensive Income Components                        | Statement of Income Location       | Three Months Ended March 31, |            |
|--|------------------------------------|------------------------------|------------|
|  |                                    | 2015                         | 2014       |
| Reclassification of net realized (gain) loss on securities into earnings | Gain on settlement of securities   | \$(24,697                    | ) \$(4,492 |
| Reclassification of net realized (gain) loss on securities into earnings | Other-than-temporary impairment on | 1,071                        | 328        |

|                         |            |           |            |   |
|-------------------------|------------|-----------|------------|---|
| Total reclassifications | securities | \$(23,626 | ) \$(4,164 | ) |
|-------------------------|------------|-----------|------------|---|

40

---

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

## 17. INCOME TAXES

Income tax expense (benefit) consists of the following:

|   | Three Months Ended March 31, |         |
|---|------------------------------|---------|
|   | 2015                         | 2014    |
| Current:                                    |                              |         |
| Federal                                     | \$736                        | \$217   |
| State and Local                             | (1,156                       | ) 70    |
| Total Current Income Tax Expense (Benefit)  | (420                         | ) 287   |
| Deferred:                                   |                              |         |
| Federal                                     | (1,323                       | ) —     |
| State and Local                             | (1,684                       | ) —     |
| Total Deferred Income Tax Expense (Benefit) | (3,007                       | ) —     |
| Total Income Tax Expense (Benefit)          | \$(3,427                     | ) \$287 |

New Residential intends to qualify as a REIT for the tax years ending December 31, 2014 and 2015. A REIT is generally not subject to U.S. federal corporate income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements.

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

As of December 31, 2014, New Residential recorded an increase to the income tax provision of \$2.3 million for unrecognized tax benefits. The reserve for unrecognized tax benefits related to state and local tax positions expected to be taken on the income tax returns. As a result of information received from local tax authorities, New Residential has determined that the reserve for unrecognized tax benefits is no longer needed and has reduced the reserve for unrecognized tax benefits to zero as of March 31, 2015. As a result, New Residential recorded a benefit of \$2.3 million to the income tax provision as of March 31, 2015.

New Residential has recorded a net deferred tax liability of approximately \$13.4 million as of March 31, 2015. This deferred tax liability primarily relates to unrealized gains from New Residential's investment in servicer advances.

## 18. RECENT ACTIVITIES

These financial statements include a discussion of material events that have occurred subsequent to March 31, 2015 (referred to as "subsequent events") through the issuance of these condensed consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

Excess MSRs

On April 16, 2015, New Residential invested the remaining \$2.6 million to complete the acquisition of a 33.3% interest in the Excess MSR on a portfolio of Freddie Mac residential mortgage loans with an aggregate UPB of \$8.4 billion. Fortress-managed funds and Nationstar each agreed to acquire a 33.3% interest in the Excess MSRs. Nationstar as servicer will perform all servicing and advancing functions, and retain the ancillary income, servicing obligations and liabilities as the servicer of the underlying loans in each of the portfolios. Under the terms of the investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations.

On April 30, 2015, New Residential invested approximately \$3.5 million to acquire a 33.3% interest in the Excess MSR on a portfolio of Fannie Mae residential mortgage loans with an aggregate UPB of \$1.6 billion. Fortress-managed funds and Nationstar each agreed to acquire a 33.3% interest in the Excess MSRs. Nationstar as servicer will perform all servicing and advancing

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

functions, and retain the ancillary income, servicing obligations and liabilities as the servicer of the underlying loans in each of the portfolios. Under the terms of the investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR's are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations.

#### Servicer Advances

Subsequent to March 31, 2015 and prior to May 11, 2015, the Buyer funded a total of \$363.4 million of servicer advances and recovered \$552.0 million of existing servicer advances. Notes payable outstanding decreased by \$170.0 million and restricted cash decreased approximately \$0.5 million in relation to these fundings. Additionally, the Buyer paid \$5.5 million to Nationstar as a contractual incentive fee.

Subsequent to March 31, 2015 and prior to May 11, 2015, New Residential funded a total of \$41.0 million of SLS servicer advances and recovered \$54.0 million of existing SLS servicer advances. Notes payable outstanding decreased by \$11.4 million and restricted cash increased approximately \$0.02 million in relation to these fundings.

#### Real Estate Securities

Subsequent to March 31, 2015, New Residential acquired Non-Agency RMBS with an aggregate face amount of approximately \$73.3 million for approximately \$58.6 million, financed with repurchase agreements. New Residential sold Agency RMBS with a face amount of \$374.4 million and an amortized cost basis of approximately \$391.0 million for approximately \$394.6 million and recorded a gain of approximately \$3.6 million. New Residential sold no Non-Agency RMBS. Subsequent to March 31, 2015, New Residential rolled \$1.3 billion within various repurchase facilities to mature between May 2015 and July 2015.

Subsequent to March 31, 2015, New Residential financed an additional \$190.0 million of Non-Agency RMBS within various repurchase facilities as a result of purchases. New Residential also rolled substantially all of its Non-Agency RMBS repurchase facilities to mature between May 2015 and August 2015.

#### Residential Mortgage Loans

Subsequent to March 31, 2015 and prior to May 11, 2015, New Residential sold a portfolio of performing residential mortgage loans with a UPB of approximately \$268.7 million for net proceeds of \$282.2 million.

Subsequent to March 31, 2015 and prior to May 11, 2015, New Residential sold a portfolio of non-performing residential mortgage loans with a UPB of approximately \$22.1 million for net proceeds of \$19.5 million.

#### Derivatives

Subsequent to March 31, 2015, New Residential entered into two separate interest rate swap agreements with a single counterparty totaling a \$500 million notional amount to further hedge a portion of its interest rate exposure.

#### Corporate Activities

Edgar Filing: New Residential Investment Corp. - Form 10-Q

On March 16, 2015, New Residential's board of directors declared a first quarter 2015 dividend of \$0.38 per common share or \$53.7 million, which was paid on April 30, 2015 to stockholders of record as of March 26, 2015.

Subsequent to March 31, 2015, New Residential paid off the outstanding secured corporate loan with Credit Suisse First Boston Mortgage Capital LLC, an affiliate of Credit Suisse Securities (USA) LLC for approximately \$100.0 million.

Subsequent to March 31, 2015, New Residential entered into a \$165.0 million secured corporate loan with Barclays maturing in April 2016. The loan bears interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 5.00% until July 2015, after which the loan bears interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 8.00%. The loan contains customary covenants and event of default provisions.

Subsequent to March 31, 2015, New Residential issued a \$219.4 million secured corporate note maturing in April 2017. The loan bears interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 5.25% until M

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

ay 2016, after which the loan bears interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 7.25%. The loan contains customary covenants and event of default provisions.

On February 22, 2015, New Residential entered into an Agreement and Plan of Merger (the “Initial Merger Agreement”) with Home Loan Servicing Solutions, Ltd., a Cayman Islands exempted company (“HLSS”) and Hexagon Merger Sub, Ltd., a Cayman Islands exempted company and a wholly owned subsidiary of New Residential (“Merger Sub”). As described in more detail below, on April 6, 2015, the parties terminated the Initial Merger Agreement pursuant to the Termination Agreement (as defined below) and simultaneously entered into the Acquisition Agreement (as defined below).

The Initial Merger Agreement provided that, upon the terms and subject to the conditions set forth therein, Merger Sub would have merged with and into HLSS, with HLSS continuing as the surviving company and a wholly owned subsidiary of New Residential, and at the effective time of the merger, each ordinary share of HLSS issued and outstanding immediately prior to the effective time (except as set otherwise forth in the Initial Merger Agreement), would have been automatically converted into the right to receive \$18.25 in cash, without interest (the “Initial Merger”). Each party’s obligation to consummate the Initial Merger was subject to, among other conditions, the other party’s compliance with its covenants and agreements contained in the Initial Merger Agreement. Among other covenants and agreements, HLSS agreed to provide notice to New Residential within twenty-four hours of becoming aware that HLSS was reasonably likely to receive a going concern qualification from its auditors with respect to its then-most recent fiscal year (a “Going Concern Qualification”). The Initial Merger Agreement specified that, upon the receipt by HLSS of a Going Concern Qualification, New Residential would have the right to immediately terminate the Initial Merger Agreement.

On April 6, 2015, HLSS provided formal notice to New Residential that it was reasonably likely to receive a Going Concern Qualification, unless the parties entered into an alternative transaction. Based on the shared expectation of New Residential and HLSS that HLSS could not satisfy the conditions to the consummation of the Initial Merger set forth in the Initial Merger Agreement, HLSS and New Residential finalized the terms of an alternative transaction (described below). The alternative transaction enabled HLSS to file its annual report, including an unqualified opinion of its auditors, on April 6, 2015. On April 6, 2015, with the approval of their respective Boards of Directors, New Residential and HLSS, together with certain of their respective subsidiaries, entered into a Termination Agreement (the “Termination Agreement”) (providing for the termination of the Initial Merger Agreement) and simultaneously entered into a Share and Asset Purchase Agreement (the “Acquisition Agreement”).

The parties to the Acquisition Agreement included New Residential, HLSS, HLSS Advances Acquisition Corp., a Delaware corporation and wholly owned subsidiary of New Residential (“HLSS Advances”), and HLSS MSR-EBO Acquisition LLC, a Delaware limited liability company and wholly owned subsidiary of New Residential (together with HLSS Advances, the “Buyers”). Pursuant to the Acquisition Agreement, the Buyers acquired from HLSS substantially all of the assets of HLSS (including all of the issued share capital of HLSS’s first-tier subsidiaries) and assumed (and agreed to indemnify HLSS for) the liabilities of HLSS (together, the “Acquisition”), other than post-closing liabilities in an amount up to the Retained Amount (as defined below), for aggregate consideration (net of certain transaction expenses being reimbursed by HLSS), consisting of approximately \$1.007 billion in cash and 28,286,980 shares of common stock, par value \$0.01 per share (“New Residential Common Stock”), of New Residential delivered to HLSS in a private placement. The closing of the Acquisition (the “Acquisition Closing”) occurred simultaneously with the execution of the Acquisition Agreement.

The Acquisition Agreement includes certain customary post-closing covenants of New Residential, the Buyers and HLSS. In addition, the Board of Directors of HLSS also approved a wind down plan (the “Distribution and Liquidation Plan”), pursuant to which HLSS sold the shares of New Residential Common Stock received in the Acquisition on April 8, 2015 and distributed to HLSS shareholders the cash consideration from the Acquisition and the cash proceeds from the sale of shares of New Residential Common Stock; provided that under the terms of the Distribution and Liquidation Plan, HLSS retained \$50.0 million of cash (the “Retained Amount”) for wind down costs.

At the Acquisition Closing, HLSS Advances entered into a Services Agreement, dated as of April 6, 2015, with HLSS (the “Services Agreement”). Pursuant to the Services Agreement, HLSS Advances has agreed to manage the assets and affairs of HLSS in accordance with terms and conditions set forth therein and, in all cases, in accordance with the Distribution and Liquidation Plan. The Services Agreement provides that HLSS Advances will be responsible for the operations of HLSS and will perform (or cause to be performed) such services and activities relating to the assets and operations of HLSS as may be appropriate, including, among other things, administering the Distribution and Liquidation Plan and handling all claims, disputes or controversies in which HLSS is a party or may otherwise be involved. HLSS Advances will not be compensated by HLSS for its services under the Services Agreement but will be reimbursed by HLSS for expenses incurred on behalf of HLSS.



NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

(dollars in tables in thousands, except share data)

At the Acquisition Closing, New Residential and Merger Sub entered into an Agreement and Plan of Merger, dated April 6, 2015, with HLSS (the “New Merger Agreement”), pursuant to which, upon the terms and subject to the conditions set forth therein (including the approval of HLSS’s shareholders), HLSS (which at the time of the New Merger (as defined below) will have previously sold substantially all of its assets and transferred all liabilities to the Buyers, and have distributed the proceeds (other than the Retained Amount) received from such sale to HLSS shareholders and substantially wound-down its operations) will merge with and into Merger Sub, with Merger Sub continuing as the surviving company and a wholly owned subsidiary of New Residential (the “New Merger”).

Pursuant to the New Merger Agreement, and upon the terms and conditions set forth therein, at the effective time of the New Merger (the “Effective Time”), each ordinary share of HLSS, par value \$0.01 per share, issued and outstanding immediately prior to the Effective Time (other than those shares of HLSS owned by New Residential or any direct or indirect wholly-owned subsidiary of New Residential and shares of HLSS as to which dissenters’ rights have been properly exercised), will be automatically converted into the right to receive \$0.704059 per share in cash, without interest.

The New Merger does not require the approval of New Residential’s shareholders. However, consummation of the New Merger is subject to, among other things: (i) approval of the New Merger by the requisite vote of HLSS’s shareholders; (ii) not more than 10% of HLSS’s issued and outstanding shares properly exercising appraisal rights as of the time immediately before the closing of the New Merger (the “New Merger Closing”); and (iii) certain other customary closing conditions. Moreover, each party’s obligation to consummate the New Merger is subject to certain other conditions, including without limitation, (i) the accuracy of the other party’s representations and warranties and (ii) the other party’s compliance with its covenants and agreements contained in the New Merger Agreement (in each case subject to customary materiality qualifiers). In addition, the obligations of New Residential and Merger Sub to consummate the New Merger are subject to the absence of any Company Material Adverse Effect (as defined in the New Merger Agreement). The New Merger Agreement may be terminated by either party under certain circumstances, including, among others: (i) if the New Merger Closing has not occurred by the nine-month anniversary of the New Merger Agreement; (ii) if a court or other governmental entity has issued a final and non-appealable order prohibiting the New Merger Closing; (iii) if HLSS fails to obtain the HLSS Shareholder Approval; and (iv) upon a material uncured breach by the other party that would result in a failure of the conditions to the New Merger Closing to be satisfied.

Unaudited Supplemental Pro Forma Financial Information - The following table presents unaudited pro forma combined Interest Income and Income (Loss) Before Incomes Taxes for the three months ended March 31, 2014 and 2015 prepared as if the Acquisition of HLSS had been consummated on January 1, 2014.

|                                   | Three Months Ended March 31, |             |
|-----------------------------------|------------------------------|-------------|
|                                   | 2015                         | 2014        |
|                                   | (unaudited)                  | (unaudited) |
| Pro Forma                         |                              |             |
| Interest income                   | \$ 165,055                   | \$ 176,989  |
| Income (Loss) Before Income Taxes | 71,465                       | 103,683     |

The 2015 unaudited supplemental pro forma financial information has been adjusted to exclude, and the 2014 unaudited supplemental pro forma financial information has been adjusted to include, approximately \$17.8 million of acquisition-related costs incurred by New Residential and HLSS in 2015. The unaudited supplemental pro forma

financial information has not been adjusted for transactions other than the Acquisition, or for the conforming of accounting policies. The unaudited supplemental pro forma financial information does not include any anticipated synergies or other anticipated benefits of the Acquisition and, accordingly, the unaudited supplemental pro forma financial information is not necessarily indicative of either future results of operations or results that might have been achieved had the Acquisition occurred on January 1, 2014.

In April 2015, New Residential issued 29,213,020 shares of its common stock in a public offering at a price to the public of \$15.25 per share for net proceeds of approximately \$436.1 million. One of New Residential's executive officers participated in this offering and purchased 250,000 shares at the public offering price. For the purpose of compensating the Manager for its successful efforts in raising capital for New Residential, in connection with this offering and the New Residential Common Stock issued in the Acquisition, New Residential granted options to the Manager to purchase 5,750,000 shares of New Residential's common stock at a price of \$15.25, which had a fair value of approximately \$8.9 million as of the grant date. The assumptions used in valuing the options were: a 2.02% risk-free rate, a 6.71% dividend yield, 24.04% volatility and a 10 year term.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
March 31, 2015  
(dollars in tables in thousands, except share data)

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

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

### GENERAL

New Residential is a publicly traded REIT (NYSE: NRZ) primarily focused on opportunistically investing in, and actively managing, investments related to residential real estate. We primarily target investments in mortgage servicing related assets and related opportunistic investments. We are externally managed and advised by an affiliate of Fortress pursuant to a management agreement. Our goal is to drive strong risk-adjusted returns primarily through our investments, and our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets in diverse markets, including non-real estate related assets such as consumer loans. We generally target assets that generate significant current cash flows and/or have the potential for meaningful capital appreciation. We aim to generate attractive returns for our stockholders without the excessive use of financial leverage.

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

New Residential completed a one-for-two reverse stock split in October 2014. The impact of this reverse stock split has been retroactively applied to all periods presented herein.

### MARKET CONSIDERATIONS

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

Since 2010, banks have sold or committed to sell MSR's totaling more than \$3 trillion. An MSR provides a mortgage servicer with the right to service a pool of mortgages in exchange for a portion of the interest payments made on the underlying mortgages. This amount typically ranges from 25 to 50 bps multiplied by the UPB of the mortgages. Approximately 74% of MSR's were owned by banks as of the fourth quarter of 2014, according to Inside Mortgage Finance. We expect this number to continue to decline as banks face pressure to reduce their MSR exposure as a result of heightened capital reserve requirements under Basel III, regulatory scrutiny and a more challenging servicing environment, among other reasons. As a result, we believe the volume of MSR sales is likely to be elevated for some period of time.

We estimate that MSR covering up to \$150 billion of mortgages are currently for sale, which would require a capital investment of approximately \$1 to 1.5 billion based on current pricing dynamics. We believe that non-bank servicers who are constrained by capital limitations will continue to sell a portion of the Excess MSR or other servicing assets, such as advances. In addition, approximately \$1.2 trillion of new loans are expected to be originated in 2015, according to the Mortgage Bankers Association. We believe this creates an opportunity to enter into “flow arrangements,” whereby loan originators agree to sell Excess MSR on newly originated loans on a recurring basis (often monthly or quarterly). Given this combined dynamic, we believe \$2 trillion of MSR could be sold or available over the next few years. We believe that MSR are being sold at a discount to historical pricing levels, although increased competition for these assets has driven prices higher recently. There can be no assurance that we will make additional investments in Excess MSR or that any future investment in Excess MSR will generate returns similar to the returns on our original investments in Excess MSR.

Interest rates have been volatile. In periods of rising interest rates, the rates of prepayments and delinquencies with respect to mortgage loans generally decline. Generally, the value of our Excess MSR is expected to increase when interest rates rise or delinquencies decline, and the value is expected to decrease when interest rates decline or delinquencies increase, due to the effect of changes in interest rates on prepayment speeds and delinquencies. Prepayment speeds and delinquencies could increase in the current interest rate environment as a result of, among other things, a general economic recovery, government programs intended to foster refinancing activity or other reasons, which could reduce the value of our investments. Moreover, the value of our Excess MSR is subject to a variety of factors, as described under “Risk Factors.” In the first quarter of 2015, the fair value of our investments in Excess MSR (directly and through equity method investees) decreased by \$2.7 million and the weighted average discount rate of the portfolio was unchanged at 9.6%.

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

Beginning in April 2012, we began to invest in RMBS as a complement to our Excess MSR portfolio. As of the fourth quarter of 2014, approximately \$7 trillion of the \$10 trillion of residential mortgages outstanding had been securitized, according to Inside Mortgage Finance. Approximately \$6 trillion were Agency RMBS according to Inside Mortgage Finance, which are securities issued or guaranteed by a U.S. Government agency, such as Ginnie Mae, or by a GSE, such as Fannie Mae or Freddie Mac. The balance has been securitized by either public trusts or PLS, and are referred to as Non-Agency RMBS.

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

changes in interest rates, collateral performance and credit spreads.

We do not expect changes in interest rates to have a meaningful impact on the net interest spread of our Agency and Non-Agency portfolios. Our RMBS are primarily floating rate or hybrid (i.e., fixed to floating rate) securities, which we generally finance with floating rate debt. Therefore, while rising interest rates will generally result in a higher cost of financing, they will also result in a higher coupon payable on the securities. The net interest spread on our Agency RMBS portfolio as of March 31, 2015 was 1.82%, compared to 1.87% as of December 31, 2014. The net interest spread on our Non-Agency RMBS portfolio as of March 31, 2015 was 3.97%, compared to 1.85% as of December 31, 2014.

We hold call rights on Non-Agency residential mortgage securitizations which become exercisable once the current collateral balance reduces below a certain threshold of the original balance. We believe a call right is profitable when aggregate loan value is greater than the sum of par on the loans minus any discount from acquired bonds, plus expenses related to such exercise. Profit with respect to our call rights is generated by selectively retaining loans that meet our return thresholds or re-securitizing or selling performing loans for a gain and, prior to exercise, purchasing certain underlying tranches at a discount to par. Upon exercise, we are able to realize any remaining accretion to par. As interest rates increase, we expect the value of our call rights could decrease.

In November 2013, we made our first investment in non-performing loans. We have continued to invest in the non-performing loan sector, while also opportunistically selling assets. The scope of our involvement will fluctuate depending on our Manager's assessment of relative value compared with alternative investment opportunities.

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

Credit spreads decreased, or “tightened,” during the first quarter of 2015 relative to the fourth quarter of 2014, which has had a favorable impact on the value of our securities and loan portfolio. Credit spreads measure the yield relative to a specified benchmark that the market demands on securities and loans based on such assets’ credit risk. For a discussion of the way in which interest rates, credit spreads and other market factors affect us, see “Quantitative and Qualitative Disclosures About Market Risk.”

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

## OUR PORTFOLIO

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

|                                  | Outstanding<br>Face Amount | Amortized<br>Cost Basis <sup>(A)</sup> | Percentage of<br>Total<br>Amortized<br>Cost Basis | Carrying<br>Value | Weighted<br>Average<br>Life (years) <sup>(B)</sup> |
|----------------------------------|----------------------------|--|---|-------------------|--|
| Investments in:                  |                            |  |   |                   |  |
| Excess MSR <sup>(C)</sup>        | \$247,573,182              | \$594,870                              | 9.0   | % \$751,773       | 6.1  |
| Servicer Advances <sup>(C)</sup> | 3,068,306                  | 3,168,909                              | 47.6  | % 3,245,457       | 3.9  |
| Agency RMBS                      | 1,575,759                  | 1,659,781                              | 25.0  | % 1,664,996       | 5.4  |
| Non-Agency RMBS                  | 1,820,536                  | 647,915                                | 9.7   | % 659,919         | 9.7  |
| Residential Mortgage Loans       | 635,183                    | 547,897                                | 8.2   | % 545,141         | 4.6  |
| Real Estate Owned                | N/A                        | 35,905                                 | 0.5   | % 35,905          | N/A  |
| Consumer Loans <sup>(C)</sup>    | 2,460,743                  | N/A                                    | N/A   | —                 | 3.6  |
| Total/ Weighted Average          |                            | \$6,655,277                            | 100.0   | % \$6,903,191     | 5.1  |

### Reconciliation to GAAP total assets:

|                          |             |
|--------------------------|-------------|
| Cash and restricted cash | 487,659     |
| Derivative assets        | 71          |
| Other assets             | 76,701      |
| GAAP total assets        | \$7,467,622 |

(A) Net of impairment.

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

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

## Servicing Related Assets

### Excess MSR<sup>(C)</sup>

As of March 31, 2015, we had approximately \$751.8 million estimated carrying value of Excess MSR<sup>(C)</sup> (held directly and through joint ventures). As of March 31, 2015, our completed investments represent an effective 32.5% to 80.0%

interest in the Excess MSR (held either directly or through joint ventures) on pools of mortgage loans with an aggregate UPB of approximately \$247.6 billion. Nationstar is the servicer of \$244.8 billion UPB of the loans underlying our investments in Excess MSR through March 31, 2015, and our servicers earn a basic fee in exchange for providing all servicing functions. In addition, when Nationstar sells Excess MSR to us, it generally retains a 20% to 35% interest in the Excess MSR and all ancillary income associated with the portfolios. In our capacity as owner of the Excess MSR, we do not have any servicing duties, liabilities or obligations associated with the servicing of the portfolios underlying any of our Excess MSR. However, we, through co-investments made by our subsidiaries, may separately agree to do so and have separately purchased the servicer advances, including the right to receive the basic fee



component of related MSR, on the Non-Agency portfolios underlying our Excess MSR investments. See “—Servicer Advances” below.

In December 2014, we agreed to acquire 50% of the Excess MSR, all of the servicer advances and related Advance Fee and a portion of the call rights related to an underlying pool of residential mortgage loans with a UPB of approximately \$3.0 billion which is serviced by SLS. Fortress-managed funds acquired the other 50% of the Excess MSR. The aggregate purchase price was approximately \$229.7 million. The par amount of the total advance commitments for the SLS Transaction was \$219.2 million (with related financing of \$195.5 million). As of December 31, 2014, the closed portion of the purchase of \$93.8 million included \$8.4 million for 50% of the Excess MSR, \$83.8 million for servicer advances and Advance Fee (of which \$74.3 million was financed as of December 31, 2014), and \$1.6 million to fund a portion of the call rights on 57 of the 99 underlying securitization trusts. The remaining portion of the purchase price of \$135.9 million included servicer advances and Advance Fee unfunded commitments of approximately \$133.8 million that were funded in January 2015 (with approximately \$121.2 million of related financing) and \$2.1 million to fund the remaining portion of the call rights on 57 of the 99 underlying securitization trusts. As of March 31, 2015, New Residential had settled \$168.4 million of servicer advances, net of recoveries, financed with \$150.1 million of notes payable outstanding. SLS will continue to service the loans in exchange for a servicing fee of 10.75 bps and an Incentive Fee which is based on the ratio of the outstanding servicer advances to the UPB of the underlying loans.

Each of our Excess MSR investments through March 31, 2015 is subject to a recapture agreement with Nationstar. Under such recapture agreements, we are generally entitled to a pro rata interest in the Excess MSR on any initial or subsequent refinancing by Nationstar of a loan in the original portfolio. In other words, we are generally entitled to a pro rata interest in the Excess MSR on both (i) a loan resulting from a refinancing by Nationstar of a loan in the original portfolio, and (ii) a loan resulting from a refinancing by Nationstar of a previously recaptured loan.

The tables below summarize the terms of our investments in Excess MSR completed as of March 31, 2015.

#### Summary of Direct Excess MSR Investments as of March 31, 2015

|                               | Initial UPB (bn) | Current UPB (bn) <sup>(B)</sup> | MSR Component <sup>(A)</sup> |                                   | Interest in Excess MSR (%) | Excess MSR          |                     |
|-------------------------------|------------------|---------------------------------|------------------------------|-----------------------------------|----------------------------|---------------------|---------------------|
|                               |                  |                                 | Weighted Average MSR (bps)   | Weighted Average Excess MSR (bps) |                            | Purchase Price (mm) | Carrying Value (mm) |
| Agency                        |                  |                                 |                              |                                   |                            |                     |                     |
| Original and Recaptured Pools | \$69.8           | \$54.9                          | 29                           | bps 21                            | bps 32.5%-66.7%            | \$230.0             | \$209.1             |
| Recapture Agreements          | —                | —                               | 28                           | 21                                | 32.5%-66.7%                | —                   | 29.9                |
|                               | 69.8             | 54.9                            | 29                           | 21                                |                            | 230.0               | 239.0               |
| Non-Agency <sup>(C)</sup>     |                  |                                 |                              |                                   |                            |                     |                     |
| Original and Recaptured Pools | \$148.9          | \$108.7                         | 35                           | bps 14                            | bps 33.3%-80.0%            | \$328.9             | \$270.4             |
| Recapture Agreements          | —                | —                               | 26                           | 20                                | 33.3%-80.0%                | —                   | 17.3                |
|                               | 148.9            | 108.7                           | 34                           | 14                                |                            | 328.9               | 287.7               |
| Total/Weighted Average        | \$218.7          | \$163.6                         | 32                           | bps 17                            | bps                        | \$558.9             | \$526.7             |

Edgar Filing: New Residential Investment Corp. - Form 10-Q

The MSR is a weighted average as of March 31, 2015, and the Excess MSR represents the difference between the (A) weighted average MSR and the basic fee (which fee remains constant). The average is weighted by the amortized cost basis of the mortgage loan portfolio.

(B) As of March 31, 2015.

Excess MSR investments in which we also invested in related servicer advances, including the basic fee (C) component of the related MSR as of March 31, 2015 (Note 6 to our Condensed Consolidated Financial Statements included herein).

## Summary Excess MSR Investments Through Equity Method Investees as of March 31, 2015

|                                  | Initial<br>UPB<br>(bn) | Current<br>UPB<br>(bn) <sup>(B)</sup> | MSR Component <sup>(A)</sup>        |   | NRZ<br>Interest in<br>Investee<br>(%) | Investee<br>Interest in<br>Excess<br>MSR (%) | NRZ<br>Effective<br>Ownership<br>(%) | Investee<br>Carrying<br>Value<br>(mm) |
|----------------------------------|------------------------|---------------------------------------|-------------------------------------|---|---------------------------------------|--|--------------------------------------|---------------------------------------|
|                                  |                        |                                       | Weighted<br>Average<br>MSR<br>(bps) | Weighted<br>Average<br>Excess<br>MSR<br>(bps) |                                       |  |                                      |                                       |
| Agency                           |                        |                                       |                                     |   |                                       |  |                                      |                                       |
| Original and Recaptured<br>Pools | \$125.2                | \$84.0                                | 32                                  | 19  | 50.0                                  | 66.7   | 33.3                                 | \$358.9                               |
| Recapture Agreements             | —                      | —                                     | 32                                  | 23  | 50.0                                  | 66.7   | 33.3                                 | 81.8                                  |
| Total/Weighted Average           | \$125.2                | \$84.0                                | 32                                  | 19  |                                       |  |                                      | \$440.7                               |

(A) The MSR is a weighted average as of March 31, 2015, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

(B) As of March 31, 2015.

(C) Excess MSR investments in which we also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2015 (Note 6 to our Condensed Consolidated Financial Statements included herein).

The following table summarizes our Excess MSR investments closed subsequent to March 31, 2015:

Summary of Excess MSR Investments closed subsequent to March 31, 2015<sup>(A)</sup>

|                           | Commitment<br>Date | Initial UPB<br>(bn) | Current<br>UPB<br>(bn) <sup>(C)</sup> | MSR Component <sup>(B)</sup> |                        | Direct<br>Interest in<br>Excess<br>MSR (%) | NRZ Excess<br>MSR Initial<br>Investment<br>(mm) |
|---------------------------|--------------------|---------------------|---------------------------------------|------------------------------|------------------------|--|---|
|                           |                    |                     |                                       | MSR<br>(bps)                 | Excess<br>MSR<br>(bps) |  |   |
| Agency                    | May-14             | \$2.1               | \$1.6                                 | 33                           | 23                     | 33.3                                       | \$3.5   |
| Total/Weighted<br>Average |                    | \$2.1               | \$1.6                                 |                              |                        |  | \$3.5   |

(A) Excludes investments in HLSS Excess MSRs closed subsequent to March 31, 2015. See Note 18 to our condensed consolidated financial statements for further details on the Acquisition.

(B) The MSR is a weighted average as of the date the transaction closed and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

(C) As of the date the transaction closed.

As of March 31, 2015, we have remaining commitments to purchase \$62.0 billion UPB of legacy Agency Excess MSRs, subject to the completion of definitive documentation between Nationstar and the applicable seller of the related MSR and definitive documentation between us and with Nationstar.

Edgar Filing: New Residential Investment Corp. - Form 10-Q

The following table summarizes the collateral characteristics of the loans underlying our direct Excess MSR investments as of March 31, 2015 (dollars in thousands):

| Collateral Characteristics |                         |                            |                           |                 |                              |                          |                      |  |   |                              |                              |                              |                          |
|----------------------------|-------------------------|----------------------------|---------------------------|-----------------|------------------------------|--------------------------|----------------------|--|---|------------------------------|------------------------------|------------------------------|--------------------------|
|                            | Current Carrying Amount | Original Principal Balance | Current Principal Balance | Number of Loans | WA FICO Score <sup>(A)</sup> | WA Coupon <sup>(A)</sup> | WA Maturity (months) | Average Loan Age (months) <sup>(B)</sup> | Adjustable Rate Mortgage <sup>(B)</sup> | One Month CPR <sup>(C)</sup> | One Month CRR <sup>(D)</sup> | One Month CDR <sup>(E)</sup> | One Month Recapture Rate |
| Agency                     |                         |                            |                           |                 |                              |                          |                      |  |   |                              |                              |                              |                          |
| Original Pools             | \$179,496               | \$69,813,877               | \$49,071,462              | 282,739         | 708                          | 4.1%                     | 277                  | 70                                       | 15.0%                                   | 15.9%                        | 13.9%                        | 2.2%                         | 21.2%                    |
| Recaptured Loans           | 29,618                  | —                          | 5,758,415                 | 32,902          | 671                          | 4.5%                     | 306                  | 16                                       | 0.2%                                    | 5.2%                         | 4.7%                         | 0.5%                         | 15.3%                    |
| Recapture Agreement        | 29,865                  | —                          | —                         | —               | —                            | -                        | —                    | —  | -                                       | -                            | -                            | -                            | -                        |
|                            | \$238,979               | \$69,813,877               | \$54,829,877              | 315,641         | 704                          | 4.1%                     | 280                  | 64                                       | 13.4%                                   | 14.8%                        | 12.9%                        | 2.0%                         | 20.6%                    |
| Non-Agency <sup>(F)</sup>  |                         |                            |                           |                 |                              |                          |                      |  |   |                              |                              |                              |                          |
| Original Pools             | 266,375                 | 148,839,262                | 107,799,677               | 554,882         | 648                          | 4.5%                     | 264                  | 111                                      | 47.1%                                   | 14.1%                        | 8.6%                         | 5.9%                         | 10.0%                    |
| Recaptured Loans           | 3,990                   | —                          | 942,882                   | 4,208           | 743                          | 4.2%                     | 291                  | 12                                       | 4.8%                                    | 13.1%                        | 12.6%                        | 0.6%                         | 53.6%                    |
| Recapture Agreement        | 17,318                  | —                          | —                         | —               | —                            | -                        | —                    | —  | -                                       | -                            | -                            | -                            | -                        |
|                            | \$287,683               | \$148,839,262              | \$108,742,559             | 559,090         | 649                          | 4.5%                     | 264                  | 111                                      | 46.7%                                   | 14.1%                        | 8.6%                         | 5.9%                         | 10.4%                    |
| Total/Weighted Average     | \$526,662               | \$218,653,139              | \$163,572,436             | 874,731         | 668                          | 4.4%                     | 269                  | 95                                       | 35.5%                                   | 14.3%                        | 10.0%                        | 4.6%                         | 13.8%                    |

| Collateral Characteristics |                                     |                                    |                                    |                                     |                      |                   |                     |   |
|----------------------------|-------------------------------------|------------------------------------|------------------------------------|-------------------------------------|----------------------|-------------------|---------------------|---|
|                            | Uncollected Payments <sup>(G)</sup> | Delinquency 30 Days <sup>(G)</sup> | Delinquency 60 Days <sup>(G)</sup> | Delinquency 90+ Days <sup>(G)</sup> | Loans in Foreclosure | Real Estate Owned | Loans in Bankruptcy |   |
| Agency                     |                                     |                                    |                                    |                                     |                      |                   |                     |   |
| Original Pools             | 5.9                                 | % 3.2                              | % 1.0                              | % 0.9                               | % 2.7                | % 0.7             | % 1.8               | % |
| Recaptured Loans           | 1.7                                 | % 2.2                              | % 0.2                              | % 0.2                               | % 0.3                | % 0.1             | % 0.3               | % |
| Recapture Agreement        | -                                   | -                                  | -                                  | -                                   | -                    | -                 | -                   | - |
|                            | 5.5                                 | % 3.1                              | % 0.9                              | % 0.8                               | % 2.4                | % 0.6             | % 1.6               | % |
| Non-Agency <sup>(F)</sup>  |                                     |                                    |                                    |                                     |                      |                   |                     |   |
| Original Pools             | 22.3                                | % 6.7                              | % 1.8                              | % 3.1                               | % 13.1               | % 2.1             | % 4.8               | % |
| Recaptured Loans           | 0.8                                 | % 0.5                              | % 0.1                              | % —                                 | % —                  | % -               | 0.1                 | % |
| Recapture Agreement        | -                                   | -                                  | -                                  | -                                   | -                    | -                 | -                   | - |
|                            | 22.1                                | % 6.6                              | % 1.8                              | % 3.1                               | % 13.0               | % 2.1             | % 4.8               | % |
| Total/Weighted Average     | 16.5                                | % 5.5                              | % 1.5                              | % 2.3                               | % 9.5                | % 1.6             | % 3.7               | % |

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

- (B) Adjustable Rate Mortgage % represents the percentage of the total principal balance of the pool that corresponds to adjustable rate mortgages.
- (C) One Month CPR, or the constant prepayment rate, represents the annualized rate of the prepayments during the month as a percentage of the total principal balance of the pool.
- (D) One Month CRR, or the voluntary prepayment rate, represents the annualized rate of the voluntary prepayments during the month as a percentage of the total principal balance of the pool.
- (E) One Month CDR, or the involuntary prepayment rate, represents the annualized rate of the involuntary prepayments (defaults) during the month as a percentage of the total principal balance of the pool.  
Excess MSR investments in which we also invested in related servicer advances, including the basic fee
- (F) component of the related MSR as of March 31, 2015 (Note 6 to our condensed consolidated financial statements included herein).  
Uncollected Payments represents the percentage of the total principal balance of the pool that corresponds to loans for which the most recent payment was not made. Delinquency 30 Days, Delinquency 60 Days and Delinquency
- (G) 90+ Days represent the percentage of the total principal balance of the pool that corresponds to loans that are delinquent by 30–59 days, 60–89 days or 90 or more days, respectively.

The following table summarizes the collateral characteristics as of March 31, 2015 of the loans underlying Excess MSR investments made through joint ventures accounted for as equity method investees (dollars in thousands). For each of these pools, we own a 50% interest in an entity that invested in a 66.7% interest in the Excess MSRs.

Collateral Characteristics

|                        | Current Carrying Amount | Original Principal Balance | Current Principal Balance | NRZ Effective Ownership Principal Balance | Number of Loans | WA FICO Score | WA Coupon (A) | WA Maturity (months) | Average Loan Age (months) | Adjustable Rate Mortgage % (B) | One Month CPR (C) | One Month CRR (D) | One Month CDR (E) | One Month Recapture Rate |
|------------------------|-------------------------|----------------------------|---------------------------|---|-----------------|---------------|---------------|----------------------|---------------------------|--------------------------------|-------------------|-------------------|-------------------|--------------------------|
| Agency Original Pools  | \$299,163               | \$125,191,420              | \$74,075,622              | 33.3%                                     | 567,430         | 672           | 5.0%          | 286                  | 84                        | 9.5%                           | 20.6%             | 17.6%             | 3.6%              | 22.9%                    |
| Recaptured Loans       | 59,746                  | —                          | 9,925,124                 | 33.3%                                     | 62,444          | 691           | 4.5%          | 308                  | 20                        | 0.5%                           | 7.3%              | 6.1%              | 1.3%              | 23.0%                    |
| Recapture Agreement    | 81,805                  | —                          | —                         | 33.3%                                     | —               | —             | -             | —                    | —                         | -                              | -                 | -                 | -                 | -                        |
| Total/Weighted Average | \$440,714               | \$125,191,420              | \$84,000,746              |   | 629,874         | 674           | 4.9%          | 289                  | 76                        | 8.4%                           | 19.0%             | 16.2%             | 3.3%              | 22.9%                    |

Collateral Characteristics

|                        | Uncollected Payments (G) | Delinquency 30 Days (G) | Delinquency 60 Days (G) | Delinquency 90+ Days (G) | Loans in Foreclosure | Real Estate Owned | Loans in Bankruptcy |
|------------------------|--------------------------|-------------------------|-------------------------|--------------------------|----------------------|-------------------|---------------------|
| Agency Original Pools  | 8.7                      | % 5.2                   | % 1.3                   | % 1.0                    | % 4.3                | % 1.3             | % 2.5               |
| Recaptured Loans       | 2.7                      | % 2.5                   | % 0.8                   | % 0.6                    | % 0.5                | % —               | % 0.7               |
| Recapture Agreement    | -                        | -                       | -                       | -                        | -                    | -                 | -                   |
| Total/Weighted Average | 8.0                      | % 4.9                   | % 1.2                   | % 1.0                    | % 3.9                | % 1.1             | % 2.3               |

- (A) The WA FICO score is based on the weighted average of information provided by the loan servicer on a monthly basis. The loan servicer generally updates the FICO score on a monthly basis.
- (B) Adjustable Rate Mortgage % represents the percentage of the total principal balance of the pool that corresponds to adjustable rate mortgages.
- (C) One Month CPR, or the constant prepayment rate, represents the annualized rate of the prepayments during the month as a percentage of the total principal balance of the pool.
- (D) One Month CRR, or the voluntary prepayment rate, represents the annualized rate of the voluntary prepayments during the month as a percentage of the total principal balance of the pool.
- (E) One Month CDR, or the involuntary prepayment rate, represents the annualized rate of the involuntary prepayments (defaults) during the month as a percentage of the total principal balance of the pool.
- (F) Excess MSR investments in which we also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2015 (Note 6 to our condensed consolidated financial statements included herein).
- (G) Uncollected Payments represents the percentage of the total principal balance of the pool that corresponds to loans for which the most recent payment was not made. Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days

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

#### Servicer Advances

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

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

March 31, 2015, the Buyer had settled approximately \$3.2 billion of servicer advances related to Transaction 1, which represents substantially all of Transaction 1.

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

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

In December 2014, we completed the SLS Transaction, as described under “–Excess MSR” above.

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

|                   | March 31, 2015       |                               | Weighted Average Discount Rate | Weighted Average Life (Years) <sup>(B)</sup> | Three Months Ended March 31, 2015 Change in Fair Value Recorded in Other Income |
|-------------------|----------------------|-------------------------------|--------------------------------|--|---|
|                   | Amortized Cost Basis | Carrying Value <sup>(A)</sup> |                                |  |   |
| Servicer Advances | \$3,168,909          | \$3,245,457                   | 5.4                            | % 3.9  | \$(7,669)   |

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

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

The following is additional information regarding our servicer advances, and related financing, as of March 31, 2015 (dollars in thousands):

|   | UPB of Underlying Residential Mortgage Loans | Outstanding Servicer Advances | Servicer Advances to UPB of Underlying Residential Mortgage Loans | Carrying Value of Notes Payable | Loan-to-Value |                    | Cost of Funds <sup>(B)</sup> |       |
|---|--|-------------------------------|---|---------------------------------|---------------|--------------------|------------------------------|-------|
|   |  |                               |   |                                 | Gross         | Net <sup>(A)</sup> | Gross                        | Net   |
| March 31, 2015 Servicer advances <sup>(C)</sup> | \$92,159,246                                 | \$3,068,306                   | 3.3   | % \$2,875,412                   | 91.5 %        | 90.6 %             | 2.6 %                        | 2.2 % |

(A) Ratio of face amount of borrowings to value of servicer advance collateral, net of any interest reserve.

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

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

March 31, 2015



Edgar Filing: New Residential Investment Corp. - Form 10-Q

|  |              |
|--|--------------|
| Principal and interest advances                | \$ 737,845   |
| Escrow advances (taxes and insurance advances) | 1,514,848    |
| Foreclosure advances                           | 815,613      |
| Total  | \$ 3,068,306 |

52

---

The following table sets forth information specifically regarding the Buyer (and excludes the SLS Transaction) (dollars in thousands):

|  | As of<br>March 31, 2015 |   |
|--|-------------------------|---|
| Advances Purchased                                 | \$5,184,860             |   |
| Activity Since Purchase                            | (2,284,966              | ) |
| Ending Advance Balance                             | \$2,899,894             |   |
| Net Debt <sup>(A)</sup>                            | \$2,698,421             |   |
| Total Equity Invested <sup>(B)</sup>               | \$702,359               |   |
| Distributions Since Purchase                       | \$426,672               |   |
| Net Equity Invested <sup>(B)</sup>                 | \$275,687               |   |
| New Residential's Equity % in Buyer <sup>(C)</sup> | 44.5                    | % |
| Co-investors' Equity % in Buyer <sup>(C)</sup>     | 55.5                    | % |

(A) Outstanding debt net of restricted cash.

(B) Includes working capital.

(C) Based on cash basis equity.

Subsequent to March 31, 2015 and prior to May 11, 2015, the Buyer funded a total of \$363.4 million of servicer advances and recovered \$552.0 million of existing servicer advances. Notes payable outstanding decreased by \$170.0 million and restricted cash decreased approximately \$0.5 million in relation to these fundings. Additionally, we paid \$5.5 million of contractual incentive fees.

Subsequent to March 31, 2015 and prior to May 11, 2015, New Residential funded a total of \$41.0 million of SLS servicer advances and recovered \$54.0 million of existing SLS servicer advances. Notes payable outstanding decreased by \$11.4 million and restricted cash increased approximately \$0.02 million in relation to these fundings.

#### SA Call Right

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

The Buyer exercised the SA Call Right, in part, in Transaction 2. The outstanding balance of the servicer advances subject to the portion of the SA Call Right that was exercised was approximately \$1.1 billion in the first quarter of 2014. An additional \$921.3 million of the remaining portion of the outstanding balance of the servicer advances subject to the SA Call Right was exercised in the second quarter. As of June 30, 2014, the Buyer had settled \$2.0 billion of advances related to Transaction 2, which was financed with approximately \$1.8 billion of debt. The SA Call Right expired on June 30, 2014. At the time of expiration, approximately \$0.4 billion of advances remained related to Transaction 2.

#### The Buyer

We, through a wholly owned subsidiary, are the managing member of the Buyer. As of March 31, 2015, we owned approximately 44.5% of the Buyer, which corresponds to a \$124.4 million equity investment (net of distributions).

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

#### Servicing Fee

Nationstar and SLS remain the named servicers under the applicable servicing agreements and will continue to perform all servicing duties for the related mortgage loans. The Buyer has the right, but not the obligation, to become the named servicer with respect

to its investments, subject to obtaining consents and ratings agency letters required for a formal change of the named servicer. In exchange for their services, we pay Nationstar and SLS a monthly servicing fee representing a portion of the amounts from the purchased basic fee.

The Nationstar Servicing Fee is equal to a fixed percentage (the “Servicing Fee Percentage”) of the amounts from the purchased basic fee. The Servicing Fee Percentage as of March 31, 2015 is equal to approximately 9.2%, which is equal to (i) 2 basis points divided by (ii) the basic fee, which is 21.6 basis points on a weighted average basis as of March 31, 2015. The SLS servicing fee is equal to 10.75 bps, based on the servicing fee collections of the underlying loans.

#### Targeted Return/Incentive fee

The Targeted Return and the Performance Fee, with respect to Transaction 1 and Transaction 2, are designed to achieve three objectives: (i) provide a reasonable risk-adjusted return to the Buyer based on the expected amount and timing of estimated cash flows from the purchased basic fee and advances, with both upside and downside based on the performance of the investment, (ii) provide Nationstar with a sufficient fee to compensate it for acting as servicer, and (iii) provide Nationstar with an incentive to effectively service the underlying loans. The Targeted Return implements these objectives by allocating payments in respect of the purchased basic fee between the Buyer and Nationstar. The Incentive Fee functions in the same fashion with respect to the SLS Transaction.

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

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

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

The Performance Fee is calculated as follows. Pursuant to a Master Servicing Rights Purchase Agreement and related Sale Supplements, Net Collections is divided into two subsets: the “Retained Amount” and the “Surplus Amount.” If the amount necessary to achieve the Targeted Return is equal to or less than the Retained Amount, then 50% of the excess Retained Amount (if any) and 100% of the Surplus Amount is paid to Nationstar as the Performance Fee. If the amount necessary to achieve the Targeted Return is greater than the Retained Amount but less than Net Collections, then 100% of the excess Surplus Amount is paid to Nationstar as a Performance Fee. Performance Fee payments were made to Nationstar in the amount of \$12.1 million during the three months ended March 31, 2015.

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

#### Residential Securities and Loans

#### Real Estate Securities

As of March 31, 2015, we had approximately \$3.4 billion face amount of real estate securities, including \$1.6 billion of Agency RMBS and \$1.8 billion of Non-Agency RMBS. These investments were financed with repurchase agreements with an aggregate face amount of approximately \$1.6 billion for Agency RMBS and approximately \$0.3 billion for Non-Agency RMBS. As of March 31, 2015, a total face amount of \$1.5 billion of our Non-Agency portfolio and approximately \$88.3 million of our Agency portfolio was serviced or master serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately \$6.0 billion as of March 31, 2015. We hold a limited right to cleanup call options with respect to certain securitization trusts serviced or master serviced by Nationstar with an aggregate UPB of underlying mortgage loans of approximately \$92.8 billion whereby, when the outstanding balance falls below a pre-determined threshold, it can effectively purchase the underlying mortgage loans by repaying all of the outstanding securitization financing at par, in exchange for a fee paid to Nationstar. We similarly hold a limited right to cleanup call options with respect to certain securitization trusts master serviced by SLS with an aggregate UPB of underlying mortgage loans of approximately \$1.8 billion.

Subsequent to March 31, 2015, we acquired Non-Agency RMBS with an aggregate face amount of approximately \$73.3 million for approximately \$58.6 million, financed with repurchase agreements. We sold Agency RMBS with a face amount of \$374.4 million and an amortized cost basis of approximately \$391.0 million for approximately \$394.6 million and recorded a gain of approximately \$3.6 million. We sold no Non-Agency RMBS. Subsequent to March 31, 2015, we rolled \$1.3 billion within various repurchase facilities to mature between May 2015 and July 2015.

Subsequent to March 31, 2015, we financed an additional \$190.0 million of Non-Agency RMBS within various repurchase facilities as a result of purchases. We also rolled substantially all of our Non-Agency RMBS repurchase facilities to mature between May 2015 and August 2015.

#### Agency RMBS

The following table summarizes our Agency RMBS portfolio as of March 31, 2015 (dollars in thousands):

| Asset Type             | Outstanding Face Amount | Amortized Cost Basis | Gross Unrealized |           | Carrying Value <sup>(A)</sup> | Outstanding Repurchase Agreements |
|------------------------|-------------------------|----------------------|------------------|-----------|-------------------------------|-----------------------------------|
|                        |                         |                      | Gains            | Losses    |                               |                                   |
| Agency ARM RMBS        | \$595,926               | \$633,665            | \$3,470          | \$(2,295) | \$634,840                     | \$623,924                         |
| Agency Specified Pools | 979,833                 | 1,026,116            | 4,040            | —         | 1,030,156                     | 989,048                           |
| Agency RMBS            | \$1,575,759             | \$1,659,781          | \$7,510          | \$(2,295) | \$1,664,996                   | \$1,612,972                       |

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

The following table summarizes the reset dates of our Agency ARM RMBS portfolio as of March 31, 2015 (dollars in thousands):

| Months to Next Reset <sup>(A)</sup> | Number of Securities | Outstanding Face Amount | Amortized Cost Basis | Percentage of Total Amortized Cost Basis | Carrying Value | Weighted Average Periodic Cap |        |                       |   |                             |                                |
|-------------------------------------|----------------------|-------------------------|----------------------|--|----------------|-------------------------------|--------|-----------------------|---|-----------------------------|--------------------------------|
|                                     |                      |                         |                      |  |                | Coupon                        | Margin | 1st Coupon Adjustment | Subsequent Coupon Adjustment <sup>(B)</sup> | Lifetime Cap <sup>(D)</sup> | Months to Reset <sup>(E)</sup> |
| 1 - 12                              | 88                   | \$595,926               | \$633,665            | 100.0 %                                  | \$634,840      | 2.5 %                         | 1.8 %  | 5.0 %                 | 2.0 %                                       | 9.6 %                       | 5                              |

Of these investments, 84.3% reset based on 12 month LIBOR index, 4.6% reset based on 6 month LIBOR Index, (A) 0.8% reset based on 1 month LIBOR, and 10.3% reset based on the 1 year Treasury Constant Maturity Rate. After the initial fixed period, 94.7% of these securities will reset annually and 5.3% will reset semi-annually.

Represents the maximum change in the coupon at the end of the fixed rate period for 24 securities (36% of the (B) current face of this category). The remaining 64 securities (64% of the current face of this category) are not applicable, as they are past the first coupon adjustment.

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

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

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

The following table summarizes the characteristics of our Agency RMBS portfolio and of the collateral underlying our Agency RMBS as of March 31, 2015 (dollars in thousands):

| Vintage <sup>(A)</sup> | Agency RMBS Characteristics |                         |                      |  |                | Collateral Characteristics    |                            |   |  |
|------------------------|-----------------------------|-------------------------|----------------------|--|----------------|-------------------------------|----------------------------|---|--|
|                        | Number of Securities        | Outstanding Face Amount | Amortized Cost Basis | Percentage of Total Amortized Cost Basis | Carrying Value | Weighted Average Life (Years) | 3 Month CPR <sup>(B)</sup> |   |  |
| Pre-2006               | 24                          | \$ 103,047              | \$ 108,748           | 6.6                                      | % \$ 109,846   | 5.0                           | 8.2                        | % |  |
| 2006                   | 5                           | 16,168                  | 17,099               | 1.0                                      | % 17,139       | 4.9                           | 0.5                        | % |  |
| 2007                   | 16                          | 69,220                  | 73,341               | 4.4                                      | % 73,673       | 4.7                           | 6.7                        | % |  |
| 2008                   | 7                           | 32,454                  | 34,481               | 2.1                                      | % 34,697       | 4.8                           | 9.4                        | % |  |
| 2009                   | 8                           | 56,211                  | 60,188               | 3.6                                      | % 59,956       | 4.2                           | 6.6                        | % |  |
| 2010                   | 16                          | 146,069                 | 156,396              | 9.4                                      | % 155,718      | 4.1                           | 16.8                       | % |  |
| 2011                   | 5                           | 46,993                  | 49,296               | 3.0                                      | % 49,889       | 4.5                           | 5.4                        | % |  |
| 2012 and later         | 21                          | 1,105,597               | 1,160,232            | 69.9                                     | % 1,164,078    | 5.8                           | 1.9                        | % |  |
| Total/Weighted Average | 102                         | \$ 1,575,759            | \$ 1,659,781         | 100.0                                    | % \$ 1,664,996 | 5.4                           | 4.3                        | % |  |

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

(B) Three month average constant prepayment rate.

The following table summarizes the net interest spread of our Agency RMBS portfolio as of March 31, 2015:

| Net Interest Spread <sup>(A)</sup> |      |   |
|------------------------------------|------|---|
| Weighted Average Asset Yield       | 2.18 | % |
| Weighted Average Funding Cost      | 0.36 | % |
| Net Interest Spread                | 1.82 | % |

(A) The Agency RMBS portfolio consists of 38.2% floating rate securities and 61.8% fixed rate securities. See table above for details on rate resets of the floating rate securities.

#### Non-Agency RMBS

The following table summarizes our Non-Agency RMBS portfolio as of March 31, 2015 (dollars in thousands):

| Asset Type      | Outstanding Face Amount | Amortized Cost Basis | Gross Unrealized |           | Carrying Value <sup>(A)</sup> | Outstanding Repurchase Agreements |
|-----------------|-------------------------|----------------------|------------------|-----------|-------------------------------|-----------------------------------|
|                 |                         |                      | Gains            | Losses    |                               |                                   |
| Non-Agency RMBS | \$ 1,820,536            | \$ 647,915           | \$ 14,641        | \$(2,637) | \$ 659,919                    | \$ 315,919                        |

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

Edgar Filing: New Residential Investment Corp. - Form 10-Q

The following tables summarize the characteristics of our Non-Agency RMBS portfolio and of the collateral underlying our Non-Agency RMBS as of March 31, 2015 (dollars in thousands):

Non-Agency RMBS Characteristics

| Vintage <sup>(A)</sup> | Average Minimum Rating <sup>(B)</sup> | Number of Securities | Outstanding Face Amount | Amortized Cost Basis | Percentage of Total Amortized Cost Basis |   | Carrying Value | Principal Subordination | Excess Spread <sup>(C)</sup> | Weighted Average Life <sup>(D)</sup> (Years) | Weighted Average Coupon |      |     |   |
|------------------------|---------------------------------------|----------------------|-------------------------|----------------------|--|---|----------------|-------------------------|------------------------------|--|-------------------------|------|-----|---|
|                        |                                       |                      |                         |                      |  |   |                |                         |                              |  |                         |      |     |   |
| Pre 2004               | B-                                    | 75                   | \$89,169                | \$61,915             | 9.6                                      | % | \$62,994       | 21.1                    | %                            | 2.0  | %                       | 5.9  | 2.0 | % |
| 2004                   | B-                                    | 25                   | 100,659                 | 63,454               | 9.8                                      | % | 69,555         | 16.7                    | %                            | 2.4  | %                       | 9.4  | 1.2 | % |
| 2005                   | CCC                                   | 11                   | 83,260                  | 62,534               | 9.7                                      | % | 64,341         | 20.5                    | %                            | 3.5  | %                       | 9.5  | 0.8 | % |
| 2006 and later         | BBB+                                  | 26                   | 1,547,448               | 460,012              | 70.9                                     | % | 463,029        | 20.6                    | %                            | 1.5  | %                       | 10.3 | 0.5 | % |
| Total/Weighted Average | BBB-                                  | 137                  | \$1,820,536             | \$647,915            | 100.0                                    | % | \$659,919      | 26.0                    | %                            | 2.6  | %                       | 9.7  | 0.8 | % |

Collateral Characteristics<sup>(E)</sup>

| Vintage <sup>(A)</sup> | Average Loan Age (years) | Collateral Factor <sup>(F)</sup> | 3 month CPR <sup>(G)</sup> | Delinquency <sup>(H)</sup> | Cumulative Losses to Date |      |   |
|------------------------|--------------------------|----------------------------------|----------------------------|----------------------------|---------------------------|------|---|
|                        |                          |                                  |                            |                            |                           |      |   |
| Pre 2004               | 12.5                     | 0.04                             | 9.4                        | % 16.3                     | %                         | 2.6  | % |
| 2004                   | 11.1                     | 0.08                             | 8.6                        | % 21.0                     | %                         | 3.7  | % |
| 2005                   | 10.6                     | 0.11                             | 7.4                        | % 18.1                     | %                         | 11.3 | % |
| 2006 and later         | 9.1                      | 0.57                             | 8.6                        | % 12.0                     | %                         | 12.5 | % |
| Total/Weighted Average | 9.8                      | 0.43                             | 8.6                        | % 13.9                     | %                         | 10.6 | % |

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

Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. This excludes the ratings of the collateral underlying 20

(B) bonds which either have never been rated or for which rating information is no longer provided. We had no assets that were on negative watch for possible downgrade by at least one rating agency as of March 31, 2015.

(C) The percentage of the outstanding face amount of securities and residual interests that is subordinate to our investments. This excludes interest-only bonds.

(D) The current amount of interest received on the underlying loans in excess of the interest paid on the securities, as a percentage of the outstanding collateral balance for the quarter ended March 31, 2015.

(E) The weighted average loan size of the underlying collateral is \$172.9 thousand. This excludes the collateral underlying six bonds, due to unavailable information.

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

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

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

The following table sets forth the geographic diversification of the loans underlying our Non-Agency RMBS as of March 31, 2015 (dollars in thousands):

| Geographic Location | Outstanding Face Amount | Percentage of Total Outstanding |   |
|---------------------|-------------------------|---------------------------------|---|
| Western U.S.        | \$614,391               | 33.6                            | % |
| Southeastern U.S.   | 479,970                 | 26.4                            | % |
| Northeastern U.S.   | 327,308                 | 18.0                            | % |
| Midwestern U.S.     | 160,246                 | 8.8                             | % |
| Southwestern U.S.   | 238,127                 | 13.1                            | % |



Edgar Filing: New Residential Investment Corp. - Form 10-Q

|                      |             |       |   |
|----------------------|-------------|-------|---|
| Other <sup>(A)</sup> | 494         | 0.1   | % |
|                      | \$1,820,536 | 100.0 | % |

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

57

---

The following table summarizes the net interest spread of our Non-Agency RMBS portfolio as of March 31, 2015:

|                                    |      |   |
|------------------------------------|------|---|
| Net Interest Spread <sup>(A)</sup> |      |   |
| Weighted Average Asset Yield       | 5.74 | % |
| Weighted Average Funding Cost      | 1.77 | % |
| Net Interest Spread                | 3.97 | % |

(A) The Non-Agency RMBS portfolio consists of 57.9% floating rate securities and 42.1% fixed rate securities.

### Residential Mortgage Loans

As of March 31, 2015, we had approximately \$635.2 million outstanding face amount of residential mortgage loans. These investments were financed with repurchase agreements with an aggregate face amount of approximately \$392.4 million and notes payable with an aggregate face amount of approximately \$23.6 million.

During the three months ended March 31, 2015, we sold several portfolios of reperforming and non-performing residential mortgage loans as discussed below:

On February 27, 2015, we sold a portfolio of non-performing residential mortgage loans with a UPB of approximately \$135.2 million and a carrying value of approximately \$102.4 million at a price of \$102.8 million and recorded a gain of \$0.4 million.

On March 19, 2015, we sold a portfolio of reperforming residential mortgage loans with a UPB of approximately \$176.5 million and a carrying value of approximately \$142.1 million at a price of \$148.6 million and recorded a gain of \$6.5 million.

On March 26, 2015, we sold a portfolio of reperforming residential mortgage loans with a UPB of approximately \$6.4 million and a carrying value of approximately \$5.1 million at a price of \$5.3 million and recorded a gain of \$0.2 million.

On March 27, 2015, we sold a portfolio of non-performing residential mortgage loans and REO with a UPB of approximately \$469.6 million and a carrying value of approximately \$362.0 million at a price of \$373.0 million and recorded a gain of \$11.0 million.

The following table presents the total residential mortgage loans outstanding by loan type at March 31, 2015.

| Loan Type   | Outstanding Face Amount | Carrying Value | Loan Count | Weighted Average Yield | Weighted Average Life (Years) <sup>(A)</sup> | Floating Rate Loans as a % of Face Amount | Loan to Value Ratio ("LTV") <sup>(B)</sup> | Weighted Avg. Delinquency <sup>(C)</sup> | Weighted Average PICO <sup>(D)</sup> |
|---|-------------------------|----------------|------------|------------------------|--|---|--|--|--------------------------------------|
| Reverse Mortgage Loans <sup>(E)(F)</sup>              | \$ 42,306               | \$ 23,294      | 182        | 10.0 %                 | 4.0  | 21.4 %                                    | 109.6 %                                    | 78.2 %                                   | N/A                                  |
| Performing Loans <sup>(G)</sup>                       | 23,548                  | 21,673         | 709        | 8.7 %                  | 5.8  | 17.9 %                                    | 79.6 %                                     | 0.3 %                                    | 620                                  |
| Total Residential Mortgage Loans, held-for-investment | \$ 65,854               | \$ 44,967      | 891        | 9.6 %                  | 4.7  | 19.4 %                                    | 98.5 %                                     | 53.0 %                                   | 620                                  |
| Performing Loans, held-for-sale <sup>(G)</sup>        | \$ 268,731              | \$ 270,407     | 4,832      | 4.9 %                  | 7.0  | 27.6 %                                    | 82.1 %                                     | — %                                      | 621                                  |
|   | 300,598                 | 229,767        | 2,133      | 5.9 %                  | 2.4  | 32.4 %                                    | 105.9 %                                    | 87.4 %                                   | 547                                  |

|   |            |            |       |     |       |      |        |        |       |
|---|------------|------------|-------|-----|-------|------|--------|--------|-------|
| Purchased Credit Impaired (“PCI”) Loans, held-for-sale <sup>(H)</sup> Residential Mortgage Loans, held-for-sale | \$ 569,329 | \$ 500,174 | 6,965 | 5.4 | % 4.5 | 30.1 | % 94.7 | % 46.2 | % 582 |
|---|------------|------------|-------|-----|-------|------|--------|--------|-------|

- (A) The weighted average life is based on the expected timing of the receipt of cash flows.
- (B) LTV refers to the ratio comparing the loan’s unpaid principal balance to the value of the collateral property.
- (C) Represents the percentage of the total principal balance that are 60+ days delinquent.
- (D) The weighted average FICO score is based on the weighted average of information updated and provided by the loan servicer on a monthly basis.
- (E) Represents a 70% interest we hold in reverse mortgage loans. The average loan balance outstanding based on total UPB is \$0.3 million. 76% of these loans have reached a termination event. As a result, the borrower can no longer make draws on these loans. Each loan matures upon the occurrence of a termination event.
- (F) FICO scores are not used in determining how much a borrower can access via a reverse mortgage loan.
- (G) Includes loans that are current or less than 30 days past due at acquisition where we expect to collect all contractually required principal and interest payments. Presented net of unamortized premiums of \$0.7 million.
- (H) Includes loans with evidence of credit deterioration since origination where it is probable that we will not collect all contractually required principal and interest payments. As of March 31, 2015, we have placed all of these loans on nonaccrual status.

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

Subsequent to March 31, 2015 and prior to May 11, 2015, we sold a portfolio of performing residential mortgage loans with a UPB of approximately \$268.7 million for net proceeds of \$282.2 million.

Subsequent to March 31, 2015 and prior to May 11, 2015, we sold a portfolio of non-performing residential mortgage loans with a UPB of approximately \$22.1 million for net proceeds of \$19.5 million.

Other

### Consumer Loans

In April 2013, we completed, through newly formed limited liability companies (together, the “Consumer Loan Companies”), a co-investment in a portfolio of consumer loans. The portfolio included personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. The Consumer Loan Companies acquired the portfolio from HSBC Finance Corporation and its affiliates. We acquired 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf, which is majority-owned by Fortress funds managed by our Manager, acquired 47% and an affiliate of Blackstone Tactical Opportunities Advisors LLC acquired 23%. Springleaf acts as the managing member of the Consumer Loan Companies. After a servicing transition period, Springleaf became the servicer of the loans and provides all servicing and advancing functions for the portfolio. The Consumer Loan Companies initially financed approximately 73% of the original purchase price with asset-backed notes. In September 2013, the Consumer Loan Companies issued and sold additional asset-backed notes that were subordinate to the debt issued in April 2013. On October 3, 2014, the Consumer Loan Companies refinanced the outstanding asset-backed notes with an asset-backed securitization for approximately \$2.6 billion. The proceeds in excess of the refinanced debt were distributed to the respective co-investors. We received approximately \$337.8 million, which reduced our basis in the consumer loans investment to \$0.0 million and resulted in a gain of approximately \$80.1 million. Subsequent to this refinancing, we have discontinued recording our share of the underlying earnings of the Consumer Loan Companies until such time as their cumulative earnings exceed their cumulative distributions.

The table below summarizes the collateral characteristics of the consumer loans as of March 31, 2015 (dollars in thousands):

#### Collateral Characteristics

| UPB <sup>(A)</sup> | Personal Unsecured Loans % | Personal Homeowner Loans % | Number of Loans | Weighted                                   |                         | Adjustable Rate Loan % | Average Loan Age (months) | Average Expected Life (Years) | Average Delinquency 30 Days <sup>(C)</sup> | Average Delinquency 60 Days <sup>(C)</sup> | Average Delinquency 90+ Days <sup>(C)</sup> | Delinquency CRR <sup>(D)</sup> | Delinquency CDR <sup>(E)</sup> |       |
|--------------------|----------------------------|----------------------------|-----------------|--|-------------------------|------------------------|---------------------------|-------------------------------|--|--|---|--------------------------------|--------------------------------|-------|
|                    |                            |                            |                 | Average Original FICO Score <sup>(B)</sup> | Weighted Average Coupon |                        |                           |                               |  |  |   |                                |                                |       |
| Consumer Loans     | \$2,460,743                | 67.3 %                     | 32.7 %          | 269,086                                    | 635                     | 18.2 %                 | 10.7 %                    | 118                           | 3.6  | 3.0 %                                      | 1.7 %                                       | 2.9 %                          | 16.2 %                         | 6.1 % |

(A) As of February 28, 2015.

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

Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days represent the percentage of the total

(C) principal balance of the pool that corresponds to loans that are delinquent by 30-59 days, 60-89 days or 90 or more days, respectively.

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

(E)

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

## APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

### Excess MSR

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

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

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

Investments in Excess MSR are aggregated into pools as applicable; each pool of Excess MSR is accounted for in the aggregate. Interest income for Excess MSR is accreted using an effective yield or "interest" method, based upon the expected income from the Excess MSR through the expected life of the underlying mortgages. The inputs used in estimating cash flows are generally the same as those used in estimating fair value, and are subject to the same judgments and uncertainties. Changes to expected cash flows result in a cumulative retrospective adjustment, which will be recorded in the period in which the change in expected cash flows occurs. Under the retrospective method, the interest income recognized for a reporting period would be measured as the difference between the amortized cost basis at the end of the period and the amortized cost basis at the beginning of the period, plus any cash received during the period. The amortized cost basis is calculated as the present value of estimated future cash flows

using an effective yield, which is the yield that equates all past actual and current estimated future cash flows to the initial investment. In addition, our policy is to recognize interest income only on Excess MSR in existing eligible underlying mortgages.

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

The following table summarizes the estimated change in fair value of our interests in the Excess MSR owned directly as of March 31, 2015 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

|                                 |           |             |            |            |    |
|---------------------------------|-----------|-------------|------------|------------|----|
| Fair value at March 31, 2015    | \$526,662 |             |            |            |    |
| Discount rate shift in %        | -20%      | -10%        | 10%        | 20%        |    |
| Estimated fair value            | \$568,812 | \$546,891   | \$507,956  | \$490,611  |    |
| Change in estimated fair value: |           |             |            |            |    |
| Amount                          | \$42,150  | \$20,229    | \$(18,706) | \$(36,051) | )  |
| %                               | 8.0       | % 3.8       | % (3.6)    | )% (6.8)   | )% |
| Prepayment rate shift in %      | -20%      | -10%        | 10%        | 20%        |    |
| Estimated fair value            | \$571,330 | \$548,245   | \$506,452  | \$487,507  |    |
| Change in estimated fair value: |           |             |            |            |    |
| Amount                          | \$44,668  | \$21,583    | \$(20,210) | \$(39,155) | )  |
| %                               | 8.5       | % 4.1       | % (3.8)    | )% (7.4)   | )% |
| Delinquency rate shift in %     | -20%      | -10%        | 10%        | 20%        |    |
| Estimated fair value            | \$530,944 | \$528,803   | \$524,523  | \$522,384  |    |
| Change in estimated fair value: |           |             |            |            |    |
| Amount                          | \$4,282   | \$2,141     | \$(2,139)  | \$(4,278)  | )  |
| %                               | 0.8       | % 0.4       | % (0.4)    | )% (0.8)   | )% |
| Recapture rate shift in %       | -20%      | -10%        | 10%        | 20%        |    |
| Estimated fair value            | \$516,710 | \$521,653   | \$531,738  | \$536,889  |    |
| Change in estimated fair value: |           |             |            |            |    |
| Amount                          | \$(9,952) | ) \$(5,009) | ) \$5,076  | \$10,227   |    |
| %                               | (1.9      | )% (1.0     | )% 1.0     | % 1.9      | %  |

The following table summarizes the estimated change in fair value of our interests in the Excess MSR's owned through equity method investees as of March 31, 2015 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

|                                 |           |           |           |            |    |    |
|---------------------------------|-----------|-----------|-----------|------------|----|----|
| Fair value at March 31, 2015    | \$225,111 |           |           |            |    |    |
| Discount rate shift in %        | -20%      | -10%      | 10%       | 20%        |    |    |
| Estimated fair value            | \$244,630 | \$234,449 | \$216,522 | \$208,602  |    |    |
| Change in estimated fair value: |           |           |           |            |    |    |
| Amount                          | \$19,519  | \$9,338   | \$(8,589) | \$(16,509) | )  | )  |
| %                               | 8.7       | % 4.1     | % (3.8)   | % (7.3)    | )% | )% |
| Prepayment rate shift in %      | -20%      | -10%      | 10%       | 20%        |    |    |
| Estimated fair value            | \$243,620 | \$234,101 | \$216,622 | \$208,602  |    |    |
| Change in estimated fair value: |           |           |           |            |    |    |
| Amount                          | \$18,509  | \$8,990   | \$(8,489) | \$(16,509) | )  | )  |
| %                               | 8.2       | % 4.0     | % (3.8)   | % (7.3)    | )% | )% |
| Delinquency rate shift in %     | -20%      | -10%      | 10%       | 20%        |    |    |
| Estimated fair value            | \$230,059 | \$227,585 | \$222,636 | \$220,161  |    |    |
| Change in estimated fair value: |           |           |           |            |    |    |
| Amount                          | \$4,948   | \$2,474   | \$(2,475) | \$(4,950)  | )  | )  |
| %                               | 2.2       | % 1.1     | % (1.1)   | % (2.2)    | )% | )% |
| Recapture rate shift in %       | -20%      | -10%      | 10%       | 20%        |    |    |
| Estimated fair value            | \$216,525 | \$220,793 | \$229,484 | \$233,914  |    |    |
| Change in estimated fair value: |           |           |           |            |    |    |
| Amount                          | \$(8,586) | \$(4,318) | \$4,373   | \$8,803    | )  | )  |
| %                               | (3.8)     | )% (1.9)  | )% 1.9    | % 3.9      | )% | )% |

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

#### Servicer Advances

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

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

We recognize interest income from our servicer advance investments using the interest method, with adjustments to the yield applied based upon changes in actual or expected cash flows under the retrospective method. The servicer advances are not interest-bearing, but we accrete the effective rate of interest applied to the aggregate cash flows from the servicer advances and the basic fee component of the related MSR.

We categorize servicer advance investments under Level 3 of the GAAP hierarchy because we use internal pricing models to estimate the future cash flows related to the servicer advance investments that incorporate significant unobservable inputs and include assumptions that are inherently subjective and imprecise. In order to evaluate the reasonableness of its fair value determinations, management engages an independent valuation firm to separately measure the fair value of its servicer advances investment. The independent valuation firm determines an estimated fair value range based on its own models and issues a “fairness opinion” with this range.



Our estimations of future cash flows include the combined cash flows of all of the components that comprise the servicer advance investments: existing advances, the requirement to purchase future advances and the right to the basic fee component of the related MSR. The factors that most significantly impact the fair value include (i) the rate at which the servicer advance balance declines, which we estimate is approximately \$400.0 million per year on average over the weighted average life of the investment held as of March 31, 2015, (ii) the duration of outstanding servicer advances, which we estimate is approximately nine months on average for an advance balance at a given point in time (not taking into account new advances made with respect to the pool), and (iii) the UPB of the underlying loans with respect to which we have the obligation to make advances and own the basic fee component.

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

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

#### Real Estate Securities (RMBS)

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

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

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

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

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

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

### Impairment of Performing Loans

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

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

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

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

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

### Purchased Credit Impaired (PCI) Loans

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

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

On a quarterly basis, we estimate the total cash flows expected to be collected over the remaining life of each pool. Probable decreases in expected cash flows trigger the recognition of impairment. Impairments are recognized through

the valuation provision for loans and an increase in the allowance for loan losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan losses with any remaining increases recognized prospectively as a yield adjustment over the remaining estimated lives of the underlying loans.

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

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

The liquidation of PCI loans, which may include sales of loans, receipt of payment in full by the borrower, or foreclosure, results in removal of the loans from the underlying PCI pool. When the amount of the liquidation proceeds (e.g., cash, real estate), if any, is less than the unpaid principal balance of the loan, the difference is first applied against the PCI pool's nonaccretable difference.

When the nonaccretable difference for a particular loan pool has been fully depleted, any excess of the unpaid principal balance of the loan over the liquidation proceeds is written off against the PCI pool's allowance for loan losses.

#### Real Estate Owned (REO)

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

#### Derivatives

We financed certain investments with the same counterparty from which we purchased those investments, and we accounted for the contemporaneous purchase of the investments and the associated financings as linked transactions. Accordingly, we recorded a non-hedge derivative instrument on a net basis. We also enter into various economic hedges, particularly TBAs and interest rate swaps and caps. Changes in market value of non-hedge derivative instruments and economic hedges are recorded in "Other Income" on the Condensed Consolidated Statements of Income. The assets underlying linked transactions include loans and securities, whose valuation is subject to significant judgment and uncertainty as described above.

#### Investment Consolidation

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

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

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

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

We have not consolidated the securitization entities that issued our Non-Agency RMBS. This determination is based, in part, on our assessment that we do not have the power to direct the activities that most significantly impact the

economic performance of these entities, such as if we owned a majority of the currently controlling class. In addition, we are not obligated to provide, and have not provided, any financial support to these entities.

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

We have invested in servicer advances, including the basic fee component of the related MSRs, primarily through the Buyer, of which we are the managing member. The Buyer was formed through cash contributions by us and third-parties in exchange for membership interests. As of March 31, 2015, we owned an approximately 44.5% interest in the Buyer, and the third-party investors owned the remaining membership interests. Through our managing member interest, we direct substantially all of the day-to-day activities of the Buyer. The third-party investors do not possess substantive participating rights or the power to direct the day-to-day activities that most directly affect the operations of the Buyer. In addition, no single third-party investor, or group of third-

party investors, possesses the substantive ability to remove us as the managing member of the Buyer. We have determined that the Buyer is a voting interest entity. As a result of our managing member interest, which represents a controlling financial interest, we consolidate the Buyer and its wholly owned subsidiaries and reflect membership interests in the Buyer held by third parties as noncontrolling interests.

#### Investments in Equity Method Investees

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

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

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

#### Income Taxes

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

#### RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, Revenues from Contracts with Customers (Topic 606). The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In effect, companies will be required to exercise further judgment and make more estimates prospectively. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 is effective for New Residential in the first quarter of 2017. Early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in ASU No. 2014-09. New Residential is currently evaluating the new guidance to determine the impact it may have on its condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The standard changes the accounting for repurchase-to-maturity transactions and linked repurchase financing transactions to secured borrowing accounting. ASU No. 2014-11 also expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers accounted for as secured borrowings. ASU No. 2014-11 is effective for New Residential in the first quarter of 2015. Early adoption is not permitted. Disclosures are not required for comparative periods presented before the effective date. New Residential has determined that, as of January 1, 2015, its formerly linked transactions are accounted for as secured borrowings as further described in Note 10 of our condensed consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The standard provides guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern by requiring management to assess an entity's ability to continue as a going concern by incorporating and expanding on certain principles that are currently in U.S. auditing standards. ASU No. 2014-15 is effective for New Residential for the annual period



ending on December 31, 2016. Early adoption is permitted. New Residential is currently evaluating the new guidance to determine the impact that it may have on its condensed consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The standard amends the consolidation considerations when evaluating certain limited partnerships, variable interest entities and investment funds. ASU No. 2015-02 is effective for New Residential in the first quarter of 2016. Early adoption is permitted. New Residential does not expect the adoption of this new guidance to have an impact on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest. The standard amends the balance sheet presentation requirements for debt issuance costs such that they are no longer recognized as deferred charges but are rather presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. ASU No. 2015-03 is effective for New Residential in the first quarter of 2016. Early adoption is permitted. We have not yet adopted ASU No. 2015-03 but have determined that the adoption of ASU No. 2015-03 will result in an immaterial reclassification of our Deferred Financing Costs, Net to an offset of our Notes Payable.

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

## RESULTS OF OPERATIONS

The following table summarizes the changes in our results of operations for the three months ended March 31, 2015 compared to the three months ended March 31, 2014 (dollars in thousands). Our results of operations are not necessarily indicative of our future performance.

|  | Three Months Ended March 31, |          | Increase<br>(Decrease)<br>Amount |   |
|--|------------------------------|----------|----------------------------------|---|
|  | 2015                         | 2014     |                                  |   |
| Interest income  | \$84,373                     | \$71,490 | \$12,883                         |   |
| Interest expense   | 33,979                       | 38,997   | (5,018)                          | ) |
| Net Interest Income  | 50,394                       | 32,493   | 17,901                           |   |
| Impairment   |                              |          |                                  |   |
| Other-than-temporary impairment (“OTTI”) on securities   | 1,071                        | 328      | 743                              |   |
| Valuation provision on loans and real estate owned   | 977                          | 164      | 813                              |   |
|  | 2,048                        | 492      | 1,556                            |   |
| Net interest income after impairment   | 48,346                       | 32,001   | 16,345                           |   |
| Other Income   |                              |          |                                  |   |
| Change in fair value of investments in excess mortgage servicing rights                          | (1,761                       | ) 6,602  | (8,363                           | ) |
| Change in fair value of investments in excess mortgage servicing rights, equity method investees | 4,921                        | 6,374    | (1,453                           | ) |
| Change in fair value of investments in servicer advances   | (7,669                       | ) —      | (7,669                           | ) |
| Earnings from investments in consumer loans, equity method investees                             | —                            | 16,360   | (16,360                          | ) |
| Gain on settlement of investments, net   | 14,767                       | 4,357    | 10,410                           |   |
| Other income   | 2,037                        | 1,357    | 680                              |   |
|  | 12,295                       | 35,050   | (22,755                          | ) |
| Operating Expenses   |                              |          |                                  |   |
| General and administrative expenses  | 8,560                        | 1,985    | 6,575                            |   |
| Management fee to affiliate  | 5,126                        | 4,486    | 640                              |   |
| Incentive compensation to affiliate  | 3,693                        | 3,338    | 355                              |   |
| Loan servicing expense   | 4,891                        | 90       | 4,801                            |   |
|  | 22,270                       | 9,899    | 12,371                           |   |
| Income (Loss) Before Income Taxes  | 38,371                       | 57,152   | (18,781                          | ) |
| Income tax expense (benefit)   | (3,427                       | ) 287    | (3,714                           | ) |
| Net Income (Loss)  | \$41,798                     | \$56,865 | \$(15,067                        | ) |
| Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries                           | \$5,823                      | \$8,093  | \$(2,270                         | ) |
| Net Income (Loss) Attributable to Common Stockholders  | \$35,975                     | \$48,772 | \$(12,797                        | ) |

## Interest Income

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Interest income increased by \$12.9 million, primarily attributable to incremental interest income of (i) \$12.0 million from real estate loans, in which we made additional investments subsequent to March 31, 2014, (ii) \$3.0 million from real estate securities during the three months ended March 31, 2015, and (iii) \$1.2 million from our acquisitions of Excess MSR investments during and after the three months ended March 31, 2014 as well as our restructuring of joint ventures during the three months ended March 31, 2015 resulting in our recognition of interest income previously recognized by the joint venture and included in “Change in fair value of investments in excess mortgage servicing rights, equity method investees”, offset by (iv) a decrease of \$3.4 million from servicer advances attributable to amortization of the portfolio caused by improvement of the advance to UPB ratio, offset by the interest earned from the acquisition of additional servicer advances subsequent to March 31, 2014.

#### Interest Expense

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Interest expense decreased by \$5.0 million primarily attributable to decreases of (i) \$8.3 million on financings related to servicer advances, (ii) \$1.5 million from repurchase agreements on our consumer loans portfolio that we paid off subsequent to March 31, 2014, (iii) \$1.3 million related to our secured corporate loan that we paid off in June 2014, and (iv) \$0.6 million on repurchase agreements related to real estate securities, offset by incremental interest expense of (v) \$5.9 million from repurchase agreements on real estate loans, in which we made additional investments subsequent to March 31, 2014, and (vi) \$0.8 million from a secured corporate loan issued in January 2015.

#### Other than Temporary Impairment (“OTTI”) on Securities

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

The other-than-temporary impairment on securities increased by \$0.7 million during the three months ended March 31, 2015 compared to the three months ended March 31, 2014 primarily resulting from fair values on a greater portion of our Non-Agency RMBS, which we purchased with existing credit impairment, below their amortized cost basis as of March 31, 2015.

#### Valuation Provision on Loans and Real Estate Owned

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

The valuation provision on loans increased by \$0.8 million due to the recognition of additional allowance for loan losses on our residential mortgage loans driven by the expected timing of future cash flows.

#### Change in Fair Value of Investments in Excess Mortgage Servicing Rights

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

The change in fair value of investments in excess mortgage servicing rights decreased by \$8.4 million primarily due to relatively flat market prices during the three months ended March 31, 2015 compared to increased market prices during the three months ended March 31, 2014.

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

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

The change in fair value of investments in excess mortgage servicing rights, equity method investees decreased by \$1.5 million primarily due to decreased interest income due to the transfer of two non-agency excess mortgage servicing rights pools out of equity method investments, as well as amortization of the portfolio, offset by less of a decrease in market value due to relatively flat market prices during the three months ended March 31, 2015 compared to the three months ended March 31, 2014.

#### Change in Fair Value of Investments in Servicer Advances

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

The change in fair value of investments in servicer advances decreased by \$7.7 million due to an increase in the weighted average life of the portfolio during the three months ended March 31, 2015 compared to no change in fair value of the newly acquired asset class during the three months ended March 31, 2014.

Earnings from Investments in Consumer Loans, Equity Method Investees

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Earnings from investments in consumer loans, equity method investees decreased by \$16.4 million as we discontinued recording our share of the underlying earnings of the Consumer Loan Companies subsequent to the refinancing of the outstanding debt on October 3, 2014, which resulted in a distribution to us in excess of our investment basis.

#### Gain on Settlement of Investments, Net

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Gain on settlement of investments increased by \$10.4 million, primarily related to increased net gains of (i) \$21.3 million on the sale or liquidation of residential mortgage loans, (ii) \$20.2 million on real estate securities sold, partially offset by increased net losses of (iii) \$22.5 million on the settlement of derivatives, (iv) \$5.6 million related to the sale of REO and (v) a loss on extinguishment of debt of \$2.9 million during the three months ended March 31, 2015 compared to the three months ended March 31, 2014.

#### Other Income

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Other income increased by \$0.7 million, primarily attributable to realized gains of (i) \$10.4 million on our consumer loans investment and (ii) \$0.7 million on our excess mortgage servicing recapture rights, partially offset by (iii) unrealized losses of \$7.0 million on non-hedge derivative instruments during the three months ended March 31, 2015 compared to a \$1.4 million gain in the first quarter of 2014, (iv) real estate owned expense of \$1.3 million, (v) a \$0.5 million loss on transfer of loans to REO, and (vi) \$0.3 million of other losses.

#### General and Administrative Expenses

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

General and administrative expenses increased by \$6.6 million, partially attributable to increased expenses of \$5.5 million from deal expenses for the Acquisition and acquisition of real estate loan pools purchased during the three months ended March 31, 2015 and \$1.1 million primarily resulting from professional fees and other expenses incurred to maintain and monitor our increasing asset base and general expenses.

#### Management Fee to Affiliate

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Management fee to affiliate increased by \$0.6 million as a result of increases to our gross equity subsequent to March 31, 2014.

#### Incentive Compensation to Affiliate

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Incentive compensation to affiliate increased by \$0.4 million primarily due to increases in realized gains on sales of investments offset by reduced earnings from investments in consumer loans, equity method investees.

#### Loan Servicing Expense

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Loan servicing expense increased by \$4.8 million due to the acquisition of additional residential mortgage loans subsequent to March 31, 2014.

Income Tax Expense (Benefit)

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Income tax expense (benefit) decreased by \$3.7 million primarily due to a \$2.3 million reduction in the reserve for unrecognized tax benefits to zero and to the tax impact from the reduction of fair value of investments in servicer advances.

## Noncontrolling Interests in Income of Consolidated Subsidiaries

Three months ended March 31, 2015 compared to the three months ended March 31, 2014.

Noncontrolling interests in income of consolidated subsidiaries decreased by \$2.3 million due to (i) a decrease in fair value of the assets and (ii) a loss on extinguishment of debt partially offset by (iii) an increase in the income tax benefit due to the reduction in the reserve for unrecognized tax benefits to zero during the three months ended March 31, 2015 in the less than wholly owned subsidiary and (iv) an increase in the net interest income allocable to the noncontrolling interest despite a decrease in ownership percentage of the noncontrolling interests.

## LIQUIDITY AND CAPITAL RESOURCES

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

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

Our primary sources of financing currently are notes payable and repurchase agreements, although we may also pursue other sources of financing such as securitizations and other secured and unsecured forms of borrowing. As of March 31, 2015, we had outstanding repurchase agreements with an aggregate face amount of approximately \$392.5 million to finance \$584.1 million UPB of residential mortgage loans, approximately \$18.0 million to finance our investments in real estate owned, approximately \$315.9 million