

New Residential Investment Corp.

Form S-11/A

April 24, 2014

Table of Contents

As filed with the Securities and Exchange Commission on April 24, 2014

Registration Statement No. 333-191300

Securities and Exchange Commission

Washington, D.C. 20549

Amendment No. 8 to

Form S-11

For Registration

*Under The Securities Act of 1933*

*of Certain Real Estate Companies*

New Residential Investment Corp.

(Exact name of registrant as specified in its governing instruments)

1345 Avenue of the Americas,

New York, NY 10105

(212) 798-6100

**(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)**

**Cameron D. MacDougall**

**Secretary**

**1345 Avenue of the Americas,**

**New York, NY 10105**

**212-479-1522**

**(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)**

*Copies to:*

**Richard B. Aftanas**

**Edward F. Petrosky**

**Joseph A. Coco**

**J. Gerard Cummins**

**Skadden, Arps, Slate, Meagher & Flom LLP**

**Sidley Austin LLP**

**Four Times Square**

**787 Seventh Avenue**

**New York, New York 10036**

**New York, New York 10019**

**(212) 735-3000**

**(212) 839-5300**

**Approximate date of commencement of proposed sale to the public:**

**As soon as practicable after the effective date of this registration statement.**

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Edgar Filing: New Residential Investment Corp. - Form S-11/A

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. "

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 "

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered<sup>(1)</sup></b>	<b>Proposed Maximum Offering Price Per Share<sup>(2)</sup></b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee<sup>(3)</sup></b>
Common Stock, \$0.01 par value	28,750,000	\$6.23	\$179,112,500	\$23,830

(1) Includes 3,750,000 shares that may be sold pursuant to the underwriter's option to purchase additional shares.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act, based upon the average of the high and low sales prices (\$6.27 and \$6.19) of the Registrant's common stock on the New York Stock Exchange on April 23, 2014.

(3) The Registrant previously paid \$13,640 in connection with the initial filing of this Registration Statement on September 20, 2013. The registration fee in respect of the initial filing of this Registration Statement was calculated based on a proposed aggregate offering price of \$100,000,000 at the then applicable fee rate of \$134.60 per \$1,000,000. The remainder of the registration fee has been calculated by multiplying \$79,112,500, which represents the increase in the proposed aggregate offering price, by the current applicable fee rate of \$128.80 per \$1,000,000.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**Table of Contents**

**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**PRELIMINARY PROSPECTUS**

**SUBJECT TO COMPLETION, DATED APRIL 24, 2014  
25,000,000 Shares**

**New Residential Investment Corp.**

**Common Stock**

We are a publicly traded real estate investment trust ( REIT ) primarily focused on investing in residential mortgage related assets. We are externally managed by an affiliate of Fortress Investment Group LLC ( Fortress ). We were formed as a wholly owned subsidiary of Newcastle Investment Corp. ( Newcastle ) in September 2011 and were spun-off from Newcastle on May 15, 2013.

We are offering 25,000,000 shares of our common stock as described in this prospectus. Certain officers and directors may purchase shares of our common stock in this offering directly from us at the public offering price (without any payment by us or them of any underwriting discounts or commissions). Our shares of common stock are listed on the New York Stock Exchange under the symbol NRZ. On April 23, 2014, the last reported sales price for our common stock on the New York Stock Exchange was \$6.23 per share.

We intend to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes commencing with our initial taxable year ended December 31, 2013. To assist us in qualifying as a REIT, among other purposes, stockholders are generally restricted from owning more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock, or 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of capital stock. In addition, our certificate of incorporation contains various other restrictions on the ownership and transfer of our common stock. See Description of Capital Stock Restrictions on Ownership and Transfer of Our Capital Stock.

**See Risk Factors beginning on page 34 for a discussion of the following and other risks:**

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

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

We rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance;

We are subject to significant counterparty concentration and default risks;

Many of our investments may be illiquid, and this lack of liquidity could significantly impede our ability to vary our portfolio in response to changes in economic and other conditions or to realize the value at which such investments are carried if we are required to dispose of them;

We may not be able to finance our investments on attractive terms or at all, and financing for our excess mortgage servicing rights investments may be particularly difficult to obtain;

Maintenance of our Investment Company Act of 1940 exclusion imposes limits on our operations;

There are conflicts of interest in our relationship with FIG LLC, our Manager; and

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

**Neither the Securities and Exchange Commission ( SEC ) nor any state or other securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	Per share	Total
Public offering price	\$	\$
Underwriting discounts and commissions (1)	\$	\$
Proceeds to us, before expenses (2)	\$	\$

(1) There will be no underwriting discounts and commissions paid on shares of our common stock purchased by officers and directors in this offering.

(2) We will pay the fees and expenses related to obtaining the required approval of certain terms of this offering from the Financial Industry Regulatory Authority, Inc ( FINRA ). See Underwriting.

The underwriter may also exercise its option to purchase up to an additional 3,750,000 shares of our common stock at the public offering price from us, less the underwriting discounts and commissions payable by us within 30 days from the date of this prospectus.

The underwriter expects to deliver the shares on or about \_\_\_\_\_, 2014.

**Citigroup**  
Prospectus dated \_\_\_\_\_, 2014.

**Table of Contents**

You should rely only on the information contained in this prospectus, any free writing prospectus prepared by us or information to which we have referred you. Neither we nor the underwriter has authorized anyone to provide you with additional information or information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

**TABLE OF CONTENTS**

<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	34
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	74
<u>Use of Proceeds</u>	76
<u>Distribution Policy</u>	77
<u>Capitalization</u>	79
<u>Price Range Of Common Stock</u>	80
<u>Selected Historical Financial Information</u>	81
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	83
<u>Business</u>	132
<u>Our Manager and Management Agreement</u>	154
<u>Management</u>	160
<u>Principal Stockholders</u>	171
<u>Certain Relationships and Transactions With Related Persons, Affiliates and Affiliated Entities</u>	173
<u>Description of Our Capital Stock</u>	180
<u>Certain Provisions of the Delaware General Corporation Law and Our Certificate of Incorporation and Bylaws</u>	184
<u>Shares Eligible for Future Sale</u>	187
<u>U.S. Federal Income Tax Considerations</u>	189
<u>Underwriting</u>	213
<u>Legal Matters</u>	219
<u>Experts</u>	219
<u>Where You Can Find More Information</u>	219
<u>Index to Financial Statements of New Residential Investment Corp. and Subsidiaries</u>	F-1

**Table of Contents**

**Industry Data**

Unless otherwise indicated, information contained in this prospectus concerning the mortgage and mortgage servicing industry, including our general expectations and market position and market opportunity, is based on information from various sources (including government and industry publications, surveys, analyses, valuations and forecasts and our internal research), assumptions that we have made (which we believe are reasonable based on those data from such sources and other similar sources) and our knowledge of the markets. The projections, assumptions and estimates of our future performance and the future performance of the mortgage and mortgage servicing industry are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under **Risk Factors** and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the projections and estimates included in this prospectus.



**Table of Contents**

**PROSPECTUS SUMMARY**

*This summary highlights some of the information in this prospectus. It does not contain all of the information that you should consider before making a decision to invest in our common stock. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus.*

*Unless the context otherwise requires, any references in this prospectus to we, our, us, New Residential and the Company refer to New Residential Investment Corp. and its consolidated subsidiaries. Any references in this prospectus to Newcastle refer to Newcastle Investment Corp. and its consolidated subsidiaries. Our Manager refers to FIG LLC, a Delaware limited liability company, our external manager, and an affiliate of Fortress.*

**Our Company**

New Residential is a publicly traded REIT primarily focused on investing in residential mortgage related assets. We are externally managed by an affiliate of Fortress. We were formed as a wholly owned subsidiary of Newcastle in September 2011 and were spun-off from Newcastle on May 15, 2013, which we refer to as the separation date or distribution date.

Our goal is to drive strong risk-adjusted returns primarily through investments in servicing related assets, residential securities and loans and other investments. 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. A significant portion of our portfolio is currently composed of investments in agency securities. The securities in which we can invest are limited by the exclusion we maintain from the Investment Company Act of 1940, as amended (the 1940 Act ).

We intend to continue to invest opportunistically across the residential real estate market. Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets in diverse markets. In the past, we have taken advantage of this flexibility to invest in assets that are not strictly real estate related (e.g., consumer loans), and we may do so again in the future. We expect our asset allocation and target assets to change over time depending on the types of investments our Manager identifies and the investment decisions our Manager makes in light of prevailing market conditions. For more information about our investment guidelines, see Business Investment Guidelines.

**Our Manager**

We are managed by our Manager, an affiliate of Fortress. We are able to draw upon the long-standing expertise and resources of Fortress, a global investment management firm with \$61.8 billion of alternative and traditional assets under management as of December 31, 2013.

We are also able to capitalize on our Manager's relationship with Nationstar Mortgage LLC ( Nationstar ), which is majority-owned by Fortress funds managed by our Manager, to source investment opportunities. Nationstar (NYSE: NSM) is one of the largest residential loan servicers, according to Inside Mortgage Finance, and it was ranked among the highest quality servicers by Federal National Mortgage Association ( Fannie Mae ) in August 2013. We have developed an innovative strategy for co-investing in Excess MSR's with Nationstar, as described below under Market Opportunity and Target Assets Servicing Related Assets Excess Mortgage Servicing Rights (Excess MSR's). On December 17, 2013, we completed our first acquisition of servicer advances from Nationstar through a co-investment with certain third parties. See Our Portfolio Servicing Related Assets Servicer Advances below.

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Pursuant to the terms of our management agreement with our Manager (the Management Agreement ), our Manager provides a management team and other professionals who are responsible for implementing our business strategy and performing certain services for us, subject to oversight by our board of directors. Our

## **Table of Contents**

Manager's duties include: (1) performing all of our day-to-day functions, (2) determining investment criteria in conjunction with, and subject to the supervision of, our board of directors, (3) sourcing, analyzing and executing on investments and sales, (4) performing investment and liability management duties, including financing and hedging, and (5) performing financial and accounting management. For its services, our Manager is entitled to an annual management fee and is eligible to receive incentive compensation, depending upon our performance, as described below under Management Agreement.

Our Manager also manages our predecessor, Newcastle, a publicly traded REIT that pursues a broad range of real estate related investments. Our management team is not required to exclusively dedicate their services to us and they provide services for other entities affiliated with our Manager, including, but not limited to, Newcastle.

## **Market Opportunity and Target Assets**

We believe that unfolding developments in the U.S. residential housing market are generating significant investment opportunities. The U.S. residential real estate market is vast: the value of the housing market totaled approximately \$20 trillion as of September 2013, including about \$10 trillion of outstanding mortgages, according to Inside Mortgage Finance. In the aftermath of the U.S. financial crisis, the residential mortgage industry is undergoing major structural changes that are transforming the way mortgages are originated, owned and serviced. We believe these changes are creating a compelling set of investment opportunities.

We also believe that New Residential is one of only a select number of market participants that have the combination of capital, industry expertise and key business relationships we think are necessary to take advantage of this opportunity. We are focused on the investment opportunities described below, as well as identifying other opportunities that may arise as the residential mortgage market evolves. A significant portion of our portfolio is currently composed of investments in agency securities. The securities in which we can invest are limited by the exclusion we maintain from the 1940 Act.

For more information about the mortgage industry, see Business Mortgage Industry included elsewhere in this prospectus.

## ***Servicing Related Assets***

### ***Excess Mortgage Servicing Rights (Excess MSR)***

In our view, the mortgage servicing sector presents a number of compelling investment opportunities. A mortgage servicing right (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 basis points (bps) times the unpaid principal balance (UPB) of the mortgages. Approximately 77% of MSRs were owned by banks as of the fourth quarter of 2013, according to Inside Mortgage Finance. We expect this number to decline as banks face pressure to reduce their MSR exposure as a result of heightened capital reserve requirements under Basel III, regulatory scrutiny and a more challenging servicing environment. As a result, we believe the volume of MSR sales is likely to be substantial for some period of time.

As banks sell MSRs, there may be an opportunity for entities such as New Residential to participate through co-investment in the corresponding Excess MSRs. An MSR is made up of two components: a basic fee and an Excess MSR. The basic fee is the amount of compensation for the performance of servicing duties, and the Excess MSR is the amount that exceeds the basic fee. For example, if an MSR is 30 bps and the basic fee is 5 bps, then the Excess MSR is 25 bps. In our capacity as the owner of an Excess MSR, we are not required to assume any servicing duties, advance

obligations or liabilities associated with the portfolios underlying our investment. However, we, through co-investments made by our subsidiaries, have separately purchased servicer advances, including the basic fee component of the related MSR, on certain portfolios underlying our Excess MSR. See Our Portfolio Servicing Related Assets below.

## Table of Contents

There are a number of reasons why we believe Excess MSR are a compelling investment opportunity:

**Supply-Demand Imbalance.** Since 2010, banks have sold or committed to sell MSR totaling more than \$1 trillion of the approximately \$10 trillion mortgage market. As a result of the regulatory and other pressures facing bank servicers, we believe the volume of MSR sales is likely to be substantial for some period of time. We estimate that MSR on approximately \$200-300 billion of mortgages are currently for sale, which would require a capital investment of approximately \$2-3 billion based on current pricing dynamics. We believe many non-bank servicers, who acquire MSR and are constrained by capital limitations, will continue to sell a portion of the Excess MSR. We also estimate that approximately \$1-2 trillion of MSR could be sold over the next several years. In addition, approximately \$1.2 trillion of new loans are expected to be created annually according to the Mortgage Bankers Association. We believe this creates an opportunity to enter into flow arrangements, whereby loan originators agree to sell Excess MSR on newly originated loans on a recurring basis (often monthly or quarterly). We believe that MSR are being sold at a discount to historical pricing levels, although increased competition for these assets has driven prices higher recently.

**Attractive Pricing.** We believe MSR are currently being sold at a discount to historical pricing levels. While prices have rebounded from the lows, we believe that prices remain lower than their peak. At current prices, we believe investments in Excess MSR can generate attractive returns without leverage.

**Significant Barrier to Entry.** Non-servicers, like us, cannot directly own an MSR as a named servicer and would therefore need to partner with a servicer in order to invest in MSR. The number of strong, scalable non-bank servicers is limited. Moreover, in the case of Excess MSR on Agency pools, the servicer must be Agency-approved. As a result, non-servicers seeking to invest in Excess MSR generally face a significant barrier to entering the market, particularly if they do not have a relationship with a quality servicer. We believe our track record of investing in Excess MSR and our established relationship with Nationstar give us a competitive advantage over other potential investors.

We pioneered investments in Excess MSR (while we were a wholly owned subsidiary of Newcastle). We believe we remain the most active REIT in the sector. For details about our investments in Excess MSR, see [Our Portfolio Servicing Related Assets Excess MSR](#) below.

### *Servicer Advances*

We believe there are attractive opportunities to invest in residential mortgage servicer advances. On December 17, 2013, we made our first investment in servicer advances, including the basic fee component of the related MSR, from Nationstar through a co-investment with two subsidiaries of Athene Holding Ltd., affiliates of The Blackstone Group, and affiliates of, and funds/accounts managed by, Omega Advisors, Inc. See [Our Portfolio Servicing Related Assets Servicer Advances](#) below.

Servicer advances are generally reimbursable cash payments made by a servicer when the borrower fails to make scheduled payments due on a mortgage loan or when the servicer makes cash payments (i) on behalf of a borrower for real estate taxes and insurance premiums on the property that have not been paid on a timely basis by the borrower and (ii) to third parties for the costs and expenses incurred in connection with the foreclosure, preservation and sale of the mortgaged property, including attorneys' and other professional fees. Servicer advances are a customary feature of

residential mortgage securitization transactions and represent one of the duties for which a servicer is compensated through the basic fee component of the related MSR. The purpose of the advances is to provide liquidity, rather than credit enhancement, to the underlying residential mortgage securitization transaction. Servicer advances are usually repaid from amounts received with respect to the related mortgage loan, including payments from the borrower or amounts received from the liquidation of the property securing the loan, which is referred to as loan-level recovery.

## **Table of Contents**

Servicer advances typically fall into one of three categories:

*Principal and Interest Advances:* Cash payments made by the servicer to cover scheduled payments of principal of, and interest on, a mortgage loan that have not been paid on a timely basis by the borrower.

*Escrow Advances (Taxes and Insurance Advances):* Cash payments made by the servicer to third parties on behalf of the borrower for real estate taxes and insurance premiums on the property that have not been paid on a timely basis by the borrower.

*Foreclosure Advances:* Cash payments made by the servicer to third parties for the costs and expenses incurred in connection with the foreclosure, preservation and sale of the mortgaged property, including attorneys and other professional fees.

Residential mortgage servicing agreements generally require a servicer to make advances in respect of serviced mortgage loans unless the servicer determines in good faith that the advance would not be ultimately recoverable from the proceeds of the related mortgage loan or the mortgaged property. In many cases, if the servicer determines that an advance previously made would not be recoverable from these sources, or if such advance is not recovered when the loan is repaid or related property is liquidated, then the servicer is entitled to withdraw funds from the custodial account for payments on the serviced mortgages to reimburse the applicable advance. This is what is often referred to as a general collections backstop. See Risk Factors Risks Related to Our Business Servicer advances may not be recoverable or may take longer to recover than we expect, which could cause us to fail to achieve our targeted return on our investment in servicer advances.

We believe that the market in servicer advances could present us with additional investment opportunities. For example, we have the right to purchase additional servicer advances from Nationstar, as described under Our Portfolio Servicing Related Assets Servicer Advances Call Right and Transaction 2. The status of investments in servicer advances for purposes of the REIT requirements is uncertain, and therefore our ability to make these kinds of investments may be limited. We currently hold our investment in servicer advances in a taxable REIT subsidiary ( TRS ).

## ***Residential Securities and Loans***

### ***Residential Mortgage Backed Securities ( RMBS )***

From time to time, we invest in both Agency adjustable-rate mortgage ( ARM ) RMBS and Non-Agency RMBS, which we believe complement our Excess MSR investments. RMBS are securities created through the securitization of a pool of residential mortgage loans. As of the fourth quarter of 2013, approximately \$7 trillion of the \$10 trillion of residential mortgages outstanding was securitized, according to Inside Mortgage Finance. Of the securitized mortgages, approximately \$6 trillion were Agency RMBS according to Inside Mortgage Finance, which are RMBS issued or guaranteed by a U.S. Government agency, such as the Government National Mortgage Association ( Ginnie Mae ), or by a government-sponsored enterprise ( GSE ), such as Fannie Mae or the Federal Home Loan Mortgage Corporation ( Freddie Mac ). The balance was securitized by either public or private trusts ( private label securitizations ), and these securities are referred to as Non-Agency RMBS. For more information about the securitization market, see Business Mortgage Industry Overview included elsewhere in this prospectus.

Agency ARM RMBS generally offer more stable cash flows and historically have been subject to lower credit risk and greater price stability than the other types of residential mortgage investments we target. More information about certain types of Agency ARM RMBS in which we have invested or may invest is set forth under Business Market Opportunity and Target Assets Residential Securities and Loans RMBS. Details about our existing investments in Agency ARM RMBS are set forth under Our Portfolio Residential Securities and Loans Agency ARM RMBS below.



## **Table of Contents**

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

### *Real Estate Loans*

We believe there may be attractive opportunities to invest in portfolios of non-performing and other residential mortgage loans. In these investments, we would expect to acquire the loans at a deep discount to their face amount, and we (either independently or with a servicing co-investor) would seek to resolve the loans at a substantially higher valuation. We would seek to improve performance by transferring the servicing to Nationstar or another reputable servicer, which we believe could increase unlevered yields. In addition, we may seek to employ leverage to increase returns, either through traditional financing lines or, if available, securitization options.

While a number of portfolios of non-performing residential loans have been sold since the financial crisis, we believe the volume of such sales may increase for a number of reasons. For example, with improved balance sheets, many large banks have more financial flexibility to recognize losses on non-performing assets. The U.S. Department of Housing and Urban Development ( HUD ), which acquires the non-performing loans from Ginnie Mae securitizations, has been increasing the number of portfolio sales. In addition, we believe that residential loan servicers which have traditionally resorted to loan foreclosure procedures and subsequent property sales to maximize recoveries on non-performing loans may increase sales of defaulted loans. To the extent any of these dynamics results in a meaningful volume of non-performing loan sales, we believe they may pose attractive investment opportunities for us. For details about our investments in residential mortgage loans, see [Our Portfolio Residential Securities and Loans Real Estate Loans](#) below.

### *Other Investments*

We may pursue other types of investments as the market evolves, such as our opportunistic investment in consumer loans in April 2013. See [Our Portfolio Consumer Loans](#) below. Our Manager makes decisions about our investments in accordance with broad investment guidelines adopted by our board of directors. Accordingly, we may, without a stockholder vote, change our target asset classes and acquire a variety of assets that differ from, and are possibly riskier than, our current portfolio of target assets. For more information about our investment guidelines, see [Business Investment Guidelines](#) included elsewhere in this prospectus.

## **Our Strengths**

### *Focused Strategy*

We pursue an investment strategy focused primarily on attractive opportunities across the residential spectrum. With an approximately \$20 trillion housing market undergoing major structural changes, we believe a dedicated strategy presents investors with an opportunity to participate in that restructuring.

## **Table of Contents**

### ***Experienced Management Team***

Our Manager is an affiliate of Fortress, a leading alternative asset manager with \$61.8 billion of assets under management as of December 31, 2013. Residential and other real estate related assets, including those in our portfolio, have been a significant component of the investment strategies of both Fortress and Newcastle. Through our Manager, we have access to Fortress' s extensive and long-standing relationships with major issuers of real estate related securities and the broker-dealers that trade these securities, as well as their banking relationships in the mortgage servicing industry. We believe these relationships, together with Fortress' s infrastructure, provide us access to a pipeline of attractive investment opportunities, many of which may not be available to our competitors. We also believe that the breadth of Fortress' s experience enables us to react nimbly to the changing residential landscape in order to execute on emerging investment opportunities. For instance, in 2012, we obtained a private letter ruling from the U.S. Internal Revenue Service (the "IRS") that permits us to treat Excess MSR as qualifying assets that generate qualifying income for purposes of the REIT asset and income tests, which gave us an early advantage for investing in Excess MSR.

### ***Existing Portfolio***

Our portfolio is currently composed of servicing related assets, residential securities and loans and other investments. Under current market conditions, we target returns on invested equity that average in the mid-teens. We believe these returns are attainable given the performance of our existing investments to date and based on market dynamics that we believe will foster significant opportunities to invest in additional residential real estate assets at similar returns. For example, our underwriting assumptions projected a weighted average internal rate of return ("IRR") of 16.0% for the Excess MSR we owned as of December 31, 2013, based on their original purchase price, and this portfolio has performed better than our underwriting assumptions. We believe that various market dynamics, including the current low-interest rate environment, a supply-demand imbalance for investments in residential mortgage servicing assets, and barriers to entry with respect to this asset class, support our target returns. However, the returns of individual assets, as well as different asset classes, will vary, and there can be no assurance that any of our assets, or our portfolio as a whole, will generate target returns. In addition, our ability to achieve target returns on certain of our assets, depends in part on the use of leverage and our ability to quickly deploy the proceeds of any financing at attractive returns. There can be no assurance that we will be able to secure financing on favorable terms, or at all. In addition, there can be no assurance that we will be able to source, or quickly complete, attractive investments for which the proceeds of any such financing could be used.

### ***Relationship with Nationstar***

As a result of our Manager' s relationship with Nationstar, which is majority-owned by Fortress funds managed by our Manager, we believe we are uniquely positioned to source opportunities to acquire residential mortgage servicing assets. Nationstar (NYSE: NSM) is one of the largest residential loan servicers, according to Inside Mortgage Finance, and it was ranked among the highest quality servicers by Fannie Mae in August 2013. We have developed an innovative strategy for co-investing in Excess MSR with Nationstar. Given that non-servicers, like us, cannot acquire an MSR directly, this strategy creates the opportunity for us to co-invest in Excess MSR and affords Nationstar the opportunity to invest in MSR on a "capital light" basis. To date, we have completed several co-investments with Nationstar, as described under "Our Portfolio Servicing Related Assets" below. In addition, we have capitalized on Nationstar' s origination capabilities by entering into a "recapture agreement" in each of our Excess MSR investments to date. Under the 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. We

believe this arrangement

## **Table of Contents**

mitigates our exposure to the prepayment risk associated with Excess MSR. Furthermore, we have purchased servicer advances from Nationstar through a co-investment with certain third parties. See [Our Portfolio Servicing Related Assets Servicer Advances](#) below. Nationstar is also the master servicer and/or servicer of the vast majority of the loans underlying the Non-Agency RMBS in our portfolio.

### ***Tax Efficient REIT Status***

We will elect to be treated as, and expect to operate in conformity with the requirements for qualification and taxation as, a REIT. REIT status will provide us with certain tax advantages compared to some of our competitors. Those advantages include an ability to reduce our corporate-level income taxes by making dividend distributions to our stockholders, and an ability to pass our capital gains through to our stockholders in the form of capital gains dividends. We believe our REIT status will provide us with a significant advantage as compared to other companies or industry participants who do not have a similar tax efficient structure. From time to time, we may make investments through TRSs, which is currently the case with our investment in servicer advances, which will impact the returns on such investments and reduce cash available for distribution to our stockholders.

### **Our Portfolio**

Our portfolio is currently composed of servicing related assets, residential securities and loans and other investments, as described in more detail below. A significant portion of our portfolio is currently composed of investments in agency securities. The securities in which we can invest are limited by the exclusion we maintain from the 1940 Act. Over time, we expect to opportunistically adjust our portfolio composition in response to market conditions. Our Manager will make decisions about our investments in accordance with broad investment guidelines adopted by our board of directors. Accordingly, we may, without a stockholder vote, change our target asset classes and acquire a variety of assets that differ from, and are possibly riskier than, our current portfolio of target assets. For more information about our investment guidelines, see [Business Investment Guidelines](#) included elsewhere in this prospectus.

### ***Servicing Related Assets***

#### ***Excess MSRs***

As of December 31, 2013, we had approximately \$676.9 million estimated carrying value of Excess MSRs, of which a portion is held directly by us and the remainder is held through joint ventures.

As of December 31, 2013, our completed investments represented an effective 33.3% to 80% interest in the Excess MSRs on pools of mortgage loans with an aggregate UPB of approximately \$252.6 billion.

Nationstar is the servicer of the loans underlying all of our investments in Excess MSRs to date, and it earns a basic fee in exchange for providing all servicing functions. In addition, Nationstar retains a 20% to 35% interest in the Excess MSRs and all ancillary income associated with the portfolios. In our capacity as owner of Excess MSRs, we do not have any servicing duties, liabilities or obligations associated with the servicing of portfolios underlying our Excess MSRs. However, we, through co-investments made by our subsidiaries, have separately purchased servicer advances, including the right to receive the basic fee component of related MSRs, on certain of our Non-Agency portfolios (Pools 5, 10, 12, 17 and 18) underlying our Excess MSR investments. See [Servicer Advances](#) below.

Each of our Excess MSR investments to date is subject to a recapture agreement with Nationstar. Under the recapture agreements, we are generally entitled to a pro rata interest in the Excess MSRs 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.

**Table of Contents**

The tables below summarize the terms of our investments in Excess MSR's completed as of December 31, 2013.

**Summary of Direct Excess MSR Investments as of December 31, 2013**

	Investment Date	MSR Component <sup>1</sup>				Excess MSR			
		Initial UPB (bn)	Current <sup>2</sup> UPB (bn)	Loan Type <sup>3</sup>	MSR (bps)	Excess MSR (bps)	Interest in Excess MSR (%)	Purchase Price (mm)	Carrying Value (mm)
Pool 1	12/2011	\$ 9.9	\$ 6.9	GSE	32 bps	26 bps	65%	\$ 43.7	\$ 43.1
Pool 2	06/2012	10.4	7.9	GSE	30	22	65%	42.3	41.8
Pool 3	06/2012	9.8	7.8	GSE	31	22	65%	36.2	39.6
Pool 4	06/2012	6.3	5.1	GSE	26	17	65%	15.4	17.9
Pool 5 <sup>4</sup>	06/2012	47.6	36.9	PLS	32	13	80%	151.5	146.3
Pool 11 (direct portion) <sup>5</sup>	05/2013		0.4	GSE	25	19	67%	2.4	2.3
Pool 12	09/2013	5.4	5.2	PLS	49	26	40%	17.4	16.5
Pool 18 <sup>6</sup>	11/2013	9.2	8.8	PLS	38	16	40%	17.0	16.7
<b>Total/Weighted Avg.</b>		<b>\$ 98.6</b>	<b>\$ 79.0</b>		<b>33 bps</b>	<b>17 bps</b>		<b>\$ 325.9</b>	<b>\$ 324.2</b>

(1) The MSR is a weighted average as of December 31, 2013, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

(2) As of December 31, 2013.

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

(4) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR subsequent to December 31, 2013 (see Note 18 to our consolidated financial statements included herein).

(5) A portion of our investment in Pool 11 was made as a direct investment, and the remainder was made through a joint venture accounted for as an equity method investee, as described in the chart below. The direct investment in Pool 11 includes loans that, upon refinancing by a third-party, will be serviced by Nationstar and will be subject to a 67% Excess MSR owned by us.

(6) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (see Note 6 to our consolidated financial statements included herein).

**Summary of Excess MSR Investments Through Equity Method Investees as of December 31, 2013**

	Commitment/Investment Date	MSR Component <sup>1</sup>				NRZ Investee		NRZ Effective Ownership (%) <sup>4</sup>	Investee Carrying Value (mm)	
		Initial UPB (bn)	Current UPB (bn) <sup>2</sup>	Loan Type <sup>3</sup>	MSR (bps)	Excess MSR (bps)	Interest in Excess MSR (%) <sup>4</sup>			
Pool 6	01/2013	\$ 13.0	\$ 10.2	GM	39 bps	24 bps	50%	67%	33.3%	\$ 57.1
Pool 7	01/2013	38.0	31.5	GSE	27	16	50%	67%	33.3%	129.3

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Pool 8	01/2013	17.6	14.0	GSE	29	20	50%	67%	33.3%	69.5
Pool 9	01/2013	33.8	30.8	GM	40	22	50%	67%	33.3%	161.8
Pool 10 (partial closing) <sup>5</sup>	01/2013	75.6	68.9	PLS	35	11	50%	67-77%	33.3-38.5%	215.2
Pool 11 (indirect portion) <sup>6</sup>	05/2013	22.8	18.2	GSE	25	19	50%	67%	33.3%	70.8
<b>Total/Weighted Avg.</b>		<b>\$ 200.8</b>	<b>\$ 173.6</b>				<b>33 bps</b>	<b>16 bps</b>		<b>\$ 703.7</b>

- (1) The MSR is a weighted average as of December 31, 2013, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).
- (2) As of December 31, 2013.
- (3) GM refers to loans in Ginnie Mae securitizations. GSE refers to loans in Fannie Mae or Freddie Mac securitizations. PLS refers to loans in private label securitizations.
- (4) The equity method investee purchased an additional interest in a portion of Pool 10. Investee interest in Excess MSR and NRZ effective ownership in Pool 10 represent the range of ownership interests in the pool.
- (5) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (see Note 6 to our consolidated financial statements included herein).
- (6) A portion of our investment in Pool 11 was made as a direct investment, as described in the chart above, and the remainder was made as an investment through an equity method investee.



**Table of Contents**

The tables below summarize the terms of our investments in Excess MSR that were committed but not yet completed as of December 31, 2013.

**Summary of Pending Excess MSR Investments (Committed but Not Closed)**

	Commitment Date	Initial UPB (bn)	Current UPB <sup>2</sup> (bn)	Loan Type <sup>3</sup>	MSR Component <sup>1</sup>			Direct Interest in Excess MSR (%)	NRZ Excess MSR Initial Investment (mm) <sup>4</sup>
					MSR (bps)	Excess MSR (bps)	NRZ Interest Investee (%)		
Pool 13 (Direct Investment)	11/2013	\$ 7.1	\$ 7.1	GSE	25bps	19bps	N/A	33%	\$ 17.3
Pool 14 (Direct Investment)	11/2013	0.7	0.7	GSE	25	19	N/A	33%	1.7
Pool 15 (Direct Investment)	11/2013	3.2	3.2	GSE	38	28	N/A	33%	9.2
Pool 16 (Direct Investment)	11/2013	2.1	2.1	GSE	28	18	N/A	33%	4.1
Pool 17 (Direct Investment) <sup>5</sup>	11/2013	0.9	0.9	PLS	29	14	N/A	33%	1.5
<b>Total/Weighted Avg.</b>		<b>\$ 14.0</b>	<b>\$ 14.0</b>		<b>29bps</b>	<b>21bps</b>			<b>\$ 33.8</b>

(1) The MSR is a weighted average as of the commitment date, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

(2) As of the commitment date.

(3) PLS refers to loans in private label securitizations. GSE refers to loans in Fannie Mae or Freddie Mac securitization.

(4) The actual amount invested will be based on the UPB at the time of close.

(5) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (see Note 6 to our consolidated financial statements included herein).

Subsequent to December 31, 2013, we invested approximately \$19.1 million in Excess MSRs on a portfolio of PLS residential mortgage loans with a UPB of approximately \$8.1 billion. We have remaining commitments of approximately \$1.5 million to fund additional investments in this portfolio of PLS residential mortgage loans, which have not yet closed and will increase the UPB by approximately \$0.9 billion.

In addition, we have commitments to invest approximately \$32.3 million in Excess MSRs on portfolios of GSE residential mortgage loans with an aggregate outstanding UPB of \$13.1 billion. In each transaction, we have agreed to acquire a 33.3% direct 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 the portfolios. Commitments related to GSE residential mortgage loans are contingent upon GSE approval of Nationstar to service such loans and transfer the Excess MSRs to us.

We expect to complete our pending investments in the second quarter of 2014, subject to the receipt of regulatory, third-party and certain rating agency approvals. There can be no assurance that we will complete these investments as anticipated or at all. However, we believe that it is probable that we will be able to obtain pending approvals and subsequently complete these investments.

**Table of Contents****Summary of Excess MSR Investments Closed****Subsequent to December 31, 2013**

	Commitment Date	MSR Component <sup>1</sup>			Loan Type <sup>3</sup>	MSR (bps)	Excess MSR (bps)	Investee Interest (%)	Investee Interest in Excess MSR (%)	NRZ Excess MSR Initial Investment (mm) <sup>4</sup>
		Initial UPB (bn)	Current UPB (bn) <sup>2</sup>							
Pool 17 (Direct Investment) <sup>5</sup>	11/2013	\$ 8.1	\$ 8.1	PLS	34bps	19bps	N/A	33%	\$ 19.1	
<b>Total/Weighted Avg.</b>		<b>\$ 8.1</b>	<b>\$ 8.1</b>		<b>34bps</b>	<b>19bps</b>			<b>\$ 19.1</b>	

(1) 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).

(2) As of the date the transaction closed.

(3) PLS refers to loans in private label securitizations.

(4) Amounts invested based on the UPB at the time of close.

(5) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (see Note 6 to our consolidated financial statements included herein).

On December 13, 2013, we entered into a \$75.0 million secured corporate loan with Credit Suisse First Boston Mortgage Capital LLC. The loan bears interest equal to the sum of (i) a floating rate index rate equal to the one-month London Interbank Offered Rate ( LIBOR ) and (ii) a margin of 4.00%. The loan contains customary covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline as of the end of the corresponding period in the prior fiscal year, or a 35% equity decline as of the end of the quarter immediately preceding the most recently completed fiscal quarter and a four-to-one indebtedness to tangible net worth provision. Subsequent to December 31, 2013, the loan was paid down by \$5.9 million, and the maturity was extended to May 31, 2014.

We currently expect to continue to make co-investments with Nationstar, and we may also acquire Excess MSRs from other servicers. Nationstar does not, however, have any obligation to offer us any future co-investment opportunity. In the event that we cannot co-invest in Excess MSRs with Nationstar, we may not be able to find other suitable counterparties from which to acquire Excess MSRs, which could have a material adverse effect on our business. At the same time, our co-investments with Nationstar expose us to counterparty concentration risk, which could increase if we do not or cannot acquire Excess MSRs from other counterparties or continue to pursue co-investments with Nationstar. Nationstar publicly discloses its financial statements and other material information in filings with the SEC, which may be obtained at the SEC's website, [www.sec.gov](http://www.sec.gov). The contents of Nationstar's public disclosure are not incorporated by reference herein, do not form part of this prospectus and have not been verified by us.

Additional information about our investments in Excess MSR is set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Servicing Related Assets Excess MSR and Business Our Portfolio Servicing Related Assets Excess MSR.

*Servicer Advances*

The following is a summary of the investments in Servicer advances, including the basic fee component of the related MSR, made by Advance Purchaser LLC, a joint venture entity (the Buyer) capitalized by us, two subsidiaries of Athene Holding Ltd., affiliates of The Blackstone Group, and affiliates of, and funds/accounts managed by, Omega Advisors, Inc.

**Table of Contents**

(dollars in thousands):

	December 31, 2013			Weighted Average Life (Years) (C)	Change in Fair Value Recorded in Other Income
	Amortized Cost Basis	Carrying Value (A)	Weighted Average Yield (B)		
Servicer advances	\$ 2,665,551	\$ 2,665,551	4.4%	2.7	\$

(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 yield represents the yield resulting from the expected future cash flows from the servicer advances and the basic fee component of the related MSR in relation to the Buyer's basis in the servicer advances, not taking into account financing. Such cash flows are subject to various risks and uncertainties as detailed under Risk Factors. Actual cash flows and the related yield could differ materially from the weighted average yield presented above.

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

The following is additional information regarding the servicer advances, and related financing, of the Buyer, as of December 31, 2013 (dollars in thousands):

	UPB of Underlying Residential Mortgage Loans	Outstanding Servicer Advances	Servicer Advances to UPB of Underlying Residential Mortgage Loans	Carrying Value of Notes Payable	Loan-to-Value		Cost of Funds (B)	
					Gross	Net (A)	Gross	Net
Servicer advances	\$ 43,444,216	\$ 2,661,130	6.1%	\$ 2,390,778	89.8%	88.6%	4.0%	2.3%

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

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

**Transaction 1****Transaction 2****Total**

Edgar Filing: New Residential Investment Corp. - Form S-11/A

	<b>As of 12/31/13</b>	<b>As of 3/26/14</b>	<b>As of 12/31/13</b>	<b>As of 3/26/14</b>	<b>As of 12/31/13</b>	<b>As of 3/26/14</b>
Advances Purchased	\$ 2,687,813	\$ 3,197,344	\$	\$ 1,055,310	\$ 2,687,813	\$ 4,252,654
New Activity	(26,683)	(551,116)		82,111	(26,683)	(469,005)
Ending Advance Balance	\$ 2,661,130	\$ 2,646,228	\$	\$ 1,137,421	\$ 2,661,130	\$ 3,783,649
Net Debt (A)	\$ 2,357,440	\$ 2,424,498	\$	\$ 1,012,418	\$ 2,357,440	\$ 3,436,916
Total Equity Invested (B)	\$ 363,324	\$ 445,550	\$	\$ 142,024	\$ 363,324	\$ 587,574
New Residential s						
Equity % (C)	31.8%	44.4%	N/A		31.8%	33.7%
Co-investors Equity % (C)	68.2%	55.6%	N/A	100.0%	68.2%	66.3%

(A) Outstanding debt net of restricted cash.

(B) Includes working capital.

(C) Based on cash basis equity.

## Table of Contents

### Overview of Transaction 1

On December 17, 2013, the Buyer entered into a Master Servicing Rights Purchase Agreement and three related Sale Supplements (collectively, the Purchase Agreement ) with Nationstar ( Transaction 1 ). One of our wholly-owned subsidiaries is the managing member of the Buyer.

Pursuant to the Purchase Agreement, the Buyer agreed to purchase servicer advances on a portfolio of loans in exchange for the right to receive the basic fee component of the related MSR. Specifically, the Buyer acquired from Nationstar:

the right to repayment with respect to approximately \$3.2 billion of outstanding servicer advances (the Outstanding Advances ) outstanding on three pools of Non-Agency mortgage loans with an aggregate UPB of approximately \$54.6 billion as of December 31, 2013;

the obligation to purchase future servicer advances made by Nationstar on the pools (the Future Advances and, together with the Outstanding Advances, the Funded Advances ) and the right to repayment with respect to the Future Advances; and

the right to receive the basic fee component of the MSR on the pools (the Purchased Basic Fee ), which was 23.2 basis points on a weighted average basis as of December 31, 2013.

For certain financial information about our investments, see Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Servicing Related Assets Servicer Advances. We estimate that the amount of Future Advances in Transaction 1 will be approximately \$7.3 billion based on both (i) our management's estimates with respect to the pools of (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 pools with respect to which management expects not to have any additional advance obligations and (ii) Nationstar's historical rate of making servicer advances. The actual amount of future advances related to Transaction 1 is subject to significant uncertainty and could be materially different than our estimates.

While the Buyer acquired legal title to the basic fee component of the MSR on the pools, Nationstar remains the named servicer under the related servicing agreements and will continue to perform all servicing duties for the pools. The Buyer will not become the named servicer until all required consents and ratings agency letters required for a formal change of the named servicer have been obtained (and the Buyer has no obligations to obtain such consents and letters).

In exchange for Nationstar's performance of servicing duties, the Buyer will pay Nationstar a servicing fee (the Servicing Fee ) and a performance fee (the Performance Fee ). The Buyer will pay the Performance Fee if the amounts from the Purchased Basic Fee (the Basic Fee Amounts ), net of the Servicing Fee (the Net Collections ) exceed a 14% return (the Targeted Return ) on its equity in the Funded Advances.

The investment structure, and the Targeted Return in particular, is 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 the Funded 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 the Purchased Basic Fee between the Buyer and Nationstar. For more detail, see Servicing Fee, Targeted Return and Performance Fee below. Nationstar is also entitled to retain investment income on servicing accounts, prepayment interest excess and all ancillary income in connection with servicing the mortgage loans.



## Table of Contents

Pursuant to the Purchase Agreement, the Buyer has the right to become the named servicer under the applicable servicing agreements upon the satisfaction of certain conditions, such as obtaining any required licenses to be a residential mortgage servicer. However, unless and until the Buyer seeks to satisfy such conditions (which it has no obligation to satisfy) and becomes the named servicer under the applicable servicing agreements, the Buyer has no obligation to perform any servicing duties or assume any servicing-related liabilities with respect to the pools. The Buyer does not currently intend to become the named servicer under the applicable servicing agreements.

## Purchase Price and Settlement

The purchase price for Transaction 1 was approximately \$3.2 billion. The value of our investment was established by discounting the aggregate estimated future cash flows associated with the Funded Advances and the Purchased Basic Fee at an appropriate discount rate. The purchase price is equal to the par amount of the Outstanding Advances on their respective settlement dates.

The Buyer funded approximately \$0.4 billion of the purchase price with cash from equity subscriptions and contributions to the Buyer, and the remainder with debt. The debt was incurred by certain wholly owned subsidiaries of the Buyer that have become the issuers under the financing for the Funded Advances, as described in more detail below under Advance Financing.

Transaction 1 was completed in stages. As of December 31, 2013, the Buyer had completed the purchase of approximately \$2.7 billion of Funded Advances. Subsequent to December 31, 2013, the Buyer settled an additional \$509.4 million of Funded Advances, which represents substantially all of the remaining balance of Transaction 1.

## Advance Financing

Prior to Transaction 1, special purpose subsidiaries of Nationstar had previously borrowed approximately \$2.13 billion under limited recourse variable funding notes (the Original Notes ) to finance the Outstanding Advances. The Original Notes were issued through two wholly owned special purpose subsidiaries (the Original Issuers ) pursuant to two servicer advance facilities (the Barclays Facility and the Credit Suisse Facility and, collectively, the Facilities ). The counterparty on the Barclays Facility was Barclays Bank PLC. Credit Suisse AG, New York Branch and Morgan Stanley Bank, N.A. are counterparties on the Credit Suisse Facility. In connection with Transaction 1, the Buyer purchased the equity of wholly owned special purpose subsidiaries of Nationstar that owned the Original Issuers. A portion of the outstanding Original Notes were repaid with the proceeds of new notes issued in March 2014. After giving effect to such repayments, the Barclays Facility was terminated and the borrowing capacity under the Credit Suisse Facility was reduced to \$1.5 billion. For details about the financing, see Financing Strategy Servicing Related Assets Servicer Advances below.

## The Pools

The pools in Transaction 1 are Pool 10 (a portion of which is excluded from Transaction 1 and is expected to be included in Transaction 2 (as defined below)), Pool 17 and Pool 18, and the pools in Transaction 2 are Pool 5, the portion of Pool 10 not included in Transaction 1, and Pool 12. We previously acquired an interest in the Excess MSRs related to each of these pools.



**Table of Contents****Types of Advances**

The servicer advances typically include (i) principal and interest advances, (ii) escrow advances and (iii) foreclosure advances. As of the date hereof, the Buyer acquired (or agreed to acquire) the following types of advances:

	Transaction 1			Transaction 2		
	Settled (bn)	Unsettled (bn)	Total (bn)	Settled	Unsettled	Total
Principal and Interest Advances	\$ 1.97	\$ 0.01	\$ 1.98	\$ 0.49	NA	\$ 0.49
Escrow Advances	1.00	0.00	1.00	0.43	NA	0.43
Foreclosure Advances	0.28	0.00	0.28	0.14	NA	0.14
Total	\$ 3.24	\$ 0.01	\$ 3.26	\$ 1.06	NA	\$ 1.06

**The Buyer**

As of December 31, 2013, we owned approximately 32% of the Buyer, and the third-party co-investors owned the remainder. At the expiration of the Call Right (as defined below) and the settlement of the associated advances, we expect that we will own approximately 45-50% of the Buyer to the extent we actually make additional capital contributions to the Buyer. As noted below, there can be no assurance that the Call Right will be exercised in full.

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 pro rata reduction of its membership percentage to the extent funded by other members. For more information about the rights of the members of the Buyer, see

Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Servicing Related Assets Servicer Advances The Buyer.

**Call Right and Transaction 2**

In Transaction 1, the Buyer has the right, but not the obligation (the Call Right), to purchase from Nationstar any or all servicer advances in a par amount of \$3.1 billion as of December 31, 2013 and the basic fee of the related MSR on two pools of Non-Agency mortgage loans (Transaction 2). The terms of Transaction 2 will be substantially similar to the terms of Transaction 1, subject to the receipt of applicable consents. The Call Right expires on June 30, 2014.

The Buyer exercised a portion of the Call Right in February and March 2014. The outstanding balance of the servicer advances subject to the portion of the Call Right that was exercised was approximately \$1.1 billion as of the exercise dates, February 28, 2014 and March 7, 2014. If the Buyer exercises the Call Right in full, it expects to fund the total purchase price with approximately \$2.5 billion of debt and \$0.3 billion of equity, excluding working capital. As of the date hereof, the Buyer has settled \$1.1 billion of advances related to Transaction 2, which was financed with approximately \$0.9 billion of debt. The remaining balance of the Call Right is expected to be settled in the second quarter of 2014. There can be no assurance that Transaction 2 will be completed on the terms we expect or at all. The remaining servicer advances that are subject to the Call Right cannot be purchased unless and until the related financings are repaid or renegotiated or until the related collateral is released in accordance with the terms of such financings (which would require the consent of various third parties).



## Table of Contents

### Servicing Fee

Nationstar remains the named servicer under the servicing agreements related to the pools and will continue to perform all servicing duties for the pools. In exchange for its services, the Buyer will pay Nationstar a monthly servicing fee (the Servicing Fee ) representing a portion of the Purchased Basic Fee.

The Servicing Fee is equal to a fixed percentage (the Servicing Fee Percentage ) of the Basic Fee Amounts. The Servicing Fee Percentage as of December 31, 2013 was approximately 8.6%, which is equal to (i) 2 basis points divided by (ii) the basic fee of the pools, which was 23.2 basis points on a weighted average basis as of December 31, 2013.

### Targeted Return

The Targeted Return is 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 the Funded 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 the Purchased Basic Fee between the Buyer and Nationstar.

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

The Targeted Return, which is payable monthly, is equal to (i) 14% multiplied by (ii) the Buyer's total invested capital in the Funded Advances. Total invested capital, as defined in the Purchase Agreement, is the sum of the Buyer's (i) equity in Funded 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 related to the financing, (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 (collectively, the Fees and Expenses ).

### Performance Fee

The Performance Fee is calculated as follows. Pursuant to the Purchase Agreement, Net Collections is divided into two subsets: the Retained Amount and the Surplus Amount. The Retained Amount is equal to 15.4 basis points of the UPB of the pools related to the basic fee, and the Surplus Amount is the remainder. 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.

For a simplified example of the allocation of the Purchased Basic Fee pursuant to the Purchase Agreement, for a given month, see Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Servicing Related Assets Servicer Advances Illustrative Example.



**Table of Contents****Residential Securities and Loans****Agency ARM RMBS**

As of December 31, 2013, we owned \$1.3 billion face amount of Agency ARM RMBS, as described in the table below (in thousands).

**Summary of Agency ARM RMBS as of December 31, 2013**

Asset Type	Outstanding Face Amount	Amortized Cost Basis <sup>1</sup>	Gross Unrealized		Carrying Value <sup>1,2</sup>	Outstanding Repurchase Agreements
			Gains	Losses		
Agency ARM RMBS	\$ 1,314,130	\$ 1,392,612	\$ 3,434	\$ (3,885)	\$ 1,392,161	\$ 1,332,954

(1) Amortized cost basis and carrying value exclude \$10.6 million of principal receivables as of December 31, 2013.

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

Subsequent to December 31, 2013, we acquired no new Agency ARM RMBS. We sold five Agency ARM RMBS with a face amount of approximately \$154.2 million and an amortized cost basis of approximately \$162.2 million for approximately \$162.9 million, recording a gain on sale of approximately \$0.7 million. Prior to the sale, impairment was recorded on these five Agency ARM RMBS of approximately \$1.0 million.

Additional information about our investments in Agency ARM RMBS is set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Residential Securities and Loans Real Estate Securities Agency ARM RMBS and Business Our Portfolio Residential Securities and Loans Real Estate Securities Agency ARM RMBS.

**Non-Agency RMBS**

As of December 31, 2013, we had approximately \$872.9 million face amount of Non-Agency RMBS, as described in the table below (in thousands).

**Summary of Non-Agency RMBS as of December 31, 2013**

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized		Carrying Value <sup>(1)</sup>	Outstanding Repurchase Agreements
			Gains	Losses		
Non-Agency RMBS	\$ 872,866	\$ 566,760	\$ 7,618	\$ (3,953)	\$ 570,425	\$ 287,757

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

On October 30, 2013, we terminated our existing \$342.9 million master repurchase agreement and entered into a new \$414.2 million master repurchase agreement with Alpine Securitization Corp., an asset-backed commercial paper facility sponsored by Credit Suisse AG, which has a one year maturity and is subject to margin calls. The new \$414.2 million master repurchase agreement is subject to margin call provisions as well as customary loan covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline over any 12 month period and 35% equity decline over any 3 month period and a four-to-one indebtedness to tangible net worth provision. The financing bears interest at one-month LIBOR plus 1.75%. As



## **Table of Contents**

of April 15, 2014, \$103.2 million has been drawn on the facility. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt Obligations.

Subsequent to December 31, 2013, we acquired Non-Agency RMBS with an aggregate face amount of approximately \$740.6 million for approximately \$308.9 million. We sold eight Non-Agency RMBS with a face amount of approximately \$437.9 million and an amortized cost basis of approximately \$244.6 million for approximately \$248.5 million, recording a gain on sale of approximately \$3.8 million.

Additional information about our investments in Non-Agency RMBS is set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Residential Securities and Loans Real Estate Securities Non-Agency RMBS and Business Our Portfolio Residential Securities and Loans Real Estate Securities Non-Agency RMBS.

### *Real Estate Loans*

As of December 31, 2013, we had approximately \$57.6 million outstanding face amount of residential mortgage loans. In February 2013, we invested approximately \$35.1 million to acquire a 70% interest in the mortgage loans. Nationstar co-invested pari passu with us in 30% of the 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. On December 31, 2013, Nationstar financed the mortgage loans and related participation interests in a repurchase facility with Barclays Bank PLC, which resulted in our receipt of approximately \$22.8 million of financing proceeds corresponding to our 70% interest in the mortgage loans. Additional information about our investments in residential mortgage loans is set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Residential Securities and Loans Real Estate Loans Residential Mortgage Loans and Business Our Portfolio Residential Securities and Loans Real Estate Loans Residential Mortgage Loans.

On November 25, 2013, we entered into a \$300.0 million master repurchase agreement with The Royal Bank of Scotland plc (RBS) with advance rates ranging from 65% to 85% and an interest cost of one-month LIBOR plus 2.5% to 2.75%. The repurchase agreement, which contains customary covenants and event of default provisions and is subject to margin calls, will be used to finance the purchase of residential mortgage loans and matures on November 24, 2014. As of April 15, 2014, we had drawn \$59.2 million under this facility.

In the fourth quarter of 2013, we purchased a portfolio of non-performing residential mortgage loans with a UPB of approximately \$170.1 million at a price of approximately \$92.7 million. The purchase was financed using the \$300.0 million master repurchase agreement with RBS discussed above.

On January 15, 2014, we purchased a portfolio of non-performing residential mortgage loans with a UPB of approximately \$65.6 million at a price of approximately \$33.7 million. To finance this purchase, on January 15, 2014, we entered into a \$25.3 million repurchase agreement with Credit Suisse Securities (USA) LLC, which matures on January 14, 2015. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 3.00%. The agreement contains customary covenants and event of default provisions.

On April 8, 2014, we agreed to purchase from an affiliate of Natixis a portfolio of non-performing and re-performing residential mortgage loans with a UPB of approximately \$93 million for a price of approximately \$67 million. We expect to finance approximately 70% of the purchase price with a repurchase agreement. The purchase is expected to settle in May 2014.

Edgar Filing: New Residential Investment Corp. - Form S-11/A

On April 11, 2014, we agreed to purchase from JPMorgan Chase Bank, N.A., a portfolio of non-performing residential mortgage loans with a UPB of approximately \$525 million for a price of approximately \$391 million.

---

## **Table of Contents**

We expect to finance approximately 75% of the purchase price with a repurchase agreement. The purchase is expected to settle in June 2014.

### ***Other Investments***

On April 1, 2013, we completed, through newly formed limited liability companies (together, the Consumer Loan Companies), a co-investment in a portfolio of consumer loans with a UPB of approximately \$4.2 billion as of December 31, 2012. The portfolio includes over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. The Consumer Loan Companies acquired the portfolio from HSBC Finance Corporation and its affiliates. We invested approximately \$250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf Finance Inc. (Springleaf), which is majority-owned by Fortress funds managed by our Manager, 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. On January 8, 2014, we financed all of our ownership interest in each of the Consumer Loan Companies under a \$150.0 million master repurchase agreement with Credit Suisse Securities (USA) LLC, which matures on June 30, 2014. Borrowings under the facility bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 4.00%. The facility contains customary covenants and event of default provisions.

The Consumer Loan Companies initially financed \$2.2 billion (\$1.7 billion outstanding as of December 31, 2013) of the approximately \$3.0 billion purchase price with asset-backed notes that have a maturity of April 2021, and pay a coupon of 3.75%. In September 2013, the Consumer Loan Companies issued and sold an additional \$372.0 million of asset-backed notes for 96% of par. These notes are subordinate to the debt issued in April 2013, have a maturity of December 2024, and pay a coupon of 4%.

The 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 is now the servicer of the loans and will provide all servicing and advancing functions for the portfolio. Additional information about our investment in consumer loans is set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Other Consumer Loans and Business Our Portfolio Other Investments.

### **Financing Strategy**

Our objective is to generate attractive risk-adjusted returns for our stockholders without excessive use of leverage. We do not have a predetermined target leverage level. The amount of leverage we deploy for a

particular investment depends upon an assessment of a variety of factors, which may include the anticipated liquidity and price volatility of our assets; the gap between the duration of assets and liabilities, including hedges; the availability and cost of financing the assets; our opinion of the creditworthiness of financing counterparties; the health of the U.S. economy and the residential mortgage and housing markets; our outlook for the level, slope and volatility of interest rates; the credit quality of the loans underlying our RMBS; and our outlook for asset spreads relative to financing costs. See Management's Discussion and Analysis of Financial Condition Liquidity and Capital Resources Debt Obligations for additional details.



## **Table of Contents**

### ***Servicing Related Assets***

#### *Excess MSR*s

We have funded the acquisition of Excess MSR's primarily on an unlevered basis. On December 13, 2013, we entered into a \$75.0 million secured corporate loan with Credit Suisse First Boston Mortgage 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 4.00%. The loan contains customary covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline as of the end of the corresponding period in the prior fiscal year, or a 35% equity decline as of the end of the quarter immediately preceding the most recently completed fiscal quarter and a four-to-one indebtedness to tangible net worth provision. As of December 31, 2013, the loan was fully drawn. Subsequent to December 31, 2013, the loan was paid down by \$5.9 million, and the maturity was extended to May 31, 2014.

#### *Servicer Advances*

As of December 31, 2013, the Buyer had approximately \$2.4 billion of drawn principal under the Original Notes to finance the advances with an interest rate 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 2.0% to 2.6%, borrowing capacity of up to \$3.9 billion in aggregate and maturity dates in September 2014. A portion of the outstanding Original Notes were repaid with the proceeds of new notes issued in March 2014. After giving effect to such repayments, the Barclays Facility was terminated and the borrowing capacity under the Credit Suisse Facility was reduced to \$1.5 billion.

### ***Residential Securities and Loans***

#### *RMBS*

As of December 31, 2013, we had outstanding repurchase agreements with an aggregate face amount of approximately \$287.8 million to finance Non-Agency RMBS and approximately \$1.3 billion to finance Agency ARM RMBS. Our repurchase agreements generally have 30 day terms and are subject to margin calls. On October 30, 2013, we replaced an existing master repurchase agreement with a new \$414.2 million master repurchase agreement with Alpine Securitization Corp., an asset-backed commercial paper facility sponsored by Credit Suisse AG, which has a one year maturity and is subject to margin calls. As of April 15, 2014, \$103.2 million has been drawn on the facility.

Under repurchase agreements, we sell a security to a counterparty and concurrently agree to repurchase the same security at a later date for a higher specified price. The sale price represents financing proceeds, and the difference between the sale and repurchase prices represents interest on the financing. The price at which the security is sold generally represents the market value of the security less a discount or haircut, which can range broadly, for example from 5% for Agency ARM RMBS to between 20% and 40% for Non-Agency RMBS. During the term of the repurchase agreement, the counterparty holds the security as collateral. If the agreement is subject to margin calls, the counterparty monitors and calculates what it estimates to be the value of the collateral during the term of the agreement. If this value declines by more than a de minimis threshold, the counterparty could require us to post additional collateral (or margin) in order to maintain the initial haircut on the collateral. This margin is typically required to be posted in the form of cash and cash equivalents.

These repurchase agreements have terms that generally conform to the terms of the standard master repurchase agreement published by the Securities Industry and Financial Markets Association (SIFMA) as to repayment, margin requirements and segregation of all securities sold under any repurchase transactions. In addition, each counterparty

typically requires that we include supplemental terms and conditions to the standard master

## **Table of Contents**

repurchase agreement. Typical supplemental terms and conditions include changes to the margin maintenance requirements, required haircuts, purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction and cross default provisions. These provisions may differ for each of our counterparties and are not determined until we engage in a specific repurchase transaction.

### *Residential Mortgage Loans*

On November 25, 2013, we also entered into a \$300.0 million master repurchase agreement with RBS with advance rates ranging from 65% to 85% and an interest cost of one-month LIBOR plus 2.5% to 2.75%. The repurchase agreement, which contains customary covenants and event of default provisions and is subject to margin calls, will be used to finance the purchase of residential mortgage loans and matures on November 24, 2014. Pursuant to the repurchase agreement we may sell, and later repurchase, (x) trust certificates representing interests in certain residential mortgage loans and (y) the capital stock of a corporation that holds certain real estate owned properties (collectively, the Purchased Assets). The principal amount paid by RBS for such Purchased Assets is based on a percentage of the lesser of the market value or the UPB of such mortgage assets backing the Purchased Assets. Upon our repurchase of Purchased Assets sold under the repurchase agreement, we are required to repay RBS a repurchase amount based on the purchase price plus accrued interest. We are also required to pay certain administrative costs and expenses in connection with the structuring, management and ongoing administration of the repurchase agreement. As of April 15, 2014, we had drawn \$59.2 million under this facility.

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

### *Consumer Loans*

On January 8, 2014, we financed all of our ownership interest in each of the Consumer Loan Companies under a \$150.0 million master repurchase agreement with Credit Suisse Securities (USA) LLC, which matures on June 30, 2014. Borrowings under the facility bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 4.00%. The facility contains customary covenants and event of default provisions.

### **Management Agreement**

In connection with our spin-off from Newcastle, we entered into a Management Agreement with our Manager. Our Management Agreement requires our Manager to manage our business affairs in conformity with broad investment guidelines adopted and monitored by our board of directors. For more information about our investment guidelines, see *Business Investment Guidelines* included elsewhere in this prospectus.

Our Management Agreement has an initial one-year term and is automatically renewed for one-year terms thereafter unless terminated either by us or our Manager. Our Manager is entitled to receive from us a management fee and is eligible to receive incentive compensation that is based on our performance. In addition, we are obligated to reimburse certain expenses incurred by our Manager. Our Manager is also entitled to receive





**Table of Contents**

a termination fee from us under certain circumstances. The terms of our Management Agreement are summarized below and described in more detail under **Our Manager and Management Agreement** elsewhere in this prospectus.

<b>Type</b>	<b>Description</b>
Management Fee	1.5% per annum of our gross equity calculated and payable monthly in arrears in cash. Gross equity is generally the equity that was transferred to us by Newcastle on the distribution date, plus total net proceeds from common and preferred stock offerings, plus certain capital contributions to subsidiaries, less capital distributions and repurchases of common stock. From the date of the spin-off through December 31, 2013, we have accrued \$11.2 million in management fees.
Incentive Compensation	<p>Our 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) the 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 Excess MSR's and on equity method investees invested in Excess MSR's, 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 the distribution date, earnings (or losses) from equity method investees invested in Excess MSR's 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, 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 that was transferred to us by Newcastle on the distribution date and the prices per share of our common stock in any offerings by us (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.</p> <p>Funds from operations means net income (computed in accordance with U.S. generally accepted accounting principles ( GAAP )), excluding gains (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 our independent directors based on changes in, or certain applications of, GAAP. Funds from operations are determined from the date of our separation from Newcastle and without regard to Newcastle's prior</p>

performance. Funds from operations does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income as an indication of our performance or to cash flows as a measure of

**Table of Contents**

<b>Type</b>	<b>Description</b>
Reimbursement of Expenses	<p>liquidity or ability to make distributions. From the date of the spin-off through December 31, 2013, we have accrued \$16.8 million in incentive compensation.</p> <p>We pay, or reimburse our Manager, for performing certain legal, accounting, due diligence tasks and other services that outside professionals or outside consultants otherwise would perform, provided that such costs and reimbursements are no greater than those which would be paid to outside professionals or consultants on an arm's-length basis and shall not be reimbursed in excess of \$500,000 per annum. We also pay all operating expenses, except those specifically required to be borne by our Manager under our Management Agreement.</p> <p>Our Manager is responsible for all costs incident to the performance of its duties under the Management Agreement, including compensation of our Manager's employees, rent for facilities, and other overhead expenses; we do not reimburse our Manager for these expenses. The expenses required to be paid by us include, but are not limited to, issuance and transaction costs incident to the acquisition, disposition and financing of our investments, legal and auditing fees and expenses, the compensation and expenses of our independent directors, the costs associated with the establishment and maintenance of any credit facilities and other indebtedness of ours (including commitment fees, legal fees, closing costs, etc.), expenses associated with other securities offerings of ours, the costs of printing and mailing proxies and reports to our stockholders, costs incurred by employees of our manager for travel on our behalf, costs associated with any computer software or hardware that is used solely for us, costs to obtain liability insurance to indemnify our directors and officers and the compensation and expenses of our transfer agent. From the date of the spin-off through December 31, 2013, we have accrued \$0.5 million for reimbursement to our Manager.</p>
Termination Fee	<p>The termination fee is a fee equal to the sum of (1) the amount of the management fee during the 12 months immediately preceding the date of termination, and (2) the Incentive Compensation Fair Value Amount. The Incentive Compensation Fair Value Amount is an amount equal to the Incentive Compensation that would be paid to the Manager if our assets were sold for cash at their then current fair market value (as determined by an appraisal, taking into account, among other things, the expected future value of the underlying investments).</p>

**Table of Contents**

**Summary Risk Factors**

You should carefully read and consider the risk factors set forth under Risk Factors, as well as all other information contained in this prospectus. If any of the following risks occur, our business, financial condition, liquidity and results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline significantly, and you could lose all or a portion of your investment.

We have a very limited operating history as an independent company and may not be able to successfully operate our business strategy or generate sufficient revenue to make or sustain distributions to our stockholders. The financial information included in this prospectus may not be indicative of the results we would have achieved as a separate stand-alone company and are not a reliable indicator of our future performance or results.

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

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

We rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.

We have significant counterparty concentration risk in Nationstar and Springleaf and are subject to other counterparty concentration and default risks.

GSE initiatives and other actions may adversely affect returns from investments in Excess MSRs.

Many of our investments may be illiquid, and this lack of liquidity could significantly impede our ability to vary our portfolio in response to changes in economic and other conditions or to realize the value at which such investments are carried if we are required to dispose of them.

Many of the RMBS in which we invest are collateralized by subprime mortgage loans, which are subject to increased risks.

The value of our Excess MSRs, servicer advances and RMBS may be adversely affected by deficiencies in servicing and foreclosure practices, as well as related delays in the foreclosure process.

The lenders under our repurchase agreements may elect not to extend financing to us, which could quickly and seriously impair our liquidity.

Our investments in RMBS may be subject to significant impairment charges, which would adversely affect our results of operations.

We may not be able to finance our investments on attractive terms or at all, and financing for Excess MSR's may be particularly difficult to obtain.

The consumer loans underlying our investments are subject to delinquency and loss, which could have a negative impact on our financial results.

Interest rate fluctuations and shifts in the yield curve may cause losses.

Maintenance of our exclusion under the 1940 Act imposes limits on our operations.

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

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

Our directors have approved broad investment guidelines for our Manager and do not approve each investment decision made by our Manager. In addition, we may change our investment strategy

## **Table of Contents**

without a stockholder vote, which may result in our making investments that are different, riskier or less profitable than our current investments.

We may compete with affiliates of our Manager, including Newcastle, which could adversely affect our and their results of operations.

We do not know what impact the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) will have on our business.

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

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

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

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

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

## **Conflicts of Interest**

Although we have established certain policies and procedures designed to mitigate conflicts of interest, there can be no assurance that these policies and procedures will be effective in doing so. It is possible that actual, potential or perceived conflicts of interest could give rise to investor dissatisfaction, litigation or regulatory enforcement actions.

One or more of our officers and directors have responsibilities and commitments to entities other than us, including, but not limited to, Newcastle, Nationstar and Springleaf. For example, we have some of the same directors and officers as Newcastle, Nationstar and Springleaf. In addition, we do not have a policy that expressly prohibits our directors, officers, securityholders or affiliates from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct and ethics prohibits, subject to the terms of our certificate of incorporation, the directors, officers and employees of our Manager from engaging in any transaction that involves an actual conflict of interest with us. See Risk Factors Risks Related to Our Manager There are conflicts of interest in our relationship with our Manager.

Our key agreements, including our Management Agreement, were negotiated among related parties, and their respective terms, including fees and other amounts payable, may not be as favorable to us as terms negotiated on an arm s-length basis with unaffiliated parties. Our independent directors may not vigorously enforce the provisions of our Management Agreement against our Manager. For example, our independent directors may refrain from

terminating our Manager because doing so could result in the loss of key personnel.

The structure of the Manager's compensation arrangement may have unintended consequences for us. We have agreed to pay our Manager a management fee that is not tied to our performance and incentive compensation that is based entirely on our performance. The management fee may not sufficiently incentivize our Manager to generate attractive risk-adjusted returns for us, while the performance-based incentive compensation component may cause our Manager to place undue emphasis on the maximization of earnings, including through the use of leverage, at the expense of other objectives, such as preservation of capital, to achieve higher incentive distributions. Investments with higher yield potential are generally riskier or more speculative than investments with lower yield potential. This could result in increased risk to the value of our portfolio of assets and your investment in us.

## **Table of Contents**

We may compete with entities affiliated with our Manager or Fortress, including Newcastle, for certain target assets. From time to time, affiliates of Fortress may focus on investments in assets with a similar profile as our target assets that we may seek to acquire. These affiliates may have meaningful purchasing capacity, which may change over time depending upon a variety of factors, including, but not limited to, available equity capital and debt financing, market conditions and cash on hand. Currently, Fortress has two funds primarily focused on investing in Excess MSR's with approximately \$1.7 billion in capital commitments in aggregate. We intend to co-invest with these funds in Excess MSR's. Fortress funds generally have a fee structure similar to ours, but the fees actually paid will vary depending on the size, terms and performance of each fund. Fortress had approximately \$61.8 billion of assets under management as of December 31, 2013.

Our Manager may determine, in its discretion, to make a particular investment through an investment vehicle other than us. Investment allocation decisions will reflect a variety of factors, such as a particular vehicle's availability of capital (including financing), investment objectives and concentration limits, legal, regulatory, tax and other similar considerations, the source of the investment opportunity and other factors that the Manager, in its discretion, deems appropriate. Our Manager does not have an obligation to offer us the opportunity to participate in any particular investment, even if it meets our investment objectives.

## **Operational and Regulatory Structure**

### ***REIT Qualification***

We will elect to be taxed and intend to qualify as a REIT for U.S. federal income tax purposes commencing with our initial taxable year ended December 31, 2013. Our qualification as a REIT will depend upon our ability to meet, on a continuing basis, various complex requirements under the Internal Revenue Code of 1986, as amended (the Code), relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels to our stockholders and the concentration of ownership of our capital stock. We believe that, commencing with our initial taxable year ended December 31, 2013, we will be organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our intended manner of operation will enable us to meet the requirements for qualification and taxation as a REIT. In connection with this offering, we will receive an opinion of Skadden, Arps, Slate, Meagher & Flom LLP to the effect that we have been organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT.

### ***1940 Act Exclusion***

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the 1940 Act. Section 3(a)(1)(A) of the 1940 Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the 1940 Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis (the 40% test). Excluded from the term investment securities, among other things, are U.S. Government securities and securities issued by majority owned subsidiaries that are not themselves investment companies and are not relying on the exclusion from the definition of investment company for private funds set forth in Section 3(c)(1) or Section 3(c)(7) of the 1940 Act.

We are organized as a holding company that conducts its businesses primarily through wholly owned and majority owned subsidiaries. We intend to continue to conduct our operations so that we do not come within the definition of



an investment company because less than 40% of the value of our adjusted total assets on an

## Table of Contents

unconsolidated basis will consist of investment securities in compliance with the 40% test under Section 3(a)(1)(C) of the 1940 Act. The value of securities issued by any wholly owned or majority owned subsidiaries that we may form in the future that are excluded from the definition of investment company based on Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we may own, may not exceed the 40% test under Section 3(a)(1)(C) of the 1940 Act. For purposes of the foregoing, we currently treat our interests in our taxable REIT subsidiaries that hold our servicer advances and our subsidiaries that hold consumer loans as investment securities because these subsidiaries presently rely on the exclusion provided by Section 3(c)(7) of the 1940 Act. We will monitor our holdings to ensure continuing and ongoing compliance with the 40% test under Section 3(a)(1)(C) of the 1940 Act. In addition, we believe we will not be considered an investment company under Section 3(a)(1)(A) of the 1940 Act because we will not engage primarily or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through our wholly owned subsidiaries, we will be primarily engaged in the non-investment company businesses of these subsidiaries.

If the value of securities issued by our subsidiaries that are excluded from the definition of investment company by Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we own, exceeds the 40% test under Section 3(a)(1)(C) of the 1940 Act (e.g., the value of our interests in the taxable REIT subsidiaries that hold servicer advances increases significantly in proportion to the value of our other assets), or if one or more of such subsidiaries fail to maintain an exclusion or exception from the 1940 Act, we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company under the 1940 Act, either of which could have an adverse effect on us and the market price of our securities. As discussed above, for purposes of the foregoing, we currently treat our interests in our TRSs that hold our servicer advances and our subsidiaries that hold consumer loans as investment securities because these subsidiaries presently rely on the exclusion provided by Section 3(c)(7) of the 1940 Act. If we were required to register as an investment company under the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions.

For purposes of the foregoing, we treat our interests in certain of our wholly owned and majority owned subsidiaries, which constitutes more than 60% of the value of our adjusted total assets on an unconsolidated basis, as non-investment securities because such subsidiaries qualify for exclusion from the definition of an investment company under the 1940 Act pursuant to Section 3(c)(5)(C) of the 1940 Act (the Section 3(c)(5)(C) exclusion). The Section 3(c)(5)(C) exclusion is available for entities primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. The Section 3(c)(5)(C) exclusion generally requires that at least 55% of these subsidiaries' assets comprise qualifying real estate assets and at least 80% of each of their portfolios must comprise qualifying real estate assets and real estate-related assets under the 1940 Act. We expect each of our subsidiaries relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff or on our analyses of guidance published with respect to other types of assets to determine which assets are qualifying real estate assets and real estate-related assets. To the extent that the SEC staff publishes new or different guidance with respect to these matters, or disagrees with our analysis, we may be required to adjust our strategy accordingly. In addition, we may be limited in our ability to make certain investments and these limitations could result in the subsidiary holding assets we might wish to sell or selling assets we might wish to hold.

In August 2011, the SEC issued a concept release soliciting public comments on a wide range of issues relating to companies engaged in the business of acquiring mortgages and mortgage-related instruments and that rely on Section 3(c)(5)(C) of the 1940 Act. Therefore, there can be no assurance that the laws and regulations governing



## **Table of Contents**

the 1940 Act status of REITs, or guidance from the SEC or its staff regarding the Section 3(c)(5)(C) exclusion, will not change in a manner that adversely affects our operations. If we or our subsidiaries fail to maintain an exclusion or exception from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions.

See [Business Operational and Regulatory Structure](#) [1940 Act Exclusion](#) for a further discussion of the specific exclusions under the 1940 Act that our subsidiaries are expected to rely on and the treatment of certain of our targeted asset classes for purposes of such exclusions.

Qualification for an exclusion from registration under the 1940 Act will limit our ability to make certain investments. See [Risk Factors](#) [Risks Related to Our Business](#) [Maintenance of our 1940 Act exclusion](#) imposes limits on our operations.

## **Our Corporate Information**

We were formed as NIC MSR LLC, a Delaware limited liability company, in September 2011 and were a wholly owned subsidiary of Newcastle. We converted to a Delaware corporation and changed our name to New Residential Investment Corp. in December 2012. On May 15, 2013, we separated from Newcastle through the distribution of our shares of common stock to the stockholders of Newcastle and became a stand-alone publicly traded company. Our principal executive offices are located at 1345 Avenue of the Americas, New York, New York 10105, c/o New Residential Investment Corp. Our telephone number is 212-479-3150. Our web address is [www.newresi.com](http://www.newresi.com). The information on or otherwise accessible through our web site does not constitute a part of this prospectus or any other report or document we file with or furnish to the SEC.

**Table of Contents**

**THE OFFERING**

<b>Common stock offered by us</b>	25,000,000 shares.
<b>Common stock to be outstanding after this offering</b>	278,209,669 shares (281,959,669 shares if the underwriter exercises its option to purchase additional shares of common stock in full).
<b>Option to purchase additional shares from us</b>	We have granted the underwriter a 30-day option to purchase up to 3,750,000 additional shares of our common stock at the public offering price, less underwriting discounts and commission.
<b>Use of proceeds by us</b>	We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately \$150.2 million, assuming a public offering price of \$6.23 per share, the last reported sales price of our common stock on the New York Stock Exchange ( NYSE ) on April 23, 2014 (the assumed public offering price ) (or \$173.1 million if the underwriter exercises its option to purchase additional shares of common stock in full). We intend to use the net proceeds from this offering for general corporate purposes, including to make a variety of investments, which may include, but is not limited to, investments in Excess MSRs, servicer advances, real estate securities and real estate related loans. See Use of Proceeds.
<b>Distribution policy</b>	We intend to make regular quarterly distributions, which include all or substantially all of our REIT taxable income, to holders of our common stock out of assets legally available for this purpose. Any distributions will be authorized by our board of directors and declared by us based on a number of factors, including actual results of operations, liquidity and financial condition, restrictions under Delaware law or applicable financing covenants, our taxable income, the annual distribution requirements under the REIT provisions of the Code, our operating expenses and other factors our directors deem relevant. For more information, see Distribution Policy included elsewhere in this prospectus.
<b>NYSE symbol</b>	NRZ
<b>Ownership and transfer restrictions</b>	To assist us in qualifying as a REIT, among other purposes stockholders are generally restricted from owning more than 9.8% by value or number

of shares, whichever is more restrictive, of our outstanding shares of common stock, or 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of capital stock. In addition, our certificate of incorporation contains various other restrictions on the ownership and transfer of our common stock. See Description of Our Capital Stock Restrictions on Ownership and Transfer of Our Capital Stock.

**Table of Contents**

**Risk Factors**

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 34.

Except as otherwise indicated, all information in this prospectus assumes no exercise by the underwriter of its option to purchase an additional 3,750,000 shares of common stock from us.

The number of shares of our common stock that will be outstanding after this offering is based on 253,209,669 shares of our common stock outstanding as of April 15, 2014, and excludes:

- (i) options to purchase an aggregate of 15,232,638 shares of our common stock held by an affiliate of our Manager,
- (ii) options to purchase an aggregate of 5,157,470 shares of our common stock assigned to employees of affiliates of our Manager,
- (iii) options to purchase an aggregate of 12,000 shares of our common stock held by our directors, and
- (iv) options to purchase 2,500,000 shares of our common stock at an exercise price per share equal to the public offering price, representing 10% of the number of shares being offered by us hereby, that will be granted pursuant to our Nonqualified Stock Option and Incentive Award Plan (the Plan ) to an affiliate of our Manager in connection with this offering, and subject to adjustment if the underwriter exercises its option to purchase additional shares of our common stock.

**Table of Contents**

**SUMMARY HISTORICAL AND PRO FORMA FINANCIAL INFORMATION**

We were formed in September 2011 as NIC MSR LLC, a Delaware limited liability company and wholly owned subsidiary of Newcastle. We converted to a Delaware corporation and changed our name to New Residential Corp. in December 2012. On May 15, 2013, which we refer to as the separation date or distribution date, we separated from Newcastle through the distribution of our shares of common stock to the stockholders of Newcastle and became a stand-alone publicly traded company.

The following table presents our summary historical and pro forma financial information for the period from the commencement of our operations on December 8, 2011 through December 31, 2011 and for the years ended December 31, 2012 and 2013.

The summary historical consolidated statements of income for the years ended December 31, 2013 and 2012 and for the period from December 8, 2011 (commencement of operations) to December 31, 2011 and the summary historical consolidated balance sheets as of December 31, 2013 and 2012 have been derived from our audited financial statements included elsewhere in this prospectus. The summary historical consolidated balance sheet as of December 31, 2011 has been derived from our audited financial statements not included in this prospectus.

The unaudited pro forma condensed consolidated financial information presented below was derived from the application of pro forma adjustments to our consolidated financial statements. These unaudited pro forma condensed consolidated financial statements should be read in conjunction with the information under Management's Discussion and Analysis of Financial Condition and Results of Operations, and our historical financial statements and related notes, which are included elsewhere in this prospectus.

The unaudited pro forma information set forth below reflects our historical information with certain adjustments. The unaudited pro forma condensed consolidated balance sheet has been adjusted to give effect to all of the transactions described below as if each had occurred on December 31, 2013.

Acquisition and settlement of additional Excess MSRs subsequent to December 31, 2013.

Commitments to acquire additional Excess MSRs subsequent to December 31, 2013.

Acquisition and settlement of additional servicer advances subsequent to December 31, 2013 and the net increase of notes payable thereto.

Repayment of certain notes payable using new notes issued pursuant to an advance receivables trust that issued variable funding and term notes.

The sale of Agency ARM RMBS subsequent to December 31, 2013. The Agency ARM RMBS had a face amount of approximately \$154.2 million and a sales price of approximately \$162.9 million.



## Edgar Filing: New Residential Investment Corp. - Form S-11/A

The net decrease in repurchase agreements related to Agency ARM RMBS, which includes the repurchase agreements related to Agency ARM RMBS which had not settled on December 31, 2013.

The purchase and settlement of Non-Agency RMBS subsequent to December 31, 2013. The Non-Agency RMBS had a face amount of approximately \$740.6 million and a purchase price of approximately \$308.9 million.

The sale of Non-Agency RMBS subsequent to December 31, 2013. The Non-Agency RMBS had a face amount of approximately \$437.9 million, an amortized cost basis of \$244.6 million and a sales price of approximately \$248.5 million.

The net increase in repurchase agreements related to Non-Agency RMBS, which includes the repurchase agreements related to Non-Agency RMBS that had not settled on December 31, 2013.

Acquisition of long and short positions in to-be-announced ( TBA ) Agency RMBS, which did not require an initial net investment.

The purchase of mezzanine and subordinate tranches of a Non-Agency RMBS securitization previously sponsored by Springleaf and a repurchase agreement to finance this transaction.

**Table of Contents**

The purchase of non-performing loans which were financed with repurchase agreements and treated as linked transactions with the net basis recorded as a non-hedge derivative instrument.

The \$150.0 million of financing related to our ownership interest in the Consumer Loan Companies.

The offering of 25,000,000 shares of common stock by us to which this prospectus relates.

The unaudited pro forma condensed consolidated statements of income only include adjustments to reflect (i) interest income from certain Agency ARM RMBS acquired or sold during the period from January 1, 2014 through April 15, 2014; (ii) interest expense from the financing of certain Agency ARM RMBS during the period from January 1, 2014 through April 15, 2014; (iii) interest expense from the financing of certain Non-Agency RMBS, Excess MSRs, residential mortgage loans and the Consumer Loan Companies during the period from January 1, 2014 through April 15, 2014 and (iv) interest expense from the financing of the Funded Advances subsequent to December 31, 2013, in each case as if the transactions giving rise to (i), (ii), (iii) and (iv), had occurred on January 1, 2013. Accordingly, the unaudited pro forma condensed consolidated statement of income excludes adjustments for (i) earnings from the consumer loan co-investment transaction; (ii) earnings from the additional Excess MSR transactions; (iii) interest income from investments in Non-Agency RMBS; (iv) earnings from the non-performing residential mortgage loans transactions; and (v) earnings from the servicer advances transaction.

Our decision to include or exclude an adjustment in the unaudited pro forma condensed consolidated statement of income was based on whether such adjustment would be factually supportable and historically based, as set forth in more detail below.

With respect to Agency ARM RMBS, Newcastle held substantial investments in Agency ARM RMBS during the entire period covered by the pro forma statement of income. Although Newcastle did not own the exact securities contributed to us for the entire period presented, management considers Agency ARM RMBS to be fungible because, among other factors, they are guaranteed by the U.S. government and thus have consistent credit characteristics. As a result, we determined that adjustments related to these securities are factually supportable.

In contrast to Agency ARM RMBS, the yields of Non-Agency RMBS can have significant variances as a result of differences in the collateral and credit characteristics of each asset. Newcastle did not hold the specific Non-Agency RMBS contributed to us during the entire period presented, and neither Newcastle nor New Residential have records relating to the performance of these assets prior to their acquisition. As a result, management believes that adjustments for the interest income from the Non-Agency RMBS would not be factually supportable.

The investments in equity method investees were made in newly formed entities with no historical operations. Neither we nor Newcastle owned any of the underlying excluded investments prior to their acquisition by the investee entities. Furthermore, the underlying loans were not serviced by an affiliate of our Manager prior to their acquisition. As a result, Newcastle does not have records relating to the performance of these loans prior to the acquisition of the related investments. In addition, the composition of the loan pools and the loans underlying the Excess MSRs and consumer loan investees necessarily differ from the composition of the respective pools during the period covered by the pro forma statement of income due to prepayment and default activity prior to acquisition. As a result, an adjustment related to these investees was not considered factually supportable.

The investments in the Funded Advances were also made in a newly formed entity with no historical operations. The Funded Advances were not held by an affiliate of our Manager for the entire period covered by the pro forma statements of income. In addition, the composition of the Funded Advances balance necessarily differs from the

composition of the respective servicer advances covered by the pro forma statements of income due to repayments and new advances made. As a result, an adjustment related to the Funded Advances was not considered factually supportable.

**Table of Contents**

In the opinion of management, all adjustments necessary to reflect the effects of the transactions described in the notes to the unaudited pro forma condensed consolidated balance sheet and pro forma condensed statement of income have been included and are based upon available information and assumptions that we believe are reasonable.

Further, the historical financial information presented herein has been adjusted to give pro forma effect to events that we believe are factually supportable and which are expected to have a continuing impact on our results. However, such adjustments are estimates and may not prove to be accurate. Information regarding these adjustments is subject to risks and uncertainties that could cause actual results to differ materially from those anticipated. See Risk Factors and Cautionary Statement Regarding Forward-Looking Statements.

The unaudited pro forma financial information below is provided for information purposes only. The unaudited pro forma financial information does not purport to represent what our results of operations and/or financial condition would have been had such transactions been consummated on the dates indicated, nor do they represent our financial condition or results of operations for any future date.

	<b>December 8, 2011 through December 31, 2011</b>	<b>Year Ended December 31, 2012</b>	<b>Year Ended December 31, 2013</b>	
	Historical	Historical	Pro Forma (unaudited)	Historical
	(in thousands, except per share data)			
<b>Statement of income data:</b>				
Interest income	\$ 1,260	\$ 33,759	\$ 85,400	\$ 87,567
Interest expense		704	77,053	15,024
Other-than-temporary impairment ( OTTI ) on securities			4,993	4,993
Valuation allowance on loans			461	461
Net interest income after impairment	1,260	33,055	2,893	67,089
Change in fair value of investments in excess mortgage servicing rights	367	9,023	53,332	53,332
Change in fair value of investments in excess mortgage servicing rights, equity method investees			50,343	50,343
Earnings from investments in consumer loans, equity method investees			82,856	82,856
Gain on settlement of securities			52,657	52,657
Other income (loss)		8,400	1,820	1,820
Expenses	913	9,231	44,795	42,474
Net income (loss)	\$ 714	\$ 41,247	\$ 199,106	\$ 265,623
Non-controlling interests in income (loss) of consolidated subsidiaries			(29,515)	(326)

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Net income (loss) attributable to stockholders	\$ 714	41,247	\$ 228,621	\$ 265,949
Net income (loss) per share:				
Basic	N/A	N/A	\$ 0.90	1.05
Diluted	N/A	N/A	\$ 0.89	1.03
Number of shares outstanding:				
Basic	N/A	N/A	253,078,048	253,078,048
Diluted	N/A	N/A	257,368,255	257,368,255

**Table of Contents**

	<b>December 31, 2011 Historical</b>	<b>December 31, 2012 Historical</b>	<b>December 31, 2013 Pro Forma (unaudited)</b>	<b>December 31, 2013 Historical</b>
	(in thousands)			
<b>Balance sheet data:</b>				
Total assets	\$ 43,971	\$ 534,876	\$ 7,999,638	\$ 5,958,658
Total liabilities	\$ 4,163	\$ 156,520	\$ 6,307,782	\$ 4,445,583
Total equity	\$ 39,808	\$ 378,356	\$ 1,691,856	\$ 1,513,075

Table of Contents

## RISK FACTORS

*Investing in our common stock involves a high degree of risk. You should carefully read and consider the following risk factors and all other information contained in this prospectus before making a decision to purchase our common stock. If any of the following risks occur, our business, financial condition, liquidity or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, which could result in a partial or complete loss of your investment. The risk factors summarized below are categorized as follows: (i) Risks Related to Our Business, (ii) Risks Related to Our Manager, (iii) Risks Related to the Financial Markets, (iv) Risks Related to Our Taxation as a REIT, and (v) Risks Related to Our Common Stock. However, these categories do overlap and should not be considered exclusive.*

### RISKS RELATED TO OUR BUSINESS

**We have a very limited operating history as an independent company and may not be able to successfully operate our business strategy or generate sufficient revenue to make or sustain distributions to our stockholders. The financial information included in this prospectus may not be indicative of the results we would have achieved as a separate stand-alone company and are not a reliable indicator of our future performance or results.**

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

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

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

The financial results in this prospectus do not reflect all of the expenses we will incur as a public company;

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

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



**Table of Contents**

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

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

rates of prepayment and repayment of the underlying mortgage loans;

interest rates;

rates of delinquencies and defaults; and

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

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

When mortgage loans underlying our Excess MSR are prepaid as a result of a refinancing or otherwise, the related cash flows payable to us cease (unless the loans are recaptured upon a refinancing). Borrowers under residential mortgage loans are generally permitted to prepay their loans at any time without penalty. Our expectation of prepayment speeds is a significant assumption underlying our cash flow projections. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. If the fair value of our Excess MSR decreases, we would be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from Excess MSR, and we could ultimately receive substantially less than what we paid for such assets. Consequently, the price we pay to acquire Excess MSR may prove to be too high.

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

Moreover, delinquency rates have a significant impact on the value of Excess MSR. When delinquent loans are resolved through foreclosure (or repurchased by the GSEs), the UPB of such loans cease to be a part of the aggregate

UPB of the serviced loan pool when the related properties are foreclosed on and liquidated and the related cash flows payable to us, as the holder of the Excess MSR or basic fee, cease. An increase in delinquencies will generally result in lower revenue because typically we will only collect on our Excess MSRs from GSEs or mortgage owners for performing loans. An increase in delinquencies with respect to the loans underlying our servicer advances could also result in a higher advance balance and the need to obtain additional financing, which we may not be able to do on favorable terms or at all. In addition, delinquencies on the loans underlying our servicer advances give rise to accrued but unpaid servicing fees, or deferred servicing fees, which we have agreed to purchase in connection with our purchase of servicer advances, and deferred servicing fees generally cannot be financed on terms as favorable as the terms available to other types of servicer advances.

**Table of Contents**

If delinquencies are significantly greater than expected, the estimated fair value of the Excess MSR and servicer advances could be diminished. As a result, we could suffer a loss, which would have a negative impact on our financial results.

We are party to recapture agreements whereby we receive a new Excess MSR with respect to a loan that was originated by the servicer and used to repay a loan underlying an Excess MSR that we previously acquired from that same servicer. In lieu of receiving an Excess MSR with respect to the loan used to repay a prior loan, the servicer may supply a similar Excess MSR. We believe that recapture agreements will mitigate the impact on our returns in the event of a rise in voluntary prepayment rates. There are no assurances, however, that servicers will enter into recapture agreements with us in connection with any future investment in Excess MSRs. If the servicer does not meet anticipated recapture targets, the servicing cash flow on a given pool could be significantly lower than projected, which could have a material adverse effect on the value of our Excess MSRs and consequently on our business, financial condition, results of operations and cash flows. Our recapture target for each of our current recapture agreements is stated in the table in Note 12 to our consolidated financial statements included herein. In our investment in servicer advances, we are not entitled to the cash flows from recaptured loans.

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

We have agreed, together with certain third-party investors, to purchase from Nationstar all servicer advances related to certain loan pools, as a result of which we are entitled to amounts representing repayment for such advances. During any period in which a borrower is not making payments, a servicer (including Nationstar) is generally required under the applicable servicing agreement to advance its own funds to cover the principal and interest remittances due to investors in the loans, pay property taxes and insurance premiums to third parties, and to make payments for legal expenses and other protective advances. The servicer also advances funds to maintain, repair and market real estate properties on behalf of investors in the loans.

Repayment for servicer advances and payment of deferred servicing fees are generally made from late payments and other collections and recoveries on the related mortgage loan (including liquidation, insurance and condemnation proceeds) or, if a general collections backstop is available, from collections on other mortgage loans to which the applicable servicing agreement relates. The rate and timing of payments on the servicer advances and the deferred servicing fees, are unpredictable for several reasons, including the following:

payments on the servicer advances and the deferred servicing fees depend on the source of repayment, and whether and when the related servicer receives such payment (certain servicer advances are reimbursable only out of late payments and other collections and recoveries on the related mortgage loan, while others are also reimbursable out of principal and interest collections with respect to all mortgage loans serviced under the related servicing agreement, and as a consequence, the timing of such reimbursement is highly uncertain);

the length of time necessary to obtain liquidation proceeds may be affected by conditions in the real estate market or the financial markets generally, the availability of financing for the acquisition of the real estate and other factors, including, but not limited to, government intervention;

the length of time necessary to effect a foreclosure may be affected by variations in the laws of the particular jurisdiction in which the related mortgaged property is located, including whether or not foreclosure requires judicial action;

the requirements for judicial actions for foreclosure (which can result in substantial delays in reimbursement of servicer advances and payment of deferred servicing fees), which vary from time to time as a result of changes in applicable state law; and

the ability of the related servicer to sell delinquent mortgage loans to third parties prior to liquidation, resulting in the early reimbursement of outstanding unreimbursed servicer advances in respect of such mortgage loans.

## **Table of Contents**

As home values change, the servicer may have to reconsider certain of the assumptions underlying its decisions to make advances. In certain situations, its contractual obligations may require the servicer to make certain advances for which it may not be reimbursed. In addition, when a mortgage loan defaults or becomes delinquent, the repayment of the advance may be delayed until the mortgage loan is repaid or refinanced, or a liquidation occurs. To the extent that Nationstar fails to recover the servicer advances in which we have invested, or takes longer than we expect to recover such advances, the value of our investment could be adversely affected and we could fail to achieve our expected return and suffer losses.

Servicing agreements related to residential mortgage securitization transactions generally require a residential mortgage servicer to make servicer advances in respect of serviced mortgage loans unless the servicer determines in good faith that the servicer advance would not be ultimately recoverable from the proceeds of the related mortgage loan, the mortgaged property or the related mortgagor. In many cases, if the servicer determines that a servicer advance previously made would not be recoverable from these sources, the servicer is entitled to withdraw funds from the related custodial account in respect of payments on the related pool of serviced mortgages to reimburse the related servicer advance. This is what is often referred to as a general collections backstop. The timing of when a servicer may utilize a general collections backstop can vary (some contracts require actual liquidation of the related loan first, while others do not), and contracts vary in terms of the types of servicer advances for which reimbursement from a general collections backstop is available. Approximately 80% of our services advances had a general collections backstop based on the most recent data as of the date hereof. Accordingly, a servicer may not ultimately be reimbursed if both (i) the payments from related loan, property or mortgagor payments are insufficient for reimbursement, and (ii) a general collections backstop is not available or is insufficient. Also, if a servicer improperly makes a servicer advance, it would not be entitled to reimbursement. Historically, Nationstar has recovered more than 99% of the advances that it has made. While we do not expect this recovery rate to vary materially during the term of our investment, there can be no assurance regarding future recovery rates related to our portfolio.

### **We rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.**

The value of our investments in Excess MSR, servicer advances and Non-Agency RMBS is dependent on the satisfactory performance of servicing obligations by the mortgage servicer. The duties and obligations of mortgage servicers are defined through contractual agreements, generally referred to as Servicing Guides in the case of GSEs, or Pooling and Servicing Agreements in the case of private-label securities (collectively, the Servicing Guidelines). Our investment in the Excess MSR is subject to all of the terms and conditions of the applicable Servicing Guidelines. Servicing Guidelines generally provide for the possibility for termination of the contractual rights of the servicer in the absolute discretion of the owner of the mortgages being serviced. Under the GSE Servicing Guidelines, the servicer may be terminated by the applicable GSE for any reason, with or without cause, for all or any portion of the loans being serviced for such GSE. In the event a mortgage owner terminates the servicer, the related Excess MSR and basic fees would under most circumstances lose all value on a going forward basis. If the servicer is terminated as servicer for any Agency Pools, the related Excess MSR will be extinguished and our investment in such Excess MSR will likely lose all of its value. Any recovery in such circumstances will be highly conditioned and will require, among other things, a new servicer willing to pay for the right to service the applicable mortgage loans while assuming responsibility for the origination and prior servicing of the mortgage loans. In addition, any payment received from a successor servicer will be applied first to pay the GSE for all of its claims and costs, including claims and costs against the servicer that do not relate to the mortgage loans for which we own the Excess MSR. A termination could also result in an event of default under our financings for servicer advances. It is expected that any termination by a mortgage owner of a servicer would take effect across all mortgages of such mortgage owner and would not be limited to a particular vintage or other subset of mortgages. Therefore, it is expected that all investments with a given servicer would lose all their value in the event a mortgage owner terminates such servicer. Nationstar is

the servicer of all of the loans underlying all of our investments in Excess MSR's and servicer advances, and it is the servicer or master servicer of the vast majority of the loans underlying our Non-Agency RMBS to date. See We have significant

**Table of Contents**

counterparty concentration risk in Nationstar and Springleaf and are subject to other counterparty concentration and default risks. As a result, we could be materially and adversely affected if the servicer is unable to adequately service the underlying mortgage loans due to:

its failure to comply with applicable laws and regulation;

a downgrade in its servicer rating;

its failure to maintain sufficient liquidity or access to sources of liquidity;

its failure to perform its loss mitigation obligations;

its failure to perform adequately in its external audits;

a failure in or poor performance of its operational systems or infrastructure;

regulatory scrutiny regarding foreclosure processes lengthening foreclosure timelines;

a GSE's or a whole-loan owner's transfer of servicing to another party; or

any other reason.

Nationstar is subject to numerous legal proceedings, federal, state or local governmental examinations, investigations or enforcement actions, which could adversely affect its reputation and its liquidity, financial position and results of operations. For example, on March 5, 2014, Nationstar received a letter from Benjamin Lawsky, Superintendent of the New York Department of Financial Services, in connection with Nationstar's recent growth and certain alleged recent complaints from certain New York consumers.

Loss mitigation techniques are intended to reduce the probability that borrowers will default on their loans and to minimize losses when defaults occur, and they may include the modification of mortgage loan rates, principal balances and maturities. If Nationstar (or any other applicable servicer or subservicer) fails to adequately perform their loss mitigation obligations, we could be required to purchase servicer advances in excess of those that we might otherwise have had to purchase, and the time period for collecting servicer advances may extend. Any increase in servicer advances or material increase in the time to resolution of a defaulted loan could result in increased capital requirements and financing costs for us and our co-investors and could adversely affect our liquidity and net income. In the event that Nationstar receives requests for advances in excess of amounts that we or the co-investors is willing or able to fund, Nationstar may not be able to fund these advance requests, which could result in a termination event under the applicable Servicing Guidelines, an event of default under our advance facilities and a breach of our purchase agreement with Nationstar. As a result, we could experience a partial or total loss of the value of our

investment in servicer advances.

MSRs and servicer advances are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions. If the servicer actually or allegedly failed to comply with applicable laws, rules or regulations, it could be terminated as the servicer, which could have a material adverse effect on our business, financial condition, results of operations or cash flows. In addition, servicer advances that are improperly made may not be eligible for financing under our facilities and may not be reimbursable by the related securitization trust or other owner of the mortgage loan, which could cause us to suffer losses.

Favorable ratings from third-party rating agencies such as Standard & Poor's, Moody's and Fitch are important to the conduct of a mortgage servicer's loan servicing business, and a downgrade in a mortgage servicer's ratings could have an adverse effect on the value of our Excess MSRs and servicer advances, and result in an event of default under our financing for advances. Downgrades in a mortgage servicer's servicer ratings could adversely affect their and our ability to finance servicer advances and maintain their status as an approved servicer by Fannie Mae and Freddie Mac. Downgrades in servicer ratings could also lead to the early termination of existing advance facilities and affect the terms and availability of match funded advance facilities that a mortgage servicer or we may seek in the future. A mortgage servicer's failure to maintain favorable or specified ratings may cause



**Table of Contents**

their termination as a servicer and may impair their ability to consummate future servicing transactions, which could result in an event of default under our financing for servicer advances and have an adverse effect on the value of our investments since we will rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.

In addition, a bankruptcy by any mortgage servicer that services the mortgage loans underlying our Excess MSR and servicer advances could result in:

the validity and priority of our ownership in the Excess MSR or servicer advances being challenged in a bankruptcy proceeding;

payments made by such servicer to us, or obligations incurred by it, being voided by a court under federal or state preference laws or federal or state fraudulent conveyance laws;

a re-characterization of any sale of Excess MSR, servicer advances or other assets to us as a pledge of such assets in a bankruptcy proceeding;

any agreement pursuant to which we acquired the Excess MSR or servicer advances being rejected in a bankruptcy proceeding; or

a default under our financing for servicer advances and a partial or total loss of the value of our investment in servicer advances.

For additional information about the ways in which we may be affected by mortgage servicers, see The value of our Excess MSR, servicer advances and RMBS may be adversely affected by deficiencies in servicing and foreclosure practices, as well as related delays in the foreclosure process.

**We have significant counterparty concentration risk in Nationstar and Springleaf and are subject to other counterparty concentration and default risks.**

We are not restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with a few counterparties. Any loss suffered by us as a result of a counterparty defaulting, refusing to conduct business with us or imposing more onerous terms on us would also negatively affect our business, results of operations, cash flows and financial condition.

To date, all of our co-investments in Excess MSR and servicer advances relate to loans serviced by Nationstar. If Nationstar is terminated as the servicer of some or all of these portfolios, or in the event that it files for bankruptcy, our expected returns on these investments would be severely impacted. In addition, the vast majority of the loans underlying our Non-Agency RMBS are serviced by Nationstar. We closely monitor Nationstar's mortgage servicing performance and overall operating performance, financial condition and liquidity, as well as its compliance with regulations and Servicing Guidelines. We have various information, access and inspection rights in our agreements with Nationstar that enable us to monitor Nationstar's financial and operating performance and credit quality, which we periodically evaluate and discuss with Nationstar's management. However, we have no direct ability to influence

Nationstar's performance, and our diligence cannot prevent, and may not even help us anticipate, the termination of a Nationstar servicing agreement. Furthermore, Nationstar is subject to numerous legal proceedings, federal, state or local governmental examinations, investigations or enforcement actions, which could adversely affect its reputation and its liquidity, financial position and results of operations. For example, on March 5, 2014, Nationstar received a letter from Benjamin Lawsky, Superintendent of the New York Department of Financial Services, in connection with Nationstar's recent growth and certain alleged recent complaints from certain New York consumers.

Nationstar has no obligation to offer us any future co-investment opportunity on the same terms as prior transactions, or at all, and we may not be able to find suitable counterparties other than Nationstar from which to acquire Excess MSR's and servicer advances, which could impact our business strategy. See We rely heavily on mortgage servicers to achieve our investment objective and have no direct ability to influence their performance.

## **Table of Contents**

Repayment of the outstanding amount of servicer advances (including payment with respect to deferred servicing fees) may be subject to delay, reduction or set-off in the event that Nationstar (or any other applicable servicer or subservicer) breaches any of its obligations under the related servicing agreements, including, without limitation, any failure of Nationstar (or any other applicable servicer or subservicer) to perform its servicing and advancing functions in accordance with the terms of such servicing agreements. If Nationstar (or any other applicable servicer) is terminated or resigns as servicer and the applicable successor servicer does not purchase all outstanding servicer advances at the time of transfer, collection of the servicer advances will be dependent on the performance of such successor servicer and, if applicable, reliance on such successor servicer's compliance with the first-in, first-out or FIFO provisions of the servicing agreements. In addition, such successor servicers may not agree to purchase the outstanding advances on the same terms as our current purchase arrangements and may require, as a condition of their purchase, modification to such FIFO provisions, which could further delay our repayment and have adversely affect the returns from our investment.

We are subject to substantial other operational risks associated to Nationstar or any other applicable servicer or subservicer in connection with the financing of servicer advances. In our current financing facilities for servicer advances, the failure of Nationstar to satisfy various covenants and tests can result in a target amortization event, a facility early amortization event and/or an event of default. We have no direct ability to control Nationstar's compliance with those covenants and tests. Failure of Nationstar to satisfy any such covenants or tests could result in a partial or total loss on our investment.

In addition, the consumer loans in which we have invested are serviced by Springleaf. If Springleaf is terminated as the servicer of some or all of these portfolios, or in the event that it files for bankruptcy, our expected returns on these investments could be severely impacted.

Moreover, we are party to repurchase agreements with a limited number of counterparties. If any of our counterparties elected not to roll our repurchase agreements, we may not be able to find a replacement counterparty, which would have a material adverse effect on our financial condition.

Our risk-management processes may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although we will monitor our credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

In the event of a counterparty default, particularly a default by a major investment bank, we could incur material losses rapidly, and the resulting market impact of a major counterparty default could seriously harm our business, results of operations, cash flows and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

Counterparty risks have increased in complexity and magnitude as a result of the insolvency of a number of major financial institutions (such as Lehman Brothers) in recent years and the consequent decrease in the number of potential counterparties. In addition, counterparties have generally tightened their underwriting standards and increased their margin requirements for financing, which could negatively impact us in several ways, including by decreasing the number of counterparties willing to provide financing to us, decreasing the overall amount of leverage available to us, and increasing the costs of borrowing.

**GSE initiatives and other actions may adversely affect returns from investments in Excess MSRs.**

On January 17, 2011, the Federal Housing Finance Agency ( FHFA ) announced that it had instructed Fannie Mae and Freddie Mac to study possible alternatives to the current residential mortgage servicing and

## **Table of Contents**

compensation system used for single-family mortgage loans. It is unclear what the GSEs, including Fannie Mae or Freddie Mac, may propose as alternatives to current servicing compensation practices, or when any such alternatives may become effective. Although we do not expect MSR that have already been created to be subject to any changes implemented by Fannie Mae or Freddie Mac, it is possible that, because of the significant role of Fannie Mae or Freddie Mac in the secondary mortgage market, any changes they implement could become prevalent in the mortgage servicing industry generally. Other industry stakeholders or regulators may also implement or require changes in response to the perception that the current mortgage servicing practices and compensation do not appropriately serve broader housing policy objectives. These proposals are still evolving. To the extent the GSEs implement reforms that materially affect the market for conforming loans, there may be secondary effects on the subprime and Alt-A markets. These reforms may have a material adverse effect on the economics or performance of any Excess MSR that we may acquire in the future.

### **Changes to the minimum servicing amount for GSE loans could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.**

Currently, when a loan is sold into the secondary market for Fannie Mae or Freddie Mac loans, the servicer is generally required to retain a minimum servicing amount ( MSA ) of 25 bps of the UPB for fixed rate mortgages. As has been widely publicized, in September 2011, the FHFA announced that a Joint Initiative on Mortgage Servicing Compensation was seeking public comment on two alternative mortgage servicing compensation structures detailed in a discussion paper. Changes to the MSA structure could significantly impact our business in negative ways that we cannot predict or protect against. For example, the elimination of a MSA could radically change the mortgage servicing industry and could severely limit the supply of Excess MSR available for sale. In addition, a removal of, or reduction in, the MSA could significantly reduce the recapture rate on the affected loan portfolio, which would negatively affect the investment return on our Excess MSR. We cannot predict whether any changes to current MSA rules will occur or what impact any changes will have on our business, results of operations, liquidity or financial condition.

### **Our investments in Excess MSR and servicer advances may involve complex or novel structures.**

Investments in Excess MSR and servicer advances are new types of transactions and may involve complex or novel structures. Accordingly, the risks associated with such transactions and structures are not fully known to buyers and sellers. In the case of Excess MSR on Agency pools, GSEs may require that we submit to costly or burdensome conditions as a prerequisite to their consent to an investment in Excess MSR on Agency pools. GSE conditions may diminish or eliminate the investment potential of Excess MSR on Agency pools by making such investments too expensive for us or by severely limiting the potential returns available from Excess MSR on Agency pools.

It is possible that a GSE's views on whether any such acquisition structure is appropriate or acceptable may not be known to us when we make an investment and may change from time to time for any reason or for no reason, even with respect to a completed investment. A GSE's evolving posture toward an acquisition or disposition structure through which we invest in or dispose of Excess MSR on Agency pools may cause such GSE to impose new conditions on our existing investments in Excess MSR on Agency pools, including the owner's ability to hold such Excess MSR on Agency pools directly or indirectly through a grantor trust or other means. Such new conditions may be costly or burdensome and may diminish or eliminate the investment potential of the Excess MSR on Agency pools that are already owned by us. Moreover, obtaining such consent may require us or our co-investment counterparties to agree to material structural or economic changes, as well as agree to indemnification or other terms that expose us to risks to which we have not previously been exposed and that could negatively affect our returns from our investments.



## **Table of Contents**

**Many of our investments may be illiquid, and this lack of liquidity could significantly impede our ability to vary our portfolio in response to changes in economic and other conditions or to realize the value at which such investments are carried if we are required to dispose of them.**

Many of our investments are illiquid. Illiquidity may result from the absence of an established market for the investments, as well as legal or contractual restrictions on their resale, refinancing or other disposition. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof.

Excess MSR and servicer advances are highly illiquid and may be subject to numerous restrictions on transfers, including without limitation the receipt of third-party consents. For example, the Servicing Guidelines of a mortgage owner generally require that holders of Excess MSR obtain the mortgage owner's prior approval of any change of direct ownership of such Excess MSR. Such approval may be withheld for any reason or no reason in the discretion of the mortgage owner. Moreover, we have not received and do not expect to receive any assurances from any GSEs that their conditions for the sale by us of any Excess MSR will not change. Therefore, the potential costs, issues or restrictions associated with receiving such GSEs' consent for any such dispositions by us cannot be determined with any certainty. Additionally, investments in Excess MSR and servicer advances are new types of transaction, and the risks associated with the transactions and structures are not fully known to buyers or sellers. As a result of the foregoing, we may be unable to locate a buyer at the time we wish to sell Excess MSR or servicer advances. There is some risk that we will be required to dispose of Excess MSR or servicer advances either through an in-kind distribution or other liquidation vehicle, which will, in either case, provide little or no economic benefit to us, or a sale to a co-investor in the Excess MSR or servicer advances, which may be an affiliate. Accordingly, we cannot provide any assurance that we will obtain any return or any benefit of any kind from any disposition of Excess MSR or servicer advances. We may not benefit from the full term of the assets and for the aforementioned reasons may not receive any benefits from the disposition, if any, of such assets.

In addition, some of our real estate related securities may not be registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. There are also no established trading markets for a majority of our intended investments. Moreover, certain of our investments, including our investments in consumer loans, servicer advances and certain investments in Excess MSR, are made indirectly through a vehicle that owns the underlying assets. Our ability to sell our interest may be contractually limited or prohibited. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be limited.

Our real estate related securities have historically been valued based primarily on third-party quotations, which are subject to significant variability based on the liquidity and price transparency created by market trading activity. A disruption in these trading markets could reduce the trading for many real estate related securities, resulting in less transparent prices for those securities, which would make selling such assets more difficult. Moreover, a decline in market demand for the types of assets that we hold would make it more difficult to sell our assets. If we are required to liquidate all or a portion of our illiquid investments quickly, we may realize significantly less than the amount at which we have previously valued these investments.

**Market conditions could negatively impact our business, results of operations, cash flows and financial condition.**

The market in which we operate is affected by a number of factors that are largely beyond our control but can nonetheless have a potentially significant, negative impact on us. These factors include, among other things:

Interest rates and credit spreads;

The availability of credit, including the price, terms and conditions under which it can be obtained;



**Table of Contents**

The quality, pricing and availability of suitable investments and credit losses with respect to our investments;

The ability to obtain accurate market-based valuations;

Loan values relative to the value of the underlying real estate assets;

Default rates on the loans underlying our investments and the amount of the related losses;

Prepayment speeds, delinquency rates and legislative/regulatory changes with respect to our investments in Excess MSR, servicer advances, RMBS, and loans, and the timing and amount of servicer advances;

The actual and perceived state of the real estate markets, market for dividend-paying stocks and public capital markets generally;

Unemployment rates; and

The attractiveness of other types of investments relative to investments in real estate or REITs generally. Changes in these factors are difficult to predict, and a change in one factor can affect other factors. For example, during 2007, increased default rates in the subprime mortgage market played a role in causing credit spreads to widen, reducing availability of credit on favorable terms, reducing liquidity and price transparency of real estate related assets, resulting in difficulty in obtaining accurate mark-to-market valuations, and causing a negative perception of the state of the real estate markets and of REITs generally. These conditions worsened during 2008, and intensified meaningfully during the fourth quarter of 2008 as a result of the global credit and liquidity crisis, resulting in extraordinarily challenging market conditions. Since then, market conditions have generally improved, but they could deteriorate in the future as a result of a variety of factors beyond our control.

**The geographic distribution of the loans underlying, and collateral securing, certain of our investments subjects us to geographic real estate market risks, which could adversely affect the performance of our investments, our results of operations and financial condition.**

The geographic distribution of the loans underlying, and collateral securing, our investments, including our Excess MSR, servicer advances, Non-Agency RMBS and consumer loans, exposes us to risks associated with the real estate and commercial lending industry in general within the states and regions in which we hold significant investments. These risks include, without limitation: possible declines in the value of real estate; risks related to general and local economic conditions; possible lack of availability of mortgage funds; overbuilding; extended vacancies of properties; increases in competition, property taxes and operating expenses; changes in zoning laws; increased energy costs; unemployment; costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; casualty or condemnation losses; uninsured damages from floods, earthquakes or other natural disasters; and changes in interest rates. As of December 31, 2013, 26.0% of the total UPB of the residential mortgage loans underlying our Excess MSR was secured by properties located in California and 9.4% was secured by properties located in Florida. As of December 31, 2013, 36.3% of the collateral securing our Non-Agency RMBS

was located in the Western U.S., 22.7% was located in the Southeastern U.S., 18.9% was located in the Northeastern U.S., 11.3% was located in the Midwestern U.S. and 5.9% was located in the Southwestern U.S. To the extent any of the foregoing risks arise in states and regions where we hold significant investments, the performance of our investments, our results of operations, cash flows and financial condition could suffer a material adverse effect.

**Many of the RMBS in which we invest are collateralized by subprime mortgage loans, which are subject to increased risks.**

Many of the RMBS in which we invest are backed by collateral pools of subprime residential mortgage loans.

Subprime mortgage loans refer to mortgage loans that have been originated using underwriting standards that

## **Table of Contents**

are less restrictive than the underwriting requirements used as standards for other first and junior lien mortgage loan purchase programs, such as the programs of Fannie Mae and Freddie Mac. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories (including outstanding judgments or prior bankruptcies), mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with subprime mortgage loans, the performance of RMBS backed by subprime mortgage loans could be correspondingly adversely affected, which could adversely impact our results of operations, liquidity, financial condition and business.

### **The value of our Excess MSRs, servicer advances and RMBS may be adversely affected by deficiencies in servicing and foreclosure practices, as well as related delays in the foreclosure process.**

Allegations of deficiencies in servicing and foreclosure practices among several large sellers and servicers of residential mortgage loans that surfaced in 2010 raised various concerns relating to such practices, including the improper execution of the documents used in foreclosure proceedings (so-called robo signing), inadequate documentation of transfers and registrations of mortgages and assignments of loans, improper modifications of loans, violations of representations and warranties at the date of securitization and failure to enforce put-backs.

As a result of alleged deficiencies in foreclosure practices, a number of servicers temporarily suspended foreclosure proceedings beginning in the second half of 2010 while they evaluated their foreclosure practices. In late 2010, a group of state attorneys general and state bank and mortgage regulators representing nearly all 50 states and the District of Columbia, along with the U.S. Justice Department and the Department of Housing and Urban Development, began an investigation into foreclosure practices of banks and servicers. The investigations and lawsuits by several state attorneys general led to a settlement agreement in early February 2012 with five of the nation's largest banks, pursuant to which the banks agreed to pay more than \$25 billion to settle claims relating to improper foreclosure practices. The settlement does not prohibit the states, the federal government, individuals or investors from pursuing additional actions against the banks and servicers in the future.

Under the terms of the agreement governing our investment in servicer advances, we (together with third-party co-investors) are required to purchase from Nationstar advances on certain pools. While a mortgage loan is in foreclosure, servicers, including Nationstar, are generally required to continue to advance delinquent principal and interest and to also make advances for delinquent taxes and insurance and foreclosure costs and the upkeep of vacant property in foreclosure to the extent it determines that such amounts are recoverable. Servicer advances are generally recovered when the delinquency is resolved.

Foreclosure moratoria or other actions that lengthen the foreclosure process increase the amount of servicer advances Nationstar is required to make and we are required to purchase, lengthen the time it takes for us to be repaid for such advances and increase the costs incurred during the foreclosure process. In addition, our advance financing facilities contain provisions that modify the advance rates for, and limit the eligibility of, servicer advances to be financed based on the length of time that servicer advances are outstanding, and, as a result, an increase in foreclosure timelines could further increase the amount of servicer advances that we need to fund with our own capital. Such increases in foreclosure timelines could increase our need for capital to fund servicer advances (which do not bear interest), which

would increase our interest expense, reduce the value of our investment and potentially reduce the cash that we have available to pay our operating expenses or to pay dividends.

## **Table of Contents**

Even in states where servicers have not suspended foreclosure proceedings or have lifted (or will soon lift) any such delayed foreclosures, servicers, including Nationstar, have faced, and may continue to face, increased delays and costs in the foreclosure process. For example, the current legislative and regulatory climate could lead borrowers to contest foreclosures that they would not otherwise have contested under ordinary circumstances, and servicers may incur increased litigation costs if the validity of a foreclosure action is challenged by a borrower. In general, regulatory developments with respect to foreclosure practices could result in increases in the amount of servicer advances and the length of time to recover servicer advances, fines or increases in operating expenses, and decreases in the advance rate and availability of financing for servicer advances. This would lead to increased borrowings, reduced cash and higher interest expense which could negatively impact our liquidity and profitability. Although the terms of our investment in servicer advances contain adjustment mechanisms that would reduce the amount of performance fees payable to Nationstar if servicer advances exceed pre-determined amounts, those fee reductions may not be sufficient to cover the expenses resulting from longer foreclosure timelines.

### **A failure by any or all of the members to make capital contributions for amounts required to fund servicer advances could result in an event of default under our advance facilities and a complete loss of our investment.**

The integrity of the servicing and foreclosure processes are critical to the value of the mortgage loan portfolios underlying our Excess MSRs, servicer advances and RMBS, and our financial results could be adversely affected by deficiencies in the conduct of those processes. For example, delays in the foreclosure process that have resulted from investigations into improper servicing practices may adversely affect the values of, and result in losses on, these investments. Foreclosure delays may also increase the administrative expenses of the securitization trusts for the RMBS, thereby reducing the amount of funds available for distribution to investors. In addition, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments while the defaulted loans remain in the trusts, rather than absorbing the default losses. This may reduce the amount of credit support available for the senior classes of RMBS that we own, thus possibly adversely affecting these securities. Additionally, a substantial portion of the \$25 billion settlement is a credit to the banks and servicers for principal write-downs or reductions they may make to certain mortgages underlying RMBS. There remains uncertainty as to how these principal reductions will work and what effect they will have on the value of related RMBS. As a result, there can be no assurance that any such principal reductions will not adversely affect the value of our Excess MSRs, servicer advances and RMBS.

While we believe that the sellers and servicers would be in violation of their servicing contracts to the extent that they have improperly serviced mortgage loans or improperly executed documents in foreclosure or bankruptcy proceedings, or do not comply with the terms of servicing contracts when deciding whether to apply principal reductions, it may be difficult, expensive, time consuming and, ultimately, uneconomic for us to enforce our contractual rights. While we cannot predict exactly how the servicing and foreclosure matters or the resulting litigation or settlement agreements will affect our business, there can be no assurance that these matters will not have an adverse impact on our results of operations, cash flows and financial condition.

### **The loans underlying the securities we invest in and the loans we directly invest in are subject to delinquency, foreclosure and loss, which could result in losses to us.**

Mortgage backed securities are securities backed by mortgage loans. The ability of borrowers to repay these mortgage loans is dependent upon the income or assets of these borrowers. If a borrower has insufficient income or assets to repay these loans, it will default on its loan. Our investments in RMBS will be adversely affected by defaults under the loans underlying such securities. To the extent losses are realized on the loans underlying the securities in which we invest, we may not recover the amount invested in, or, in extreme cases, any of our investment in such securities.

Residential mortgage loans, manufactured housing loans and subprime mortgage loans are secured by single-family residential property and are also subject to risks of delinquency and foreclosure, and risks of loss. The

## **Table of Contents**

ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors may impair borrowers' abilities to repay their loans, including, among other things, changes in the borrower's employment status, changes in national, regional or local economic conditions, changes in interest rates or the availability of credit on favorable terms, changes in regional or local real estate values, changes in regional or local rental rates and changes in real estate taxes.

In the event of default under a loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the outstanding principal and accrued but unpaid interest of the loan, which could adversely affect our results of operations, cash flows and financial condition.

### **Our investments in real estate related securities are subject to changes in credit spreads, which could adversely affect our ability to realize gains on the sale of such investments.**

Real estate related securities are subject to changes in credit spreads. Credit spreads measure the yield demanded on securities by the market based on their credit relative to a specific benchmark.

Fixed rate securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. Floating rate securities are valued based on a market credit spread over LIBOR and are affected similarly by changes in LIBOR spreads. As of December 31, 2013, 99.2% of our Non-Agency RMBS Portfolio consisted of floating rate securities and 0.8% consisted of fixed rate securities, and our entire Agency ARM RMBS portfolio consisted of floating rate securities. Excessive supply of these securities combined with reduced demand will generally cause the market to require a higher yield on these securities, resulting in the use of a higher, or wider, spread over the benchmark rate to value such securities. Under such conditions, the value of our real estate related securities portfolios would tend to decline. Conversely, if the spread used to value such securities were to decrease, or tighten, the value of our real estate related securities portfolio would tend to increase. Such changes in the market value of our real estate securities portfolios may affect our net equity, net income or cash flow directly through their impact on unrealized gains or losses on available-for-sale securities, and therefore our ability to realize gains on such securities, or indirectly through their impact on our ability to borrow and access capital. During 2008 through the first quarter of 2009, credit spreads widened substantially. Widening credit spreads could cause the net unrealized gains on our securities and derivatives, recorded in accumulated other comprehensive income or retained earnings, and therefore our book value per share, to decrease and result in net losses.

### **Prepayment rates on the mortgage loans underlying our real estate related securities may adversely affect our profitability.**

In general, the mortgage loans backing our real estate related securities may be prepaid at any time without penalty. Prepayments on our real estate related securities result when homeowners/mortgagees satisfy (i.e., pay off) the mortgage upon selling or refinancing their mortgaged property. When we acquire a particular security, we anticipate that the underlying mortgage loans will prepay at a projected rate which, together with expected coupon income, provides us with an expected yield on such securities. If we purchase assets at a premium to par value, and borrowers prepay their mortgage loans faster than expected, the corresponding prepayments on the real estate related security may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their mortgage loans slower than expected, the decrease in corresponding prepayments on the real estate related security may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. Prepayment rates on loans are influenced by changes in mortgage and market interest rates and a variety of economic, geographic and other factors, all of which are beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment or

other such risks. In periods of declining interest rates, prepayment rates on mortgage loans generally increase. If general interest rates decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding



## **Table of Contents**

less than the yields on the assets that were prepaid. In addition, the market value of our real estate related securities may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates.

With respect to Agency ARM RMBS, we intend to purchase securities that have a higher coupon rate than the prevailing market interest rates. In exchange for a higher coupon rate, we would then pay a premium over par value to acquire these securities. In accordance with GAAP, we will amortize the premiums on our Agency ARM RMBS over the life of the related securities. If the mortgage loans securing these securities prepay at a more rapid rate than anticipated, we will have to amortize our premiums on an accelerated basis which may adversely affect our profitability. Defaults on the mortgage loans underlying Agency ARM RMBS typically have the same effect as prepayments because of the underlying Agency guarantee.

Prepayments, which are the primary feature of mortgage backed securities that distinguish them from other types of bonds, are difficult to predict and can vary significantly over time. As the holder of the security, on a monthly basis, we receive a payment equal to a portion of our investment principal in a particular security as the underlying mortgages are prepaid. In general, on the date each month that principal prepayments are announced (i.e., factor day), the value of our real estate related security pledged as collateral under our repurchase agreements is reduced by the amount of the prepaid principal and, as a result, our lenders will typically initiate a margin call requiring the pledge of additional collateral or cash, in an amount equal to such prepaid principal, in order to re-establish the required ratio of borrowing to collateral value under such repurchase agreements. Accordingly, with respect to our Agency ARM RMBS, the announcement on factor day of principal prepayments is in advance of our receipt of the related scheduled payment, thereby creating a short-term receivable for us in the amount of any such principal prepayments. However, under our repurchase agreements, we may receive a margin call relating to the related reduction in value of our Agency ARM RMBS and, prior to receipt of this short-term receivable, be required to post additional collateral or cash in the amount of the principal prepayment on or about factor day, which would reduce our liquidity during the period in which the short-term receivable is outstanding. As a result, in order to meet any such margin calls, we could be forced to sell assets in order to maintain liquidity. Forced sales under adverse market conditions may result in lower sales prices than ordinary market sales made in the normal course of business. If our real estate related securities were liquidated at prices below our amortized cost (i.e., the cost basis) of such assets, we would incur losses, which could adversely affect our earnings. In addition, in order to continue to earn a return on this prepaid principal, we must reinvest it in additional real estate related securities or other assets; however, if interest rates decline, we may earn a lower return on our new investments as compared to the real estate related securities that prepay.

Prepayments may have a negative impact on our financial results, the effects of which depend on, among other things, the timing and amount of the prepayment delay on our Agency ARM RMBS, the amount of unamortized premium on our real estate related securities, the rate at which prepayments are made on our Non-Agency RMBS, the reinvestment lag and the availability of suitable reinvestment opportunities.

### **Our investments in RMBS may be subject to significant impairment charges, which would adversely affect our results of operations.**

We will be required to periodically evaluate our investments for impairment indicators. The value of an investment is impaired when our analysis indicates that, with respect to a security, it is probable that the value of the security is other than temporarily impaired. The judgment regarding the existence of impairment indicators is based on a variety of factors depending upon the nature of the investment and the manner in which the income related to such investment was calculated for purposes of our financial statements. If we determine that an impairment has occurred, we are required to make an adjustment to the net carrying value of the investment, which would adversely affect our results of operations in the applicable period and thereby adversely affect our ability to pay dividends to our stockholders.



## **Table of Contents**

### **The lenders under our repurchase agreements may elect not to extend financing to us, which could quickly and seriously impair our liquidity.**

We finance a meaningful portion of our investments in RMBS with repurchase agreements, which are short-term financing arrangements. Under the terms of these agreements, we will sell a security to a counterparty for a specified price and concurrently agree to repurchase the same security from our counterparty at a later date for a higher specified price. During the term of the repurchase agreement which can be as short as 30 days the counterparty will make funds available to us and hold the security as collateral. Our counterparties can also require us to post additional margin as collateral at any time during the term of the agreement. When the term of a repurchase agreement ends, we will be required to repurchase the security for the specified repurchase price, with the difference between the sale and repurchase prices serving as the equivalent of paying interest to the counterparty in return for extending financing to us. If we want to continue to finance the security with a repurchase agreement, we ask the counterparty to extend or roll the repurchase agreement for another term.

Our counterparties are not required to roll our repurchase agreements upon the expiration of their stated terms, which subjects us to a number of risks. Counterparties electing to roll our repurchase agreements may charge higher spread and impose more onerous terms upon us, including the requirement that we post additional margin as collateral. More significantly, if a repurchase agreement counterparty elects not to extend our financing, we would be required to pay the counterparty the full repurchase price on the maturity date and find an alternate source of financing. Alternate sources of financing may be more expensive, contain more onerous terms or simply may not be available. If we were unable to pay the repurchase price for any security financed with a repurchase agreement, the counterparty has the right to sell the underlying security being held as collateral and require us to compensate it for any shortfall between the value of our obligation to the counterparty and the amount for which the collateral was sold (which may be a significantly discounted price). As of December 31, 2013, we had outstanding repurchase agreements with an aggregate face amount of approximately \$287.8 million to finance Non-Agency RMBS and approximately \$1.3 billion to finance Agency ARM RMBS. Moreover, our repurchase agreement obligations are currently with a limited number of counterparties. If any of our counterparties elected not to roll our repurchase agreements, we may not be able to find a replacement counterparty in a timely manner. Finally, some of our repurchase agreements contain covenants, and our failure to comply with such covenants could result in a loss of our investment. See Management Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt Obligations.

### **The financing sources under our servicer advance financing facilities may elect not to extend financing to us, which could quickly and seriously impair our liquidity.**

We finance a meaningful portion of our investments in servicer advances with structured financing arrangements. These arrangements are commonly of a short-term nature. These arrangements are generally accomplished by having the Buyer transfer its right to repayment for certain servicer advances it has acquired from Nationstar to a wholly owned bankruptcy remote subsidiary of the Buyer (a Depositor). The Buyer is generally required to continue to transfer to the related Depositor all of its rights to repayment for any particular pool of servicer advances as they arise (and are transferred from Nationstar) until the related financing arrangement is paid in full and is terminated. The related Depositor then transfers such rights to an Issuer. The Issuer then issues limited recourse notes to the financing sources backed by such rights to repayment.

The outstanding balance of servicer advances securing these arrangements is not likely to be repaid on or before the expected repayment date of such financing arrangements. Accordingly, we rely heavily on our financing sources to extend or refinance the terms of such financing arrangements. Our financing sources are not required to extend the arrangements upon the expiration of their stated terms, which subjects us to a number of risks. Financing sources

electing to extend may charge higher interest rates and impose more onerous terms upon us, including without limitation, lowering the amount of financing that can be extended against any particular pool of servicer advances.

## Table of Contents

If a financing source is unable or unwilling to extend financing, the related Issuer be required to repay the outstanding balance of the financing on the related maturity date. Additionally, there may be substantial increases in the interest rates under a financing arrangement if the related notes are not repaid, extended or refinanced prior to the expected repayment dated, which may be before the related maturity date. If an Issuer is unable to pay the outstanding balance of the notes, the financing sources generally have the right to foreclose on the servicer advances pledged as collateral.

As of December 31, 2013, all of the notes issued under our structured servicer advance financing arrangements accrued interest at a floating rate of interest. Servicer advances are non-interest bearing assets. Accordingly, if there is an increase in prevailing interest rates and/or our financing sources increase the interest rate margins or spreads, the amount of financing that we could obtain against any particular pool of servicer advances may decrease substantially and/or we may be required to obtain interest rate hedging arrangements. There is no assurance that we will be able to obtain any such interest rate hedging arrangements.

Alternate sources of financing may be more expensive, contain more onerous terms or simply may not be available. Moreover, our structured servicer advance financing arrangements are currently with a limited number of sources. If any of our sources are unable to or elected not to extend or refinance such arrangements, we may not be able to find a replacement counterparty in a timely manner.

**We may not be able to finance our investments on attractive terms or at all, and financing for Excess MSR may be particularly difficult to obtain.**

The ability to finance investments with securitizations or other long-term non-recourse financing not subject to margin requirements has been more challenging since 2007 as a result of market conditions. In addition, it may be particularly challenging to securitize our investments in consumer loans, given that consumer loans are generally riskier than mortgage financing. These conditions may result in having to use less efficient forms of financing for any new investments, which will likely require a larger portion of our cash flows to be put toward making the initial investment and thereby reduce the amount of cash available for distribution to our stockholders and funds available for operations and investments, and which will also likely require us to assume higher levels of risk when financing our investments. In addition, there is no established market for financing of investments in Excess MSR, and it is possible that one will not develop for a variety of reasons, such as the challenges with perfecting security interests in the underlying collateral.

Some of our advance facilities mature as early as September 2014, and there can be no assurance that we will be able to renew these facilities on favorable terms or at all. Moreover, an increase in delinquencies with respect to the loans underlying our servicer advances could result in the need for additional financing, which may not be available to us on favorable terms or at all. If we are not able to obtain adequate financing to purchase servicer advances from Nationstar in accordance with our agreement, Nationstar could default on its obligation to fund such advances, which could result in their termination as servicer under the applicable pooling and servicing agreements and a partial or total loss of our investment in servicer advances and Excess MSR.

**The non-recourse long-term financing structures we use expose us to risks, which could result in losses to us.**

We use securitization and other non-recourse long-term financing for our investments to the extent available and we believe appropriate. In such structures, our lenders typically would have only a claim against the assets included in the securitizations rather than a general claim against us as an entity. Prior to any such financing, we would seek to finance our investments with relatively short-term facilities until a sufficient portfolio is accumulated. As a result, we would be subject to the risk that we would not be able to acquire, during the period that any short-term facilities are available, sufficient eligible assets or securities to maximize the efficiency of a securitization. We also bear the risk

that we would not be able to obtain new short-term facilities or would not be able to renew any short-term facilities after they expire should we need more time to seek and acquire sufficient

## **Table of Contents**

eligible assets or securities for a securitization. In addition, conditions in the capital markets may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets or securities. While we would intend to retain the unrated equity component of securitizations and, therefore, still have exposure to any investments included in such securitizations, our inability to enter into such securitizations may increase our overall exposure to risks associated with direct ownership of such investments, including the risk of default. Our inability to refinance any short-term facilities would also increase our risk because borrowings thereunder would likely be recourse to us as an entity. If we are unable to obtain and renew short-term facilities or to consummate securitizations to finance our investments on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price.

### **Risks associated with our investment in the consumer loan sector could have a material adverse effect on our business and financial results.**

Our portfolio includes an investment in the consumer loan sector. Although many of the risks applicable to consumer loans are also applicable to residential real estate loans, and thus the type of risks that we have experience managing, there are nevertheless substantial risks and uncertainties associated with engaging in a new category of investment. There may be factors that affect the consumer loan sector with which we are not as familiar compared to the residential mortgage loan sector. Moreover, our underwriting assumptions for these investments may prove to be materially incorrect. It is also possible that the addition of consumer loans to our investment portfolio could divert our Manager's time away from our other investments. Furthermore, external factors, such as compliance with regulations, may also impact our ability to succeed in the consumer loan investment sector. Failure to successfully manage these risks could have a material adverse effect on our business and financial results.

### **The consumer loans underlying our investments are subject to delinquency and loss, which could have a negative impact on our financial results.**

The ability of borrowers to repay the consumer loans underlying our investments may be adversely affected by numerous personal factors, including unemployment, divorce, major medical expenses or personal bankruptcy. General factors, including an economic downturn, high energy costs or acts of God or terrorism, may also affect the financial stability of borrowers and impair their ability or willingness to repay the consumer loans in our investment portfolio. In the event of any default under a loan in the consumer loan portfolio in which we have invested, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral securing the loan, if any, and the principal and accrued interest of the loan. In addition, our investments in consumer loans may entail greater risk than our investments in residential real estate loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. Further, repossessing personal property securing a consumer loan can present additional challenges, including locating the collateral and taking possession of it. In addition, borrowers under consumer loans may have lower credit scores. There can be no guarantee that we will not suffer unexpected losses on our investments as a result of the factors set out above, which could have a negative impact on our financial results.

### **The servicer of the loans underlying our consumer loan investment may not be able to accurately track the default status of senior lien loans in instances where our consumer loan investments are secured by second or third liens on real estate.**

A portion of our investment in consumer loans is secured by second and third liens on real estate. When we hold the second or third lien another creditor or creditors, as applicable, holds the first and/or second, as applicable, lien on the

real estate that is the subject of the security. In these situations our second or third lien is subordinate in right of payment to the first and/or second, as applicable, holder's right to receive payment. Moreover, as the



## **Table of Contents**

servicer of the loans underlying our consumer loan portfolio is not able to track the default status of a senior lien loan in instances where we do not hold the related first mortgage, the value of the second or third lien loans in our portfolio may be lower than our estimates indicate.

**The consumer loan investment sector is subject to various initiatives on the part of advocacy groups and extensive regulation and supervision under federal, state and local laws, ordinances and regulations, which could have a negative impact on our financial results.**

In recent years consumer advocacy groups and some media reports have advocated governmental action to prohibit or place severe restrictions on the types of short-term consumer loans in which we have invested. Such consumer advocacy groups and media reports generally focus on the Annual Percentage Rate to a consumer for this type of loan, which is compared unfavorably to the interest typically charged by banks to consumers with top-tier credit histories. The fees charged on the consumer loans in the portfolio in which we have invested may be perceived as controversial by those who do not focus on the credit risk and high transaction costs typically associated with this type of investment. If the negative characterization of these types of loans becomes increasingly accepted by consumers, demand for the consumer loan products in which we have invested could significantly decrease. Additionally, if the negative characterization of these types of loans is accepted by legislators and regulators, we could become subject to more restrictive laws and regulations in the area.

In addition, we are, or may become, subject to federal, state and local laws, regulations, or regulatory policies and practices, including the Dodd-Frank Act (which, among other things, established the Consumer Financial Protection Bureau with broad authority to regulate and examine financial institutions), which may, amongst other things, limit the amount of interest or fees allowed to be charged on the consumer loans underlying our investments, or the number of consumer loans that customers may receive or have outstanding. The operation of existing or future laws, ordinances and regulations could interfere with the focus of our investments which could have a negative impact on our financial results.

**Certain jurisdictions require licenses to purchase, hold, enforce or sell residential mortgage loans, and we may not be able to obtain and/or maintain such licenses.**

Certain jurisdictions require a license to purchase, hold, enforce or sell residential mortgage loans. We currently do not hold any such licenses. In the event that any licensing requirement is applicable to us, there can be no assurance that we will obtain such licenses or, if obtained, that we will be able to maintain them. Our failure to obtain or maintain such licenses could restrict our ability to invest in loans in these jurisdictions if such licensing requirements are applicable. In lieu of obtaining such licenses, we may contribute our acquired residential mortgage loans to one or more wholly owned trusts whose trustee is a national bank, which may be exempt from state licensing requirements. We may form one or more subsidiaries to apply for certain state licenses. If these subsidiaries obtain the required licenses, any trust holding loans in the applicable jurisdictions may transfer such loans to such subsidiaries, resulting in these loans being held by a state-licensed entity. There can be no assurance that we will be able to obtain the requisite licenses in a timely manner or at all or in all necessary jurisdictions, or that the use of the trusts will reduce the requirement for licensing. In addition, even if we obtain necessary licenses, we may not be able to maintain them. Any of these circumstances could limit our ability to invest in residential mortgage loans in the future and have a material adverse effect on us.

**Our determination of how much leverage to apply to our investments may adversely affect our return on our investments and may reduce cash available for distribution.**

We leverage certain of our assets through a variety of borrowings. Our investment guidelines do not limit the amount of leverage we may incur with respect to any specific asset or pool of assets. The return we are able to earn on our investments and cash available for distribution to our stockholders may be significantly reduced due to changes in market conditions, which may cause the cost of our financing to increase relative to the income that can be derived from our assets.

## **Table of Contents**

### **Certain of our investments are not match funded, which may increase the risks associated with these investments.**

When available, a match funding strategy mitigates the risk of not being able to refinance an investment on favorable terms or at all. However, our Manager may elect for us to bear a level of refinancing risk on a short-term or longer-term basis, as in the case of investments financed with repurchase agreements, when, based on its analysis, our Manager determines that bearing such risk is advisable or unavoidable (as is the case with our investments in servicer advances and our Agency ARM and Non-Agency RMBS portfolios). In addition, we may be unable, as a result of conditions in the credit markets, to match fund our investments. For example since the 2008 recession, non-recourse term financing not subject to margin requirements has been more difficult to obtain, which impairs our ability to match fund our investments. Moreover, we may not be able to enter into interest rate swaps. A decision not to, or the inability to, match fund certain investments exposes us to additional risks.

Furthermore, we anticipate that, in most cases, for any period during which our floating rate assets are not match funded with respect to maturity (as is the case with most of our RMBS portfolios), the income from such assets may respond more slowly to interest rate fluctuations than the cost of our borrowings. Because of this dynamic, interest income from such investments may rise more slowly than the related interest expense, with a consequent decrease in our net income. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us from these investments.

Accordingly, to the extent our investments are not match funded with respect to maturities and interest rates, we are exposed to the risk that we may not be able to finance or refinance our investments on economically favorable terms, or at all, or may have to liquidate assets at a loss.

### **Interest rate fluctuations and shifts in the yield curve may cause losses.**

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Our primary interest rate exposures relate to our investments in Excess MSR, servicer advances, RMBS, consumer loans and any floating rate debt obligations that we may incur. Changes in interest rates, including changes in expected interest rates or yield curves, affect our business in a number of ways. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities and hedges. Changes in the level of interest rates also can affect, among other things, our ability to acquire real estate related securities at attractive prices, the value of our real estate related securities and derivatives and our ability to realize gains from the sale of such assets. We may wish to use hedging transactions to protect certain positions from interest rate fluctuations, but we may not be able to do so as a result of market conditions, REIT rules or other reasons. In such event, interest rate fluctuations could adversely affect our financial condition, cash flows and results of operations.

In the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results.

Our ability to execute our business strategy, particularly the growth of our investment portfolio, depends to a significant degree on our ability to obtain additional capital. Our financing strategy for our real estate related securities is dependent on our ability to place the debt we use to finance our investments at rates that provide a positive net spread. If spreads for such liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future financings will be severely restricted.

Interest rate changes may also impact our net book value as our real estate related securities are marked to market each quarter. Debt obligations are not marked to market. Generally, as interest rates increase, the value of our fixed rate securities decreases, which will decrease the book value of our equity.

## **Table of Contents**

Furthermore, shifts in the U.S. Treasury yield curve reflecting an increase in interest rates would also affect the yield required on our real estate related securities and therefore their value. For example, increasing interest rates would reduce the value of the fixed rate assets we hold at the time because the higher yields required by increased interest rates result in lower market prices on existing fixed rate assets in order to adjust the yield upward to meet the market, and vice versa. This would have similar effects on our real estate related securities portfolio and our financial position and operations to a change in interest rates generally.

### **Any hedging transactions that we enter into may limit our gains or result in losses.**

We may use, when feasible and appropriate, derivatives to hedge a portion of our interest rate exposure, and this approach has certain risks, including the risk that losses on a hedge position will reduce the cash available for distribution to stockholders and that such losses may exceed the amount invested in such instruments. We have adopted a general policy with respect to the use of derivatives, which generally allows us to use derivatives where appropriate, but does not set forth specific policies and procedures or require that we hedge any specific amount of risk. From time to time, we may use derivative instruments, including forwards, futures, swaps and options, in our risk management strategy to limit the effects of changes in interest rates on our operations. A hedge may not be effective in eliminating all of the risks inherent in any particular position. Our profitability may be adversely affected during any period as a result of the use of derivatives.

There are limits to the ability of any hedging strategy to protect us completely against interest rate risks. When rates change, we expect the gain or loss on derivatives to be offset by a related but inverse change in the value of any items that we hedge. We cannot assure you, however, that our use of derivatives will offset the risks related to changes in interest rates. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses. In addition, our hedging strategy may limit our flexibility by causing us to refrain from taking certain actions that would be potentially profitable but would cause adverse consequences under the terms of our hedging arrangements.

The REIT provisions of the Code limit our ability to hedge. In managing our hedge instruments, we consider the effect of the expected hedging income on the REIT qualification tests that limit the amount of gross income that a REIT may receive from hedging. We need to carefully monitor, and may have to limit, our hedging strategy to assure that we do not realize hedging income, or hold hedges having a value, in excess of the amounts that would cause us to fail the REIT gross income and asset tests.

Accounting for derivatives under GAAP is extremely complicated. Any failure by us to account for our derivatives properly in accordance with GAAP in our financial statements could adversely affect our earnings. In addition, under applicable accounting standards, we may be required to treat some of our investments, such as our investments in portfolios of non-performing loans in January 2014, as derivatives, which could adversely affect our results of operations.

### **Maintenance of our 1940 Act exclusion imposes limits on our operations.**

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the 1940 Act. We believe we will not be considered an investment company under Section 3(a)(1)(A) of the 1940 Act because we will not engage primarily, or hold ourselves out as being engaged primarily, in the business of investing, reinvesting or trading in securities. However, under Section 3(a)(1)(C) of the 1940 Act, because we are a holding company that will conduct its businesses primarily through wholly owned and majority owned subsidiaries, the securities issued by our subsidiaries that are excluded from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) of the 1940 Act, together with any other investment

securities we may own, may not have a combined value in excess of 40% of the value of our total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis (the 40% test ). For purposes of the foregoing, we currently treat our interests in our TRSs that hold our servicer

---

**Table of Contents**

advances and our subsidiaries that hold consumer loans as investment securities because these subsidiaries presently rely on the exclusion provided by Section 3(c)(7) of the 1940 Act. The 40% test under Section 3(a)(1)(C) of the 1940 Act limits the types of businesses in which we may engage through our subsidiaries. In addition, the assets we and our subsidiaries may originate or acquire are limited by the provisions of the 1940 Act and the rules and regulations promulgated under the 1940 Act, which may adversely affect our business.

If the value of securities issued by our subsidiaries that are excluded from the definition of investment company by Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we own, exceeds the 40% test under Section 3(a)(1)(C) of the 1940 Act (e.g., the value of our interests in the TRSs that hold servicer advances increases significantly in proportion to the value of our other assets), or if one or more of such subsidiaries fail to maintain an exclusion or exception from the 1940 Act, we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company under the 1940 Act, either of which could have an adverse effect on us and the market price of our securities. As discussed above, for purposes of the foregoing, we currently treat our interests in our TRSs that hold our servicer advances and our subsidiaries that hold consumer loans as investment securities because these subsidiaries presently rely on the exclusion provided by Section 3(c)(7) of the 1940 Act. If we or any of our subsidiaries were required to register as an investment company under the 1940 Act, the registered entity would become subject to substantial regulation with respect to capital structure (including the ability to use leverage), management, operations, transactions with affiliated persons (as defined in the 1940 Act), portfolio composition, including restrictions with respect to diversification and industry concentration, compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

Failure to maintain an exclusion would require us to significantly restructure our investment strategy. For example, because affiliate transactions are generally prohibited under the 1940 Act, we would not be able to enter into transactions with any of our affiliates if we are required to register as an investment company, and we might be required to terminate our management agreement and any other agreements with affiliates, which could have a material adverse effect on our ability to operate our business and pay distributions. If we were required to register us as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

For purposes of the foregoing, we treat our interests in certain of our wholly owned and majority owned subsidiaries, which constitutes more than 60% of the value of our adjusted total assets on an unconsolidated basis, as non-investment securities because such subsidiaries qualify for exclusion from the definition of an investment company under the 1940 Act pursuant to Section 3(c)(5)(C) of the 1940 Act (the Section 3(c)(5)(C) exclusion). The Section 3(c)(5)(C) exclusion is available for entities primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. The Section 3(c)(5)(C) exclusion generally requires that at least 55% of these subsidiaries' assets must comprise qualifying real estate assets and at least 80% of each of their portfolios must comprise qualifying real estate assets and real estate-related assets under the 1940 Act. We expect each of our subsidiaries relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff or on our analyses of such guidance to determine which assets are qualifying real estate assets and real estate-related assets. However, the SEC's guidance was issued in accordance with factual situations that may be substantially different from the factual situations each of our subsidiaries may face, and much of the guidance was issued more than 20 years ago. No assurance can be given that the SEC staff will concur with the classification of each of our subsidiaries' assets. In addition, the SEC staff may, in the future, issue further guidance that may require us to re-classify some of our subsidiaries' assets for purposes of qualifying for an exclusion from regulation under the 1940 Act. For example, the SEC and its staff have not published guidance with respect to the treatment of whole pool Non-Agency RMBS for

purposes of the Section 3(c)(5)(C) exclusion. Accordingly, based on our own judgment and analysis of the guidance from the SEC and its staff identifying Agency whole pool certificates as qualifying real estate assets under



## **Table of Contents**

Section 3(c)(5)(C), we treat whole pool Non-Agency RMBS issued with respect to an underlying pool of mortgage loans in which our subsidiary relying on Section 3(c)(5)(C) holds all of the certificates issued by the pool as qualifying real estate assets. Based on our own judgment and analysis of the guidance from the SEC and its staff with respect to analogous assets, we treat Excess MSR as real estate-related assets for purposes of satisfying the 80% test under the Section 3(c)(5)(C) exclusion. If we are required to re-classify any of our subsidiaries' assets, including those subsidiaries holding whole pool Non-Agency RMBS and/or Excess MSRs, such subsidiaries may no longer be in compliance with the exclusion from the definition of an investment company provided by Section 3(c)(5)(C) of the 1940 Act, and in turn, we may not satisfy the requirements to avoid falling within the definition of an investment company provided by Section 3(a)(1)(C). To the extent that the SEC staff publishes new or different guidance or disagrees with our analysis with respect to any assets of our subsidiaries we have determined to be qualifying real estate assets or real estate-related assets, we may be required to adjust our strategy accordingly. In addition, we may be limited in our ability to make certain investments and these limitations could result in a subsidiary holding assets we might wish to sell or selling assets we might wish to hold.

In August 2011, the SEC issued a concept release soliciting public comments on a wide range of issues relating to companies engaged in the business of acquiring mortgages and mortgage-related instruments and that rely on Section 3(c)(5)(C) of the 1940 Act. Therefore, there can be no assurance that the laws and regulations governing the 1940 Act status of REITs, or guidance from the SEC or its staff regarding the Section 3(c)(5)(C) exclusion, will not change in a manner that adversely affects our operations. If we or our subsidiaries fail to maintain an exclusion or exception from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions. In addition, if we or any of our subsidiaries were required to register as an investment company under the 1940 Act, the registered entity would become subject to substantial regulation with respect to capital structure (including the ability to use leverage), management, operations, transactions with affiliated persons (as defined in the 1940 Act), portfolio composition, including restrictions with respect to diversification and industry concentration, compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

### **Rapid changes in the values of assets that we hold may make it more difficult for us to maintain our qualification as a REIT or our exclusion from the 1940 Act.**

If the market value or income potential of qualifying assets for purposes of our qualification as a REIT or our exclusion from registration as an investment company under the 1940 Act declines as a result of increased interest rates, changes in prepayment rates or other factors, or the market value or income from non-qualifying assets increases, we may need to increase our investments in qualifying assets and/or liquidate our non-qualifying assets to maintain our REIT qualification or our exclusion from registration under the 1940 Act. If the change in market values or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets we may own. We may have to make investment decisions that we otherwise would not make absent the intent to maintain our qualification as a REIT and exclusion from registration under the 1940 Act.

### **We are subject to significant competition, and we may not compete successfully.**

We are subject to significant competition in seeking investments. We compete with other companies, including other REITs, insurance companies and other investors, including funds and companies affiliated with our Manager. Some of our competitors have greater resources than we possess or have greater access to capital or various types of financing

structures than are available to us, and we may not be able to compete successfully for investments or provide attractive investment returns relative to our competitors. These competitors may be

## **Table of Contents**

willing to accept lower returns on their investments and, as a result, our profit margins could be adversely affected. Furthermore, competition for investments that are suitable for us may lead to the returns available from such investments decreasing, which may further limit our ability to generate our desired returns. We cannot assure you that other companies will not be formed that compete with us for investments or otherwise pursue investment strategies similar to ours or that we will be able to complete successfully against any such companies.

Furthermore, we currently do not have a mortgage servicing platform. Therefore, we may not be an attractive buyer for those sellers of MSRMs that prefer to sell MSRMs and their mortgage servicing platform in a single transaction. Since our business model does not currently include acquiring and running servicing platforms, to engage in a bid for such a business we would need to find a servicer to acquire and run the platform or we would need to incur additional costs to shut down the acquired servicing platform. The need to work with a servicer in these situations increases the complexity of such potential acquisitions, and Nationstar may be unwilling or unable to act as servicer or subservicer on any acquisitions of Excess MSRMs or servicer advances we want to execute. The complexity of these transactions and the additional costs incurred by us if we were to execute future acquisitions of this type could adversely affect our future operating results.

### **The valuations of our assets are subject to uncertainty since most of our assets are not traded in an active market.**

There is not anticipated to be an active market for most of the assets in which we will invest. In the absence of market comparisons, we will use other pricing methodologies, including, for example, models based on assumptions regarding expected trends, historical trends following market conditions believed to be comparable to the then current market conditions and other factors believed at the time to be likely to influence the potential resale price of, or the potential cash flows derived from, an investment. Such methodologies may not prove to be accurate and any inability to accurately price assets may result in adverse consequences for us. A valuation is only an estimate of value and is not a precise measure of realizable value. Ultimate realization of the market value of a private asset depends to a great extent on economic and other conditions beyond our control. Further, valuations do not necessarily represent the price at which a private investment would sell since market prices of private investments can only be determined by negotiation between a willing buyer and seller. If we were to liquidate a particular private investment, the realized value may be more than or less than the valuation of such asset as carried on our books.

### **Changes in accounting rules could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.**

As has been widely publicized, the SEC, the Financial Accounting Standards Board (the FASB ) and other regulatory bodies that establish the accounting rules applicable to us have recently proposed or enacted a wide array of changes to accounting rules. Moreover, in the future these regulators may propose additional changes that we do not currently anticipate. Changes to accounting rules that apply to us could significantly impact our business or our reported financial performance in negative ways that we cannot predict or protect against. We cannot predict whether any changes to current accounting rules will occur or what impact any codified changes will have on our business, results of operations, liquidity or financial condition.

### **A prolonged economic slowdown, a lengthy or severe recession, or declining real estate values could harm our operations.**

We believe the risks associated with our business are more severe during periods in which an economic slowdown or recession is accompanied by declining real estate values, as was the case in 2008. Declining real estate values generally reduce the level of new mortgage loan originations, since borrowers often use increases in the value of their

existing properties to support the purchase of, or investment in, additional properties. Borrowers may also be less able to pay principal and interest on the loans underlying our securities, Excess MSRs and servicer advances, if the real estate economy weakens. Further, declining real estate values

## **Table of Contents**

significantly increase the likelihood that we will incur losses on our securities in the event of default because the value of our collateral may be insufficient to cover our basis. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect our net interest income from the assets in our portfolio, which would significantly harm our revenues, results of operations, financial condition, liquidity, business prospects and our ability to make distributions to our stockholders.

### **Compliance with changing regulation of corporate governance and public disclosure has and will continue to result in increased compliance costs and pose challenges for our management team.**

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us and, more generally, the financial services and mortgage industries. Additionally, we cannot predict whether there will be additional proposed laws or reforms that would affect us, whether or when such changes may be adopted, how such changes may be interpreted and enforced or how such changes may affect us. However, the costs of complying with any additional laws or regulations could have a material effect on our financial condition and results of operations.

## **RISKS RELATED TO OUR MANAGER**

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

We have no employees. Our officers and other individuals who perform services for us are employees of our Manager. We are completely reliant on our Manager, which has significant discretion as to the implementation of our operating policies and strategies, to conduct our business. We are subject to the risk that our Manager will terminate the Management Agreement and that we will not be able to find a suitable replacement for our Manager in a timely manner, at a reasonable cost or at all. Furthermore, we are dependent on the services of certain key employees of our Manager whose compensation is partially or entirely dependent upon the amount of incentive or management compensation earned by our Manager and whose continued service is not guaranteed, and the loss of such services could adversely affect our operations.

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

Our Management Agreement with our Manager was not negotiated at arm's length, and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party.

There are conflicts of interest inherent in our relationship with our Manager insofar as our Manager and its affiliates including investment funds, private investment funds, or businesses managed by our Manager, including Newcastle, Nationstar and Springleaf invest in real estate related securities, consumer loans and Excess MSR and servicer advances and whose investment objectives overlap with our investment objectives. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles. Certain members of our board of directors and employees of our Manager who are our officers also serve as officers and/or directors of these other entities. For example, we have some of the same directors and officers as Newcastle. Although we have the same Manager, we may compete with entities affiliated with our Manager or Fortress, including Newcastle, for certain target assets. From time to time, affiliates of Fortress focus on investments in assets with a similar profile as our target assets that we may seek to acquire. These affiliates may have meaningful purchasing capacity, which may change over time depending upon a variety of factors, including, but not limited to, available equity capital and debt financing, market conditions and cash on hand. Currently, Fortress has two funds primarily focused on investing in Excess MSR with approximately \$1.7 billion in capital commitments in aggregate. We intend to co-invest with these funds in

Excess MSRs. We have broad investment guidelines, and we may co-invest with Fortress funds or portfolio companies of private equity funds managed by our Manager (or an affiliate thereof) in a variety of investments. We also may invest in securities that are senior or junior to securities owned by funds managed by our

## Table of Contents

Manager. Fortress funds generally have a fee structure similar to ours, but the fees actually paid will vary depending on the size, terms and performance of each fund. Fortress had approximately \$61.8 billion of assets under management as of December 31, 2013.

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

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

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

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

It would be difficult and costly for us to terminate our Management Agreement with our Manager. The Management Agreement may only be terminated annually upon (i) the affirmative vote of at least two-thirds of our independent directors, or by a vote of the holders of a simple majority of the outstanding shares of our



## **Table of Contents**

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

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

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

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

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

Pursuant to our Management Agreement, our Manager will not assume any responsibility other than to render the services called for thereunder in good faith and will not be responsible for any action of our board of directors in

following or declining to follow its advice or recommendations. Our Manager, its members, managers, officers and employees will not be liable to us or any of our subsidiaries, to our board of directors, or our or any subsidiary's stockholders or partners for any acts or omissions by our Manager, its members, managers, officers

## **Table of Contents**

or employees, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement. We shall, to the full extent lawful, reimburse, indemnify and hold our Manager, its members, managers, officers and employees and each other person, if any, controlling our Manager harmless of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including attorneys' fees) in respect of or arising from any acts or omissions of an indemnified party made in good faith in the performance of our Manager's duties under our Management Agreement and not constituting such indemnified party's bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement.

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

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

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

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

## **RISKS RELATED TO THE FINANCIAL MARKETS**

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

On July 21, 2010, the U.S. enacted the Dodd-Frank Act. The Dodd-Frank Act affects almost every aspect of the U.S. financial services industry, including certain aspects of the markets in which we operate. The Dodd-Frank Act imposes new regulations on us and how we conduct our business. For example, the Dodd-Frank Act will impose additional disclosure requirements for public companies and generally require issuers or originators of asset-backed securities to retain at least five percent of the credit risk associated with the securitized assets.

The Dodd-Frank Act imposes mandatory clearing and exchange-trading requirements on many derivatives transactions (including formerly unregulated over-the-counter derivatives) in which we may engage. In addition, the Dodd-Frank Act is expected to increase the margin requirements for derivatives transactions that are not subject to mandatory clearing requirements, which may impact our activities. The Dodd-Frank Act also creates new categories of regulated market participants, such as swap-dealers, security-based swap dealers, major swap participants and major security-based swap participants, and subjects (or, once the applicable rules have



## **Table of Contents**

been finalized, will subject) these regulated entities to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements that will give rise to new administrative costs.

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

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

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

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

Due to increased market concerns about the ability of Fannie Mae and Freddie Mac to withstand future credit losses associated with securities held in their investment portfolios, and on which they provide guarantees without the direct support of the U.S. federal government, on July 30, 2008, the U.S. government passed the Housing and Economic Recovery Act of 2008. On September 7, 2008, the FHFA, placed Fannie Mae and Freddie Mac into conservatorship and, together with the U.S. Treasury, established a program designed to boost investor confidence in their respective debt and MBS.

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

In addition to the FHFA becoming the conservator of Fannie Mae and Freddie Mac, the U.S. Treasury and the FHFA have entered into preferred stock purchase agreements among the U.S. Treasury, Fannie Mae and Freddie Mac

pursuant to which the U.S. Treasury will ensure that each of Fannie Mae and Freddie Mac maintains a positive net worth.

## **Table of Contents**

Although the U.S. Treasury has committed capital to Fannie Mae and Freddie Mac, these actions may not be adequate for their needs. If these actions are inadequate, Fannie Mae and Freddie Mac could continue to suffer losses and could fail to honor their guarantees and other obligations. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be considerably limited relative to historical measurements. Any changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac could redefine what constitutes agency and government conforming mortgage backed securities ( MBS ) and could have broad adverse market implications. Such market implications could adversely affect our business and prospects.

Additionally, because of the financial problems faced by Fannie Mae and Freddie Mac that led to their federal conservatorships, many policymakers have been examining the value of a federal mortgage guarantee and the appropriate role for the U.S. government in providing liquidity for mortgage loans. Bills have been introduced in the U.S. Congress that require the wind-down of the GSEs, change the GSEs' business charters and/or eliminate the entities. We cannot predict whether or when the introduced legislation or any future legislation may be enacted. Such legislation could materially and adversely affect the availability of, and trading market for, Agency Securities and could, therefore, materially and adversely affect the value of our Agency Securities and our business, operations and financial condition.

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

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

## **RISKS RELATED TO OUR TAXATION AS A REIT**

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

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

If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and distributions to stockholders would not be deductible by us in computing our taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our



## **Table of Contents**

stockholders, which in turn could have an adverse impact on the value of, and trading prices for, our stock. Unless entitled to relief under certain provisions of the Code, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we initially ceased to qualify as a REIT. The rule against reelecting REIT status following a loss of such status would also apply to us if Newcastle fails to qualify as a REIT, and we are treated as a successor to Newcastle for U.S. federal income tax purposes. Although, as described under the heading

Certain Relationships and Transactions with Related Persons, Affiliates and Affiliated Entities, Newcastle has (i) represented in the separation and distribution agreement that it entered into with us on April 26, 2013 (the Separation and Distribution Agreement ) that it has no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT and (ii) covenanted in the Separation and Distribution Agreement to use its reasonable best efforts to maintain its REIT status for each of Newcastle's taxable years ending on or before December 31, 2014 (unless Newcastle obtains an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS to the effect that Newcastle's failure to maintain its REIT status will not cause us to fail to qualify as a REIT under the successor REIT rule referred to above), no assurance can be given that such representation and covenant would prevent us from failing to qualify as a REIT. Although, in the event of a breach, we may be able to seek damages from Newcastle, there can be no assurance that such damages, if any, would appropriately compensate us. In addition, if Newcastle were to fail to qualify as a REIT despite its reasonable best efforts, we would have no claim against Newcastle. See U.S. Federal Income Tax Considerations for a discussion of material U.S. federal income tax consequences relating to us and our common stock.

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

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

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

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

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

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

We have received from the IRS a private letter ruling substantially to the effect that our Excess MSR's represent interests in mortgages on real property and thus are qualifying real estate assets for purposes of the REIT asset test, which generate income that qualifies as interest on obligations secured by mortgages on real property for

## **Table of Contents**

purposes of the REIT income test. The ruling is based on, among other things, certain assumptions as well as on the accuracy of certain factual representations and statements that we and Newcastle have made to the IRS. If any of the representations or statements that we have made in connection with the private letter ruling, are, or become, inaccurate or incomplete in any material respect with respect to one or more Excess MSR investments, or if we acquire an Excess MSR investment with terms that are not consistent with the terms of the Excess MSR investments described in the private letter ruling, then we will not be able to rely on the private letter ruling. If we are unable to rely on the private letter ruling with respect to an Excess MSR investment, the IRS could assert that such Excess MSR investments do not qualify under the REIT asset and income tests, and if successful, we might fail to qualify as a REIT.

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

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

### **Qualifying as a REIT involves highly technical and complex provisions of the Code.**

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

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

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



## Table of Contents

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

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

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

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

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

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

In any event, if our investments generate more taxable income than cash in any given year, we may have difficulty satisfying our annual REIT distribution requirement. See U.S. Federal Income Tax Considerations Taxation of New Residential Annual Distribution Requirements.

## **Table of Contents**

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

As a REIT, we are generally required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and not including net capital losses) each year to our stockholders. To qualify for the tax benefits accorded to REITs, we intend to make distributions to our stockholders in amounts such that we distribute all or substantially all of our net taxable income each year, subject to certain adjustments. However, our ability to make distributions may be adversely affected by the risk factors described herein.

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

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

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

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

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

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





## Table of Contents

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

The existing REIT provisions of the Code may substantially limit our ability to hedge our operations because a significant amount of the income from those hedging transactions is likely to be treated as non-qualifying income for purposes of both REIT gross income tests. In addition, we must limit our aggregate income from non-qualified hedging transactions, from our provision of services and from other non-qualifying sources, to less than 5% of our annual gross income (determined without regard to gross income from qualified hedging transactions). As a result, we may have to limit our use of certain hedging techniques or implement those hedges through TRSs. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur or could increase the cost of our hedging activities. If we fail to comply with these limitations, we could lose our REIT qualification for U.S. federal income tax purposes, unless our failure was due to reasonable cause, and not due to willful neglect, and we meet certain other technical requirements. Even if our failure were due to reasonable cause, we might incur a penalty tax.

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

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

part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as unrelated business taxable income if shares of our stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income;

part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the stock; and

to the extent that we are (or a part of us, or a disregarded subsidiary of ours, is) a taxable mortgage pool, or if we hold residual interests in a real estate mortgage investment conduit ( REMIC ), a portion of the distributions paid to a tax-exempt stockholder that is allocable to excess inclusion income may be treated as unrelated business taxable income.

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

We may enter into securitization or other financing transactions that result in the creation of taxable mortgage pools for U.S. federal income tax purposes. As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we would generally not be adversely affected by the characterization of a securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax-exempt disqualified organizations, such as certain government-related entities and charitable remainder trusts that are not subject to tax on

unrelated business income, we could incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we might reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Moreover, we may be precluded from selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

**Table of Contents**

**Uncertainty exists with respect to the treatment of TBAs for purposes of the REIT asset and income tests.**

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

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

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

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

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

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in us. The U.S. federal income tax rules dealing with REITs constantly are under review by

**Table of Contents**

persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in U.S. federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

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

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

**RISKS RELATED TO OUR COMMON STOCK**

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

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

a shift in our investor base;

our quarterly or annual earnings, or those of other comparable companies;

actual or anticipated fluctuations in our operating results;

changes in accounting standards, policies, guidance, interpretations or principles;

announcements by us or our competitors of significant investments, acquisitions or dispositions;

the failure of securities analysts to cover our common stock;

changes in earnings estimates by securities analysts or our ability to meet those estimates;

the operating and stock price performance of other comparable companies;

overall market fluctuations; and

general economic conditions.

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

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

Sales of substantial amounts of shares of our common stock in the public market, or the perception that such sales might occur, could adversely affect the market price of our common stock. The issuance of our common stock in connection with property, portfolio or business acquisitions or the exercise of outstanding stock options or otherwise could also have an adverse effect on the market price of our common stock. See Shares Eligible for Future Sale.

We, Fortress Operating Entity I L.P. ( FOE I ), our Manager and our officers and directors have agreed that, for a period of 30 days from the date of this prospectus, we and they will not, without the prior written consent of

## **Table of Contents**

the underwriter, dispose of or hedge any shares or any securities convertible into or exchangeable for our common stock. The underwriter, in its sole discretion, may release any of the securities subject to these lock-up agreements at any time, which, in the case of officers and directors, shall be with notice. If the restrictions under the lock-up agreements are waived, our common stock may become available for sale into the market, subject to applicable law, which could reduce the market price for our common stock.

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

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

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

Your percentage ownership in us may be diluted in the future because of equity awards that we expect will be granted to our Manager, to the directors, officers and employees of our Manager who perform services for us, and to our directors, officers and employees, as well as other equity instruments such as debt and equity financing. Our board of directors has approved the Plan which provides for the grant of equity-based awards, including restricted stock, stock options, stock appreciation rights ( SARs ), performance awards, tandem awards and other equity-based and non equity-based awards, in each case to our Manager, to the directors, officers, employees, service providers, consultants and advisor of our Manager who perform services for us, and to our directors, officers, employees, service providers, consultants and advisors. We reserved 30,000,000 shares of our common stock for issuance under the Plan. On the first day of each fiscal year beginning during the ten-year term of the Plan and in and after calendar year 2014, that number will be increased by a number of shares of our common stock equal to 10% of the number of shares of our common stock newly issued by us during the immediately preceding fiscal year (and, in the case of fiscal year 2013, after the effective date of the Plan). For a more detailed description of the Plan, see Management Nonqualified Stock Option and Incentive Award Plan. In connection with this offering, we will issue to our Manager options to purchase 2,500,000 shares of our common stock at an exercise price per share equal to the public offering price, representing 10% of the number of shares being offered by us hereby, that will be granted pursuant to the Plan to an affiliate of our manager in connection with this offering, and subject to adjustment if the underwriter exercises its option to purchase additional shares of our common stock. Our board of directors may also determine to issue options to the Manager that are not subject to the Plan, provided that the number of shares underlying any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to NYSE rules.





## **Table of Contents**

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

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

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

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

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

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

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such

dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sale proceeds may be less than the amount included in income with respect

## **Table of Contents**

to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

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

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

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

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

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

a classified board of directors with staggered three-year terms;

provisions regarding the election of directors, classes of directors, the term of office of directors, the filling of director vacancies and the resignation and removal of directors for cause only upon the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote thereon;

provisions regarding corporate opportunity only upon the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote thereon;

removal of directors only for cause and only with the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote in the election of directors;

our board of directors to determine the powers, preferences and rights of our preferred stock and to issue such preferred stock without stockholder approval;

advance notice requirements applicable to stockholders for director nominations and actions to be taken at annual meetings;

a prohibition, in our certificate of incorporation, stating that no holder of shares of our common stock will have cumulative voting rights in the election of directors, which means that the holders of a majority of the issued and outstanding shares of common stock can elect all the directors standing for election; and

**Table of Contents**

a requirement in our bylaws specifically denying the ability of our stockholders to consent in writing to take any action in lieu of taking such action at a duly called annual or special meeting of our stockholders. Public stockholders who might desire to participate in these types of transactions may not have an opportunity to do so, even if the transaction is considered favorable to stockholders. These anti-takeover provisions could substantially impede the ability of public stockholders to benefit from a change in control or a change in our management and board of directors and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium. See Certain Provisions of the Delaware General Corporation Law and Our Certificate of Incorporation and Bylaws Anti-Takeover Effects of Delaware Law, Our Certificate of Incorporation and Bylaws.

**ERISA may restrict investments by plans in our common stock.**

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

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus 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 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;

our ability to take advantage of investment opportunities at attractive risk-adjusted prices;

our ability to take advantage of investment opportunities in Excess MSR, servicer advances, real estate securities and real estate related loans;

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

our ability to deploy capital accretively;

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;

the quality and size of the investment pipeline and the rate at which we can invest our cash;

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;

**Table of Contents**

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 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; and

our ability to maintain our exclusion from registration under the 1940 Act and the fact that maintaining such exemption imposes limits on our operations.

We also direct readers to other risks and uncertainties referenced in this prospectus, 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.



**Table of Contents**

**USE OF PROCEEDS**

We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately \$150.2 million, assuming a public offering price of \$6.23 per share, the last reported sales price of our common stock on the NYSE on April 23, 2014 (or \$173.1 million if the underwriter exercises its option to purchase additional shares of common stock in full).

We intend to use the net proceeds from this offering for general corporate purposes, including to make a variety of investments, which may include, but is not limited to, investments in Excess MSRs, servicer advances, real estate securities and real estate related loans.

A \$1.00 increase (decrease) in the assumed public offering price of \$6.23 per share (the last reported sales price of our common stock on the NYSE on April 23, 2014) would increase (decrease) the net proceeds to us from this offering by \$24.5 million, assuming the number of shares of common stock offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

---

**Table of Contents**

**DISTRIBUTION POLICY**

We intend to make regular quarterly distributions, which include all or substantially all of our REIT taxable income, to holders of our common stock out of assets legally available therefor. We declared a quarterly dividend of \$0.07 per share of common stock for the quarter ended June 30, 2013, which was paid in July 2013. We declared a quarterly dividend of \$0.175 per share of common stock for the quarter ending September 30, 2013, which was paid on October 31, 2013. On December 17, 2013, we declared a quarterly dividend of \$0.175 per share of common stock for the quarter ending December 31, 2013 and a special cash dividend of \$0.075 per share of common stock. The combined dividend of \$0.25 per share of common stock was paid on January 31, 2014, to stockholders of record as of December 30, 2013. On March 19, 2014, we declared a first quarter 2014 dividend of \$0.175 per share of common stock, which is payable on April 30, 2014 to stockholders of record as of March 31, 2014. Accordingly, purchasers of our common stock in this offering will not be entitled to receive this dividend. The amount of any future dividend is subject to board approval and depends on a variety of factors, as set forth below. As a result, the amount of any future dividend is uncertain, and any dividends declared in future periods may differ materially from dividends declared in past periods.

To qualify as a REIT we must distribute annually to our stockholders an amount at least equal to:

90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains (which does not necessarily equal net income as calculated in accordance with GAAP); plus

90% of the excess of our taxable income from foreclosure property (as defined in Section 856 of the Code) over the tax imposed on such income by the Code; less

Any excess non-cash income (as determined under the Code). See U.S. Federal Income Tax Considerations. We will be subject to income tax on our taxable income that is not distributed and to an excise tax to the extent that certain percentages of our taxable income are not distributed by specified dates. See U.S. Federal Income Tax Considerations Taxation of New Residential Annual Distribution Requirements. Income as computed for purposes of the foregoing tax rules will not necessarily correspond to our income as determined for financial reporting purposes.

Any distributions will be authorized by our board of directors and declared by us based upon a number of factors, including actual and anticipated results of operations, liquidity and financial condition, restrictions under Delaware law or applicable financing covenants, our taxable income, the annual distribution requirements under the REIT provisions of the Code, our operating expenses and other factors our directors deem relevant. Our ability to make distributions to our stockholders will depend upon the performance of our asset portfolio, and, in turn, upon our Manager's management of our business. Any declared distributions will be made in cash to the extent that cash is available for distribution. We may not be able to generate sufficient investment results to pay distributions to our stockholders. In addition, our board of directors may change our distribution policy in the future. See Risk Factors.

Distributions to stockholders will generally be taxable to our stockholders as ordinary income. However, a portion of such distributions may be designated by us as long-term capital gain to the extent that such portion is attributable to our sale of capital assets held for more than one year. If we pay distributions in excess of our current and accumulated earnings and profits, such distributions will be treated as a tax-free return of capital to the extent of each stockholder's

tax basis in our common stock and as capital gain thereafter. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their U.S. federal income tax status. For a discussion of the U.S. federal income tax treatment of our distributions, see U.S. Federal Income Tax Considerations Taxation of New Residential and U.S. Federal Income Tax Considerations Taxation of Stockholders.

Our certificate of incorporation allows us to issue preferred stock that could have a preference on distributions. We currently have no intention to issue any preferred stock, but if we do, the distribution preference on the preferred stock could limit our ability to make distributions to the holders of our common stock.

**Table of Contents**

To the extent that our cash available for distribution is less than the amount required to be distributed under the REIT provisions of the Code, we may consider various funding sources to cover any such shortfall, including borrowing under available debt facilities, selling certain of our assets or using a portion of the net proceeds we receive in future offerings of equity and debt securities. Our distribution policy enables us to review the alternative funding sources available to us from time to time.

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization at December 31, 2013 (1) on an actual basis and (2) on a pro forma basis giving effect to the transactions described under Prospectus Summary Summary Historical and Pro Forma Financial Information. You should read this table together with the section titled Use of Proceeds and our consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>As of December 31, 2013</b>	
	<b>Actual</b>	<b>Pro Forma</b>
	(Unaudited)	
	(In thousands)	
Cash and cash equivalents	\$ 271,994	\$ 227,260
Restricted cash	33,338	44,821
<b>Debt:</b>		
Repurchase Agreements on Agency ARM RMBS	1,332,954	1,205,417
Repurchase Agreements on Non-Agency RMBS	287,757	877,942
Repurchase Agreements on Consumer Loan Companies		150,000
Notes Payable Related to Secured Term Loan	75,000	75,000
Notes Payable on Funded Advances	2,390,778	3,853,403
Notes Payable on Residential Mortgage Loans	22,840	22,840
<b>Total debt</b>	<b>4,109,329</b>	<b>6,184,602</b>
<b>Stockholders' Equity:</b>		
Common Stock, \$0.01 par value, 2,000,000,000 shares authorized, 253,197,974 issued and outstanding at December 31, 2013 and 278,197,194 issued and outstanding at December 31, 2013 on a pro forma basis	2,532	2,782
Additional paid-in capital	1,157,118	1,307,095
Retained earnings	102,986	102,986
Accumulated other comprehensive income, net of tax	3,214	3,214
<b>Total stockholders' equity</b>	<b>1,265,850</b>	<b>1,416,077</b>
<b>Total capitalization</b>	<b>\$ 5,375,179</b>	<b>\$ 7,600,679</b>

**Table of Contents****PRICE RANGE OF COMMON STOCK**

Our common stock has been listed on the NYSE under the symbol NRZ since May 2, 2013, and regular-way trading began on May 16, 2013. Prior to the listing, there was no public market for our common stock. The following table presents the high and low sales prices for our common stock on the NYSE for the periods indicated.

	<b>High</b>	<b>Low</b>
<b>2013:</b>		
Second Quarter from May 2, 2013 through June 30, 2013	\$7.29	\$5.85
Third Quarter	\$6.99	\$5.89
Fourth Quarter	\$7.02	\$5.79
<b>2014:</b>		
First Quarter	\$6.86	\$6.43
Second Quarter through April 23, 2014	\$6.17	\$6.66

The closing sale price of our common stock, as reported by the NYSE, on April 23, 2014, was \$6.23. As of April 2, 2014 there were 44 holders of record of our common stock. The number of beneficial stockholders is substantially greater than the number of holders of record as a large portion of our stock is held through brokerage firms.

**Table of Contents****SELECTED HISTORICAL FINANCIAL INFORMATION**

We were formed in September 2011 as NIC MSR LLC, a Delaware limited liability company and wholly owned subsidiary of Newcastle. We converted to a Delaware corporation and changed our name to New Residential Investment Corp. in December 2012. On May 15, 2013, we were spun-off from Newcastle and became a stand-alone public company.

The following table presents our selected historical financial information for the period from the commencement of our operations on December 8, 2011 through December 31, 2011 and for the years ended December 31, 2013 and 2012.

The selected historical consolidated statements of income for the years ended December 31, 2013 and 2012 and for the period from December 8, 2011 (commencement of operations) to December 31, 2011 and the selected historical consolidated balance sheets as of December 31, 2013 and 2012 have been derived from our audited financial statements included elsewhere in this prospectus. The selected historical consolidated balance sheet as of December 31, 2011 has been derived from our audited financial statements not included in this prospectus.

You should read the following selected financial information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and with our consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>Years Ended December 31,</b>		<b>December 8 through December 31,</b>
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	(in thousands, except per share data)		
<b>Statement of income data</b>			
Interest income	\$ 87,567	\$ 33,759	\$ 1,260
Interest expense	15,024	704	
<b>Net interest income</b>	<b>72,543</b>	<b>33,055</b>	<b>1,260</b>
<b>Impairment</b>			
Other-than-temporary impairment ( OTTI ) on securities	4,993		
Valuation allowance on loans	461		
	5,454		
<b>Net interest income after impairment</b>	<b>67,089</b>	<b>33,055</b>	<b>1,260</b>
<b>Other income</b>			
Change in fair value of investments in excess mortgage servicing rights	53,332	9,023	367
Change in fair value of investments in excess mortgage servicing rights, equity method investees	50,343		
Earnings from investments in consumer loans, equity method investees	82,856		

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Gain on settlement of securities	52,657		
Other income	1,820	8,400	
	241,008	17,423	367



**Table of Contents**

	Years Ended December 31,		December 8
	2013	2012	through December 31, 2011
	(in thousands, except per share data)		
<b>Operating expenses</b>			
General and administrative expenses	10,284	5,878	874
Management fee allocated by Newcastle	4,134	3,353	39
Management fee to affiliate	11,209		
Incentive compensation to affiliate	16,847		
	42,474	9,231	913
<b>Income (loss) before income taxes</b>	265,623	41,247	714
Income tax expense			
<b>Net income (loss)</b>	\$ 265,623	\$ 41,247	\$ 714
<b>Noncontrolling interests in income (loss) of consolidated subsidiaries</b>	\$ (326)	\$	\$
<b>Net income (loss) attributable to common stockholders</b>	\$ 265,949	\$ 41,247	\$ 714
<b>Net income per share of common stock</b>			
Basic	\$ 1.05	\$ 0.16	\$
Diluted	\$ 1.03	\$ 0.16	\$
<b>Weighted average number of shares of common stock outstanding</b>			
Basic	253,078,048	253,025,645	253,025,645
Diluted	257,368,255	253,025,645	253,025,645

	December 31, 2013	December 31, 2012	December 31, 2011
	(in thousands)		
<b>Balance sheet data</b>			
Total assets	\$ 5,958,658	\$ 534,876	\$ 43,971
Total liabilities	\$ 4,445,583	\$ 156,520	\$ 4,163
Total equity	\$ 1,513,075	\$ 378,356	\$ 39,808

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with the financial statements and related notes appearing elsewhere in this prospectus. This section contains forward-looking statements that involve risks and uncertainties. Our actual results may vary materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in Risk Factors. See Cautionary Statement Regarding Forward-Looking Statements.*

*We were formed as NIC MSR LLC, a Delaware limited liability company and wholly owned subsidiary of Newcastle, in September 2011. We converted to a Delaware corporation and changed our name to New Residential Investment Corp. in December 2012. On May 15, 2013, we were spun-off from Newcastle and became a stand-alone public company. We have not yet completed a full year as a stand-alone public company. The historical results presented below may not be indicative of our future performance and do not necessarily reflect what our financial condition or results of operations would have been had we operated as a separate, stand-alone entity since our formation.*

**GENERAL**

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

Our portfolio is currently composed of servicing related assets, residential securities and loans and other investments. A significant portion of our portfolio is currently composed of investments in agency securities. The securities in which we can invest are limited by the exclusion we maintain from the 1940 Act. 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.

On May 15, 2013, Newcastle completed the distribution of shares of New Residential to Newcastle stockholders of record as of May 6, 2013. Following the distribution, New Residential is an independent, publicly-traded REIT (NYSE: NRZ).

**MARKET CONSIDERATIONS**

Various market factors, which are outside of our control, affect our results of operations and financial condition. One such factor is developments in the U.S. residential housing market, which we believe are generating significant investment opportunities. Since the 2008 financial crisis, the residential mortgage industry has been undergoing major structural changes that are transforming the way mortgages are originated, owned and serviced.

Since 2010, banks have sold or committed to sell MSRs totaling more than \$1 trillion of the approximately \$10 trillion mortgage market. An MSR provides a mortgage servicer with the right to service a pool of mortgages in exchange for a portion of the interest payments made on the underlying mortgages. This amount typically ranges from 25 to 50 bps multiplied by the UPB of the mortgages. Approximately 77% of MSRs were owned by banks as of the fourth quarter

of 2013, according to Inside Mortgage Finance. We expect this number to decline as banks face pressure to reduce their MSR exposure as a result of heightened capital reserve requirements under Basel III, regulatory scrutiny and a more challenging servicing environment. As a result, we believe the volume of MSR sales is likely to be substantial for some period of time.

## Table of Contents

We estimate that MSR on approximately \$200 – 300 billion of mortgages are currently for sale, which would require a capital investment of approximately \$2 – 3 billion based on current pricing dynamics. We believe many non-bank servicers, who acquire MSR and are constrained by capital limitations, will continue to sell a portion of the Excess MSR. We also estimate that approximately \$1 – 2 trillion of MSR could be sold over the next several years. In addition, approximately \$1.2 trillion of new loans are expected to be created annually, according to the Mortgage Bankers Association. We believe this creates an opportunity to enter into flow arrangements, whereby loan originators agree to sell Excess MSR on newly originated loans on a recurring basis (often monthly or quarterly). We believe that 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 any future investment in Excess MSR will generate returns similar to the returns on our current investments in Excess MSR.

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

Since the financial crisis, there has been significant volatility in the prices for Non-Agency RMBS, which resulted from a widespread contraction in capital available for this asset class, deteriorating housing fundamentals, and an increase in forced selling by institutional investors (often in response to rating agency downgrades). While the prices of these assets have started to recover from their lows, from time to time there may be opportunities to acquire Non-Agency RMBS at attractive risk-adjusted yields, with the potential for upside if the U.S. economy and housing market continue to strengthen. We believe the value of existing Non-Agency RMBS may also rise if the number of buyers returns to pre-2007 levels. The primary causes of mark-to-market changes in our RMBS portfolio are changes in interest rates and credit spreads.

Interest rates have risen significantly in recent months and may continue to increase, although the timing of any further increases is uncertain. In periods of rising interest rates, the rates of prepayments and delinquencies with respect to mortgage loans generally decline. Generally, the value of our Excess MSR is expected to increase when interest rates rise or delinquencies decline, and the value is expected to decrease when interest rates decline or delinquencies increase, due to the effect of changes in interest rates on prepayment speeds and delinquencies. However, prepayment speeds and delinquencies could increase even in the current interest rate environment, as a result of, among other things, a general economic recovery, government programs intended to foster refinancing activity or other reasons, which could reduce the value of our investments. Moreover, the value of our Excess MSR is subject to a variety of factors, as described under Risk Factors. In the fourth quarter of 2013, the fair value of our investments in Excess MSR (directly and through equity method investees) increased by approximately \$11.3 million and the weighted average discount rate of the portfolio remained relatively unchanged at 12.5%.

We do not expect changes in interest rates to have a meaningful impact on the net interest spread of our Agency ARM and Non-Agency portfolios. Our RMBS are primarily floating rate or hybrid (i.e., fixed to floating rate) securities, which we generally finance with floating rate debt. Therefore, while rising interest rates will generally result in a higher cost of financing, they will also result in a higher coupon payable on the securities. The net interest spread on our Agency ARM RMBS portfolio as of December 31, 2013 was 0.94%, which was the same as the net interest spread as of September 30, 2013. The net interest spread on our Non-Agency RMBS portfolio as of December 31, 2013 was 2.83%, compared to 2.85% as of September 30, 2013.

Credit performance also affects the value of our portfolio. Higher rates of delinquency and/or defaults can reduce the value of our Excess MSR, Non-Agency RMBS, Agency RMBS and consumer loan portfolios. For our Excess MSR

on Agency portfolios and our Agency RMBS, delinquency and default rates have an effect similar

## **Table of Contents**

to prepayment rates. Our Excess MSR on Non-Agency RMBS are not affected by delinquency rates because the servicer continues to advance the Excess MSR until a default occurs on the applicable loan; defaults have an effect similar to prepayments. For the Non-Agency RMBS and consumer loans, higher default rates can lead to greater loss of principal.

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

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

## **APPLICATION OF CRITICAL ACCOUNTING POLICIES**

Management's discussion and analysis of financial condition and results of operations is based upon our 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 consolidated financial statements are prudent and reasonable. Actual results historically have been in line with management's estimates and judgments used in applying each of the accounting policies described below, as modified periodically to reflect current market conditions. The following is a summary of our accounting policies that are most affected by judgments, estimates and assumptions.

### **Excess MSRs**

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

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

Level 1 Quoted prices in active markets for identical instruments.

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

Quoted prices in active markets for similar instruments,

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

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

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

Level 3 Valuations based significantly on unobservable inputs.

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

## **Table of Contents**

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

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

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

Investments in Excess MSR are aggregated into pools as applicable; each pool of Excess MSR is accounted for in the aggregate. Interest income for Excess MSR is accreted using an effective yield or interest method, based upon the expected income from the Excess MSR through the expected life of the underlying mortgages. Changes to expected cash flows result in a cumulative retrospective adjustment, which will be recorded in the period in which the change in expected cash flows occurs. Under the retrospective method, the interest income recognized for a reporting period would be measured as the difference between the amortized cost basis at the end of the period and the amortized cost basis at the beginning of the period, plus any cash received during the period. The amortized cost basis is calculated as the present value of estimated future cash flows using an effective yield, which is the yield that equates all past actual and current estimated future cash flows to the initial investment. In addition, our policy is to recognize interest income only on Excess MSR in existing eligible underlying mortgages.

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



**Table of Contents**

The following tables summarize the estimated change in fair value of our interests in the Excess MSR owned directly as of December 31, 2013 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

Fair value as of December 31, 2013	\$ 324,151			
Discount rate shift in %	-20%	-10%	10%	20%
Estimated fair value	\$ 354,899	\$ 338,759	\$ 310,861	\$ 298,734
Change in estimated fair value:				
Amount	\$ 30,747	\$ 14,607	\$ (13,291)	\$ (25,418)
%	9.5%	4.5%	-4.1%	-7.8%
Prepayment rate shift in %	-20%	-10%	10%	20%
Estimated fair value	\$ 351,740	\$ 337,460	\$ 311,709	\$ 300,068
Change in estimated fair value:				
Amount	\$ 27,588	\$ 13,308	\$ (12,443)	\$ (24,084)
%	8.5%	4.1%	-3.8%	-7.4%
Delinquency rate shift in %	-20%	-10%	10%	20%
Estimated fair value	\$ 328,602	\$ 326,375	\$ 321,918	\$ 319,689
Change in estimated fair value:				
Amount	\$ 4,450	\$ 2,223	\$ (2,234)	\$ (4,463)
%	1.4%	0.7%	-0.7%	-1.4%
Recapture rate shift in %	-20%	-10%	10%	20%
Estimated fair value	\$ 317,449	\$ 320,763	\$ 327,392	\$ 330,447
Change in estimated fair value:				
Amount	\$ (6,703)	\$ (3,389)	\$ 3,240	\$ 6,295
%	-2.1%	-1.0%	1.0%	1.9%

The following tables summarize the estimated change in fair value of our interests in the Excess MSR owned through equity method investees as of December 31, 2013 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

Fair value as of December 31, 2013	\$ 352,766			
Discount rate shift in %	-20%	-10%	10%	20%
Estimated fair value	\$ 387,239	\$ 369,110	\$ 337,904	\$ 324,388
Change in estimated fair value:				
Amount	\$ 34,473	\$ 16,344	\$ (14,862)	\$ (28,378)
%	9.8%	4.6%	-4.2%	-8.0%
Prepayment rate shift in %	-20%	-10%	10%	20%
Estimated fair value	\$ 382,169	\$ 366,952	\$ 339,451	\$ 326,989
Change in estimated fair value:				
Amount	\$ 29,403	\$ 14,186	\$ (13,315)	\$ (25,777)
%	8.3%	4.0%	-3.8%	-7.3%

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Delinquency rate shift in %	-20%	-10%	10%	20%
Estimated fair value	\$ 358,510	\$ 355,625	\$ 349,863	\$ 346,980
Change in estimated fair value:				
Amount	\$ 5,744	\$ 2,859	\$ (2,903)	\$ (5,786)
%	1.6%	0.8%	-0.8%	-1.6%
Recapture rate shift in %	-20%	-10%	10%	20%
Estimated fair value	\$ 340,647	\$ 346,632	\$ 358,994	\$ 365,384
Change in estimated fair value:				
Amount	\$ (12,119)	\$ (6,134)	\$ 6,228	\$ 12,618
%	-3.4%	-1.7%	1.8%	3.6%

## **Table of Contents**

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 right to receive the basic fee component of the related MSR (the servicer advance investments), as financial instruments, since we are not a licensed mortgage servicer. We believe servicer advance investments meet the definition of a financial instrument under ASC 825.

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

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

We categorize servicer advance investments under Level 3 of the GAAP hierarchy described above under Application of Critical Accounting Policies Excess MSRs, since we use internal pricing models to estimate the future cash flows related to the servicer advance investments that incorporate significant unobservable inputs and include assumptions that are inherently subjective and imprecise.

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 \$500 million per year on average over the term of the investment held as of December 31, 2013, (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 the right to receive 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.

As described above, 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 below under Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Servicing Related Assets Servicer Advances Servicing Fees.

Our interest income is recorded net of the servicing fee owed to Nationstar. Furthermore, we recognize the interest cost of the financing on servicer advance investments as interest expense.

**Real Estate Securities (RMBS)**

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

## **Table of Contents**

We expect that any RMBS we acquire will be categorized under Level 2 or Level 3 of the GAAP hierarchy described above under Application of Critical Accounting Policies Excess MSR, 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.

Pursuant to ASC 320-10-35, 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.

Pursuant to ASC 835-30-35, 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.

## **Real Estate Loans**

We invest in loans, including but not limited to, residential mortgage loans. Loans for which we have the intent and ability to hold for the foreseeable future, or until maturity or payoff, are classified as held-for-investment. Loans are presented in the consolidated balance sheet at cost net of any unamortized discount (or gross of any unamortized premium). We determine at acquisition whether loans will be aggregated into pools based on common risk characteristics (credit quality, loan type, and date of origination or acquisition); loans aggregated into pools are accounted for as if each pool were a single loan.

Income on these loans is recognized similarly to that on our securities using a level yield methodology and is subject to similar uncertainties and contingencies, which are also analyzed on at least a quarterly basis.

## **Table of Contents**

### **Valuation of Derivatives**

We financed certain investments with the same counterparty from which it 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, with changes in market value recorded as Other Income in the Consolidated Statements of Income.

### **Impairment of Loans**

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

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

### **Investment Consolidation**

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

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

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

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

de-consolidation of an entity that otherwise would have been consolidated.

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



## **Table of Contents**

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 under ASC 810-10-15-14.

We have invested in servicer advances, including the basic fee component of the related MSRs, through the Buyer of which we are the managing member. The Buyer was formed through cash contributions by us and third-parties in exchange for membership interests. As of the most recent settlement, we owned an approximately 33.7% 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 whollyowned subsidiaries and reflect membership interests in the Buyer held by third parties as noncontrolling interests.

## **Investments in Equity Method Investees**

We account for our investment in the Consumer Loan Companies pursuant to the equity method of accounting because we can exercise significant influence over the Consumer Loan Companies, but the requirements for consolidation are not met. Our share of earnings and losses in these equity method investees is included in Earnings from investments in consumer loans, equity method investees on the Consolidated Statements of Income. Equity method investments are included in Investments in consumer loans, equity method investees on the 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 MSRs 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 MSRs at fair value. The equity method investees have also elected to measure their investments in Excess MSRs at fair value.

## **Income Taxes**

Our financial results are generally not expected to reflect provisions for current or deferred income taxes. We intend to operate in a manner that allows us to qualify for taxation as a REIT. As a result of our expected REIT qualification,

we do not generally expect to pay U.S. federal or state and local corporate level taxes. Many of the REIT requirements, however, are highly technical and complex. If we were to fail to meet the REIT requirements, we would be subject to U.S. federal, state and local income and franchise taxes. We have made

**Table of Contents**

certain investments, particularly our investments in servicer advances, through TRSs and are subject to regular corporate income taxes on these investments. Our investments through TRSs did not generate any material taxable income in 2013.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In February 2013, the FASB issued new guidance regarding the reporting of reclassifications out of accumulated other comprehensive income. The new guidance does not change current requirements for reporting net income or other comprehensive income in the financial statements. However, it requires companies to present the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income ( OCI ) if the item reclassified is required to be reclassified to net income in its entirety during the same reporting period.

Presentation should occur either on the face of the income statement where net income is presented or in the notes to the financial statements. We early adopted this accounting standard and opted to present this information in a note to the financial statements.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, financial statement presentation, revenue recognition, financial instruments, hedging, and contingencies. 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**

We have a limited operating history and we acquired our first portfolio of Excess MSR's in December 2011 and as a result, a comparison of the year ended December 31, 2012 against the one month ended December 31, 2011 would not be meaningful. Because we were not operating as a separate, stand-alone entity during the period from our formation to the date of our separation from Newcastle, our results of operations for this period are not necessarily indicative of our future performance.

**Table of Contents**

The following tables summarize the changes in our results of operations for the year ended December 31, 2013 compared to the year ended December 31, 2012 (dollars in thousands):

	Year Ended		Increase (Decrease)	
	December 31, 2013	2012	Amount	%
Interest income	\$ 87,567	\$ 33,759	\$ 53,808	159.4%
Interest expense	15,024	704	14,320	2034.1%
<b>Net Interest Income</b>	<b>72,543</b>	<b>33,055</b>	<b>39,488</b>	<b>119.5%</b>
<b>Impairment</b>				
Other-than-temporary impairment ( OTTI ) on securities	4,993		4,993	N.M.
Valuation allowance on loans	461		461	N.M.
	5,454		5,454	N.M.
Net interest income after impairment	67,089	33,055	34,034	103.0%
<b>Other Income</b>				
Change in fair value of investments in excess mortgage servicing rights	53,332	9,023	44,309	491.1%
Change in fair value of investments in excess mortgage servicing rights, equity method investees	50,343		50,343	N.M.
Earnings from investments in consumer loans, equity method investees	82,856		82,856	N.M.
Gain on settlement of securities	52,657		52,657	N.M.
Other income	1,820	8,400	(6,580)	-78.3%
	241,008	17,423	223,585	1283.3%
<b>Operating Expenses</b>				
General and administrative expenses	10,284	5,878	4,406	75.0%
Management fee allocated by Newcastle	4,134	3,353	781	23.3%
Management fee to affiliate	11,209		11,209	N.M.
Incentive compensation to affiliate	16,847		16,847	N.M.
	42,474	9,231	33,243	N.M.
<b>Income (Loss) Before Income Taxes</b>	<b>265,623</b>	<b>41,247</b>	<b>224,376</b>	<b>544.0%</b>
Income tax expense				N.M.
<b>Net Income (Loss)</b>	<b>\$ 265,623</b>	<b>\$ 41,247</b>	<b>\$ 224,376</b>	<b>544.0%</b>
<b>Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries</b>				
	\$ (326)	\$	\$ (326)	N.M.
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ 265,949</b>	<b>\$ 41,247</b>	<b>\$ 224,702</b>	<b>544.8%</b>

The results of operations from December 8, 2011 to December 31, 2011 do not represent a meaningful measure of results for comparative purposes.

**Interest Income**

Interest income increased by \$53.8 million primarily as a result of new investments in real estate securities and excess mortgage servicing rights.

**Interest Expense**

Interest expense increased by \$14.3 million due to repurchase agreement financing entered into since September 2012 on our Agency ARM RMBS and Non-Agency RMBS.

## **Table of Contents**

### **Other-than-Temporary Impairment ( OTTI ) on Securities**

The other-than-temporary impairment on securities increased by \$5.0 million due to the recognition of impairment on certain of our Agency ARM RMBS and Non-Agency RMBS securities during the year ended December 31, 2013.

### **Valuation Allowance on Loans**

The valuation allowance on loans increased by \$0.5 million due to the recognition of loan losses on our residential mortgage loans during the year ended December 31, 2013.

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

The change in fair value of investments in excess mortgage servicing rights increased \$44.3 million due to the acquisition of investments since the third quarter of 2012 and subsequent net increases in value.

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

The change in fair value of investments in excess mortgage servicing rights, equity method investees increased \$50.3 million due to the acquisition of these investments in 2013 and subsequent net increases in value.

### **Earnings from Investments in Consumer Loans, Equity Method Investees**

Earnings from investments in consumer loans, equity method investees increased \$82.9 million due to the acquisition of these investments in the second quarter of the year ended December 31, 2013 and subsequent income recognized by the investees.

### **Gain on Settlement of Securities**

Gain on settlement of securities increased by \$52.7 million due to the sale of Non-Agency RMBS during the year ended December 31, 2013.

### **Other Income**

Other income decreased by \$6.6 million as the income recognized during the year ended December 31, 2012 represented a non-recurring breakup fee of \$8.4 million due to a proposed investment that was not completed partially offset by a \$1.8 million unrealized gain on linked transactions accounted for as derivatives during the year ended December 31, 2013.

### **General and Administrative Expenses**

General and administrative expense increased by \$4.4 million primarily due to an increase in operating expenses as a result of our becoming an independent, publicly-traded REIT following the spin-off from Newcastle on May 15, 2013.

### **Management Fee Allocated by Newcastle**

Management fee allocated by Newcastle increased by \$0.8 million due to an increase in our equity, as a result of capital contributions from Newcastle subsequent to the first quarter of 2012.

**Management Fee to Affiliate**

Management fee to affiliate increased \$11.2 million as a result of the management agreement becoming effective on May 15, 2013.

**Table of Contents****Incentive Compensation to Affiliate**

Incentive compensation to affiliate increased \$16.8 million as a result of the management agreement becoming effective on May 15, 2013 and subsequent performance.

**Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries**

Noncontrolling interests in income (loss) of consolidated subsidiaries decreased \$0.3 million due to the acquisition of investments in servicer advances during the fourth quarter of the year ended December 31, 2013 and subsequent loss recognized.

**OUR PORTFOLIO**

Our portfolio is currently composed of servicing related assets, residential securities and loans and other investments, as described in more detail below. A significant portion of our portfolio is currently composed of investments in agency securities. The securities in which we can invest are limited by the exclusion we maintain from the 1940 Act. 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.

	Outstanding Face Amount	Amortized Cost Basis (A)	Percentage of Total Amortized Cost Basis	Carrying Value	Weighted Average Life (years) (B)
Investments in:					
Excess MSR's (C)	\$ 252,573,092	\$ 586,288	10.7%	\$ 676,917	6.0
Servicer Advances (C)	2,661,130	2,665,551	48.7%	2,665,551	2.7
Agency RMBS	1,314,130	1,403,215	25.7%	1,402,764	4.1
Non-Agency RMBS	872,866	566,760	10.4%	570,425	8.0
Residential Mortgage Loans	57,552	33,539	0.6%	33,539	3.7
Consumer Loans (C)	3,298,769	215,062	3.9%	215,062	3.2
Total / Weighted Average	260,777,539	\$ 5,470,415	100.0%	\$ 5,564,258	5.9
Reconciliation to GAAP					
total assets:					
Cash and restricted cash				305,332	
Derivative assets				35,926	
Other assets				53,142	
GAAP total assets				\$ 5,958,658	

(A) Net of impairment.



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

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

### **Servicing Related Assets**

#### ***Excess MSR***

As of December 31, 2013, we had approximately \$676.9 million estimated carrying value of Excess MSR, of which a portion is held directly and the remainder is held through joint ventures. As of December 31, 2013, our completed investments represent an effective 33.3% to 80% interest in the Excess MSR (held either directly or through joint ventures) on pools of mortgage loans with an aggregate UPB of approximately \$252.6 billion. Nationstar is the servicer of the loans underlying all of our investments in Excess MSR to date, and it earns a basic fee in exchange for providing all servicing functions. In addition, Nationstar retains a 20% to 35% interest in the Excess MSR and all ancillary income associated with the portfolios. In our capacity as owner of Excess MSR, we do not have any servicing duties, liabilities or obligations associated with the servicing of the portfolios underlying any of Excess MSR. However, we, through co-investments made by our subsidiaries,

**Table of Contents**

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 (Pools 5, 10, 12, 17 and 18) underlying our Excess MSR investments. See Servicer Advances below.

Each of our Excess MSR investments to date is subject to a recapture agreement with Nationstar. Under the recapture agreements, we are generally entitled to a pro rata interest in the Excess MSR 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 following table summarizes the collateral characteristics of the loans underlying our direct Excess MSR investments as of December 31, 2013 (dollars in thousands):

	Current Carrying Amount	Original Principal Balance	Current Principal Balance	Number of Loans	Collateral Characteristics							
					WA FICO Score (A)	WA Coupon (%)	WA Maturity (months)	Average Age (months)	Adjustable Rate (%) (B)	1 Month CPR (C)	1 Month CRR (D)	1 Month CDR (E)
Pool	\$ 28,610	\$ 9,940,385	\$ 5,375,483	39,537	674	5.6%	274	86	20.0%	30.7%	28.4%	3.2%
Red Loans	7,625		1,498,459	7,975	736	4.4%	323	8		1.7%	1.5%	0.3%
Pre Agreements	6,820											
	43,055	9,940,385	6,873,942	47,512	688	5.3%	285	69	15.6%	24.4%	22.5%	2.6%
Pool	29,308	10,383,891	6,792,399	35,883	669	4.8%	318	74	11.0%	21.3%	17.9%	4.1%
Red Loans	5,926		1,132,521	5,942	739	4.4%	323	6		1.3%	1.2%	0.1%
Pre Agreements	6,587											
	41,821	10,383,891	7,924,920	41,825	679	4.7%	319	64	9.4%	18.4%	15.6%	3.5%
Pool	29,465	9,844,114	7,153,173	44,782	676	4.1%	286	98	41.0%	19.3%	17.2%	2.6%
Red Loans	3,434		669,280	4,117	726	4.3%	319	5		1.4%	1.4%	
Pre Agreements	6,642											
	39,541	9,844,114	7,822,453	48,899	680	4.1%	288	90	37.5%	17.8%	15.8%	2.4%
Pool	12,906	6,250,549	4,892,816	24,579	677	3.4%	305	89	59.0%	13.1%	9.4%	4.1%
Red Loans	917		183,654	934	738	4.4%	332	5		0.2%	0.2%	
Pre Agreements	4,105											
	17,928	6,250,549	5,076,470	25,513	679	3.4%	306	86	56.9%	12.6%	9.0%	3.9%
Pool (F)	140,419	47,572,905	36,871,664	159,885	657	4.3%	287	94	54.0%	11.7%	5.5%	6.5%
Red Loans	215		36,187	145	760	3.7%	323	6	2.0%			
Pre Agreements	5,609											

Edgar Filing: New Residential Investment Corp. - Form S-11/A

	146,243	47,572,905	36,907,851	160,030	657	4.3%	287	94	53.9%	11.7%	5.5%	6.5%
...t portion) (G)												
Pool												
red Loans	2,080		436,241	2,658		4.2%	309	5		0.8%	0.8%	
re Agreements	235											
	2,315		436,241	2,658		4.2%	309	5		0.8%	0.8%	
Pool (F)	16,287	5,375,157	5,149,174	41,593	596	5.7%	311	97	34.0%	10.8%	3.2%	7.8%
red Loans	7		3,703	23	688	4.2%	289	1				
re Agreements	240											
	16,534	5,375,157	5,152,877	41,616	596	5.7%	311	97	34.0%	10.8%	3.2%	7.8%
Pool (H)	16,079	9,238,001	8,758,860	43,687		5.0%	242	105	50.0%	0.1%	0.1%	
red Loans												
re Agreements	635											
	16,714	9,238,001	8,758,860	43,687		5.0%	242	105	50.0%	0.1%	0.1%	
Weighted												
	\$ 324,151	\$ 98,605,002	\$ 78,953,614	411,740	662	4.5%	288	89	42.7%	12.7%	8.5%	5.2%

Continued on next page.

**Table of Contents**

	Collateral Characteristics						
	Uncollected Payments (I)	Delinquency 30 Days (I)	Delinquency 60 Days (I)	Delinquency 90+ Days (I)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
<b>Pool 1</b>							
Original Pool	10.8%	6.6%	2.2%	1.6%	4.3%	1.4%	2.9%
Recaptured Loans	0.8%	0.7%	0.1%	0.1%	0.1%		0.1%
Recapture Agreements							
	8.6%	5.3%	1.7%	1.3%	3.4%	1.1%	2.3%
<b>Pool 2</b>							
Original Pool	15.9%	5.8%	2.0%	1.8%	7.5%	2.1%	5.1%
Recaptured Loans	0.8%	0.6%	0.1%	0.2%	0.1%		0.2%
Recapture Agreements							
	13.7%	5.1%	1.7%	1.6%	6.4%	1.8%	4.4%
<b>Pool 3</b>							
Original Pool	13.3%	4.7%	1.3%	1.0%	6.6%	2.7%	3.5%
Recaptured Loans	0.5%	0.7%					0.2%
Recapture Agreements							
	12.2%	4.4%	1.2%	1.0%	6.1%	2.4%	3.2%
<b>Pool 4</b>							
Original Pool	16.0%	3.8%	1.6%	1.5%	8.9%	2.7%	4.3%
Recaptured Loans	0.5%	0.5%	0.1%	0.1%			0.1%
Recapture Agreements							
	15.5%	3.7%	1.6%	1.4%	8.6%	2.6%	4.2%
<b>Pool 5</b>							
Original Pool (F)	23.8%	10.2%	2.2%	3.5%	13.2%	2.5%	5.3%
Recapture Loans	1.1%	1.1%					
Recapture Agreements							
	23.7%	10.2%	2.2%	3.5%	13.1%	2.5%	5.3%
<b>Pool 11 (direct portion) (G)</b>							
Original Pool							
Recaptured Loans	10.0%	18.1%	0.4%	0.1%	0.1%		0.1%
Recapture Agreements							
	10.0%	18.1%	0.4%	0.1%	0.1%		0.1%
<b>Pool 12</b>							
Original Pool (F)	35.6%	12.4%	4.8%	5.6%	19.1%	2.8%	5.7%
Recapture Loans							
Recapture Agreements							
	35.6%	12.4%	4.8%	5.6%	19.1%	2.8%	5.6%

Pool 18

Original Pool (H)	26.3%	7.9%	1.8%	10.1%	9.9%	0.9%	5.1%
Recaptured Loans							
Recapture Agreements							
	26.3%	7.9%	1.8%	10.1%	9.9%	0.9%	5.1%
Total/Weighted							
Average	20.7%	8.2%	2.1%	3.6%	10.6%	2.2%	4.6%

- (A) The WA FICO score is based on the weighted average of information provided by the loan servicer on a monthly basis. The loan servicer generally updates the FICO score on a monthly basis.
- (B) Adjustable Rate Mortgage % represents the percentage of the total principal balance of the pool that corresponds to adjustable rate mortgages.
- (C) 1 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.

**Table of Contents**

- (D) 1 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) 1 Month CDR, or the involuntary prepayment rate, represents the annualized rate of the involuntary prepayments (defaults) during the month as a percentage of the total principal balance of the pool.
- (F) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR subsequent to December 31, 2013 (see Note 18 to our consolidated financial statements included herein).
- (G) A portion of our investment in Pool 11 was made as a direct investment, and the remainder was made as an investment through a joint venture accounted for as an equity method investee, the collateral of which is described in the chart below. The direct investment in Pool 11 includes loans that, upon refinancing by a third-party, became serviced by Nationstar and subject to a 67% Excess MSR owned by us.
- (H) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (see Note 6 to our consolidated financial statements included herein).
- (I) Uncollected Payments represents the percentage of the total principal balance of the pool that corresponds to loans for which the most recent payment was not made. Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days represent the percentage of the total principal balance of the pool that corresponds to loans that are delinquent by 30 - 59 days, 60 - 89 days or 90 or more days, respectively.

**Table of Contents**

The following table summarizes the collateral characteristics as of December 31, 2013 of the loans underlying Excess MSR investments made through equity method investees (dollars in thousands). For each of these pools, we own a 50% interest in an entity that invested in a 67% to 77% interest in the Excess MSRs.

	Current Carrying Amount	Original Principal Balance	Current Principal Balance	NRZ Effective Ownership Principal Balance	Collateral Characteristics							
					Number of Loans	WA FICO Score (A)	WA Coupon (B)	WA Maturity (months) (C)	Adjustable Rate Mortgage Age (months) (D)	Average Rate % (E)	1 Month CPR (F)	1 Month CRR (G)
	\$42,562	\$ 12,987,190	\$ 9,329,636	33.3%	66,651	660	5.6%	301	58		23.2%	14.8%
	4,582		822,852	33.3%	4,913	716	3.7%	354	4		0.9%	0.9%
	9,969			33.3%								
	57,113	12,987,190	10,152,488		71,564	665	5.5%	305	53		21.5%	13.8%
	95,036	37,965,199	29,777,801	33.3%	218,984	681	5.0%	284	88	23.0%	19.9%	18.8%
	7,911		1,740,932	33.3%	11,130	715	4.5%	305	3		0.8%	0.8%
	26,388			33.3%								
	129,335	37,965,199	31,518,733		230,114	683	5.0%	285	83	21.7%	18.8%	17.8%
	47,933	17,622,118	12,592,990	33.3%	85,350	694	5.3%	294	76	14.0%	28.8%	27.0%
	6,826		1,447,646	33.3%	8,191	733	4.5%	308	3		1.6%	1.6%
	14,713			33.3%								
	69,472	17,622,118	14,040,636		93,541	698	5.2%	295	68	12.6%	26.0%	24.4%
	124,677	33,799,700	30,305,750	33.3%	226,947	682	5.0%	298	51	4.0%	16.4%	12.2%
	2,969		508,442	33.3%	3,299	602	4.3%	350	26		0.1%	0.1%
	34,154			33.3%								
	161,800	33,799,700	30,814,192		230,246	681	5.0%	299	50	3.9%	16.1%	12.0%
	208,027	75,574,361	68,884,591	33.3-38.5%	369,125	660	4.9%	261	97	50.0%	12.3%	7.8%

Edgar Filing: New Residential Investment Corp. - Form S-11/A

	28		5,918	33.3-38.5%	31	793	4.2%	262	1	7.0%		
	7,165			33.3-38.5%								
	215,220	75,574,361	68,890,509		369,156	660	4.9%	261	97	50.0%	12.3%	7.8
G)												
(on)	51,349	22,817,213	18,114,871	33.3%	127,856	621	5.2%	295	70	4.0%	19.5%	18.6%
s	338		88,049	33.3%	497	688	5.1%	321	1		0.1%	0.1%
	19,054			33.3%								
	70,741	22,817,213	18,202,920		128,353	621	5.2%	295	70	4.0%	19.4%	18.5%
	\$703,681	200,765,781	\$ 173,619,478		1,122,974	667	5.0%	281	78	25.9%	16.6%	13.2%

Continued on next page.



**Table of Contents**

	Collateral Characteristics						
	Uncollected Payments (C)	Delinquency 30 Days (C)	Delinquency 60 Days (C)	Delinquency 90+ Days (C)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
<b>Pool 6</b>							
Original Pool	12.8%	6.9%	2.0%	1.6%	6.0%	1.3%	2.4%
Recaptured Loans	0.8%	0.8%					0.1%
Recapture Agreements							
	11.8%	6.4%	1.8%	1.5%	5.5%	1.2%	2.2%
<b>Pool 7</b>							
Original Pool	15.4%	4.4%	1.2%	2.0%	8.7%	1.5%	4.0%
Recaptured Loans	0.6%	0.6%	0.1%				0.1%
Recapture Agreements							
	14.6%	4.2%	1.1%	1.8%	8.2%	1.4%	3.8%
<b>Pool 8</b>							
Original Pool	12.4%	3.9%	1.4%	2.1%	6.0%	1.3%	3.7%
Recapture Loans	0.4%	0.3%					0.1%
Recapture Agreements							
	11.2%	3.5%	1.2%	1.8%	5.4%	1.1%	3.3%
<b>Pool 9</b>							
Original Pool	8.7%	5.0%	1.4%	1.4%	4.0%	0.4%	1.5%
Recapture Loans	2.6%	3.6%	2.6%	6.9%			
Recapture Agreements							
	8.6%	5.0%	1.5%	1.5%	3.9%	0.4%	1.5%
<b>Pool 10</b>							
Original Pool (F)	25.7%	5.4%	1.9%	11.8%	13.8%	1.4%	5.3%
Recapture Loans							
Recapture Agreements							
	25.7%	5.4%	1.9%	11.8%	13.8%	1.4%	5.3%
<b>Pool 11</b>							
Original Pool (indirect portion (G))	18.7%	16.1%	2.2%	2.4%	6.0%	1.4%	2.6%
Recapture Loans	0.3%	0.3%					
Recapture Agreements							
	18.6%	16.0%	2.2%	2.4%	5.9%	1.4%	2.6%
Total/Weighted Average	17.9%	6.1%	1.6%	5.8%	9.0%	1.2%	3.7%

- (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) 1 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) 1 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) 1 Month CDR, or the involuntary prepayment rate, represents the annualized rate of the involuntary prepayments (defaults) during the month as a percentage of the total principal balance of the pool.
- (F) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (see Note 6 to our consolidated financial statements included herein).

---

**Table of Contents**

- (G) A portion of our investment in Pool 11 was made as a direct investment and the remainder was made as an investment through a joint venture accounted for as an equity method investee, the collateral of which is described in the chart above.
- (I) Uncollected Payments represents the percentage of the total principal balance of the pool that corresponds to loans for which the most recent payment was not made. Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days represent the percentage of the total principal balance of the pool that corresponds to loans that are delinquent by 30-59 days, 60-89 days or 90 or more days, respectively.

In January 2014, we invested \$19.1 million in Excess MSR in Pool 17, which has an aggregate UPB of approximately \$8.1 billion. Nationstar is the servicer of the loans and has retained a 33% interest in the Excess MSR; a Fortress-managed fund has acquired the remaining interests. We, through co-investments made by our subsidiaries, have separately agreed to purchase the servicer advances and the right to certain other cash flows associated with Pools 5, 10, 12, 17 and 18. See [Servicer Advances](#) below. Under the terms of our Excess MSR investments, to the extent that any loans in the portfolios are refinanced by Nationstar, the resulting Excess MSR will be included in the portfolio, subject to certain limitations. New Residential, Nationstar and the Fortress fund will share in these Excess MSR based on their respective ownership percentage as described above.

Subsequent to December 31, 2013, we invested approximately \$19.1 million in Excess MSR on a portfolio of PLS residential mortgage loans with a UPB of approximately \$8.1 billion. We have remaining commitments of approximately \$1.5 million to fund additional investments in this portfolio of PLS residential mortgage loans, which have not yet closed and will increase the UPB by approximately \$0.9 billion.

In addition, we have commitments to invest approximately \$32.3 million in Excess MSR on portfolios of GSE residential mortgage loans with an aggregate outstanding UPB of \$13.1 billion. In each transaction, we have agreed to acquire a 33.3% direct interest in the Excess MSR. 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 the portfolios. Commitments related to GSE residential mortgage loans are contingent upon GSE approval of Nationstar to service such loans and transfer the Excess MSR to us.

We expect to complete our pending investments in the second quarter of 2014, subject to the receipt of regulatory, third-party and certain rating agency approvals. There can be no assurance that we will complete these investments as anticipated or at all. However, we believe that it is probable that we will be able to obtain pending approvals and subsequently complete these investments.

As of December 31, 2013, the weighted average yield of our direct investments in Excess MSR was 12.9%, compared to 17.6% as of December 31, 2012. The decrease in yield was a result of a positive fair value adjustment in the carrying value of our Excess MSR portfolio due to improving housing fundamentals, rising interest rates and increased demand for Excess MSR. As of December 31, 2013, the weighted average yield of our equity method investments in Excess MSR was 12.5%. We made our first equity method investment in Excess MSR at the beginning of 2013. For additional information about the weighted average yield of our investments in Excess MSR at December 31, 2013 and about the geographic diversification of the underlying loans, see Notes 4 and 5 to our consolidated financial statements included elsewhere in this prospectus.

On December 13, 2013, we entered into a \$75.0 million secured corporate loan with Credit Suisse First Boston Mortgage 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 4.00%. The loan contains customary covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline as of the end of the corresponding period in the prior fiscal year, or a 35% equity decline as of the end of the quarter immediately preceding the most recently completed fiscal quarter and a four-to-one indebtedness to tangible net worth provision. Subsequent to December 31, 2013, the loan was paid

down \$5.9 million, and the maturity was extended to May 31, 2014.

**Table of Contents**

We currently expect to continue to make co-investments with Nationstar, and we may also acquire Excess MSR from other servicers. Nationstar does not, however, have any obligation to offer us any future co-investment opportunity. In the event that we cannot co-invest in Excess MSR with Nationstar, we may not be able to find other suitable counterparties from which to acquire Excess MSR, which could have a material adverse effect on our business. At the same time, our co-investments with Nationstar expose us to counterparty concentration risk, which could increase if we do not or cannot acquire Excess MSR from other counterparties or continue to pursue co-investments with Nationstar. Nationstar publicly discloses its financial statements and other material information in filings with the SEC, which may be obtained at the SEC's website, [www.sec.gov](http://www.sec.gov). The contents of Nationstar's public disclosure are not incorporated by reference herein, do not form part of this prospectus and have not been verified by us.

**Servicer Advances**

The following is information regarding the servicer advances, and related financing, of the Buyer, which we consolidate as of December 31, 2013 (dollars in thousands):

					<b>Loan-to-Value</b>		<b>Cost of Funds (B)</b>	
	<b>UPB of Underlying Residential Mortgage Loans</b>	<b>Outstanding Servicer Advances</b>	<b>Servicer Advances to UPB of Underlying Residential Mortgage Loans</b>	<b>Carrying Value of Notes Payable</b>	<b>Gross</b>	<b>Net (A)</b>	<b>Gross</b>	<b>Net</b>
Servicer advances	\$ 43,444,216	\$ 2,661,130	6.1%	\$ 2,390,778	89.8%	88.6%	4.0%	2.3%

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

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

**Overview of Transaction 1**

On December 17, 2013, the Buyer entered into Transaction 1. One of our wholly-owned subsidiaries is the managing member of the Buyer.

Pursuant to the Purchase Agreement, the Buyer agreed to purchase servicer advances on a portfolio of loans in exchange for the right to receive the basic fee component of the related MSR. Specifically, the Buyer acquired from Nationstar:

the right to repayment with respect to the \$3.2 billion Outstanding Advances outstanding on the pools of Non-Agency mortgage loans with an aggregate UPB of approximately \$54.6 billion as of December 31,

2013;

the obligation to purchase the Future Advances and the right to repayment with respect to the Future Advances; and

the right to receive the Purchased Basic Fee, which was 23.2 basis points on a weighted average basis as of December 31, 2013.

We estimate that the amount of Future Advances will be approximately \$7.3 billion based on both (i) our management's estimates with respect to the pools of (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 pools with respect to which management expects not to have any additional advance obligations and

## **Table of Contents**

(ii) Nationstar's historical rate of making servicer advances. The actual amount of future advances related to Transaction 1 is subject to significant uncertainty and could be materially different than our estimates.

While the Buyer acquired legal title to the basic fee component of the MSR on the pools, Nationstar remains the named servicer under the related servicing agreements and will continue to perform all servicing duties for the pools. The Buyer will not become the named servicer until all required consents and ratings agency letters required for a formal change of the named servicer have been obtained (and the Buyer has no obligation to obtain such consents and letters).

In exchange for Nationstar's performance of servicing duties, the Buyer will pay Nationstar the Servicing Fee and the Performance Fee. The Buyer will pay the Performance Fee if the Net Collections exceed a the Targeted Return on its equity in the Funded Advances.

The investment structure, and the Targeted Return in particular, is 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 the Funded 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 the Purchased Basic Fee between the Buyer and Nationstar. For more detail, see Servicing Fee, Targeted Return and Performance Fee below. Nationstar is also entitled to retain investment income on servicing accounts, prepayment interest excess and all ancillary income in connection with servicing the mortgage loans.

Pursuant to the Purchase Agreement, the Buyer has the right to become the named servicer under the applicable servicing agreements upon the satisfaction of certain conditions, such as obtaining any required licenses to be a residential mortgage servicer. However, unless and until the Buyer seeks to satisfy such conditions (which it has no obligation to satisfy) and becomes the named servicer under the applicable servicing agreements, the Buyer has no obligation to perform any servicing duties or assume any servicing-related liabilities with respect to the pools. The Buyer does not currently intend to become the named servicer under the applicable servicing agreements.

### *Purchase Price and Settlement*

The purchase price for Transaction 1 was approximately \$3.2 billion. The value of our investment was established by discounting the aggregate estimated future cash flows associated with the Funded Advances and the Purchased Basic Fee at an appropriate discount rate. The purchase price is equal to the par amount of the Outstanding Advances on their respective settlement dates.

The Buyer funded approximately \$0.4 billion of the purchase price with cash from equity subscriptions and contributions to the Buyer, and the remainder with debt. The debt was incurred by certain wholly owned subsidiaries of the Buyer that have become the issuers under the financing for the Funded Advances, as described in more detail below under Advance Financing.

Transaction 1 was completed in stages. As of December 31, 2013, the Buyer had completed the purchase of approximately \$2.7 billion of Funded Advances. Subsequent to December 31, 2013, the Buyer settled an additional \$509.4 million of Funded Advances, which represents substantially all of the remaining balance of Transaction 1.

### *Advance Financing*

Prior to Transactional 1, special purpose subsidiaries of Nationstar had previously borrowed approximately \$2.13 billion under the Notes to finance the Outstanding Advances. The Original Notes were issued through the



**Table of Contents**

Issuers pursuant to the Facilities. The counterparty on the Barclays Facility was Barclays Bank PLC. Credit Suisse AG, New York Branch and Morgan Stanley Bank, N.A. are counterparties on the Credit Suisse Facility. In connection with Transaction 1, the Buyer purchased the equity of wholly owned special purpose subsidiaries of Nationstar that owned the Original Issuers. A portion of the outstanding Original Notes were repaid with the proceeds of new notes issued in March 2014. After giving effect to such repayments, the Barclays Facility was terminated and the borrowing capacity under the Credit Suisse Facility was reduced to \$1.5 billion. For details about the financing, see Financing Strategy Servicing Related Assets Servicer Advances below.

*The Pools*

The pools in Transaction 1 are Pool 10 (a portion of which is excluded from Transaction 1 and is expected to be included in Transaction 2), Pool 17 and Pool 18, and the pools in Transaction 2 are Pool 5, the portion of Pool 10 not included in Transaction 1, and Pool 12. We previously acquired an interest in the Excess MSR's related to each of these pools.

*Types of Advances*

The servicer advances typically include (i) principal and interest advances, (ii) escrow advances and (iii) foreclosure advances. As of the date hereof, the Buyer acquired (or agreed to acquire) the following types of advances:

	Transaction 1			Transaction 2		
	Settled (bn)	Unsettled (bn)	Total (bn)	Settled	Unsettled	Total
Principal and Interest Advances	\$ 1.97	\$ 0.01	\$ 1.98	\$ 0.49	NA	\$ 0.49
Escrow Advances	1.00	0.00	1.00	0.43	NA	0.43
Foreclosure Advances	0.28	0.00	0.28	0.14	NA	0.14
Total	\$ 3.24	\$ 0.01	\$ 3.26	\$ 1.06	NA	\$ 1.06

*The Buyer*

As of December 31, 2013, we owned approximately 32% of the Buyer, and the third-party co-investors owned the remainder. At the expiration of the Call Right and the settlement of the associated advances, we expect that we will own approximately 45-50% of the Buyer to the extent we actually make additional capital contributions to the Buyer. As noted below, there can be no assurance that the Call Right will be exercised in full.

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

The written consent of each member is required for (i) any action that would cause the Buyer or its subsidiaries to be treated as other than a partnership or a disregarded entity for federal income tax purposes, or any action that would require the Buyer or its subsidiaries to register as an investment company as defined in the 1940 Act, (ii) except for permitted debt financings, any conveyance, sale, lease or transfer of all or substantially all of the assets then held by the Buyer or its subsidiaries, and (iii) except for the Purchase Agreement, any subservicing agreement with Nationstar

and permitted debt financings, any transaction, arrangement or relationship between the Buyer or any of its subsidiaries with any of our affiliates in excess of \$10,000,000 in any calendar year, individually or in the aggregate. In addition, if we, as managing member of the Buyer, have committed fraud or

## **Table of Contents**

willful misconduct in the performance or nonperformance of our obligations or intentionally breach the operating agreement of the Buyer, then the members holding an aggregate ownership percentage greater than 50% of the Buyer, excluding our and our affiliates' ownership interests, may remove us as managing member of the Buyer and appoint a successor managing member of the Buyer (with no impact to our ownership percentage). In addition, we, as managing member of the Buyer, may not transfer, without the prior written consent of a majority in interest of members, our right to act as the managing member to any entity that is not one of our wholly owned direct or indirect subsidiaries.

### *Call Right and Transaction 2*

In Transaction 1, the Buyer has the Call Right to purchase from Nationstar in Transaction 2. The terms of Transaction 2 will be substantially similar to the terms of Transaction 1, subject to the receipt of applicable consents. The Call Right expires on June 30, 2014.

The Buyer exercised a portion of the Call Right in Transaction 2. The outstanding balance of the servicer advances subject to the portion of the Call Right that was exercised was approximately \$1.1 billion as of the exercise dates, February 28, 2014 and March 7, 2014. If the Buyer exercises the Call Right in full, it expects to fund the total purchase price with approximately \$2.5 billion of debt and \$0.3 billion of equity, excluding working capital. As of the date hereof, the Buyer has settled \$1.1 billion of advances related to Transaction 2, which was financed with approximately \$0.9 billion of debt. The remaining balance of the Call Right is expected to be settled in the second quarter of 2014.

There can be no assurance that Transaction 2 will be completed on the terms we expect or at all. The remaining servicer advances that are subject to the Call Right cannot be purchased unless and until the related financings are repaid or renegotiated or until the related collateral is released in accordance with the terms of such financings (which would require the consent of various third parties).

### *Servicing Fee*

Nationstar remains the named servicer under the servicing agreements related to the pools and will continue to perform all servicing duties for the pools. In exchange for its services, the Buyer will pay Nationstar the Servicing Fee representing a portion of the Purchased Basic Fee.

The Servicing Fee is equal to the Servicing Fee Percentage of the Basic Fee Amounts. The Servicing Fee Percentage as of December 31, 2013 was approximately 8.6%, which is equal to (i) 2 basis points divided by (ii) the basic fee of the pools, which was 23.2 basis points on a weighted average basis as of December 31, 2013.

### *Targeted Return*

The Targeted Return is 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 the Funded 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 the Purchased Basic Fee between the Buyer and Nationstar.

The amount available to satisfy the Targeted Return is equal to 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 equal to (i) 14% multiplied by (ii) the Buyer's total invested capital in the Funded Advances. Total invested capital, as defined in the Purchase Agreement, is the sum of the

**Table of Contents**

Buyer's (i) equity in Funded 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 Fees and Expenses.

*Performance Fee*

The Performance Fee is calculated as follows. Pursuant to the Purchase Agreement, Net Collections is divided into two subsets: the Retained Amount and the Surplus Amount. The Retained Amount is equal to 15.4 basis points of the UPB of the pools related to the basic fee, and the Surplus Amount is the remainder. 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.

*Illustrative Example*

The table below sets forth a simplified example of the allocation of the Purchased Basic Fee pursuant to the Purchase Agreement, for a given month, based on the following assumptions:

Funded Advances outstanding balance of \$4 million and total invested capital of \$400,000

Fees and Expenses of \$7,800, representing the monthly expense of \$3.6 million of funded notes at a 2.6% interest rate

UPB of \$120 million

Basic Fee Amounts of \$22,400

**Table of Contents**

This example is provided for illustrative purposes only and is qualified in its entirety by the terms of the Purchase Agreement, which is filed as an exhibit to the registration statement on Form S-11 of which this prospectus forms a part.

	<b>Illustrative Amount</b>	<b>Calculation</b>
1. What is the Servicing Fee?	\$ 2,000	The Servicing Fee percentage (8.9% as of January 17, 2014) multiplied by the Basic Fee Amounts (\$22,400)
2. What are Net Collections?	\$ 20,400	The Basic Fee Amounts (\$22,400) minus the Servicing Fee (\$2,000)
3. What is the Targeted Return?	\$ 12,467	Total invested capital (\$400,000) multiplied by 14% and divided by 12 (\$4,667), plus Fees and Expenses (\$7,800)
4. What is the Retained Amount?	\$ 15,400	The UPB of the pools (\$120 million) multiplied by 15.4 basis points and divided by 12
5. What is the Surplus Amount?	\$ 5,000	Net Collections (\$20,400) minus the Retained Amount (\$15,400)
6. What portion of the Retained Amount is not required to satisfy the Targeted Return?	\$ 2,933	The Retained Amount (\$15,400) minus the Targeted Return (\$12,467)
7. What portion of the Retained Amount is retained by the Buyer?	\$ 13,933	The portion of the Retained Amount equal to the Targeted Return (\$12,467), plus the portion of the Retained Amount that is not required to satisfy the Targeted Return (\$2,933), divided by 2 (\$1,467)
8. What portion of the Retained Amount is paid to Nationstar?	\$ 1,467	50% of the Retained Amount that is not required to satisfy the Targeted Return (\$2,933)
9. What is the Performance Fee?	\$ 6,467	The portion of the Retained Amount paid to Nationstar (\$1,467) plus the Surplus Amount (\$5,000)

**Residential Securities and Loans*****Real Estate Securities***

As of December 31, 2013, we had approximately \$2.2 billion face amount of real estate securities, including \$1.3 billion of Agency ARM RMBS and \$872.9 million of Non-Agency RMBS. These investments were financed with repurchase agreements with an aggregate face amount of approximately \$1.3 billion for Agency ARM RMBS and approximately \$287.8 million for Non-Agency RMBS. As of December 31, 2013, a total face amount of \$848.6 million of our Non-Agency portfolio was serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately \$17.1 billion as of December 31, 2013.

**Table of Contents***Agency ARM RMBS*

The following table summarizes the reset dates of our Agency ARM RMBS portfolio as of December 31, 2013 (dollars in thousands):

Months to Next Reset (A)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis (B)	Percentage of Total Amortized Cost Basis	Carrying Value (B)	Coupon	Margin	Weighted Average Periodic Cap		Lifetim Cap (E)	Months to Reset (F)
								1st Adjustment (C)	Subsequent Adjustment (D)		
1 - 12	73	\$ 648,101	\$ 688,525	49.4%	\$ 688,383	3.0%	1.8%	N/A (G)	2.0%	9.9%	7
13 - 24	30	375,505	398,172	28.6%	397,858	3.5%	1.8%	5.0%	2.0%	8.5%	18
25 - 36	10	278,191	292,924	21.0%	292,928	3.2%	1.8%	4.9%	2.0%	8.2%	29
Over 36	1	12,333	12,991	1.0%	12,992	3.6%	1.8%	5.0%	2.0%	8.6%	39
Total/Weighted Average	\$114	\$ 1,314,130	\$ 1,392,612	100.0%	\$ 1,392,161	3.2%	1.8%	5.0%	2.0%	9.1%	15

(A) Of these investments, 90.6% reset based on 12 month LIBOR index, 1.8% reset based on 6 month LIBOR Index, 0.4% reset based on 1 month LIBOR, and 7.3% reset based on the 1 year Treasury Constant Maturity Rate. After the initial fixed period, 97.8% of these securities will reset annually and 2.2% will reset semi-annually.

(B) Amortized cost basis and carrying value exclude \$10.6 million of principal receivables as of December 31, 2013.

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

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

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

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

(G) Not applicable as 57 of the securities (72% of the current face of this category) are past the first coupon adjustment period. The remaining 16 securities (28% of the current face of this category) have a maximum change in the coupon of 5.0% at the end of the fixed rate period.

The following table summarizes the characteristics of our Agency ARM RMBS portfolio and of the collateral underlying our Agency ARM RMBS as of December 31, 2013 (dollars in thousands):

Vintage (A)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis (B)	Percentage of Total Amortized		Carrying Value (B)	Weighted Average Life (Years)
				Cost Basis	Carrying Value (B)		
Pre-2006	26	\$ 145,620	\$ 154,223	11.1%	\$ 154,885	4.9	
2006	6	32,759	35,010	2.5%	34,965	4.3	
2007	15	85,027	90,287	6.5%	90,258	4.7	

Edgar Filing: New Residential Investment Corp. - Form S-11/A

2008	8	63,686	67,596	4.8%	67,720	6.1
2009	8	74,901	80,212	5.8%	79,887	3.8
2010	28	363,730	385,592	27.7%	385,305	3.2
2011	17	358,873	378,567	27.2%	378,691	3.8
2012 and later	6	189,534	201,125	14.4%	200,450	4.9
<b>Total/Weighted Average</b>	<b>\$ 114</b>	<b>\$ 1,314,130</b>	<b>\$ 1,392,612</b>	<b>100.0%</b>	<b>\$ 1,392,161</b>	<b>4.1</b>



**Table of Contents**

<b>Vintage (A)</b>	<b>Collateral Characteristics 3 Month CPR (C)</b>
Pre-2006	18.3%
2006	24.6%
2007	19.8%
2008	16.3%
2009	32.8%
2010	20.2%
2011	23.5%
2012 and later	28.1%
<b>Weighted Average</b>	<b>22.7%</b>

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

(B) Amortized cost basis and carrying value exclude \$10.6 million of principal receivables as of December 31, 2013.

(C) Three month average constant prepayment rate.

The following table summarizes the net interest spread of our Agency ARM RMBS portfolio as of December 31, 2013:

<b>Net Interest Spread (A)</b>	
Weighted Average Asset Yield	1.33%
Weighted Average Funding Cost	0.39%
<b>Net Interest Spread</b>	<b>0.94%</b>

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

Subsequent to December 31, 2013, we acquired no new Agency ARM RMBS. We sold five Agency ARM RMBS with a face amount of approximately \$154.2 million and an amortized cost basis of approximately \$162.2 million for approximately \$162.9 million, recording a gain on sale of approximately \$0.7 million. Prior to the sale, impairment was recorded on these five Agency ARM RMBS of approximately \$1.0 million.

**Non-Agency RMBS**

The following tables summarize the characteristics of our Non-Agency RMBS portfolio and of the collateral underlying our Non-Agency RMBS as of December 31, 2013 (dollars in thousands):

**Non-Agency RMBS Characteristics****Vintage (A)**

	Average Minimum Rating (B)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (C)	Excess Spread (D)	Weighted Average Life (Years)
Pre 2004	B-	43	\$ 55,282	\$ 46,069	8.1%	\$ 47,496	25.9%	3.0%	6.0
2004	CCC-	13	86,215	65,759	11.6%	66,104	17.7%	3.5%	7.6
2005	CC	7	86,789	65,351	11.5%	65,953	15.6%	3.0%	9.5
2006	C	20	426,528	277,024	48.9%	278,771	4.5%	3.5%	8.3
2007 and later	CCC+	17	218,052	112,557	19.9%	112,101	0.9%	2.4%	7.5
Total/Weighted Average	CCC-	100	\$ 872,866	\$ 566,760	100.0%	\$ 570,425	7.4%	3.1%	8.0

**Table of Contents****Collateral Characteristics (E)**

<b>Vintage (A)</b>	<b>Average Loan</b>				
	<b>Age (years)</b>	<b>Collateral Factor (F)</b>	<b>3 month CPR (G)</b>	<b>Delinquency (H)</b>	<b>Cumulative Losses to Date</b>
Pre 2004	10.9	0.07	9.8%	14.5%	2.6%
2004	9.5	0.07	8.9%	17.3%	3.7%
2005	8.8	0.11	9.3%	20.2%	11.1%
2006	7.8	0.23	10.7%	30.3%	23.5%
2007 and later	7.6	0.48	10.4%	23.6%	25.1%
Total/Weighted Average	8.2	0.25	10.3%	25.3%	19.4%

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

(B) 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. We had no assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2013.

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

(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 December 31, 2013.

(E) The weighted average loan size of the underlying collateral is \$223.7 thousand. This excludes the collateral underlying one bond, due to unavailable information, with a face amount of \$42.9 million.

(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 real estate owned (REO).

The following table sets forth the geographic diversification of the loans underlying our Non-Agency RMBS as of December 31, 2013 (dollars in thousands):

<b>Geographic Location</b>	<b>Outstanding Face Amount</b>	<b>Percentage</b>
Western U.S.	\$ 317,111	36.3%
Northeastern U.S.	198,298	22.7%
Southeastern U.S.	164,481	18.9%
Midwestern U.S.	98,682	11.3%
Southwestern U.S.	51,425	5.9%
Other (A)	42,869	4.9%
	\$ 872,866	100.0%

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

The following table summarizes the net interest spread of our Non-Agency RMBS portfolio as of December 31, 2013:

<b>Net Interest Spread (A)</b>	
Weighted Average Asset Yield	4.68%
Weighted Average Funding Cost	1.85%
<b>Net Interest Spread</b>	<b>2.83%</b>

(A) The Non-Agency RMBS portfolio consists of 99.2% floating rate securities and 0.8% fixed rate securities. Subsequent to December 31, 2013, we acquired Non-Agency RMBS with an aggregate face amount of approximately \$740.6 million for approximately \$308.9 million. We sold eight Non-Agency RMBS with a face amount of approximately \$437.9 million and an amortized cost basis of approximately \$244.6 million for approximately \$248.5 million, recording a gain on sale of approximately \$3.8 million.

**Table of Contents*****Real Estate Loans******Residential Mortgage Loans***

As of December 31, 2013, we had approximately \$57.6 million outstanding face amount of residential mortgage loans. In February 2013, we invested approximately \$35.1 million to acquire a 70% interest in the mortgage loans. Nationstar co-invested pari passu with us in 30% of the mortgage loans and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities as the servicer.

The following table summarizes the characteristics of our reverse mortgage loans as of December 31, 2013 (dollars in thousands):

	Collateral Characteristics				
	Outstanding Face Amount	Loan Count	Weighted Average Coupon (B)	Weighted Average Maturity (Years) (C)	Floating Rate as a % of Face Amount
Reverse Mortgage Loans (A)	\$ 57,552	328	5.1%	3.7	22.0%

(A) 82% of these loans have reached a termination event. As a result, the borrower can no longer make draws on these loans.

(B) Represents the stated interest rate on the loans. Accrued interest on reverse mortgage loans is generally added to the principal balance and paid when the loan is resolved.

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

On November 25, 2013, we entered into a \$300.0 million master repurchase agreement with RBS with advance rates ranging from 65% to 85% and an interest cost of one-month LIBOR plus 2.5% to 2.75%. The repurchase agreement, which contains customary covenants and event of default provisions and is subject to margin calls, will be used to finance the purchase of residential mortgage loans and matures on November 24, 2014. As of April 15, 2014, we had drawn \$59.2 million under this facility.

In the fourth quarter of 2013, we purchased a portfolio of non-performing residential mortgage loans with a UPB of approximately \$170.1 million at a price of approximately \$92.7 million. The purchase was financed using the \$300.0 million master repurchase agreement with RBS discussed above. The acquisition is accounted for as a linked transaction (a derivative), as described in Note 10 to our consolidated financial statements included in this prospectus.

On January 15, 2014, we purchased a portfolio of non-performing residential mortgage loans with a UPB of approximately \$65.6 million at a price of approximately \$33.7 million. To finance this purchase, on January 15, 2014, we entered into a \$25.3 million repurchase agreement with Credit Suisse Securities (USA) LLC, which matures on January 14, 2015. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 3.00%. The agreement contains customary covenants and event of default provisions.

## Edgar Filing: New Residential Investment Corp. - Form S-11/A

On April 8, 2014, we agreed to purchase from an affiliate of Natixis a portfolio of non-performing and reperforming residential mortgage loans with a UPB of approximately \$93 million for a price of approximately \$67 million. We expect to finance approximately 70% of the purchase price with a repurchase agreement. The purchase is expected to settle in May 2014.

On April 11, 2014, we agreed to purchase from JPMorgan Chase Bank, N.A. a portfolio of non-performing residential mortgage loans with a UPB of approximately \$525 million for a price of approximately \$391 million. We expect to finance approximately 75% of the purchase price with a repurchase agreement. The purchase is expected to settle in June 2014.

**Table of Contents**

**Other**

**Consumer Loans**

On April 1, 2013, we completed, through Consumer Loan Companies, a co-investment in a portfolio of consumer loans with a UPB of approximately \$4.2 billion as of December 31, 2012. The portfolio includes over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. The Consumer Loan Companies acquired the portfolio from HSBC Finance Corporation and its affiliates. We invested approximately \$250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf, which is majority-owned by Fortress funds managed by our Manager, acquired 47% and an affiliate of Blackstone Tactical Opportunities Advisors L.L.C. acquired 23%. Springleaf acts as the managing member of the Consumer Loan Companies. On January 8, 2014, we financed all of our ownership interest in each of the Consumer Loan Companies under a \$150.0 million master repurchase agreement with Credit Suisse Securities (USA) LLC, which matures on June 30, 2014. Borrowings under the facility bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 4.00%. The facility contains customary covenants and event of default provisions.

The Consumer Loan Companies initially financed \$2.2 billion (\$1.7 billion outstanding as of December 31, 2013) of the approximately \$3.0 billion purchase price with asset-backed notes that have a maturity of April 2021, and pay a coupon of 3.75%. In September 2013, the Consumer Loan Companies issued and sold an additional \$372.0 million of asset-backed notes for 96% of par. These notes are subordinate to the debt issued in April 2013, have a maturity of December 2024, and pay a coupon of 4%. The 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 is now the servicer of the loans and will provide all servicing and advancing functions for the portfolio.

The table below summarizes the collateral characteristics of the consumer loans as of December 31, 2013 (dollars in thousands):

**Collateral Characteristics**

					Weighted Average Original FICO Score (A)	Weighted Average Coupon (B)	Adjusted Loan Rate (C)	Average Age (month) (D)	Average Life (Years) (E)	Delinquency 30 Days (B)	Delinquency 60 Days (B)	Delinquency 90+ Days (B)	3 Month Weighted Average Charge- off Rate (C)	3 Month CRR (D)
Consumer Loan	\$ 3,298,769	67.7%	32.3%	344,046	636	18.3%	10.2%	103	3.2	4.4%	2.8%	6.3%	9.8%	14.8%

- (A) Weighted average original FICO score represents the FICO score at the time the loan was originated.
- (B) Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days represent the percentage of the total principal balance of the pool that corresponds to loans that are delinquent by 30-59 days, 60-89 days or 90 or more days, respectively.
- (C) 3 Month weighted average charge-off rate represents the loans charged-off during the three months as a percentage of total principal balance of the pool.
- (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.

**Primary Components of Income**

Our current operations involve the acquisition and ownership of servicing related assets, RMBS, residential mortgage loans and consumer loans. The primary components of our net income under GAAP would be:

- (i) interest income on our investments in Excess MSRs;
- (ii) interest income associated with our servicer advance investments (net of servicing fees paid in connection with the servicer advance investments);
- (iii) interest income on Agency and Non-Agency RMBS;
- (iv) interest income on mortgage loans;
- (v) interest expense on our liabilities, including the financing of the servicer advance investments;
- (vi) management fees and incentive compensation payable to our Manager;
- (vii) general and administrative expenses;



**Table of Contents**

(viii) changes in the fair value of our Excess MSR and servicer advances; and realized gains/losses on our RMBS and mortgage loans, any impairment charges on our RMBS and mortgage loans, and gains/losses on hedges; and

(ix) earnings (losses) from equity method investees.

For a further understanding of how we account for items (i), (ii), (iii), (iv), (viii) and (ix) listed above, please refer to Application of Critical Accounting Policies above.

**TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES****Management Agreement**

In connection with our spin-off from Newcastle, we entered into a Management Agreement with our Manager. Our Management Agreement requires our Manager to manage our business affairs in conformity with broad investment guidelines adopted and monitored by our board of directors. For more information about our investment guidelines, see Business Investment Guidelines included elsewhere in this prospectus.

Our Management Agreement has an initial one-year term and is automatically renewed for one-year terms thereafter unless terminated either by us or our Manager. Our Manager is entitled to receive from us a management fee and is eligible to receive incentive compensation that is based on our performance. In addition, we are obligated to reimburse certain expenses incurred by our Manager. Our Manager is also entitled to receive a termination fee from us under certain circumstances. The terms of our Management Agreement are summarized below and described in more detail under Our Manager and Management Agreement elsewhere in this prospectus.

Type	Description
Management Fee	1.5% per annum of our gross equity calculated and payable monthly in arrears in cash. Gross equity is generally the equity that was transferred to us by Newcastle on the distribution date, plus total net proceeds from common and preferred stock offerings, plus certain capital contributions to subsidiaries, less capital distributions and repurchases of common stock.
Incentive Compensation	Our 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) the funds from operations before the incentive compensation, excluding funds from operations from investments in equity method investees that are invested in consumer loans (the Consumer Loan Companies ) and any unrealized gains or losses from mark-to-market valuation changes on Excess MSR and on equity method investees invested in Excess MSR, 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 the distribution date, 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, 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 that was transferred to us by Newcastle on the distribution date and the prices per share of our common stock in any offerings by us (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.

**Table of Contents**

<b>Type</b>	<b>Description</b>
	<p>Funds from operations means net income (computed in accordance with GAAP), excluding gains (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 our independent directors based on changes in, or certain applications of, GAAP. Funds from operations are determined from the date of our separation from Newcastle and without regard to Newcastle's prior performance. Funds from operations does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions.</p>
Reimbursement of Expenses	<p>We pay, or reimburse our Manager, for performing certain legal, accounting, due diligence tasks and other services that outside professionals or outside consultants otherwise would perform, provided that such costs and reimbursements are no greater than those which would be paid to outside professionals or consultants on an arm's-length basis and shall not be reimbursed in excess of \$500,000 per annum. We also pay all operating expenses, except those specifically required to be borne by our Manager under our Management Agreement.</p> <p>Our Manager is responsible for all costs incident to the performance of its duties under the Management Agreement, including compensation of our Manager's employees, rent for facilities, and other overhead expenses; we do not reimburse our Manager for these expenses. The expenses required to be paid by us include, but are not limited to, issuance and transaction costs incident to the acquisition, disposition and financing of our investments, legal and auditing fees and expenses, the compensation and expenses of our independent directors, the costs associated with the establishment and maintenance of any credit facilities and other indebtedness of ours (including commitment fees, legal fees, closing costs, etc.), expenses associated with other securities offerings of ours, the costs of printing and mailing proxies and reports to our stockholders, costs incurred by employees of our manager for travel on our behalf, costs associated with any computer software or hardware that is used solely for us, costs to obtain liability insurance to indemnify our directors and officers and the compensation and expenses of our transfer agent.</p>
Termination Fee	<p>The termination fee is a fee equal to the sum of (1) the amount of the management fee during the 12 months immediately preceding the date of termination, and (2) the Incentive Compensation Fair Value Amount. The Incentive Compensation Fair Value Amount is an amount equal to the Incentive Compensation that would be paid to the Manager if our assets were sold for cash at their then current fair market value (as</p>

determined by an appraisal, taking into account, among other things, the expected future value of the underlying investments).

---

**Table of Contents****Relationship with Nationstar**

We have entered into co-investments in Excess MSR with Nationstar, which is majority-owned by Fortress funds managed by our Manager. As of December 31, 2013, our direct investments represented a 40% to 80% interest in the Excess MSR on eight pools of mortgage loans with an aggregate UPB of approximately \$79.0 billion. As of December 31, 2013, we also owned a 50% interest in an equity method investee that owned a 67% to 77% interest on six pools of mortgage loans with an aggregate UPB of approximately \$173.6 billion. For details about these transactions, see [Our Portfolio Servicing Related Assets Excess MSR](#) above. In addition, we have entered into a recapture agreement in each of our Excess MSR investments to date. Under the 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. Furthermore, on December 17, 2013, we completed our first acquisition of servicer advances from Nationstar through a co-investment with certain third parties. See [Our Portfolio Servicing Related Assets Servicer Advances](#) above. Also the vast majority of the loans underlying our Non-Agency RMBS are serviced by Nationstar.

**Relationship with Springleaf**

We have entered into a co-investment in a consumer loan portfolio with Springleaf, which is majority-owned by Fortress funds managed by our Manager. On April 1, 2013, we completed a co-investment through the Consumer Loan Companies. The Consumer Loan Companies acquired the portfolio from HSBC Finance Corporation and its affiliates. We invested approximately \$250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf acquired 47%, and an affiliate of Blackstone Tactical Opportunities Advisors L.L.C. acquired 23%. Springleaf acted as the managing member of the Consumer Loan Companies. The Consumer Loan Companies financed \$2.2 billion (\$1.7 billion outstanding as of December 31, 2013) of the approximately \$3.0 billion purchase price with asset-backed notes. In September 2013, the Consumer Loan Companies agreed to sell an additional \$372 million of asset-backed notes for 96% of par. These notes are subordinate to the debt issued in April 2013, have a maturity of December 2024 and pay a coupon of 4%. The 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 is now the servicer of the loans and will provide all servicing and advancing functions for the portfolio.

**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 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.

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

Our primary sources of financing currently are notes payable and repurchase agreements, although we may also pursue other sources of financing such as securitizations and other secured and unsecured forms of borrowing. As of December 31, 2013, we had outstanding repurchase agreements with an aggregate face amount of approximately \$287.8 million to finance approximately \$576.1 million face amount of Non-Agency RMBS and

## Table of Contents

approximately \$1.3 billion to finance \$1.3 billion face amount of Agency ARM RMBS. The financing of our entire portfolio, which generally has 30 to 60 day terms, is subject to margin calls. On November 25, 2013, we also entered into a \$300.0 million master repurchase agreement with RBS, which matures on November 24, 2014. Under repurchase agreements, we sell a security to a counterparty and concurrently agree to repurchase the same security at a later date for a higher specified price. The sale price represents financing proceeds and the difference between the sale and repurchase prices represents interest on the financing. The price at which the security is sold generally represents the market value of the security less a discount or haircut, which can range broadly, for example from 4-5% for Agency ARM RMBS to between 15% and 40% for Non-Agency RMBS. During the term of the repurchase agreement, the counterparty holds the security as collateral. If the agreement is subject to margin calls, the counterparty monitors and calculates what it estimates to be the value of the collateral during the term of the agreement. If this value declines by more than a de minimis threshold, the counterparty could require us to post additional collateral (or margin) in order to maintain the initial haircut on the collateral. This margin is typically required to be posted in the form of cash and cash equivalents. Furthermore, we may, from time to time, be a party to derivative agreements or financing arrangements that may be subject to margin calls based on the value of such instruments. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates.

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

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

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

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

**Table of Contents**

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

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

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

**Debt Obligations**

The following table presents certain information regarding our debt obligations:

Description	December 31, 2013 (A)						Collateral		December 31, 2013 (B)		
	Month Issued	Outstanding Face	Carrying Value	Final Stated Maturity	Weighted Average Funding Cost	Weighted Average Life (Years)	Outstanding Face	Amortized Cost Basis	Carrying Value	Weighted Average Life (Years)	Outstanding Face
1	Various	\$ 1,332,954	\$ 1,332,954	Mar-14	0.39%	0.3	\$ 1,277,570	\$ 1,353,630	\$ 1,353,719	4.1	\$
Phase	Various	287,757	287,757	Jan-14 to Oct-14	1.85%	0.1	576,146	388,855	392,360	8.2	150,922
		1,620,711	1,620,711		0.65%	0.2	1,853,716	1,742,485	1,746,079	5.4	150,922
Corporate	Dec-13	75,000	75,000	Mar-14	4.17%	0.3	36,907,851	126,773	146,243	6.0	
)	Dec-13	2,390,778	2,390,778	Sep-14	4.04%	0.8	2,661,130	2,665,551	2,665,551	2.7	
	Dec-13	22,840	22,840	Sep-14	3.42%	0.7	57,552	33,539	33,539	3.7	



ans

2,488,618	2,488,618	4.04%	0.8	39,626,533	2,825,863	2,845,333	5.8	
\$ 4,109,329	\$ 4,109,329	2.70%	0.6	\$ 41,480,249	\$ 4,568,348	\$ 4,591,412	5.8	\$ 150,922

- (A) This excludes debt related to linked transactions. See Note 10 to the consolidated financial statements included in this prospectus.
- (B) These repurchase agreements had approximately \$0.7 million of associated accrued interest payable as of December 31, 2013. All of the repurchase agreements that matured during the first quarter of 2014 were renewed or refinanced subsequent to December 31, 2013.
- (C) The counterparties of these repurchase agreements are Mizuho (\$186.8 million), Barclays (\$410.7 million), Royal Bank of Canada (\$101.8 million), Citi (\$129.3 million), Morgan Stanley (\$169.7 million) and Daiwa (\$334.7 million) and were subject to customary margin call provisions.
- (D) The counterparties of these repurchase agreements are Barclays (\$42.3 million), Credit Suisse (\$104.0 million), Royal Bank of Scotland (\$26.2 million) and Royal Bank of Canada (\$115.3 million) and were subject to customary margin call provisions. All of the Non-Agency repurchase agreements have

**Table of Contents**

- LIBOR-based floating interest rates. Includes \$104.0 million borrowed under a \$414.2 million master repurchase agreement, which bears interest at one-month LIBOR plus 1.75%.
- (E) 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 4.0%. The outstanding face of the collateral represents the UPB of the residential mortgage loans underlying the Excess MSR that secure this corporate loan.
- (F) The notes bore 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 2.0% to 2.6%.
- (G) The note is payable to Nationstar and bears interest equal to one-month LIBOR plus a margin of 3.25%.
- Certain of the debt obligations included above are obligations of our consolidated subsidiaries, which own the related collateral. In some cases, including servicer advances, such collateral is not available to other creditors of ours.

The following table provides additional information regarding our short-term borrowings (dollars in thousands). These short-term borrowings were used to finance certain of our investments in Agency ARM RMBS and Non-Agency RMBS. All of the Agency ARM RMBS and repurchase agreements and \$130.1 million face amount of the Non-Agency RMBS repurchase agreements have full recourse to New Residential, while \$157.6 million face amount of the Non-Agency RMBS repurchase agreements is non-recourse debt. The weighted average differences between the fair value of the assets and the face amount of available financing for the Agency ARM RMBS repurchase agreements and Non-Agency RMBS repurchase agreements were 4.2% and 25.1%, respectively, during the year ended December 31, 2013. Additional short-term borrowings are noted in the table and descriptions below:

	Year Ended December 31, 2013 (A)			
	Outstanding Balance at December 31, 2013	Average Daily Amount Outstanding (B)	Maximum Amount Outstanding	Weighted Average Interest Rate
Secured Corporate Loan	\$ 75,000	\$ 75,000	\$ 75,000	4.17%
Servicer Advances	2,390,778	2,327,169	2,444,875	2.33%
Agency ARM RMBS	1,332,954	1,193,775	1,350,425	0.39%
Non-Agency RMBS	287,757	446,037	556,764	2.11%
Real Estate Loans	22,840	22,840	22,840	3.42%
Total/Weighted Average	\$ 4,109,329	\$ 4,064,821	\$ 4,449,904	1.72%

(A) Note this excludes debt related to linked transactions. See Note 10 to the consolidated financial statements included in this prospectus for additional information on linked transactions.

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

**RMBS**

On October 30, 2013, we entered into a \$414.2 million master repurchase agreement with Alpine Securitization Corp., an asset-backed commercial paper facility sponsored by Credit Suisse AG, which has a one year maturity. The \$414.2 million one year term master repurchase agreement is subject to margin call provisions as well as customary loan covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline over any 12 month period and 35% equity decline over any 3 month period and a four-to-one indebtedness to tangible net worth provision. The financing bears interest at one-month LIBOR plus 1.75%. As of April 15, 2014, \$103.2 million has been drawn on the facility.

*Residential Mortgage Loans*

On November 25, 2013, we also entered into a \$300.0 million master repurchase agreement with RBS with advance rates ranging from 65% to 85% and an interest cost of one-month LIBOR plus 2.5% to 2.75%. The repurchase agreement, which contains customary covenants and event of default provisions and is subject to margin calls, will

## Table of Contents

be used to finance the purchase of residential mortgage loans and matures on November 24, 2014. Pursuant to the repurchase agreement we may sell, and later repurchase, (x) trust certificates representing interests in certain residential mortgage loans and (y) the capital stock of a corporation that holds certain real estate owned properties. The principal amount paid by RBS for such Purchased Assets is based on a percentage of the lesser of the market value or the UPB of such mortgage assets backing the Purchased Assets. Upon our repurchase of Purchased Assets sold under the repurchase agreement, we are required to repay RBS a repurchase amount based on the purchase price plus accrued interest. We are also required to pay certain administrative costs and expenses in connection with the structuring, management and ongoing administration of the master repurchase agreement. The repurchase agreement contains customary covenants and event of default provisions, including a minimum liquidity requirement of \$15.0 million, a minimum tangible net worth provision of \$540.0 million, and a four to one indebtedness to tangible net worth provision.

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

### *Secured Corporate Loan*

On December 13, 2013, we entered into a \$75.0 million secured corporate loan with Credit Suisse First Boston Mortgage LLC, which matures on March 31, 2014. 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 4.00%. The loan contains customary covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline as of the end of the corresponding period in the prior fiscal year, or a 35% equity decline as of the end of the quarter immediately preceding the most recently completed fiscal quarter and a four-to-one indebtedness to tangible net worth provision. Subsequent to December 31, 2013, the loan was paid down by \$5.9 million, and the maturity was extended to May 31, 2014.

### *Other*

On January 8, 2014, we financed all of our ownership interest in each of the Consumer Loan Companies under a \$150.0 million master repurchase agreement with Credit Suisse Securities (USA) LLC, which matures on June 30, 2014. Borrowings under the facility bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 4.00%. The facility contains customary covenants and event of default provisions.

### *Servicer Advances*

In connection with Transaction 1, the Buyer funded the purchase with approximately \$2.4 billion of variable funding notes issued by special purpose subsidiaries of the Buyer pursuant to the Barclays Facility and the Credit Suisse Facility. The Facilities generally had interest rates 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 2.0% to 2.6%, borrowing capacity of up to \$3.9 billion, and maturity dates in September 2014.

## Table of Contents

In March 2014, all of the notes issued pursuant to the Barclays Facility and a portion of the notes issued pursuant to the Credit Suisse Facility were repaid with the proceeds of new notes issued pursuant to an advance receivables trust (the NRART Master Trust) established by the Buyer with a number of financial institutions. The NRART Master Trust issued variable funding notes ( VFNs ) with borrowing capacity of up to \$1.1 billion. The VFNs generally bear interest at a rate equal to the sum of (i) LIBOR or a cost of funds rate plus (ii) a spread of 1.375% to 2.5% depending on the class of the notes. The expected repayment date of the VFNs is March 2015. The NRART Master Trust also issued approximately \$1.0 billion of term notes (the Term Notes ) to institutional investors. The Term Notes generally bear interest at approximately 2.0% and have expected repayment dates in March 2015 and March 2017. The VFNs and the Term Notes are secured by servicer advances, and the financing is nonrecourse to the Buyer, except for customary recourse provisions. Credit Suisse AG, New York Branch, Barclays Bank PLC and Morgan Stanley Bank, N.A. as administrative agents of the NRART Master Trust. As of March 18, 2014, the principal balance of notes issued by the NRART Master Trust is equal to approximately \$1.8 billion.

Following the partial pay-down of the notes issued under the Credit Suisse Facility, the Credit Suisse Facility has an advance rate of approximately 89%, a margin of approximately 2.0-2.1%, borrowing capacity of up to \$1.5 billion (reduced from \$2.9 billion), and a maturity date in September 2014. As of March 20, 2014, the principal balance of notes issued pursuant to the Credit Suisse Facility is equal to approximately \$1.0 billion.

As part of our investment in servicer advances, the Buyer is required to purchase future servicer advances made from time to time with respect to certain loans. As of February 28, 2014, we had estimated that the amount of future advances related to Transaction 1 will be approximately \$7.3 billion. This estimate is based on both (i) our management's estimates with respect to the investment of (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 management expects not to have any additional advance obligations and (ii) Nationstar's historical rate of making servicer advances. The actual amount of future advances related to Transaction 1 is subject to significant uncertainty and could be materially different than our estimates.

In connection with a portion of the settled portion of Transaction 2, the Buyer and special purpose subsidiaries of Buyer entered into an advance facility with Bank of America, N.A. (the BANA Facility ). The notes issued pursuant to the BANA Facility have an advance rate of approximately 90%, an interest rate generally equal to the sum of one-month LIBOR plus a margin of approximately 2.5%, borrowing capacity of up to \$1.0 billion, and a maturity date in September 2014. As of March 17, 2014, the principal balance of notes issued pursuant to the BANA Facility is equal to approximately \$0.7 billion.

The notes issued by the NRART Master Trust and pursuant to the Credit Suisse Facility and the BANA Facility (collectively, the Notes ) were issued by wholly owned special purposes subsidiaries of the Buyer (each, an Issuer ) and are secured by each Issuer's respective assets, including, among other things, the advances and a general reserve account. Each Issuer is owned by a wholly owned special purpose subsidiary of the Buyer (each, a Depositor ).

Pursuant to the Purchase Agreement, Nationstar will continue to sell new advances to the Buyer. Pursuant to a receivable sale agreement for each of the NRART Master Trust facility, the Credit Suisse Facility and the BANA Facility, the Buyer, in turn, sells such advances to the Depositors. Immediately following such sale, the applicable Depositor transfers the purchased advances to the Issuers pursuant to a receivables pooling agreement.

Each of the Depositors and Issuers (collectively, the Financing Facility SPVs ) is structured as a bankruptcy remote special purpose entity. Each Financing Facility SPV is the sole owner of its respective assets. Creditors of the Financing Facility SPVs (including the holders of the related Notes) have no recourse to any assets or



## **Table of Contents**

revenues of Nationstar or the Buyer other than to the limited extent contemplated by the facilities (which include, without limitation, indemnities for covenant violations). Our creditors and/or creditors of Nationstar do not have recourse to any assets or revenues of the Financing Facility SPVs.

Additional borrowing is permitted on the Notes that are variable funding notes subject to a maximum balance (\$1.5 billion under the Credit Suisse Facility, \$1.0 billion under the BANA Facility and \$1.1 billion under the NRART Master Trust facility) and certain funding conditions, such as the accuracy of representations and warranties, the absence of a default and the satisfaction of a collateral test that generally requires the sum of eligible servicer advances transferred to the applicable Issuer multiplied by an advance rate plus all collections in Issuer accounts to be greater than or equal to the aggregate outstanding principal balance of the Notes. Generally, during the revolving period, payments to noteholders will consist of payments of interest, but excess cash flow from repaid servicer advances may be used to fund the purchase of new servicer advances.

The amount available under each facility to purchase new servicer advances is determined from time to time based on the advance borrowing rate applicable to each type of servicer advance in respect of each class of Notes, available funds of the Issuer and the available undrawn amount of the Notes. The applicable advance borrowing rate varies based on the outstanding principal balance of each class of the Notes, the type of servicer advances and the occurrence of certain specified events.

Following the revolving period, principal will be paid on the Notes to the extent of available funds and in accordance with the priorities of payments set forth in the related transaction documents. The revolving period for the Credit Suisse Facility ends on the earlier of September 26, 2014 and the occurrence of an early amortization event or a target amortization event, the revolving period for the BANA Facility ends on the earlier of September 30, 2014 and the occurrence of an early amortization event or a target amortization event. The revolving period for the variable funding notes issued by the NRART Master Trust ends on the earlier of March 17, 2015 and the occurrence of an early amortization event or a target amortization event. Upon the occurrence of an early amortization event or a target amortization event, there is either an interest rate increase on the Notes, a rapid amortization of the Notes or an acceleration of principal repayment, or all of the foregoing.

The early amortization and target amortization events under the Facilities include: (i) the occurrence of an event of default under the transaction documents, (ii) failure to satisfy an interest coverage test, (iii) the occurrence of any servicer default or termination event for pooling and servicing agreements representing 15% or more (by mortgage loan balance as of the date of termination) of all the pooling and servicing agreements related to the Purchased Basic Fee subject to certain exceptions; (iv) failure to satisfy a collateral performance test measuring the ratio of collected advance reimbursements to the balance of Funded Advances; (v) for certain Notes failure to satisfy minimum tangible net worth requirements for Nationstar and the Buyer; (vi) for certain Notes failure to satisfy minimum liquidity requirements for Nationstar and the Buyer, (vii) failure to satisfy leverage tests for Nationstar and; (viii) for certain Notes a change of control of the Buyer; (ix) certain judgments against the Depositors, Issuers or Buyer in excess of certain thresholds; (x) for certain Notes payment default under, or an acceleration of, other debt of the Buyer; (xi) for certain Notes failure to deliver certain reports; and (xii) material breaches of any of the transaction documents.

The definitive documents related to the Notes contain customary representations and warranties, as well as affirmative and negative covenants. Affirmative covenants include, among others, reporting requirements, provision of notices of material events, maintenance of existence, maintenance of books and records, compliance with laws, compliance with covenants under the designated servicing agreements and maintaining certain servicing standards with respect to the Funded Advances and the related mortgage loans. Negative covenants include, among others, limitations on amendments to the designated servicing agreements and limitations on amendments to the procedures and methodology for repaying the Funded Advances or determining that Funded Advances have become non-recoverable.





**Table of Contents**

The definitive documents related to the Notes contain also contain customary events of default, including, among others, (i) non-payment of principal, interest or other amounts when due, (ii) insolvency of Nationstar, the Buyer, the applicable Issuers or the applicable Depositors; (iii) the applicable Issuer becoming subject to registration as an investment company within the meaning of the 1940 Act; (iv) Nationstar or the Buyer fails to comply with the deposit and remittance requirements set forth in any pooling and servicing agreement or such definitive documents; and (v) Nationstar's failure to make an indemnity payment after giving effect to any applicable grace period. Upon the occurrence and during the continuance of an event of default under any facility, the requisite percentage of the related noteholders may declare the Notes and all other obligations of the applicable Issuer immediately due and payable and may terminate the commitments. A bankruptcy event of default causes such obligations automatically to become immediately due and payable and the commitments automatically to terminate.

Certain of the Notes accrue interest based on a floating rate of interest. Servicer advances and deferred servicing fees are non-interest bearing assets. The interest obligations in respect of the Notes are not supported by any interest rate hedging instrument or arrangement. If the applicable index rate for purposes of determining the interest rates on the Notes rises, there may not be sufficient collections on the servicer advances and deferred servicing fees and a target amortization event or an event of default could occur in respect of certain Notes. This could result in a partial or total loss on our investment.

*Maturities*

Our debt obligations as of December 31, 2013, as summarized in Note 11 to our consolidated financial statements, had contractual maturities as follows (in thousands):

<b>Year</b>	<b>Nonrecourse</b>	<b>Recourse (A)</b>	<b>Total</b>
2014	\$ 2,548,387	\$ 1,560,942	\$ 4,109,329

(A) Excludes recourse debt related to linked transactions. Refer to Note 10 to our consolidated financial statements included herein.

In March 2014, the Buyer extended the maturity of approximately \$1.8 billion of nonrecourse debt by repaying all of the notes issued pursuant to the Barclays Facility and a portion of the notes issued pursuant to the Credit Suisse Facility with the proceeds of new notes issued by the NRART Master Trust. The expected repayment dates of the new notes are in March 2015 and March 2017.

*Borrowing Capacity*

The following table represents our borrowing capacity as of December 31, 2013:

<b>Debt Obligations / Collateral</b>	<b>Collateral Type</b>	<b>Borrowing Capacity</b>	<b>Balance Outstanding</b>	<b>Available Financing</b>
Notes Payable				

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Secured Corporate Loan	Excess MSRs	\$ 75,000	\$ 75,000	\$
Servicer Advances (A)	Servicer Advances	3,900,000	2,390,778	1,509,222
Repurchase Agreements				
Residential Mortgage Loans (B)	Real Estate Loans	300,000	60,102	239,898
		\$ 4,275,000	\$ 2,525,880	\$ 1,749,120

- (A) Our unused borrowing capacity is available to us if we have additional eligible collateral to pledge and meet other borrowing conditions. We pay a 0.5% fee on the unused borrowing capacity.
- (B) Financing related to linked transaction. See Note 10 to the consolidated financial statements included in this prospectus for additional information on linked transactions.

**Table of Contents***Covenants*

We were in compliance with all of our debt covenants as of December 31, 2013. The covenants to which we are subject are described in Note 11 to our consolidated financial statements included herein.

*Stockholder s Equity***Common Stock**

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

Prior to the spin-off, Newcastle had issued options to the Manager in connection with capital raising activities. In connection with the spin-off, the 21.5 million options that were held by our Manager, or by the directors, officers or employees, of the Manager, were converted into an adjusted Newcastle option and a new New Residential option. The exercise price of each adjusted Newcastle option and New Residential option was set to collectively maintain the intrinsic value of the Newcastle option immediately prior to the spin-off and to maintain the ratio of the exercise price of the adjusted Newcastle option and the New Residential option, respectively, to the fair market value of the underlying shares as of the spin-off date, in each case based on the five day average closing price subsequent to the spin-off date.

Approximately 5.3 million shares of our common stock were held by Fortress, through its affiliates, and its principals as of December 31, 2013.

As of December 31, 2013, our outstanding options corresponding to Newcastle options issued prior to 2011 had a weighted average strike price of \$15.28 and our outstanding options corresponding to Newcastle options issued in 2011, 2012 and 2013 (as well as options we issued to our directors in 2013) had a weighted average strike price of \$4.16. Our outstanding options as of December 31, 2013 were summarized as follows:

	December 31, 2013			December 31, 2012		
	Issued Prior to 2011	Issued in 2011-2013	Total	Issued Prior to 2011	Issued in 2011 and 2012	Total
Held by the Manager	1,496,555	16,176,333	17,672,888	1,751,172	7,934,166	9,685,338
Issued to the Manager and subsequently transferred to certain of the Manager s employees	535,570	2,510,000	3,045,570	701,937	2,860,000	3,561,937
Issued to the independent directors	2,000	10,000	12,000	2,000	2,000	4,000
<b>Total</b>	<b>2,034,125</b>	<b>18,696,333</b>	<b>20,730,458</b>	<b>2,455,109</b>	<b>10,796,166</b>	<b>13,251,275</b>



**Table of Contents****Accumulated Other Comprehensive Income (Loss)**

During the year ended December 31, 2013, our accumulated other comprehensive income (loss) changed due to the following factors (in thousands):

	<b>Total Accumulated Other Comprehensive Income</b>
<b>Accumulated other comprehensive income, December 31, 2012</b>	\$ 15,526
Net unrealized gain (loss) on securities	35,352
Reclassification of net realized (gain) loss on securities into earnings	(47,664)
<b>Accumulated other comprehensive income, December 31, 2013</b>	\$ 3,214

Our GAAP equity changes as our real estate securities portfolio is marked to market each quarter, among other factors. The primary causes of mark to market changes are changes in interest rates and credit spreads. During the year ended December 31, 2013, we recorded unrealized gains on our real estate securities primarily caused by a net tightening of credit spreads. We recorded OTTI charges of \$5.0 million with respect to real estate securities and realized gains of \$52.7 million on sales of real estate securities.

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

*Cash Flow***Operating Activities**

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

Net cash flow provided by operating activities increased approximately \$152.9 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012. This change resulted primarily from the factors described below:

Operating cash flows increased \$132.9 million as a result of an increase in net interest income received of \$51.3 million and an increase in distributions of earnings from equity method investees of \$127.3 million. These increases were partially offset by an increase in general and administrative expenses paid of \$42.9 million and an increase in restricted cash of \$2.8 million.

Cash proceeds from investments, in excess of interest income, decreased by \$1.7 million primarily due to proceeds received from Excess MSRs and real estate securities prior to the spin-off, which was driven by our additional acquisitions in the first quarter of 2013.

Net cash proceeds deemed as capital distributions to Newcastle decreased \$21.7 million primarily due to a decrease in cash proceeds from investments, in excess of interest income, of \$1.7 million and the increase in operating cash flow deemed as capital distributions prior to the contribution of cash by Newcastle to us.

Investing Activities

Cash flows used in investing activities were \$993.5 million for the year ended December 31, 2013. No cash flow from investing activities was recorded prior to the date of contribution of cash by Newcastle to us. Investing

**Table of Contents**

activities after this date consisted primarily of the acquisition of excess mortgage servicing rights, servicer advances and real estate securities, net of principal repayments from Agency RMBS and Non-Agency RMBS as well as proceeds from the sale of Non-Agency RMBS.

**Financing Activities**

Cash flows provided by financing activities were approximately \$1.1 billion during the year ended December 31, 2013. No cash flow from financing activities was recorded prior to the date of contribution of cash by Newcastle to us. Financing activities after this date consisted primarily of borrowings net of repayments under debt obligations, and capital contributions by Newcastle.

**Common Dividends**

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

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

<b>Common Dividends Declared for the Period Ended</b>	<b>Paid</b>	<b>Amount Per Share</b>
June 30, 2013	July 2013	\$ 0.070
September 30, 2013	October 2013	\$ 0.175
December 31, 2013	January 2014	\$ 0.250(A)

(A) Includes a \$0.075 special cash dividend made in connection with REIT distribution requirements. On March 19, 2014, our board of directors declared a first quarter 2014 dividend of \$0.175 per share of common stock, which is payable on April 30, 2014 to stockholders of record as of March 31, 2014. Accordingly, purchasers of our common stock in this offering will not be eligible to receive this dividend.

**OFF-BALANCE SHEET ARRANGEMENTS**

On April 1, 2013, we completed the consumer loan purchase through a number of joint venture companies. The purchase price of approximately \$3.0 billion was financed with approximately \$2.2 billion (\$1.7 billion outstanding as

of December 31, 2013) of asset-backed notes within such companies. These notes have an interest rate of 3.75% and a maturity of April 2021. In September 2013, the joint ventures issued and sold an additional \$0.4 billion of asset-backed notes for 96% of par. These notes are subordinate to the debt issued in April 2013, have a maturity of December 2024 and pay a coupon of 4%. We have a 30% membership interest in the Consumer Loan Companies and do not consolidate them.



**Table of Contents**

We also had approximately \$69.0 million of repurchase agreements in transactions accounted for as linked transactions. See Note 10 to our consolidated financial statements included in this prospectus.

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

**CONTRACTUAL OBLIGATIONS**

As of December 31, 2013, we had the following material contractual obligations (payments in thousands):

<b>Contract</b>	<b>Terms</b>
Repurchase Agreements	Described under Note 11 to our consolidated financial statements.
<b>Notes Payable</b>	
Secured Corporate Loan	Described under Note 11 to our consolidated financial statements.
Servicer Advance Financing	Described under Note 11 to our consolidated financial statements.
Residential Mortgage Loan Financing	Described under Note 11 to our consolidated financial statements.
Management Agreement	For its services, our Manager is entitled to management fees, incentive fees, and reimbursement for certain expenses, as defined in, and in accordance with the terms of, the Management Agreement. Such terms are described in Note 15 to our consolidated financial statements.
Servicer Advances	Investment commitments not yet funded as of December 31, 2013.
MSR Investments	Investment commitments not yet funded as of December 31, 2013.

**Fixed and Determinable Payments Due by Period**

<b>Contract</b>	<b>2014</b>	<b>2015- 2016</b>	<b>2017- 2018</b>	<b>Thereafter</b>	<b>Total</b>
<b>Debt Obligations</b>					
Repurchase Agreements (A)	\$ 1,620,711	\$	\$	\$	\$ 1,620,711
Secured Corporate Loan (B)	75,792				75,792
Servicer Advance Financing (C)	2,390,778				2,390,778
Residential Mortgage Loan Financing (A)	22,840				22,840
<b>Other Contractual Obligations</b>					
Management Agreement (D)	35,282	36,870	36,870	460,881	569,903
Servicer Advances (E)	56,677				56,677
MSR Investments (E)	52,989				52,989

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Total	\$ 4,255,069	\$ 36,870	\$ 36,870	\$ 460,881	\$ 4,789,690
-------	--------------	-----------	-----------	------------	--------------

- (A) Repurchase agreements, which have not been term financed, and mature within one year of our financial statement date, are included in this table assuming no interest. Excludes financings accounted for as linked transactions (refer to Note 10 to our consolidated financial statements included herein).
- (B) Includes interest based on rates existing as of December 31, 2013 and assuming no prepayments.

---

**Table of Contents**

- (C) The servicer advance financing is comprised of notes payable which are generally short term and expire within one year. As this balance fluctuates based on future events and assumptions, it is included in this table assuming no interest.
- (D) Amounts reflect management fees and full expense reimbursements for the next 30 years, assuming no change in gross equity. Incentive fee is included for the amount outstanding as of December 31, 2013.
- (E) Amounts represent the equity components of investment commitments that were not yet funded as of December 31, 2013. In addition, New Residential and its third-party co-investors have agreed to purchase, through the Buyer, future servicer advances related to certain Non-Agency mortgage loans with an aggregate UPB of approximately \$54.6 million as of December 31, 2013.

**INFLATION**

Virtually all of our assets and liabilities are financial in nature. As a result, interest rates and other factors affect our performance more so than inflation, although inflation rates can often have a meaningful influence over the direction of interest rates. Furthermore, our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors primarily based on our taxable income, and, in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation. See **Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk** below.

**CORE EARNINGS**

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

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

With regard to non-capitalized deal inception costs, management does not view these costs as part of our core operations. Non-capitalized deal inception costs are generally legal and valuation service costs, as well as other

professional service fees, incurred when we acquire certain investments. These costs are recorded as general and administrative expenses in our statements of income.

**Table of Contents**

In the third quarter of 2013, we changed our definition of core earnings to exclude incentive compensation paid to our Manager and non-capitalized deal inception costs. The calculation of core earnings has been retroactively adjusted for all periods presented. Management believes that the adjustments to compute core earnings specified above allow investors and analysts to readily identify the operating performance of the assets that form the core of our activity, assist in comparing the core operating results between periods, and enable investors to evaluate our current performance using the same measure that management uses to operate the business.

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

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

	<b>Year Ended December 31,</b>		<b>December 8 through December 31, 2011</b>
	<b>2013</b>	<b>2012</b>	
Net income (loss) attributable to common stockholders	\$ 265,949	\$ 41,247	\$ 714
Impairment	5,454		
Other Income	(241,008)	(9,023)	(367)
Incentive compensation to affiliate	16,847		
Non-capitalized deal inception costs	5,698	5,230	785
Core earnings of equity method investees			
Excess mortgage servicing rights	23,361		
Consumer loans	53,696		
<b>Core Earnings</b>	<b>\$ 129,997</b>	<b>\$ 37,454</b>	<b>\$ 1,132</b>

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Interest Rate Risk**

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

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

## Table of Contents

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

However, increases in interest rates can nonetheless reduce our net interest income to the extent that we are not completely match funded. Furthermore, a period of rising interest rates can negatively impact our return on certain floating rate investments. Although these investments may be financed with floating rate debt, the interest rate on the debt may reset prior to, and in some cases more frequently than, the interest rate on the assets, causing

a decrease in return on equity during a period of rising interest rates. See further disclosure regarding our Agency ARM RMBS under [Our Portfolio Agency ARM RMBS](#) for information about the reset terms and [Liquidity and Capital Resources Debt Obligations](#) for information about related debt.

As of December 31, 2013, a 100 basis point increase in short term interest rates would increase our earnings by approximately \$6.2 million per annum, based on the current net floating rate exposure from real estate securities and related financings.

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

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

As of December 31, 2013, a 100 basis point change in short term interest rates would impact our net book value by approximately \$0.2 million, based on the current net fixed rate exposure from our investments.

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

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

Our Excess MSR, servicer advances (including the basic fee component of the related MSR, and the related financing) and consumer loans are subject to interest rate risk. Generally, in a declining interest rate environment, prepayment speeds increase which in turn would cause the value of Excess MSR and basic fees to decrease and the value of consumer loans to increase. Conversely, in an increasing interest rate environment, prepayment speeds

decrease which in turn would cause the value of Excess MSR's and basic fees to increase and the value of consumer loans to decrease. To the extent we do not hedge against changes in interest rates, our balance sheet, results of operations and cash flows would be susceptible to significant volatility due to changes in the fair values of, or cash flows from, Excess MSR's, the Basic Fee Amounts and consumer loans as interest rates change.



## **Table of Contents**

However, rising interest rates could result from more robust market conditions, which could reduce the credit risk associated with our investments. The effects of such a decrease in values on our financial position, results of operations and liquidity are discussed below under **Prepayment Speed Exposure**.

We are subject to margin calls on our repurchase agreements. Furthermore, we may, from time to time, be a party to derivative agreements or financing arrangements that are subject to margin calls based on the value of such instruments. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates.

## **Prepayment Speed Exposure**

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

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

Please refer to the table in **Application of Critical Accounting Policies - Excess MSR** for an analysis of the sensitivity of these investments to changes in certain market factors.

## **Credit Spread Risk**

Credit spreads measure the yield demanded on loans and securities by the market based on their credit relative to U.S. Treasuries, for fixed rate credit, or LIBOR, for floating rate credit. Our floating rate securities are valued based on a market credit spread over LIBOR. Excessive supply of such securities combined with reduced demand will generally cause the market to require a higher yield on such securities, resulting in the use of a higher (or wider) spread over the benchmark rate to value them.

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

As of December 31, 2013, a 25 basis point movement in credit spreads would impact our net book value by approximately \$13.2 million, based on a static portfolio of real estate securities and related financings, but would not

directly affect our earnings or cash flow.

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

**Table of Contents**

**Credit Risk**

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

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

**Liquidity Risk**

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

**Table of Contents****BUSINESS****COMPANY OVERVIEW**

We are a publicly traded REIT primarily focused on investing in residential mortgage related assets. We are externally managed by an affiliate of Fortress. We were formed as a wholly owned subsidiary of Newcastle in September 2011 and were spun-off from Newcastle on May 15, 2013.

Our goal is to drive strong risk-adjusted returns primarily through investments in servicing related assets, residential securities and loans and other investments. 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. A significant portion of our portfolio is currently composed of investments in agency securities. The securities in which we can invest are limited by the exclusion we maintain from the 1940 Act.

We intend to continue to invest opportunistically across the residential real estate market. Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets in diverse markets. In the past, we have taken advantage of this flexibility to invest in assets that are not strictly real estate related (e.g., consumer loans), and we may do so again in the future. We expect our asset allocation and target assets to change over time depending on the types of investments our Manager identifies and the investment decisions our Manager makes in light of prevailing market conditions. For more information about our investment guidelines, see [Investment Guidelines](#).

The following table summarizes our segments as of December 31, 2013 (in thousands):

	Servicing Related Assets		Residential Securities and Loans			Corporate	Total
	Excess MSR	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans		
<b>December 31, 2013</b>							
Investments	\$ 676,917	\$ 2,665,551	\$ 1,973,189	\$ 33,539	\$ 215,062	\$	\$ 5,564,258
Cash and restricted cash		85,243	51,627	22,840		145,622	305,332
Derivative assets			1,452	34,474			35,926
Other assets	2	7,062	44,848			1,230	53,142
<b>Total assets</b>	<b>\$ 676,919</b>	<b>\$ 2,757,856</b>	<b>\$ 2,071,116</b>	<b>\$ 90,853</b>	<b>\$ 215,062</b>	<b>\$ 146,852</b>	<b>\$ 5,958,658</b>
Debt	\$	\$ 2,390,778	\$ 1,620,711	\$ 22,840	\$	\$ 75,000	\$ 4,109,329
Other liabilities	80	4,271	215,159	32,553	33	84,158	336,254
<b>Total liabilities</b>	<b>80</b>	<b>2,395,049</b>	<b>1,835,870</b>	<b>55,393</b>	<b>33</b>	<b>159,158</b>	<b>4,445,583</b>
Total Equity	676,839	362,807	235,246	35,460	215,029	(12,306)	1,513,075
Noncontrolling interests in equity of		247,225					247,225

consolidated  
subsidiaries

Total New  
Residential

Stockholders Equity	\$ 676,839	\$ 115,582	\$ 235,246	\$ 35,460	\$ 215,029	\$ (12,306)	\$ 1,265,850
---------------------	------------	------------	------------	-----------	------------	-------------	--------------

## Recent Developments

### *Servicing Related Assets*

#### *Excess MSR*s

In the fourth quarter of 2013, we invested or committed to invest an additional \$76.9 million in Excess MSR's on loans with an aggregate outstanding UPB of approximately \$27.2 billion. In the first quarter of 2014, we have

## Table of Contents

closed on \$19.1 million that we had previously committed to invest in Excess MSR on loans with an aggregate outstanding UPB of approximately \$8.1 billion.

See Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Servicing Related Assets Excess MSR for additional information about our investments in Excess MSR.

### *Servicer Advances*

In December 2013, we made our first investment in servicer advances in Transaction 1, through a co-investment with two subsidiaries of Athene Holding Ltd., affiliates of The Blackstone Group, and affiliates of, and funds/accounts managed by, Omega Advisors, Inc. We made the investment through the Buyer, a joint venture entity capitalized by us.

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 as of December 31, 2013. In exchange, the Buyer (i) paid the Initial Purchase Price, and (ii) agreed to purchase future servicer advances related to the loans. 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. 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 December 31, 2013, the Buyer had settled approximately \$2.7 billion of servicer advances related to Transaction 1. Subsequent to December 31, 2013, the Buyer settled an additional \$509.4 million of advances related to Transaction 1, which represents substantially all of the remaining balance of Transaction 1.

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

In Transaction 1, the Buyer also acquired the Call Right, to purchase additional servicer advances, including the basic fee component of the related MSR, on terms substantially similar to the terms of Transaction 1. As in Transaction 1, (i) the purchase price for the servicer advances, including the basic fee, will be the outstanding balance of the advances at the time of purchase and (ii) the Buyer will be obligated to purchase future servicer advances related to the loans. As of December 31, 2013, the outstanding balance of the advances subject to the Call Right was approximately \$3.1 billion and the UPB of the related loans was approximately \$71.5 billion. The Call Right expires on June 30, 2014.

The Buyer exercised a portion of the Call Right in Transaction 2. The outstanding balance of the servicer advances subject to the portion of the Call Right that was exercised was approximately \$1.1 billion as of the exercise dates, February 28, 2014 and March 7, 2014. If the Buyer exercises the Call Right in full, it expects to fund the total purchase price with approximately \$2.5 billion of debt and \$0.3 billion of equity, excluding working capital. As of the date hereof, the Buyer has settled \$1.1 billion of advances related to Transaction 2, which was financed with approximately \$0.9 billion of debt.

The remaining balance of the Call Right, if exercised, is expected to be settled in April through June 2014. There can be no assurance that the remainder of the Call Right will be settled. The servicer advances subject to the Call Right cannot be purchased unless and until the related financings are repaid or renegotiated or until the related collateral is

released in accordance with the terms of such financings (which would require the consent of various third parties).

**Table of Contents**

As of December 31, 2013, we owned approximately 32% of the Buyer, which corresponds to a \$115.7 million equity investment. As of the date hereof, we own approximately 34% of the Buyer, which corresponds to a \$197.9 million equity investment. We expect to own approximately 45% - 50% of the Buyer after the expiration of the Call Right and the settlement of all related advances. As noted above, there can be no assurance that the Call Right will be settled in full.

For more information about these transactions, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Portfolio - Servicing Related Assets - Servicer Advances.

**Residential Securities and Loans***Real Estate Securities*

Our recent investment activity in real estate securities is summarized in the table below, through the date of this prospectus.

	Fourth Quarter 2013				First Quarter 2014			
	Acquired		Sold		Acquired		Sold	
	Face	Cost	Proceeds	Gain (Loss)	Face	Cost	Proceeds	Gain (Loss)
Agency RMBS	\$ 195,703	\$ 208,172	\$	\$	\$	\$	\$ 162,897	\$ 682
Non-Agency RMBS	626,460	385,597	398,735	41,385	740,577	308,949	248,454	3,810
<b>Total</b>	<b>\$ 822,163</b>	<b>\$ 593,769</b>	<b>\$ 398,735</b>	<b>\$ 41,385</b>	<b>\$ 740,577</b>	<b>\$ 308,949</b>	<b>\$ 411,351</b>	<b>\$ 4,492</b>

Additionally, on March 6, 2014, we entered into an agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated (the Co-Investor) pursuant to which we collectively agreed to purchase approximately \$625 million current face amount of Non-Agency residential mortgage securities (the NRZ Purchased Securities) for approximately \$553 million, which represents 75% of the mezzanine and subordinate tranches (collectively, the Subordinate Tranches) of a securitization previously sponsored by an affiliate of Springleaf. The securitization, including the NRZ Purchased Securities, is collateralized by residential mortgage loans with a current face amount of approximately \$0.9 billion.

The Subordinate Tranches were offered for sale in a competitive auction held by Third Street Funding LLC, an affiliate of Springleaf. Prior to entering into the agreement, the Co-Investor submitted a bid for 100% of the Subordinate Tranches. On March 6, 2014, the Co-Investor was declared the winning bidder, and it will purchase 25% of the Subordinate Tranches on the same terms as our purchase.

Our obligation to purchase the NRZ Purchased Securities is subject to obtaining financing, and the Co-Investor agreed to provide such financing to us on the terms set forth in the agreement. The agreement also sets forth the relative voting and other rights between us and the Co-Investor in respect of the securities. We settled the purchase on March 31, 2014. The NRZ Purchased Securities are not included in the table above.

See Our Portfolio and Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Portfolio - Residential Securities and Loans - Real Estate Securities for additional information about and our investments in real estate securities.



From time to time, we purchase and sell Agency RMBS through to-be-announced forward contracts ( TBAs ). As of March 25, 2014, we held TBA positions with \$625.0 million in a long notional amount of Agency RMBS and \$750.0 million in a short notional amount of Agency RMBS, and any amounts or obligations owed by or to us are subject to the right of set-off with a TBA counterparty. Based on the 6 month historical price volatility of these TBA positions, such positions could result in net a gain or loss to us of approximately \$2.6 million for a 3 standard deviation movement. We do not intend to take delivery of any mortgage pools relating to our TBA positions, and we intend to either enter into offsetting positions prior to settlement or roll them to the next settlement date.

## **Table of Contents**

### *Real Estate Loans*

In the fourth quarter of 2013, we invested approximately \$92.7 million in a pool of residential mortgage loans with a UPB of approximately \$170.1 million. The investment was financed with \$60.1 million under a \$300.0 million master repurchase agreement with RBS. This acquisition is accounted for as a linked transaction (a derivative), as described in Note 10 to our consolidated financial statements included in this prospectus. In the first quarter of 2014, we invested \$33.7 million in a pool of residential mortgage loans with a UPB of approximately \$65.6 million.

See [Our Portfolio](#) and [Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Portfolio - Residential Securities and Loans - Real Estate Loans - Residential Mortgage Loans](#) for a further description of residential mortgage loans and our investments to date.

### *Financing and Dividends*

During the fourth quarter of 2013, we issued an aggregate of \$2.9 billion of debt obligations to finance new investments and to refinance existing investments, with a weighted average funding cost of approximately 2.7% as of December 31, 2013. Repayments of \$385.0 million were made on existing financing during the fourth quarter of 2013.

See [Financing Strategy](#) below and [Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Debt Obligations](#) for additional information about our financing.

On December 17, 2013, our board of directors declared a fourth quarter 2013 dividend of \$0.175 per share of common stock and a special cash dividend of \$0.075 per share of common stock. The combined dividend of \$0.25 per share of common stock was paid on January 31, 2014 to stockholders of record as of December 30, 2013. The special dividend was made in connection with REIT distribution requirements.

On March 19, 2014, our board of directors declared a first quarter 2014 dividend of \$0.175 per share of common stock, which is payable on April 30, 2014 to stockholders of record as of March 31, 2014.

## **MARKET OPPORTUNITY AND TARGET ASSETS**

We believe that unfolding developments in the U.S. residential housing market are generating significant investment opportunities. The U.S. residential real estate market is vast: the value of the housing market totaled approximately \$20 trillion as of September 2013, including about \$10 trillion of outstanding mortgages, according to Inside Mortgage Finance. In the aftermath of the U.S. financial crisis, the residential mortgage industry is undergoing major structural changes that are transforming the way mortgages are originated, owned and serviced. We believe these changes are creating a compelling set of investment opportunities.

We also believe that we are one of only a select number of market participants that have the combination of capital, industry expertise and key business relationships we think are necessary to take advantage of this opportunity. We are focused on the investment opportunities described below, as well as identifying other opportunities that may arise as the residential mortgage market evolves. A significant portion of our portfolio is currently composed of investments in agency securities. The securities in which we can invest are limited by the exclusion we maintain from the 1940 Act. For more information about the mortgage industry, see [Mortgage Industry](#) below.

## Table of Contents

### Servicing Related Assets

#### *Excess MSR*s

In our view, the mortgage servicing sector presents a number of compelling investment opportunities. 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 times the UPB of the mortgages. Approximately 77% of MSR's were owned by banks as of the fourth quarter of 2013, according to Inside Mortgage Finance. We expect this number to decline as banks face pressure to reduce their MSR exposure as a result of heightened capital reserve requirements under Basel III, regulatory scrutiny and a more challenging servicing environment. As a result, we believe the volume of MSR sales is likely to be substantial for some period of time.

As banks sell MSR's, there may be an opportunity for entities such as New Residential to participate through co-investment in the corresponding Excess MSR's. An MSR is made up of two components: a basic fee and an Excess MSR. The basic fee is the amount of compensation for the performance of servicing duties, and the Excess MSR is the amount that exceeds the basic fee. For example, if an MSR is 30 bps and the basic fee is 5 bps, then the Excess MSR is 25 bps. In our capacity as the owner of an Excess MSR, we are not required to assume any servicing duties, advance obligations or liabilities associated with the portfolios underlying our investment. However, we, through co-investments made by our subsidiaries, may separately agree to do so and have purchased servicer advances, including the basic fee component of the related MSR's, on certain portfolios underlying our Excess MSR's. See Our Portfolio Servicing Related Assets Servicer Advances below.

There are a number of reasons why we believe Excess MSR's are a compelling investment opportunity:

**Supply-Demand Imbalance.** Since 2010, banks have sold or committed to sell MSR's totaling more than \$1 trillion of the approximately \$10 trillion mortgage market. As a result of the regulatory and other pressures facing bank servicers, we believe the volume of MSR sales is likely to be substantial for some period of time. We estimate that MSR's on approximately \$200-300 billion of mortgages are currently for sale, which would require a capital investment of approximately \$2-3 billion based on current pricing dynamics. We believe many non-bank servicers, who acquire MSR's and are constrained by capital limitations, will continue to sell a portion of the Excess MSR's. We also estimate that approximately \$1-2 trillion of MSR's could be sold over the next several years. In addition, approximately \$1.2 trillion of new loans are expected to be created annually according to the Mortgage Bankers Association. We believe this creates an opportunity to enter into flow arrangements, whereby loan originators agree to sell Excess MSR's on newly originated loans on a recurring basis (often monthly or quarterly). We believe that MSR's are being sold at a discount to historical pricing levels, although increased competition for these assets has driven prices higher recently.

**Attractive Pricing.** We believe MSR's are currently being sold at a discount to historical pricing levels. While prices have rebounded from the lows, we believe that prices remain lower than their peak. At current prices, we believe investments in Excess MSR's can generate attractive returns without leverage.

**Significant Barrier to Entry.** Non-servicers, like us, cannot directly own an MSR as a named servicer and would therefore need to partner with a servicer in order to invest in MSR's. The number of strong, scalable

non-bank servicers is limited. Moreover, in the case of Excess MSR on Agency pools, the servicer must be Agency-approved. As a result, non-servicers seeking to invest in Excess MSR generally face a significant barrier to entering the market, particularly if they do not have a relationship with a quality servicer. We believe our track record of investing in Excess MSR and our established relationship with Nationstar give us a competitive advantage over other potential investors.

We pioneered investments in Excess MSR (while we were a wholly owned subsidiary of Newcastle). We believe we remain the most active REIT in the sector. For details about our investments in Excess MSR, see Our Portfolio Servicing Related Assets Excess MSR below.

## Table of Contents

### *Servicer Advances*

We believe there are attractive opportunities to invest in residential mortgage servicer advances. On December 17, 2013, we acquired servicer advances, the basic fee component of the related MSR, from Nationstar through a co-investment with certain third parties. See [Our Portfolio](#) [Servicing Related Assets](#) [Servicer Advances](#) below.

Servicer advances are generally reimbursable cash payments made by a servicer when the borrower fails to make scheduled payments due on a mortgage loan or when the servicer makes cash payments (i) on behalf of a borrower for real estate taxes and insurance premiums on the property that have not been paid on a timely basis by the borrower and (ii) to third parties for the costs and expenses incurred in connection with the foreclosure, preservation and sale of the mortgaged property, including attorneys' and other professional fees. Servicer advances are a customary feature of residential mortgage securitization transactions and represent one of the duties for which a servicer is compensated through the basic fee component of the related MSR. The purpose of the advances is to provide liquidity, rather than credit enhancement, to the underlying residential mortgage securitization transaction. Servicer advances are usually repaid from amounts received with respect to the related mortgage loan, including payments from the borrower or amounts received from the liquidation of the property securing the loan, which is referred to as loan-level recovery.

Servicer advances typically fall into one of three categories:

*Principal and Interest Advances:* Cash payments made by the servicer to cover scheduled payments of principal of, and interest on, a mortgage loan that have not been paid on a timely basis by the borrower.

*Escrow Advances (Taxes and Insurance Advances):* Cash payments made by the servicer to third parties on behalf of the borrower for real estate taxes and insurance premiums on the property that have not been paid on a timely basis by the borrower.

*Foreclosure Advances:* Cash payments made by the servicer to third parties for the costs and expenses incurred in connection with the foreclosure, preservation and sale of the mortgaged property, including attorneys' and other professional fees.

Residential mortgage servicing agreements generally require a servicer to make advances in respect of serviced mortgage loans unless the servicer determines in good faith that the advance would not be ultimately recoverable from the proceeds of the related mortgage loan or the mortgaged property. In many cases, if the servicer determines that an advance previously made would not be recoverable from these sources, or if such advance is not recovered when the loan is repaid or related property is liquidated, then, the servicer is entitled to withdraw funds from the custodial account for payments on the serviced mortgages to reimburse the applicable advance. This is what is often referred to as a general collections backstop. See [Risk Factors](#) [Risks Related to Our Business](#) Servicer advances may not be recoverable or may take longer to recover than we expect, which could cause us to fail to achieve our targeted return on our investment in servicer advances.

We believe that the market in servicer advances could present us with additional investment opportunities. The status of investments in servicer advances for purposes of the REIT requirements is uncertain, and therefore our ability to make these kinds of investments may be limited. We currently hold our investment in servicer advances in a taxable REIT subsidiary.

**Residential Securities and Loans**

***RMBS***

From time to time, we invest in both Agency ARM RMBS and Non-Agency RMBS, which we believe complement our Excess MSR investments. RMBS are securities created through the securitization of a pool of residential mortgage loans. As of the fourth quarter of 2013, approximately \$7 trillion of the \$10 trillion of residential mortgages outstanding was securitized, according to Inside Mortgage Finance. Of the securitized

## Table of Contents

mortgages, approximately \$6 trillion were Agency RMBS according to Inside Mortgage Finance, which are RMBS 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 was securitized by either public trusts or PLS, and these securities are referred to as Non-Agency RMBS. For more information about the securitization market, see [Mortgage Industry Overview](#).

Agency RMBS generally offer more stable cash flows and historically have been subject to lower credit risk and greater price stability than the other types of residential mortgage investments we intend to target. The Agency RMBS that we may acquire could be secured by fixed-rate mortgages, adjustable-rate mortgages or hybrid adjustable-rate mortgages. More information about certain types of Agency RMBS in which we have invested or may invest is set forth below.

*Mortgage pass-through certificates.* Mortgage pass-through certificates are securities representing interests in pools of mortgage loans secured by residential real property where payments of both interest and principal, plus pre-paid principal, on the securities are made monthly to holders of the securities, in effect passing through monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid in connection with the issuance of the securities and the servicing of the underlying mortgage loans.

*Interest Only Agency RMBS.* This type of stripped security only entitles the holder to interest payments. The yield to maturity of interest only Agency RMBS is extremely sensitive to the rate of principal payments (particularly prepayments) on the underlying pool of mortgages. If we decide to invest in these types of securities, we anticipate doing so primarily to take advantage of particularly attractive prepayment-related or structural opportunities in the Agency RMBS markets.

*TBAs.* We utilize TBAs in order to invest in Agency RMBS. Pursuant to these TBAs, we agree to purchase, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered would not be identified until shortly before the TBA settlement date. Our ability to purchase Agency RMBS through TBAs may be limited by the 75% income and asset tests applicable to REITs. See [U.S. Federal Income Tax Considerations](#).

For details about our existing investments in Agency ARM RMBS see [Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Residential Securities and Loans Real Estate Securities Agency ARM RMBS](#) below.

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

The Non-Agency RMBS we may acquire could be secured by fixed-rate mortgages, adjustable-rate mortgages or hybrid adjustable-rate mortgages. The mortgage loan collateral may be classified as conforming or non-conforming, depending on a variety of factors. For more information about these categories, see Mortgage Industry Segments of the Residential Mortgage Loan Market. For details about our investments in Non-Agency RMBS see Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Residential Securities and Loans Real Estate Securities Non-Agency RMBS below.



## **Table of Contents**

### ***Real Estate Loans***

We believe there may be attractive opportunities to invest in portfolios of non-performing and other residential mortgage loans. See Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Residential Securities and Loans Real Estate Loans Residential Mortgage Loans. In these investments, we would expect to acquire the loans at a deep discount to their face amount, and we (either independently or with a servicing co-investor) would seek to resolve the loans at a substantially higher valuation. We would seek to improve performance by transferring the servicing to Nationstar or another reputable servicer, which we believe could increase unlevered yields. In addition, we may seek to employ leverage to increase returns, either through traditional financing lines or, if available, securitization options.

While a number of portfolios of non-performing residential loans have been sold since the financial crisis, we believe the volume of such sales may increase for a number of reasons. For example, with improved balance sheets, many large banks have more financial flexibility to recognize losses on non-performing assets. HUD, which acquires the non-performing loans from Ginnie Mae securitizations, has been increasing the number of portfolio sales. In addition, we believe that residential loan servicers which have traditionally resorted to loan foreclosure procedures and subsequent property sales to maximize recoveries on non-performing loans may increase sales of defaulted loans. To the extent any of these dynamics results in a meaningful volume of non-performing loan sales, we believe they may pose attractive investment opportunities for us.

### ***Other Investments***

We may pursue other types of investments as the market evolves, such as our opportunistic investment in consumer loans in April 2013. See Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Other Consumer Loans below. Our Manager makes decisions about our investments in accordance with broad investment guidelines adopted by our board of directors. Accordingly, we may, without a stockholder vote, change our target asset classes and acquire a variety of assets that may differ from, and are possibly riskier than, our current portfolio of target assets. For more information about our investment guidelines, see Investment Guidelines included elsewhere in this prospectus.

## **MORTGAGE INDUSTRY**

### **Overview**

Over the last few decades the complexity of the market for residential mortgage loans in the U.S. has dramatically increased. A borrower seeking credit for a home purchase will typically obtain financing from a financial institution, such as a bank, savings association or credit union. In the past, these institutions would generally have held a majority of their originated mortgage loans as interest-earning assets on their balance sheets and would have performed all activities associated with servicing the loans, including accepting principal and interest payments, making advances for real estate taxes and property and casualty insurance premiums, initiating collection actions for delinquent payments and conducting foreclosures.

Now, institutions that originate mortgage loans generally hold a smaller portion of such loans as assets on their balance sheets and instead sell a significant portion of the loans they originate to third parties. Fannie Mae and Freddie Mac (collectively, the GSEs) are currently the largest purchasers of home mortgage loans. Under a process known as securitization, the GSEs and financial institutions typically package residential mortgage loans into pools that are sold to securitization trusts. These securitization trusts fund the acquisition of mortgage loans by issuing securities, known as MBS, that entitle the owner of such securities to receive a portion of the interest and principal collected on the

mortgage loans in the pool. The purchasers of the MBS are typically large institutions, such as pension funds, mutual funds, insurance companies and REITs. The agreement that governs the packaging of mortgage loans into a pool, the servicing of such mortgage loans and the terms of the MBS issued by the securitization trust is often referred to as a pooling and servicing agreement.

In the ten years prior to the credit dislocation in 2007, the securitization market drove an increase in the number of residential mortgage loans outstanding. Since 2007, the mortgage industry has been characterized by reduced origination and securitization activities, particularly for subprime and Alt-A mortgage loans.

## **Table of Contents**

In connection with a securitization, a number of entities perform specific roles with respect to the mortgage loans in a pool, including the trustee and the mortgage servicer. The trustee holds legal title to the mortgage loans on behalf of the owner of the MBS and either maintains the mortgage note and related documents itself or with a custodian. The trustee or a separate securities administrator for the trust receives the payments collected by the servicer on the mortgage loans and distributes them to the investors in the MBS pursuant to the terms of the pooling and servicing agreement. One or more other entities are appointed pursuant to the pooling and servicing agreement to service the mortgage loans. In some cases, the servicer is the same institution that originated the loan, and, in other cases, it may be a different institution. The duties of servicers for mortgage loans that have been securitized are generally discussed below, and are generally required to be performed in accordance with industry-accepted servicing practices and the terms of the mortgage note and applicable law. A servicer generally takes actions, such as foreclosure, in the name and on behalf of the trustee.

## **Segments of the Residential Mortgage Loan Market**

The residential mortgage market is commonly divided into a number of categories based on certain mortgage loan characteristics, including the credit quality of borrowers and the types of institutions that originate or finance such loans. While there are no universally accepted definitions, the residential mortgage loan market is commonly divided by market participants into the following categories.

### ***GSE and Government Guaranteed Loans***

This category of mortgage loans includes conforming loans, which are first lien mortgage loans that are secured by single-family residences that meet or conform to the underwriting standards established by Fannie Mae or Freddie Mac. The conforming loan limit is established by statute and currently is \$417,000 with certain exceptions for high-priced real estate markets. This category also includes mortgage loans issued to borrowers that do not meet conforming loan standards, but who qualify for a loan that is insured or guaranteed by the government through Ginnie Mae, primarily through federal programs operated by the Federal Housing Administration and the Department of Veterans Affairs.

### ***Non-GSE or Government Guaranteed Loans***

Residential mortgage loans that are not guaranteed by the GSEs or the government are generally referred to as non-conforming loans and fall into one of the following categories: jumbo, subprime, Alt-A or second lien loans. The loans may be non-conforming due to various factors, including mortgage balances in excess of Agency underwriting guidelines, borrower characteristics, loan characteristics and level of documentation.

*Jumbo.* Jumbo mortgage loans have original principal amounts that exceed the statutory conforming limit for GSE loans. Jumbo borrowers generally have strong credit histories and provide full loan documentation, including verification of income and assets.

*Subprime.* Subprime mortgage loans are generally issued to borrowers with blemished credit histories, who make low or no down payments on the properties they purchase or have limited documentation of their income or assets. Subprime borrowers generally pay higher interest rates and fees than prime borrowers.

*Alt-A.* Alt-A mortgage loans are generally issued to borrowers with risk profiles that fall between prime and subprime. These loans have one or more high-risk features, such as the borrower having a high debt-to-income ratio, limited documentation verifying the borrower's income or assets, or the option of making monthly payments that are lower than required for a fully amortizing loan. Alt-A mortgage loans generally have interest rates that fall between the

interest rates on conforming loans and subprime loans.

*Second Lien.* Second mortgages and home equity lines are often referred to as second liens and fall into a separate category of the residential mortgage market. These loans typically have higher interest rates than loans secured by first liens because the lender generally will only receive proceeds from a foreclosure of a property

## **Table of Contents**

after the first lien holder is paid in full. In addition, these loans often feature higher loan-to-value ratios and are less secure than first lien mortgages.

## **OUR STRENGTHS**

We believe that the following factors provide us with significant competitive advantages.

### **Focused Strategy**

We pursue an investment strategy focused primarily on attractive opportunities across the residential spectrum. With an approximately \$20 trillion housing market undergoing major structural changes, we believe a dedicated strategy presents investors with an opportunity to participate in that restructuring.

### **Experienced Management Team**

Our Manager is an affiliate of Fortress, a leading alternative asset manager with \$61.8 billion of assets under management as of December 31, 2013. Residential and other real estate related assets, including those in our portfolio, have been a significant component of the investment strategies of both Fortress and Newcastle.

Through our Manager, we have access to Fortress' s extensive and long-standing relationships with major issuers of real estate related securities and the broker-dealers that trade these securities, as well as their banking relationships in the mortgage servicing industry. We believe these relationships, together with Fortress' s infrastructure, provide us access to a pipeline of attractive investment opportunities, many of which may not be available to our competitors. We also believe that the breadth of Fortress' s experience enables us to react nimbly to the changing residential landscape in order to execute on emerging investment opportunities. For instance, in 2012, we obtained a private letter ruling from the IRS that permits us to treat Excess MSR as qualifying assets that generate qualifying income for purposes of the REIT asset and income tests, which gave us an early advantage for investing in Excess MSR.

### **Existing Portfolio**

Our portfolio is currently composed of servicing related assets, residential securities and loans and other investments. Under current market conditions, we target returns on invested equity that average in the mid-teens. We believe these returns are attainable given the performance of our existing investments to date and based on market dynamics that we believe will foster significant opportunities to invest in additional residential real estate assets at similar returns. For example, our underwriting assumptions projected a weighted average IRR of 16.0% for the Excess MSR we owned as of December 31, 2013, based on their original purchase price, and this portfolio has performed better than our underwriting assumptions. We believe that various market dynamics, including the current low-interest rate environment, a supply-demand imbalance for investments in residential mortgage servicing assets, and barriers to entry with respect to this asset class, support our target returns. However, the returns of individual assets, as well as different asset classes, will vary, and there can be no assurance that any of our assets, or our portfolio as a whole, will generate target returns. In addition, our ability to achieve target returns on certain of our assets, depends in part on the use of leverage and our ability to quickly deploy the proceeds of any financing at attractive returns. There can be no assurance that we will be able to secure financing on favorable terms, or at all. In addition, there can be no assurance that we will be able to source, or quickly complete, attractive investments for which the proceeds of any such financing could be used.

### **Relationship with Nationstar**

As a result of our Manager's relationship with Nationstar, which is majority-owned by Fortress funds managed by our Manager, we believe we are uniquely positioned to source opportunities to acquire residential mortgage servicing assets. Nationstar (NYSE: NSM) is one of the largest residential loan servicers, according to Inside

## **Table of Contents**

Mortgage Finance, and it was ranked among the highest quality servicers by Fannie Mae in August 2013. We have developed an innovative strategy for co-investing in Excess MSR with Nationstar. Given that non-servicers, like us, cannot acquire an MSR directly, this strategy creates the opportunity for us to co-invest in Excess MSR and affords Nationstar the opportunity to invest in MSR on a capital light basis. To date, we have completed several co-investments with Nationstar, as described under [Our Portfolio Servicing Related Assets](#) below. In addition, we have capitalized on Nationstar's origination capabilities by entering into a recapture agreement in each of our Excess MSR investments to date. Under the 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. We believe this arrangement mitigates our exposure to the prepayment risk associated with Excess MSR. Furthermore, on December 17, 2013, we purchased servicer advances from Nationstar through a co-investment with certain third parties. See [Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Servicing Related Assets Servicer Advances](#) below. Nationstar is also the master servicer and/or servicer of the vast majority of the loans underlying the Non-Agency RMBS in our portfolio.

## **Tax Efficient REIT Status**

We will elect to be treated as, and expect to operate in conformity with the requirements for qualification and taxation as, a REIT. REIT status will provide us with certain tax advantages compared to some of our competitors. Those advantages include an ability to reduce our corporate-level income taxes by making dividend distributions to our stockholders, and an ability to pass our capital gains through to our stockholders in the form of capital gains dividends. We believe our REIT status will provide us with a significant advantage as compared to other companies or industry participants who do not have a similar tax efficient structure. From time to time, we may make investments through TRSs which is currently the case with our investment in servicer advances, which will impact the returns on such investments and reduce cash available for distribution to our stockholders.

## **OUR PORTFOLIO**

Our portfolio is currently composed of servicing related assets, residential securities and loans and other investments. A significant portion of our portfolio is currently composed of investments in agency securities. The securities in which we can invest are limited by the exclusion we maintain from the 1940 Act. Over time, we expect to opportunistically adjust our portfolio composition in response to market conditions. Our Manager will make decisions about our investments in accordance with broad investment guidelines adopted by our board of directors. Accordingly, we may, without a stockholder vote, change our target asset classes and acquire a variety of assets that differ from, and are possibly riskier than, our current portfolio of target assets. For more information about our investment guidelines, see [Investment Guidelines](#) below.

## **Servicing Related Assets**

### ***Excess MSR***

Through December 31, 2013, we had invested \$683.4 million of equity in Excess MSR on loans with an initial UPB of approximately \$299.4 billion (of which we have received an aggregate \$154.5 million return of capital on an inception-to-date basis). As of December 31, 2013, we had approximately \$676.9 million estimated carrying value of Excess MSR, of which a portion is held directly by us and the remainder is held through joint ventures. The weighted average collateral statistics of these loans were: coupon of 4.8%, percentage of loans delinquent by more than thirty days of 27%, FICO score of 665 and loan age of 6.8 years.

As of December 31, 2013, our completed investments represented an effective 33.3% to 80% interest in the Excess MSR on pools of mortgage loans with an aggregate UPB of approximately \$252.6 billion.



**Table of Contents**

Nationstar is the servicer of the loans underlying all of our investments in Excess MSR to date, and it earns a basic fee in exchange for providing all servicing functions. In addition, Nationstar retains a 20% to 35% interest in the Excess MSR and all ancillary income associated with the portfolios. In our capacity as owner of Excess MSR, we do not have any servicing duties, liabilities or obligations associated with the servicing of portfolios underlying our Excess MSR. However, we, through co-investments made by our subsidiaries, have separately purchased servicer advances, including the right to receive the basic fee component of related MSR, on our Non-Agency portfolios (Pools 5, 10, 12, 17 and 18) underlying our Excess MSR investments. See Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Servicing Related Assets Servicer Advances.

Each of our Excess MSR investments to date is subject to a recapture agreement with Nationstar. Under the recapture agreements, we are generally entitled to a pro rata interest in the Excess MSR 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 December 31, 2013.

**Summary of Direct Excess MSR Investments as of December 31, 2013**

	Investment Date	Initial UPB (bn)	Current <sup>2</sup> UPB (bn)	Loan Type <sup>3</sup>	MSR (bps)	MSR Component <sup>1</sup> Excess MSR (bps)	Interest in Excess MSR (%)	Excess MSR Purchase Price (mm)	Excess MSR Carrying Value (mm)
Pool 1	12/2011	\$ 9.9	\$ 6.9	GSE	32 bps	26 bps	65%	\$ 43.7	\$ 43.1
Pool 2	06/2012	10.4	7.9	GSE	30	22	65%	42.3	41.8
Pool 3	06/2012	9.8	7.8	GSE	31	22	65%	36.2	39.6
Pool 4	06/2012	6.3	5.1	GSE	26	17	65%	15.4	17.9
Pool 5 <sup>4</sup>	06/2012	47.6	36.9	PLS	32	13	80%	151.5	146.3
Pool 11 (direct portion) <sup>5</sup>	05/2013		0.4	GSE	25	19	67%	2.4	2.3
Pool 12	09/2013	5.4	5.2	PLS	49	26	40%	17.4	16.5
Pool 18 <sup>6</sup>	Nov-13	9.2	8.8	PLS	38	16	40%	17.0	16.7
<b>Total/Weighted Avg.</b>		<b>\$ 98.6</b>	<b>\$ 79.0</b>		<b>33 bps</b>	<b>17 bps</b>		<b>\$ 325.9</b>	<b>\$ 324.2</b>

(1) The MSR is a weighted average as of December 31, 2013, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

(2) As of December 31, 2013.

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

(4) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR subsequent to December 31, 2013 (see Note 18 to our consolidated financial statements included herein).

(5) A portion of our investment in Pool 11 was made as a direct investment, and the remainder was made through a joint venture accounted for as an equity method investee, as described in the chart below. The direct investment in Pool 11 includes loans that, upon refinancing by a third-party, will be serviced by Nationstar and will be subject to

a 67% Excess MSR owned by us.

- (6) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (see Note 6 to our consolidated financial statements included herein).

**Table of Contents****Summary of Excess MSR Investments Through Equity Method Investees as of December 31, 2013**

	Commitment/Initial Investment Date	Current		MSR Component <sup>1</sup>			Investee NRZ Interest in Excess MSR		NRZ	Investee
		UPB (bn)	UPB <sup>2</sup> (bn)	Loan Type <sup>3</sup>	MSR (bps)	Excess MSR (bps)	Investee (%)	MSR (%) <sup>4</sup>	Effective Ownership (%) <sup>4</sup>	Carrying Value (mm)
Pool 6	01/2013	\$ 13.0	\$ 10.2	GM	39 bps	24 bps	50%	67%	33.3%	\$ 57.1
Pool 7	01/2013	38.0	31.5	GSE	27	16	50%	67%	33.3%	129.3
Pool 8	01/2013	17.6	14.0	GSE	29	20	50%	67%	33.3%	69.5
Pool 9	01/2013	33.8	30.8	GM	40	22	50%	67%	33.3%	161.8
Pool 10 <sup>5</sup>	01/2013	75.6	68.9	PLS	35	11	50%	67-77%	33.3-38.5%	215.2
Pool 11 (indirect portion) <sup>6</sup>	05/2013	22.8	18.2	GSE	25	19	50%	67%	33.3%	70.8
<b>Total/Weighted Avg.</b>		<b>\$ 200.8</b>	<b>\$ 173.6</b>		<b>33 bps</b>	<b>16 bps</b>				<b>\$ 703.7</b>

- (1) The MSR is a weighted average as of December 31, 2013, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).
- (2) As of December 31, 2013.
- (3) GM refers to loans in Ginnie Mae securitizations. GSE refers to loans in Fannie Mae or Freddie Mac securitizations. PLS refers to loans in private label securitizations.
- (4) The equity method investee purchased an additional interest in a portion of Pool 10. Investee interest in Excess MSR and NRZ effective ownership in Pool 10 represent the range of ownership interests in the pool.
- (5) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (see Note 6 to our consolidated financial statements included herein).
- (6) A portion of our investment in Pool 11 was made as a direct investment, as described in the chart above, and the remainder was made as an investment through an equity method investee.

The tables below summarize the terms of our investments in Excess MSRs that were committed but not yet completed as of December 31, 2013.

**Summary of Pending Excess MSR Investments (Committed but Not Closed)**

	Commitment Date	Initial Current		MSR Component <sup>1</sup>			NRZ Interest in Excess MSR		NRZ	Excess
		UPB (bn)	UPB <sup>2</sup> (bn)	Loan Type <sup>3</sup>	MSR (bps)	Excess MSR (bps)	Investee (%)	in Excess MSR (%)	Initial Investment (mm) <sup>4</sup>	
Pool 13 (Direct Investment)	11/2013	\$ 7.1	\$ 7.1	GSE	25bps	19bps	N/A	33%	\$ 17.3	
Pool 14 (Direct Investment)	11/2013	0.7	0.7	GSE	25	19	N/A	33%	1.7	

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Pool 15 (Direct Investment)	11/2013	3.2	3.2	GSE	38	28	N/A	33%	9.2
Pool 16 (Direct Investment)	11/2013	2.1	2.1	GSE	28	18	N/A	33%	4.1
Pool 17 (Direct Investment) <sup>5</sup>	11/2013	0.9	0.9	PLS	29	14	N/A	33%	1.5
<b>Total/Weighted Avg.</b>		<b>\$ 14.0</b>	<b>\$ 14.0</b>		<b>29bps</b>	<b>21bps</b>			<b>\$ 33.8</b>

- (1) The MSR is a weighted average as of the commitment date, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).
- (2) As of the commitment date.
- (3) PLS refers to loans in private label securitizations. GSE refers to loans in Fannie Mae or Freddie Mac securitizations.
- (4) The actual amount invested will be based on the UPB at the time of close.
- (5) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (see Note 6 to our consolidated financial statements included herein).

**Table of Contents**

Subsequent to December 31, 2013, we invested approximately \$19.1 million in Excess MSR on a portfolio of PLS residential mortgage loans with a UPB of approximately \$8.1 billion. We have remaining commitments of approximately \$1.5 million to fund additional investments in this portfolio of PLS residential mortgage loans, which have not yet closed and will increase the UPB by approximately \$0.9 billion. In addition, we have committed \$32.3 million to invest in Excess MSR on portfolios of GSE residential mortgage loans with an aggregate outstanding UPB of \$13.1 billion. In each transaction, we agreed to acquire a one-third interest in Excess MSR on the portfolio. Fortress-managed funds and Nationstar each agreed to acquire a one-third interest in the Excess MSR. 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 the portfolios. Commitments related to GSE residential mortgage loans are contingent upon GSE approval of Nationstar to service such loans and transfer Excess MSR to us.

The following table summarizes our Excess MSR investments closed subsequent to December 31, 2013:

**Summary of Excess MSR Investments Closed****Subsequent to December 31, 2013**

		Initial Current			MSR Component <sup>1</sup>		Investee Interest	NRZ Excess MSR
	Commitment Date	UPB (bn)	UPB <sup>2</sup> (bn)	Loan Type <sup>3</sup>	MSR (bps)	Excess MSR (bps)	Investee MSR (%)	Initial Investment (mm) <sup>4</sup>
Pool 17 (Direct Investment) <sup>5</sup>	11/2013	\$ 8.1	\$ 8.1	PLS	34bps	19bps	N/A	33% \$ 19.1
<b>Total/Weighted Avg.</b>		<b>\$ 8.1</b>	<b>\$ 8.1</b>		<b>34bps</b>	<b>19bps</b>		<b>\$ 19.1</b>

- (1) 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).
- (2) As of the date the transaction closed.
- (3) PLS refers to loans in private label securitizations.
- (4) Amounts invested based on the UPB at the time of close.
- (5) Pool in which we also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (see Note 6 to our consolidated financial statements included herein).

**Servicer Advances**

As of December 31, 2013, we had invested \$115.7 million of equity, through a joint venture with third-party co-investors who contributed \$247.6 million, to acquire \$2.7 billion of Non-Agency servicer advances, and the basic fee component of the related MSRs, on loans with a UPB of approximately \$43.4 billion related to Transaction 1. For more information about our servicer advances portfolio, see Management's Discussion and Analysis of Financial Condition and Results of Operations Our Portfolio Servicing Related Assets Servicer Advances and Company Overview Recent Developments Servicing Related Assets Servicer Advances.

**Residential Securities and Loans**

***Real Estate Securities***

As of December 31, 2013, we owned \$872.9 million face amount of Non-Agency RMBS with an amortized cost basis of \$566.8 million and a carrying value of \$570.4 million. We also own the call rights to 96% of the related securitizations. The collateral consists primarily of subprime and Alt-A loans.

As of December 31, 2013, we had invested \$59.2 million of equity to acquire \$1.3 billion face amount of Agency hybrid (fixed to floating) and other ARMs with a carrying value of \$1.4 billion.

**Table of Contents****Agency ARM RMBS**

As of December 31, 2013, we owned \$1.3 billion face amount of Agency ARM RMBS, as described in the table below (in thousands).

**Summary of Agency ARM RMBS as of December 31, 2013**

Asset Type	Outstanding Face Amount	Amortized Cost Basis <sup>1</sup>	Gross Unrealized		Carrying Value <sup>1, 2</sup>	Outstanding Repurchase Agreements
			Gains	Losses		
Agency ARM RMBS	\$ 1,314,130	\$ 1,392,612	\$ 3,434	\$ (3,885)	\$ 1,392,161	\$ 1,332,954

(1) Amortized cost basis and carrying value exclude \$10.6 million of principal receivables as of December 31, 2013.

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

**Non-Agency RMBS**

As of December 31, 2013, we had approximately \$872.9 million face amount of Non-Agency RMBS, as described in the table below (dollars in thousands).

**Summary of Non-Agency RMBS as of December 31, 2013**

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized		Carrying Value (1)	Outstanding Repurchase Agreements
			Gains	Losses		
Non-Agency RMBS	\$ 872,866	\$ 566,760	\$ 7,618	\$ (3,953)	\$ 570,425	\$ 287,757

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

***Real Estate Loans***

As of December 31, 2013, we had approximately \$57.6 million outstanding face amount of residential mortgage loans. In February 2013, we invested approximately \$35.1 million to acquire a 70% interest in the mortgage loans. Nationstar co-invested pari passu with us in 30% of the 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.

On April 8, 2014, we agreed to purchase from an affiliate of Natixis a portfolio of non-performing and re-performing residential mortgage loans with a UPB of approximately \$93 million for a price of approximately \$67 million. We expect to finance approximately 70% of the purchase price with a repurchase agreement. The purchase is expected to settle in May 2014.

On April 11, 2014, we agreed to purchase from JPMorgan Chase Bank, N.A. a portfolio of non-performing residential mortgage loans with a UPB of approximately \$525 million for a price of approximately \$391 million. We expect to finance approximately 75% of the purchase price with a repurchase agreement. The purchase is expected to settle in June 2014.

**Other Investments**

In April 2013, we invested approximately \$250 million of equity to purchase an interest in consumer loans with an aggregate UPB of approximately \$4.2 billion. The carrying value of the consumer loans was approximately



## **Table of Contents**

\$215.1 million as of December 31, 2013. The collateral characteristics of these loans, 344,046 in number, were: weighted average coupon of 18.3%, average loan balance of \$9,588, and a weighted average 9.8% charge-off rate.

## **FINANCING STRATEGY**

Our objective is to generate attractive risk-adjusted returns for our stockholders without excessive use of leverage. We do not have a predetermined target leverage level. The amount of leverage we deploy for a particular investment depends upon an assessment of a variety of factors, which may include the anticipated liquidity and price volatility of our assets; the gap between the duration of assets and liabilities, including hedges; the availability and cost of financing the assets; our opinion of the creditworthiness of financing counterparties; the health of the U.S. economy and the residential mortgage and housing markets; our outlook for the level, slope and volatility of interest rates; the credit quality of the loans underlying our RMBS; and our outlook for asset spreads relative to financing costs.

### **Servicing Related Assets**

#### ***Excess MSRs***

We have funded the acquisition of Excess MSRs primarily on an unlevered basis. On December 13, 2013, we entered into a \$75.0 million secured corporate loan with Credit Suisse First Boston Mortgage 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 4.00%. The loan contains customary covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline as of the end of the corresponding period in the prior fiscal year, or a 35% equity decline as of the end of the quarter immediately preceding the most recently completed fiscal quarter and a four-to-one indebtedness to tangible net worth provision. As of December 31, 2013, the loan was fully drawn. Subsequent to December 31, 2013, the loan was paid down by \$5.9 million, and the maturity was extended to May 31, 2014.

#### ***Servicer Advances***

As of December 31, 2013, the Buyer had approximately \$2.4 billion of drawn principal under the Original Notes to finance the advances with an interest rate 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 2.0% to 2.6%, borrowing capacity of up to \$3.9 billion in aggregate and maturity dates in September 2014. A portion of the outstanding Original Notes were repaid with the proceeds of new notes issued in March 2014. For details about the new notes and other financing obtained subsequent to December 31, 2013, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt Obligations. After giving effect to such repayments, the Barclays Facility was terminated and the borrowing capacity under the Credit Suisse Facility was reduced to \$1.5 billion. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt Obligations.

### **Residential Securities and Loans**

#### ***RMBS***

As of December 31, 2013, we had outstanding repurchase agreements with an aggregate face amount of approximately \$287.8 million to finance Non-Agency RMBS and approximately \$1.3 billion to finance Agency ARM RMBS. Our repurchase agreements generally have 30 day terms and are subject to margin calls. On October 30, 2013, we replaced an existing master repurchase agreement with a new \$414.2 million master repurchase agreement with Alpine Securitization Corp., an asset-backed commercial paper facility sponsored by Credit Suisse AG, which has a

one year maturity and is subject to margin calls. As of April 15, 2014, \$103.2 million has been drawn on the facility.

---

**Table of Contents**

Under repurchase agreements, we sell a security to a counterparty and concurrently agree to repurchase the same security at a later date for a higher specified price. The sale price represents financing proceeds, and the difference between the sale and repurchase prices represents interest on the financing. The price at which the security is sold generally represents the market value of the security less a discount or haircut, which can range broadly, for example from 5% for Agency ARM RMBS to between 20% and 40% for Non-Agency RMBS. During the term of the repurchase agreement, the counterparty holds the security as collateral. If the agreement is subject to margin calls, the counterparty monitors and calculates what it estimates to be the value of the collateral during the term of the agreement. If this value declines by more than a de minimis threshold, the counterparty could require us to post margin in order to maintain the initial haircut on the collateral. This margin is typically required to be posted in the form of cash and cash equivalents.

These repurchase agreements have terms that generally conform to the terms of the standard master repurchase agreement published by SIFMA as to repayment, margin requirements and segregation of all securities sold under any repurchase transactions. In addition, each counterparty typically requires that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions include changes to the margin maintenance requirements, required haircuts, purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction and cross default provisions. These provisions may differ for each of our counterparties and are not determined until we engage in a specific repurchase transaction.

***Residential Mortgage Loans***

On November 25, 2013, we also entered into a \$300.0 million master repurchase agreement with RBS with advance rates ranging from 65% to 85% and an interest cost of one-month LIBOR plus 2.5% to 2.75%. The repurchase agreement, which contains customary covenants and event of default provisions and is subject to margin calls, will be used to finance the purchase of residential mortgage loans and matures on November 24, 2014. Pursuant to the repurchase agreement we may sell, and later repurchase the Purchased Assets. The principal amount paid by RBS for such Purchased Assets is based on a percentage of the lesser of the market value or the UPB of such mortgage assets backing the Purchased Assets. Upon our repurchase of Purchased Assets sold under the repurchase agreement, we are required to repay RBS a repurchase amount based on the purchase price plus accrued interest. We are also required to pay certain administrative costs and expenses in connection with the structuring, management and ongoing administration of the master repurchase agreement. As of April 15, 2014, we had drawn \$59.2 million under this facility.

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

**HEADING STRATEGY**

Subject to maintaining our qualification as a REIT and exclusion from registration under the 1940 Act, we may, from time to time, utilize derivative financial instruments to hedge the interest rate risk associated with our borrowings. Under the U.S. federal income tax laws applicable to REITs, we generally will be able to enter into certain transactions to hedge indebtedness that we may incur, or plan to incur, to acquire or carry real estate assets, although our total gross income from interest rate hedges that do not meet this requirement and other non-qualifying sources

generally must not exceed 5% of our gross income.

Subject to maintaining our qualification as a REIT and exclusion from registration under the 1940 Act, we may also engage in a variety of interest rate management techniques that seek on the one hand to mitigate the

## **Table of Contents**

influence of interest rate changes on the values of some of our assets and on the other hand help us achieve our risk management objectives. The U.S. federal income tax rules applicable to REITs may require us to implement certain of these techniques through a domestic TRS that is fully subject to U.S. federal corporate income taxation. Our interest rate management techniques may include:

interest rate swap agreements, interest rate cap agreements, exchange-traded derivatives and swaptions;

puts and calls on securities or indices of securities;

U.S. Treasury securities and options on U.S. Treasury securities;

TBAs; and

other similar transactions.

Subject to maintaining our REIT qualification, we may utilize hedging instruments, including interest rate swap agreements, interest rate cap agreements, interest rate floor or collar agreements or other financial instruments that we deem appropriate. Specifically, we may attempt to reduce interest rate risks and to minimize exposure to interest rate fluctuations through the use of match funded financing structures, when appropriate, whereby we may seek (1) to match the maturities of our debt obligations with the maturities of our assets and (2) to match the interest rates on our assets with like-kind debt (i.e., we may finance floating rate assets with floating rate debt and fixed-rate assets with fixed-rate debt), directly or through the use of interest rate swap agreements, interest rate cap agreements, or other financial instruments, or through a combination of these strategies. We expect these instruments will allow us to minimize, but not eliminate, the risk that we have to refinance our liabilities before the maturities of our assets and to reduce the impact of changing interest rates on our earnings and liquidity.

## **INVESTMENT GUIDELINES**

Our board of directors has adopted a broad set of investment guidelines to be used by our Manager to evaluate specific investments. Our general investment guidelines prohibit any investment that would cause us to fail to qualify as a REIT, and any investment that would cause us to be regulated as an investment company. These investment guidelines may be changed by our board of directors without the approval of our stockholders. If our board changes any of our investment guidelines, we will disclose such changes in our next required periodic report. For information regarding our policy with respect to approving transactions with affiliates, see [Certain Relationships and Transactions with Related Persons, Affiliates and Affiliated Entities](#).

## **POLICIES WITH RESPECT TO CERTAIN OTHER ACTIVITIES**

Subject to the approval of our board of directors, we have the authority to offer our common stock or other equity or debt securities in exchange for property and to repurchase or otherwise reacquire our shares or any other securities and may engage in such activities in the future.

We also may make loans to, or provide guarantees of certain obligations of, our subsidiaries.

Subject to the percentage ownership and gross income and asset tests necessary for REIT qualification, we may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities.

We may engage in the purchase and sale of investments.

Our officers and directors may change any of these policies and our investment guidelines without a vote of our stockholders.

In the event that we determine to raise additional equity capital, our board of directors has the authority, without stockholder approval (subject to certain NYSE requirements), to issue additional common stock or preferred stock in any manner and on such terms and for such consideration it deems appropriate, including in exchange for property.

## **Table of Contents**

Decisions regarding the form and other characteristics of the financing for our investments are made by our Manager subject to the general investment guidelines adopted by our board of directors.

## **CONFLICTS OF INTEREST**

Although we have established certain policies and procedures designed to mitigate conflicts of interest, there can be no assurance that these policies and procedures will be effective in doing so. It is possible that actual, potential or perceived conflicts of interest could give rise to investor dissatisfaction, litigation or regulatory enforcement actions.

One or more of our officers and directors have responsibilities and commitments to entities other than us, including, but not limited to, Newcastle, Nationstar (the servicer of the loans underlying our Excess MSR, servicer advances, and Non-Agency RMBS) and Springleaf (the servicer for consumer loans in which we have invested). For example, we have some of the same directors and officers as Newcastle, Nationstar and Springleaf. In addition, we do not have a policy that expressly prohibits our directors, officers, securityholders or affiliates from engaging for their own account in business activities of the types conducted by us. Moreover, our certificate of incorporation provides that if Newcastle or Fortress or any of their officers, directors or employees acquire knowledge of a potential transaction that could be a corporate opportunity, they have no duty, to the fullest extent permitted by law, to offer such corporate opportunity to us, our stockholders or our affiliates. In the event that any of our directors and officers who is also a director, officer or employee of Newcastle or Fortress acquires knowledge of a corporate opportunity or is offered a corporate opportunity, provided that this knowledge was not acquired solely in such person's capacity as a director or officer of New Residential and such person acts in good faith, then to the fullest extent permitted by law such person is deemed to have fully satisfied such person's fiduciary duties owed to us and is not liable to us if Newcastle or Fortress, or their affiliates, pursues or acquires the corporate opportunity or if such person did not present the corporate opportunity to us. However, subject to the terms of our certificate of incorporation, our code of business conduct and ethics prohibits the directors, officers and employees of our Manager from engaging in any transaction that involves an actual conflict of interest with us. See Risk Factors Risks Related to Our Manager There are conflicts of interest in our relationship with our Manager.

Our key agreements, including our Management Agreement, were negotiated among related parties, and their respective terms, including fees and other amounts payable, may not be as favorable to us as terms negotiated on an arm's-length basis with unaffiliated parties. Our independent directors may not vigorously enforce the provisions of our Management Agreement against our Manager. For example, our independent directors may refrain from terminating our Manager because doing so could result in the loss of key personnel.

The structure of the Manager's compensation arrangement may have unintended consequences for us. We have agreed to pay our Manager a management fee that is not tied to our performance and incentive compensation that is based entirely on our performance. The management fee may not sufficiently incentivize our Manager to generate attractive risk-adjusted returns for us, while the performance-based incentive compensation component may cause our Manager to place undue emphasis on the maximization of earnings, including through the use of leverage, at the expense of other objectives, such as preservation of capital, to achieve higher incentive distributions. Investments with higher yield potential are generally riskier or more speculative than investments with lower yield potential. This could result in increased risk to the value of our portfolio of assets and your investment in us.

We may compete with entities affiliated with our Manager or Fortress, including Newcastle, for certain target assets. From time to time, affiliates of Fortress may focus on investments in assets with a similar profile as our target assets that we may seek to acquire. These affiliates may have meaningful purchasing capacity, which may change over time depending upon a variety of factors, including, but not limited to, available equity capital and debt financing, market conditions and cash on hand. Currently, Fortress has two funds primarily focused on investing in Excess MSR with

approximately \$1.7 billion in capital commitments in aggregate. We intend to co-invest with these funds in Excess MSR. Fortress funds generally have a fee structure similar to ours, but the fees



## **Table of Contents**

actually paid will vary depending on the size, terms and performance of each fund. Fortress had approximately \$61.8 billion of assets under management as of December 31, 2013.

Our Manager may determine, in its discretion, to make a particular investment through an investment vehicle other than us. Investment allocation decisions will reflect a variety of factors, such as a particular vehicle's availability of capital (including financing), investment objectives and concentration limits, legal, regulatory, tax and other similar considerations, the source of the investment opportunity and other factors that the Manager, in its discretion, deems appropriate. Our Manager does not have an obligation to offer us the opportunity to participate in any particular investment, even if it meets our investment objectives.

## **OPERATIONAL AND REGULATORY STRUCTURE**

### **REIT Qualification**

We will elect to be taxed and intend to qualify as a REIT for U.S. federal income tax purposes commencing with our initial taxable year ended December 31, 2013. Our qualification as a REIT will depend upon our ability to meet, on a continuing basis, various complex requirements under the Code, relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels to our stockholders and the concentration of ownership of our capital stock. We believe that, commencing with our initial taxable year ended December 31, 2013, we will be organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our intended manner of operation will enable us to meet the requirements for qualification and taxation as a REIT. In connection with this offering, we will receive an opinion of Skadden, Arps, Slate, Meagher & Flom LLP to the effect that we have been organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT.

### **1940 Act Exclusion**

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the 1940 Act. Section 3(a)(1)(A) of the 1940 Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the 1940 Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis (the 40% test). Excluded from the term investment securities, among other things, are U.S. Government securities and securities issued by majority owned subsidiaries that are not themselves investment companies and are not relying on the exclusion from the definition of investment company for private funds set forth in Section 3(c)(1) or Section 3(c)(7) of the 1940 Act.

We are organized as a holding company that conducts its businesses primarily through wholly owned and majority owned subsidiaries. We intend to continue to conduct our operations so that we do not come within the definition of an investment company because less than 40% of the value of our adjusted total assets on an unconsolidated basis will consist of investment securities in compliance with the 40% test under Section 3(a)(1)(C) of the 1940 Act. The value of securities issued by any wholly owned or majority owned subsidiaries that we may form in the future that are excluded from the definition of investment company based on Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we may own, may not exceed the 40% test under Section 3(a)(1)(C) of the 1940 Act. For purposes of the foregoing, we currently treat our interests in our TRSs that hold our servicer advances and our subsidiaries that hold consumer loans as investment securities because these subsidiaries presently rely on the

exclusion provided by Section 3(c)(7) of the 1940 Act. We will monitor our holdings to ensure continuing and ongoing compliance with the 40% test under Section 3(a)(1)(C) of the 1940 Act. In addition, we believe we will not be considered an investment company under Section 3(a)(1)(A) of the 1940 Act because we will not engage primarily or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through our wholly owned subsidiaries, we will be primarily engaged in the non-investment company businesses of these subsidiaries.

---

**Table of Contents**

If the value of securities issued by our subsidiaries that are excluded from the definition of investment company by Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we own, exceeds the 40% test under Section 3(a)(1)(C) of the 1940 Act (e.g., the value of our interests in the taxable REIT subsidiaries that hold servicer advances increases significantly in proportion to the value of our other assets), or if one or more of such subsidiaries fail to maintain an exclusion or exception from the 1940 Act, we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company under the 1940 Act, either of which could have an adverse effect on us and the market price of our securities. As discussed above, for purposes of the foregoing, we currently treat our interests in our TRSs that hold our servicer advances and our subsidiaries that hold consumer loans as investment securities because these subsidiaries presently rely on the exclusion provided by Section 3(c)(7) of the 1940 Act. If we were required to register as an investment company under the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions.

For purposes of the foregoing, we treat our interests in certain of our wholly owned and majority owned subsidiaries, which constitutes more than 60% of the value of our adjusted total assets on an unconsolidated basis, as non-investment securities because such subsidiaries qualify for exclusion from the definition of an investment company under the 1940 Act pursuant to Section 3(c)(5)(C) of the 1940 Act (the Section 3(c)(5)(C) exclusion). The Section 3(c)(5)(C) exclusion is available for entities primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. The Section 3(c)(5)(C) exclusion generally requires that at least 55% of these subsidiaries' assets comprise qualifying real estate assets and at least 80% of each of their portfolios must comprise qualifying real estate assets and real estate-related assets under the 1940 Act. Maintenance of our exclusion under the 1940 Act generally limits the amount of our Section 3(c)(5)(C) subsidiaries' investments in non-real estate assets to no more than 20% of our total assets.

In satisfying the 55% requirement under the Section 3(c)(5)(C) exclusion, based on guidance from the SEC and its staff, we treat whole pool Agency ARM RMBS issued with respect to an underlying pool of mortgage loans in which we hold all of the certificates issued by the pool as qualifying real estate assets. The SEC and its staff have not published guidance with respect to the treatment of whole pool Non-Agency RMBS for purposes of the Section 3(c)(5)(C) exclusion. Accordingly, based on our own judgment and analysis of the guidance from the SEC and its staff identifying Agency whole pool certificates as qualifying real estate assets under Section 3(c)(5)(C), we treat whole pool Non-Agency RMBS issued with respect to an underlying pool of mortgage loans in which our subsidiary relying on Section 3(c)(5)(C) holds all of the certificates issued by the pool as qualifying real estate assets. We also treat whole mortgage loans that each of our subsidiaries relying on Section 3(c)(5)(C) may acquire directly as qualifying real estate assets provided that 100% of the loan is secured by real estate when such subsidiary acquires the loan and the subsidiary has the unilateral right to foreclose on the mortgage.

Based on our own judgment and analysis of the guidance from the SEC and its staff with respect to analogous assets, we treat Excess MSRs as real estate-related assets for purposes of satisfying the 80% test under the Section 3(c)(5)(C) exclusion. We treat investments in Agency partial pool RMBS and Non-Agency partial pool RMBS as real estate-related assets for purposes of satisfying the 80% test under the Section 3(c)(5)(C) exclusion.

We expect each of our subsidiaries relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff or on our analyses of guidance published with respect to other types of assets to determine which assets are qualifying real estate assets and real estate-related assets. The SEC may in the future take a view different than or contrary to our analysis with respect to the types of assets we have determined to be qualifying real estate assets or real estate-related

assets. To the extent that the SEC staff publishes new or different guidance with respect to

## **Table of Contents**

these matters, or disagrees with our analysis, we may be required to adjust our strategy accordingly. In addition, we may be limited in our ability to make certain investments and these limitations could result in the subsidiary holding assets we might wish to sell or selling assets we might wish to hold.

In August 2011, the SEC issued a concept release soliciting public comments on a wide range of issues relating to companies, which are typically REITs, engaged in the business of acquiring mortgages and mortgage-related instruments and that rely on Section 3(c)(5)(C) of the 1940 Act, including the nature of the assets that qualify for purposes of the Section 3(c)(5)(C) exclusion and whether such REITs should be regulated in a manner similar to investment companies. Therefore, there can be no assurance that the laws and regulations governing the 1940 Act status of REITs, or guidance from the SEC or its staff regarding the Section 3(c)(5)(C) exclusion, will not change in a manner that adversely affects our operations. If we or our subsidiaries fail to maintain an exclusion or exception from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions.

Although we monitor our portfolio periodically and prior to each investment origination or acquisition, there can be no assurance that we will be able to maintain the Section 3(c)(5)(C) exclusion from the definition of an investment company under the 1940 Act for these subsidiaries.

To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon the exclusions or exceptions we and our subsidiaries rely on from the 1940 Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies we have chosen.

## **COMPETITION**

Our success depends, in large part, on our ability to acquire target assets on terms consistent with our business and economic model. In acquiring these assets, we expect to compete with banks, independent mortgage loan servicers, private equity firms, hedge funds and other large financial services companies. Many of our anticipated competitors are significantly larger than we are, have access to greater capital and other resources and may have other advantages over us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could lead them to offer higher prices for assets that we might be interested in acquiring and cause us to lose bids for those assets. In addition, other potential purchasers of our target assets may be more attractive to sellers of such assets if the sellers believe that these potential purchasers could obtain any necessary third party approvals and consents more easily than us.

In the face of this competition, we expect to take advantage of the experience of members of our management team and their industry expertise which may provide us with a competitive advantage and help us assess potential risks and determine appropriate pricing for certain potential acquisitions of our target assets. In addition, we expect that these relationships will enable us to compete more effectively for attractive acquisition opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face.

## **EMPLOYEES**

We are managed by our Manager pursuant to the Management Agreement between our Manager and us. All of our officers are employees of our Manager or an affiliate of our Manager. We do not have any employees.

**LEGAL PROCEEDINGS**

We are not currently subject to any legal proceedings.

**Table of Contents****OUR MANAGER AND MANAGEMENT AGREEMENT****GENERAL**

We are externally managed by FIG LLC, a Delaware limited liability company, which we refer to as our Manager, pursuant to the terms of the Management Agreement. Our Manager also manages Newcastle and is an affiliate of Fortress. Our principal executive offices are located at 1345 Avenue of the Americas, New York, New York 10105, c/o New Residential Investment Corp. Our telephone number is 212-479-3150.

We do not have any employees. Our officers and the other individuals who execute our business strategy are employees of our Manager or its affiliates. These individuals are not required to exclusively dedicate their services to us and provide services for other entities affiliated with our Manager, including, but not limited to, Newcastle. For example, we have some of the same officers as Newcastle.

**EXECUTIVE OFFICERS**

The following table lists each of our executive officers, each of whom is an employee of our Manager.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Michael Nierenberg	51	Chief Executive Officer and President
Susan Givens	37	Chief Financial Officer and Treasurer
Jonathan R. Brown	47	Chief Accounting Officer
Cameron D. MacDougall	37	Secretary

**BIOGRAPHICAL INFORMATION**

For biographical information for our executive officers, see Management included elsewhere in this prospectus.

**MANAGEMENT AGREEMENT**

The day-to-day management of our operations is carried out by our Manager pursuant to an Amended and Restated Management and Advisory Agreement (the Management Agreement) dated August 1, 2013. Our Management Agreement requires our Manager to manage our business affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. There is no limit on the amount our Manager may invest on our behalf without seeking the approval of our board of directors. For more information about our investment guidelines, see Business Investment Guidelines included elsewhere in this prospectus.

Our Manager is responsible for, among other things, (i) the purchase and sale of our investments, (ii) the financing of our investments, and (iii) investment advisory services. Our Manager is responsible for our day-to-day operations and performs (or causes to be performed) such services and activities relating to our assets and operations as may be appropriate, which includes, without limitation, the following:

- (i) serving as our consultant with respect to the periodic review of the investment criteria and parameters for investments, borrowings and operations, any modifications to which shall be approved by a majority of our independent directors, and other policies for approval by our board of directors;

- (ii) investigating, analyzing, valuing and selecting possible investment opportunities;
- (iii) with respect to our prospective investments and dispositions of investments, conducting negotiations with real estate brokers, sellers and purchasers and their respective agents and representatives, investment bankers and owners of privately and publicly held real estate companies;



**Table of Contents**

- (iv) engaging and supervising, on our behalf and at our expense, independent contractors which provide real estate brokerage, investment banking, leasing services, mortgage servicing, mortgage brokerage, securities brokerage and other financial services and such other services as may be required relating to the investments;
- (v) negotiating on our behalf for the sale, exchange or other disposition of any investments;
- (vi) coordinating and managing operations of any of our joint venture or co-investment interests and conducting all matters with respect to those joint ventures or co-investments;
- (vii) coordinating and supervising, on our behalf and at our expense, all property matters, leasing agents and developers for the administration, leasing, management and/or development of any of our investments;
- (viii) providing executive and administrative personnel, office space and office services required in rendering services to us;
- (ix) administering the day-to-day operations and performing and supervising the performance of such other administrative functions necessary to our management as may be agreed upon by our Manager and our board of directors, including, without limitation, the collection of revenues and the payment of our debts and obligations and maintenance of appropriate computer services to perform such administrative functions;
- (x) communicating on our behalf with the holders of any of our equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;
- (xi) counseling us in connection with policy decisions to be made by our board of directors;
- (xii) evaluating and recommending to our board of directors modifications to our hedging strategies and engaging in hedging activities on our behalf, consistent with our status as a REIT and with our investment guidelines;
- (xiii) counseling us regarding the maintenance of our status as a REIT and monitoring compliance with the various REIT qualifications and other rules set out in the Code and Treasury Regulations thereunder;
- (xiv) counseling us regarding the maintenance of our exclusion from the 1940 Act and monitoring compliance with the requirements for maintaining such an exemption;

- (xv) assisting us in developing criteria that are specifically tailored to our investment objectives and making available to us its knowledge and experience with respect to our target assets;
- (xvi) representing and making recommendations to us in connection with the purchase and finance, and commitment to purchase and finance, of our target assets, and in connection with the sale and commitment to sell such assets;
- (xvii) monitoring the operating performance of our investments and providing periodic reports with respect thereto to our board of directors, including comparative information with respect to such operating performance, valuation and budgeted or projected operating results;
- (xviii) investing and re-investing any of our moneys and securities (including investing in short-term investments pending investment, payment of fees; costs and expenses; or payments of dividends or distributions to our stockholders and partners) and advising us as to our capital structure and capital raising;
- (xix) causing us to retain qualified accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations and compliance with the provisions of the Code applicable to REITs and to conduct quarterly compliance reviews with respect thereto;

**Table of Contents**

- (xx) causing us to qualify to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;
- (xxi) assisting us in complying with all regulatory requirements applicable to us in respect of our business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents required under the Exchange Act;
- (xxii) taking all necessary actions to enable us to make required tax filings and reports, including soliciting stockholders for required information to the extent provided by the provisions of the Code applicable to REITs;
- (xxiii) handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which we may be involved or to which we may be subject arising out of our day-to-day operations, subject to such limitations or parameters as may be imposed from time to time by our board of directors;
- (xxiv) using commercially reasonable efforts to cause expenses incurred by us or on our behalf to be reasonable or customary and within any budgeted parameters or expense guidelines set by our board of directors from time to time;
- (xxv) performing such other services as may be required from time to time for management and other activities relating to our investments as our board of directors shall reasonably request or our Manager shall deem appropriate under the particular circumstances; and
- (xxvi) using commercially reasonable efforts to cause us to comply with all applicable laws.

**Indemnification**

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

Our Manager, to the full extent lawful, reimburses indemnifies and holds us, our stockholders, directors, officers and employees and each other person, if any, controlling us, harmless of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including attorneys' fees) in respect of or arising from our Manager's bad faith, willful misconduct, gross negligence or reckless disregard of its duties under our Management Agreement. Our Manager carries errors and omissions and other customary insurance.

### **Management Team**

Pursuant to the terms of our Management Agreement, our Manager provides us with a management team, including a chief executive officer, chief financial officer and chief accounting officer, to provide the management services to be provided by our Manager to us. The members of our management team devote such of their time to the management of us as our board of directors reasonably deems necessary and appropriate, commensurate with our level of activity from time to time.

## Table of Contents

### **Assignment**

Our Manager may generally only assign our Management Agreement with the written approval of a majority of our independent directors; provided, however, that our Manager may assign our Management Agreement to an entity whose day-to-day business and operations are managed and supervised by Messrs. Wesley R. Edens and Randal A. Nardone, provided, further, that such transaction is determined at the time not to be an assignment for purposes of Section 205 of the Investment Advisers Act of 1940, as amended, and the rules and regulations promulgated under such act and the interpretations thereof issued by the SEC. We may not assign our Management Agreement without the prior written consent of our Manager, except in the case of an assignment to another REIT or other organization which is our successor, in which case such successor organization shall be bound under our Management Agreement and by the terms of such assignment in the same manner as we are bound under our Management Agreement.

### **Term; Termination**

The initial term of our Management Agreement expires on May 15, 2014, and the Management Agreement will be renewed automatically each year for an additional one-year period unless (i) a majority consisting of at least two-thirds of our independent directors or a simple majority of the holders of outstanding shares of our common stock, agree that there has been unsatisfactory performance that is materially detrimental to us or (ii) a simple majority of our independent directors agree that the management fee payable to our Manager is unfair; provided, that we shall not have the right to terminate our Management Agreement under clause (ii) foregoing if the Manager agrees to continue to provide the services under the Management Agreement at a fee that our independent directors have determined to be fair.

If we elect not to renew our Management Agreement at the expiration of the original term or any such one-year extension term as set forth above, our Manager will be provided with 60 days prior notice of any such termination. In the event of such termination, we would be required to pay the termination fee described below.

We may also terminate our Management Agreement at any time for cause effective upon sixty (60) days prior written notice of termination from us to our Manager, in which case no termination fee would be due, for the following reasons:

the willful violation of the Management Agreement by the Manager in its corporate capacity (as distinguished from the acts of any employees of the Manager which are taken without the complicity of any of the Manager's management) under the Management Agreement;

our Manager's fraud, misappropriation of funds, or embezzlement against us; and

our Manager's gross negligence of duties under our Management Agreement.

In addition, our Manager may terminate our Management Agreement effective upon sixty (60) days prior written notice of termination to us in the event that we default in the performance or observance of any material term, condition or covenant contained in our Management Agreement and such default continues for a period of thirty (30) days after written notice thereof specifying such default and requesting that the same be remedied in such 30 day period.

If our Management Agreement is terminated by our Manager upon our breach, we would be required to pay our Manager the termination fee described below.

**Management Fee**

We pay our Manager an annual management fee equal to 1.5% of our gross equity. Gross equity is generally the equity that was transferred to us 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.

## **Table of Contents**

Our Manager computes each installment of the management fee within 15 days after the end of the calendar month with respect to which such installment is payable.

### **Incentive Compensation**

Our Manager is entitled to receive annual incentive compensation on a cumulative, but not compounding basis, in an amount equal to the product of (A) 25% of the dollar amount by which (1)(a) the funds from operations before the incentive compensation, excluding funds from operations from investments in equity method investees that are invested in consumer loans (the Consumer Loan Companies ) and any unrealized gains or losses from mark-to-market valuation changes on Excess MSR's and on equity method investees invested in Excess MSR's, 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 the distribution date, earnings (or losses) from equity method investees invested in Excess MSR's 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, 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 that was transferred to us by Newcastle on the distribution date and the prices per share of our common stock in any offerings by us (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.

The calculation of incentive compensation described above reflects an amendment on August 1, 2013 to our original management agreement dated May 15, 2013. We amended our original management agreement solely to make an adjustment to the calculation of incentive compensation. As a result of the amendment, the operating performance since inception of our investments in Excess MSR's, including investments in Excess MSR's held through equity method investees, and consumer loans are factored into the calculation of incentive compensation on the basis of our core earnings rather than our GAAP results. The primary difference between core earnings and GAAP results is the timing of income recognition. The effect of the amendment in the second quarter of 2013, the period in which the amendment was made, was a reduction in the amount of incentive compensation payable by us to our manager, mainly as a result of the exclusion from core earnings of unrealized gains on the Excess MSR's.

Funds from operations means net income (computed in accordance with GAAP), excluding gains (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 our independent directors based on changes in, or certain applications of, GAAP. Funds from operations are determined from the date of our separation from Newcastle and without regard to Newcastle's prior performance. Funds from operations does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions.

Upon any termination of our Management Agreement by either party, we are entitled to purchase our Manager's right to receive incentive compensation from our Manager for a cash purchase price equal to the amount that would be distributed to our Manager if all of our assets were sold for cash at their then current fair market value (taking into account, among other things, expected future performance of the underlying investments) or otherwise continue to pay the incentive compensation to the Manager. In addition, if we do not elect to so purchase the Manager's right to receive incentive compensation, our manager will have the right to require us to purchase the same at the price described above. In either case, such fair market value shall be determined by independent appraisal to be conducted by a

nationally recognized appraisal firm mutually agreed upon by us and our Manager.



## **Table of Contents**

Our board of directors may request that our Manager accept all or a portion of its incentive compensation in shares of our common stock, and our Manager may elect, in its discretion, to accept such payment in the form of shares, subject to limitations that may be imposed by the rules of the NYSE or otherwise.

## **Reimbursement of Expenses**

Because our Manager's employees perform certain legal, accounting, due diligence tasks and other services that outside professionals or outside consultants otherwise would perform, our Manager is paid or reimbursed for the cost of performing such tasks, provided that such costs and reimbursements are no greater than those which would be paid to outside professionals or consultants on an arm's-length basis. Our Management Agreement provides that such costs shall not be reimbursed in excess of \$500,000 per annum.

We also pay all operating expenses, except those specifically required to be borne by our Manager under our Management Agreement. Our Manager is responsible for all costs incident to the performance of its duties under the Management Agreement, including compensation of our Manager's employees, rent for facilities and other overhead expenses; we do not reimburse our Manager for these expenses. The expenses required to be paid by us include, but are not limited to, issuance and transaction costs incident to the acquisition, disposition and financing of our investments, legal and auditing fees and expenses, the compensation and expenses of our independent directors, the costs associated with the establishment and maintenance of any credit facilities and other indebtedness of ours (including commitment fees, legal fees, closing costs, etc.), expenses associated with other securities offerings of ours, the costs of printing and mailing proxies and reports to our stockholders, costs incurred by employees of our manager for travel on our behalf, costs associated with any computer software or hardware that is used solely for us, costs to obtain liability insurance to indemnify our directors and officers and the compensation and expenses of our transfer agent.

## **Termination Fee**

As described above, we are required to pay our Manager a Termination Fee if we terminate the Management Agreement on the basis of a board determination that our Manager's performance is unsatisfactory and materially detrimental to us or that the management fees payable by us to our Manager are not fair, or if the Manager terminates the Management Agreement due to a material breach by us.

The termination fee is a fee equal to the sum of (1) the amount of the management fee during the 12 months immediately preceding the date of termination, and (2) the Incentive Compensation Fair Value Amount. The Incentive Compensation Fair Value Amount is an amount equal to the Incentive Compensation that would be paid to the Manager if our assets were sold for cash at their then current fair market value (as determined by an appraisal, taking into account, among other things, the expected future value of the underlying investments).

Table of Contents**MANAGEMENT****DIRECTORS AND OFFICERS**

Set forth below is certain biographical information and ages for our directors. Each director holds office until his or her successor is duly elected or appointed and qualified or until his or her earlier death, retirement, disqualification, resignation or removal. Our board of directors consists of five members, a majority of whom are independent as defined under the rules of the NYSE.

Our bylaws provide that our board of directors shall consist of not less than three and not more than nine directors as the board of directors may from time to time determine. Our board of directors currently consists of six directors. Our board of directors is divided into three classes that are, as nearly as possible, of equal size. Each class of directors is elected for a three-year term of office, but the terms are staggered so that the term of only one class of directors expires at each annual general meeting. The initial terms of the Class I, Class II and Class III directors will expire in 2014, 2015 and 2016, respectively. Messrs. Tyson and Saltzman each serves as a Class I director, Messrs. Nierenberg and Finnerty each serves as a Class II director, and Messrs. Edens and Jacobs serve as Class III directors. Effective November 13, 2013, Kenneth Riis resigned as a director and Mr. Nierenberg was appointed as a Class II director. All officers serve at the discretion of the board of directors.

We have six directors, four of whom have been determined to be independent as defined under the rules of the NYSE. Our board of directors has determined that Messrs. Finnerty, Jacobs, Saltzman and Tyson are independent directors. In making such determination, our board of directors took into consideration, (i) that Messrs. Finnerty and Tyson are independent directors and stockholders of Newcastle, (ii) that Mr. Finnerty received a loan in the amount of \$500 thousand from each of Messrs. Edens and Nardone in 2009, (iii) that certain directors have invested in the securities of private investment funds or companies managed by or affiliated with our Manager and (iv) that Mr. Jacobs serves on the audit committee of three other public companies and that two of these companies are Fortress, which is an affiliate of our Manager, and Springleaf, which is majority-owned by funds managed by our Manager.

Our certificate of incorporation does not provide for cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors standing for election, and the holders of the remaining shares will not be able to elect any directors.

Set forth below is information concerning our directors:

<b>Name, Position, Age</b>	<b>Description</b>
<p><i>Wesley R. Edens</i></p> <p>Chairman of the board of directors</p> <p>Age: 52</p>	<p>Mr. Edens has been a member of our board of directors since April 2013. Mr. Edens has been Chairman of the board of directors of Newcastle since its inception and served as its Chief Executive Officer from its inception until February 2007. Mr. Edens is a principal and a Co-Chairman of the board of directors of Fortress, an affiliate of our Manager. Mr. Edens has been a principal and a member of the Management Committee of Fortress since co-founding Fortress in May 1998. Mr. Edens is responsible for the private equity and publicly traded alternative investment businesses of Fortress. He is also Chairman of the board of directors of each of Florida East Coast Railway Corp., New Media Investment Group Inc., Mapeley Limited and Nationstar Mortgage Holdings Inc., Chairman and Chief Executive Officer of Newcastle</p>

Investment Holdings LLC (the predecessor of Newcastle), and he is a director of Intrawest Resorts Holdings, Inc., Brookdale Senior Living Inc., GAGFAH S.A., Gaming and Leisure Properties Inc., Springleaf Finance Corporation, Springleaf Holdings Inc. and Springleaf Finance Inc. Mr. Edens was the Chief

**Table of Contents****Name, Position, Age****Description**

Executive Officer of Global Signal Inc. from February 2004 to April 2006 and Chairman of the board of directors from October 2002 to January 2007. Mr. Edens also previously served on the boards of the following publicly traded companies and registered investment companies: Penn National Gaming Inc. from October 2008 to November 2013; Gatehouse Media Inc. from June 2005 to November 2013; Aircastle Limited from August 2006 to August 2012; Rail America Inc. from November 2006 to October 2012; Crown Castle Investment Corp. (merged with Global Signal Inc.) from January 2007 to July 2007; Eurocastle Investment Limited, from August 2003 to November 2011; Fortress Brookdale Investment Fund LLC, from August 2000 (deregistered with the SEC in March 2009); Fortress Pinnacle Investment Fund, from July 2002 (deregistered with the SEC in March 2008); Fortress Investment Trust II, from July 2002 (deregistered with the SEC in January 2011); and RIC Coinvestment Fund LP, from May 2006 (deregistered with the SEC in June 2009). Prior to forming Fortress, Mr. Edens was a partner and a managing director of BlackRock Financial Management Inc., where he headed BlackRock Asset Investors, a private equity fund. In addition, Mr. Edens was formerly a partner and a managing director of Lehman Brothers. As a result of his past experiences, Mr. Edens has extensive credit, private equity finance and management expertise, as well as extensive experience as an officer and director of public companies. These factors and his other qualifications and skills, led our board of directors to conclude that Mr. Edens should serve as a director.

**Kevin J. Finnerty**

Mr. Finnerty has been a member of our board of directors since April 2013.

Age: 59

Mr. Finnerty has been a member of Newcastle's board of directors and its Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee of its board of directors since August 2005. Mr. Finnerty has been a director of Newcastle Investment Holdings LLC (the predecessor of Newcastle) since its inception in 1998. Mr. Finnerty is the Founding Partner of Galton Capital Group, a residential mortgage credit fund manager. Mr. Finnerty is a former founder and the Managing Partner of F.I. Capital Management, an investment company focused on agency-mortgage related strategies. Previously, Mr. Finnerty was a Managing Director at J.P. Morgan Securities Inc., where he headed the Residential Mortgage Securities Department. Mr. Finnerty joined Chase Securities Inc. in December of 1999. Prior to joining Chase Securities Inc., Mr. Finnerty worked at Union Bank of Switzerland from November 1996 until February 1998, where he headed the Mortgage Backed Securities Department, and at Freddie Mac from January 1999 until June 1999, where he was a Senior Vice President. Between 1986 and 1996, Mr. Finnerty was with Bear Stearns & Co. Inc., where he was a Senior Managing Director and ultimately headed the MBS Department and served as a member of the board of directors from 1993 until 1996.

Mr. Finnerty was Co-Chair of the North American People Committee at JPMorganChase and Chairman of the Mortgage and Asset-Backed Division of the Bond Market Association for the year 2003. Mr. Finnerty's knowledge,

skill, expertise and experience as described above, led the board of directors to conclude that Mr. Finnerty should serve as a director.

**Table of Contents****Name, Position, Age*****Douglas L. Jacobs***

Age: 66

**Description**

Mr. Jacobs has been a member of our board of directors since June 2013.

Mr. Jacobs is a director of Doral Financial Corporation, a financial services company, where he is Chairman of the Risk Policy Committee. Mr. Jacobs is a director of Clear Channel Outdoor Holding, Inc., an outdoor advertising company where he serves as Chairman of the Audit Committee and a member of the Compensation Committee. Mr. Jacobs is a director of Fortress where he serves as Chairman of the Audit Committee and a member of the Compensation Committee. Mr. Jacobs is also a director of Springleaf, where he is Chairman of the Audit Committee. From November 2004 to mid-2008, Mr. Jacobs was also a director of ACA Capital Holdings, Inc., a financial guaranty company, where he was Chairman of the Audit Committee and a member of the Compensation Committee and Risk Management Committees. Mr. Jacobs was a director and Chairman of the Audit Committee for Global Signal Inc. from February 2004 until January 2007. Mr. Jacobs has also been a director of Hanover Capital Mortgage Holdings, Inc. from 2003 until 2007. From 1988 to 2003, Mr. Jacobs was at FleetBoston Financial Group, where he became an Executive Vice President and Treasurer responsible for managing the company's funding, securitization, capital, and asset and liability management activities in addition to its securities, derivatives, and mortgage loan portfolios. Prior to joining FleetBoston, Mr. Jacobs was active in a variety of positions at Citicorp over 17 years, culminating in his role as Division Executive of the Mortgage Finance Group. Mr. Jacobs holds a B.A. from Amherst College and an M.B.A. from the Wharton School of Business at the University of Pennsylvania. Mr. Jacobs's finance and management expertise, experience serving on public company boards and committees led our board of directors to conclude that Mr. Jacobs should be elected to serve as a director.

***Michael Nierenberg***

Age: 51

Mr. Nierenberg has been a member of our board of directors since November 2013. Mr. Nierenberg was appointed as our Chief Executive Officer and President on November 13, 2013. Mr. Nierenberg is also a Managing Director at Fortress. Prior to becoming Chief Executive Officer of New Residential, Mr. Nierenberg served as managing director and head of Global Mortgages and Securitized Products at Bank of America Merrill Lynch, with responsibility for all sales and trading activities within the division. Mr. Nierenberg joined Bank of America Merrill Lynch in November 2008 from JP Morgan, where he was head of Global Securitized Products and a member of the management committee of the investment bank. Prior to his tenure at JP Morgan, Mr. Nierenberg held a range of senior leadership positions during fourteen years with Bear Stearns, including head of interest rate and foreign exchange trading operations, co-head of structured products and co-head of mortgage-backed securities trading. From 2006 to 2008, he was a member of Bear Stearns's Board of Directors. Mr. Nierenberg spent seven years at Lehman Brothers prior to joining Bear Stearns and was instrumental in building the company's adjustable rate mortgage business.



**Table of Contents****Name, Position, Age****Description****David Saltzman**

Age: 52

David Saltzman has been a member of our board of directors since April 2013. Mr. Saltzman is the Executive Director of The Robin Hood Foundation since 1989. Prior to joining Robin Hood, Mr. Saltzman served as the Special Assistant to the President of the Board of Education of the City of New York for three years. Before working at the Board of Education, he ran AIDS education programs for the New York City Department of Health. Mr. Saltzman began his career in public service working with homeless families for the Human Resources Administration of the City of New York, the city's Department of Social Services. Mr. Saltzman earned a Masters of Public Policy and Administration from Columbia University and a Bachelor's degree from Brown University. In 2001, Mr. Saltzman was named as one of Time Magazine's 100 Innovators. Mr. Saltzman's knowledge, skill, expertise and experience as described above led the board of directors to conclude that Mr. Saltzman should serve as a director.

**Alan L. Tyson**

Age: 57

Mr. Tyson has been a member of our board of directors since April 2013. Mr. Tyson has been a member of Newcastle's board of directors and a member of the Audit Committee, Nominating and Corporate Governance Committee, and Compensation Committee of Newcastle's board of directors since November 2011. Mr. Tyson is a private investor. He retired as Managing Director of Credit Suisse in October 2011, where he worked for 18 years in the Sales and Trading area of the Fixed Income Department of the Investment Bank. Mr. Tyson began his career at L. F. Rothschild, Unterberg Towbin and subsequently worked at Smith Barney and Lehman Brothers before joining Donaldson, Lufkin and Jenrette in 1994, which was acquired by Credit Suisse in 2000. Mr. Tyson's knowledge, skill, expertise and experience as described above led the board of directors to conclude that Mr. Tyson should serve as a director.

The following table shows the names and ages of our executive officers and the positions that they hold. A description of the business experience of each for at least the past five years follows the table.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Michael Nierenberg	51	Chief Executive Officer and President
Susan Givens	37	Chief Financial Officer and Treasurer
Jonathan R. Brown	47	Chief Accounting Officer
Cameron D. MacDougall	37	Secretary

**Michael Nierenberg** is the Chief Executive Officer and President of New Residential. For information regarding Mr. Nierenberg, see above.

**Susan Givens** is the Chief Financial Officer and Treasurer of New Residential. Prior to becoming the Chief Financial Officer of New Residential, Ms. Givens served as a Managing Director in Fortress's Private Equity group, where she was responsible for equity capital markets transactions in the Private Equity Business. Prior to joining Fortress in 2006, she worked in private equity at Seaport Capital from 2002 to 2004 and in investment banking at Deutsche Bank from 1999 to 2002. Ms. Givens received a BA in political science from Middlebury College and an MBA from Harvard Business School.



**Jonathan R. Brown** is the Chief Accounting Officer of New Residential. He joined Fortress in 1999 and is its Chief Accounting Officer and a managing director. Prior to joining Fortress, Mr. Brown was the controller of Wellsford Real Properties Inc., a real estate merchant banking firm, from 1997 to 1999 and of Wellsford

## **Table of Contents**

Residential Property Trust, a REIT, from 1994 to 1997. From 1988 to 1994, he was with Kenneth Leventhal & Co., a public accounting firm which later merged with Ernst & Young LLP, leaving as a manager focused on real estate and related financial products. Mr. Brown received a BS in Accounting from New York University.

**Cameron D. MacDougall** is the Secretary of New Residential. Mr. MacDougall is a managing director at Fortress. He joined Fortress in February 2007. Prior to joining Fortress, Mr. MacDougall was an associate at Sullivan & Cromwell LLP from 2006 to 2007. Prior to that, Mr. MacDougall was an associate at Cravath, Swaine & Moore LLP from 2001 to 2006. At both firms, Mr. MacDougall's practice focused on a broad array of capital markets and corporate governance matters. He is a member of the Board of Directors of Mapeley Limited, a UK commercial real estate company, and Shanghai Starcastle Senior Living Services Ltd, a Sino-foreign joint venture company formed in Shanghai, China to engage in senior living residential and eldercare services. Mr. MacDougall graduated Phi Beta Kappa, *magna cum laude* from Yale College with B.A. in history and received a J.D. from Harvard Law School.

## **COMMITTEES OF THE BOARD OF DIRECTORS**

We have established the following committees of our board of directors.

### **Audit Committee**

The audit committee:

reviews the audit plans and findings of our independent registered public accounting firm and our internal audit and risk review staff, as well as the results of regulatory examinations, and tracks management's corrective action plans where necessary;

reviews our financial statements, including any significant financial items and/or changes in accounting policies, with our senior management and independent registered public accounting firm;

reviews our financial risk and control procedures, compliance programs and significant tax, legal and regulatory matters; and

has the sole discretion to appoint annually our independent registered public accounting firm, evaluate its independence and performance and set clear hiring policies for employees or former employees of the independent registered public accounting firm.

Mr. Jacobs is the chairman of our audit committee and is an independent director. The other members of our audit committee are Messrs. Finnerty and Tyson, each of whom is an independent director. Our audit committee operates under a written charter approved by our board of directors in April 2013, a copy of which is available on our website and is available in print to any stockholder who requests it.

### **Nominating and Corporate Governance Committee**

The nominating and corporate governance committee:

recommends to the board of directors individuals qualified to serve as directors and on committees of the board of directors;

advises the board with respect to board composition, procedures and committees;

advises the board with respect to the corporate governance principles applicable to us; and

oversees the evaluation of the board of directors.

Mr. Finnerty is the chairman of our nominating and corporate governance committee and is an independent director. The other members of our nominating and corporate governance committee are Messrs. Tyson and

## **Table of Contents**

Jacobs, each of whom is an independent director. Our nominating and corporate governance committee operates under a written charter approved by our board of directors in April 2013, a copy of which is available on our website and is available in print to any stockholder who requests it.

### **Compensation Committee**

The compensation committee:

evaluates the performance of our Manager;

reviews the compensation and fees payable to our Manager under our Management Agreement;

prepares compensation committee reports;

oversees our equity-based remuneration plans and programs; and

determines from time to time the remuneration for our independent directors.

Mr. Tyson is the chairman of our compensation committee and is an independent director. The other members of our compensation committee are Messrs. Finnerty and Saltzman, each of whom is an independent director. Our compensation committee operates under a written charter approved by our board of directors in April 2013, a copy of which is available on our website and is available in print to any stockholder who requests it.

### **COMPENSATION OF DIRECTORS**

Our independent directors are paid an annual fee of \$125 thousand, payable semi-annually. In addition, an annual fee of \$10 thousand is paid to the chair of the audit committee of the board of directors. Our independent directors fees may be paid by issuance of common stock, based on the value of such common stock at the date of issuance, rather than in cash, provided that any such issuance does not prevent such director from being determined to be independent and such shares are granted pursuant to a stockholder-approved plan or the issuance is otherwise exempt from NYSE listing requirements. Each of our independent directors also received an initial one time grant of options relating to 2,000 shares of our common stock under our Plan at the first meeting of our board of directors attended by such director. In addition, beginning on the first business day after our first annual stockholders meeting following December 31, 2013, and on the first business day after each such annual meeting thereafter during the term of the Plan, each of our independent directors will receive automatic annual awards of shares of our common stock in an amount to be determined by the compensation committee from time to time, based on the fair market value of shares of our common stock on the date of grant. For additional information on director equity compensation, see

Nonqualified Stock Option and Incentive Award Plan. We do not separately compensate our affiliated directors. All members of the board of directors are reimbursed for reasonable costs and expenses incurred in attending meetings of our board of directors.

### **Director Compensation Table for 2013**

<b>Name</b>	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards</b>	<b>Option Awards<sup>(1)</sup></b>	<b>Total</b>
Kevin J. Finnerty <sup>(2)</sup>	\$	\$ 78,125	\$ 1,504	\$ 79,629
Douglas Jacobs	\$ 84,375	\$	\$ 1,504	\$ 85,879
David Saltzman	\$ 78,125	\$	\$ 1,504	\$ 79,629
Alan L. Tyson <sup>(3)</sup>	\$	\$ 78,125	\$ 1,504	\$ 79,629

- (1) Pursuant to our Stock Incentive Plan and the additional terms established by resolution of the Board of Directors, each non-employee director received an initial one-time grant of options relating to 2,000 shares of our common stock, exercisable on the grant date, at the first meeting of the board of directors attended by the director. The amounts in this column reflect the grant date fair value (computed in accordance with

**Table of Contents**

- FASB ASC Topic 718) of these options. For additional information regarding the assumptions used in determining the value, please see Note 13 to our consolidated financial statements included in this prospectus.
- (2) In 2013, Mr. Finnerty elected to receive \$78,125 of compensation for his services as a director in the form of common stock in lieu of cash.
- (3) In 2013, Mr. Tyson elected to receive \$78,125 of compensation for his services as a director in the form of common stock in lieu of cash.

**EXECUTIVE AND MANAGER COMPENSATION****Compensation Discussion and Analysis**

Each of our officers is an employee of our Manager or an affiliate of our Manager. Because our Management Agreement provides that our Manager is responsible for managing our affairs, our officers do not receive cash compensation from us for serving as our officers. Our officers, in their capacities as officers or personnel of our Manager or its affiliates, devote such portion of their time to our affairs as is necessary to enable us to operate our business.

Our manager is not able to segregate and identify any portion of the compensation that it awards to our officers as relating solely to service performed for us, because the services performed by our officers are not performed exclusively for us. Please refer to the section entitled **Our Manager and Management Agreement** Management Agreement for a description of the terms of the Management Agreement.

**Grants of Plan-Based Awards in 2013**

All options granted to our officers in 2013 were granted in connection with our separation from Newcastle, as described below in the section entitled **Nonqualified Stock Option and Incentive Award Plan** Equitable Adjustment of Options. We did not incur any expense under FASB ASC Topic 718 in respect of the grant of these options. No additional options were granted to our officers in 2013 following the separation date. All of the options granted to our officers in 2013 are listed below in the **Outstanding Option Awards as of December 31, 2013** table.

**Outstanding Option Awards as of December 31, 2013**

The table below sets forth the outstanding option awards that were granted to our officers in 2013, each of which was held by the officer as of December 31, 2013.

Name	Number of Securities		Option Exercise Price	Option Expiration Date <sup>(2)</sup>
	Underlying Exercisable Options	Underlying Not-Yet Exercisable Options <sup>(1)</sup>		
Michael Nierenberg				N/A
Susan Givens	9,333	4,667	3.41	4/3/2022
	11,083	6,417	3.67	5/21/2022
	10,483	8,017	3.67	7/31/2022
Jonathan R. Brown	3,300		14.17	1/9/2014
	3,450		13.86	5/25/2014
	1,625		16.95	11/22/2014

Edgar Filing: New Residential Investment Corp. - Form S-11/A

	3,300		15.97	1/12/2015
	1,700		15.87	11/1/2016
	2,420		16.90	1/23/2017
	4,560		14.96	4/11/2017
Cameron D. MacDougall	18,667	9,333	3.41	4/3/2022
	22,167	12,833	3.67	5/21/2022
	20,966	16,034	3.67	7/31/2022

## **Table of Contents**

- (1) The options will be exercisable as to 1/30 of the shares subject to the option on the first day of each of the 30 calendar months following the first month after the date of the grant.
- (2) Represents the expiration date of the option held by FOE I that is the basis for the tandem option held by the officer. In general, the expiration date of the Tandem Awards occurs prior to the expiration date of the underlying option.

## **NONQUALIFIED STOCK OPTION AND INCENTIVE AWARD PLAN**

We have adopted a Nonqualified Stock Option and Incentive Award Plan which became effective on May 15, 2013 (the Plan ). The Plan is intended to facilitate the use of long-term equity-based awards and incentives for the benefit of the service providers to us and our Manager.

A summary of the Plan is set forth below. This summary does not purport to be complete and is subject to and qualified in its entirety by the full text of the Plan, which is incorporated by reference into the exhibits to the registration statement on Form S-11 of which this prospectus forms a part.

### **Summary of the Plan Terms**

The Plan is administered by our board of directors, which has appointed our compensation committee (the Committee ) to administer the Plan. As the administrator of the Plan, the Committee has the authority to grant awards under the Plan and to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it deems advisable for the administration of the Plan. The Committee also has the authority to interpret the terms and provisions of the Plan, any award issued under the plan and any award agreements relating thereto, and to otherwise supervise the administration of the Plan. In particular, the Committee has the authority to determine the terms and conditions of awards under the Plan, including, without limitation, the exercise price, the number of shares of our common stock subject to awards, the term of the awards and the vesting schedule applicable to awards, and to waive or amend the terms and conditions of outstanding awards. All decisions made by the Committee pursuant to the provisions of the Plan are final, conclusive and binding on all persons.

The terms of the Plan provide for the grant of stock options that are not intended to qualify as incentive stock options under Section 422 of the Code, SARs, restricted stock, performance awards, tandem awards and other stock-based and non-stock based awards, in each case to our Manager, to the employees, officers, directors, consultants, service providers or advisors of our Manager who perform services for us, to our employees, officers, directors, consultants, service providers or advisors, and to such other persons who the Committee selects to be participants in the Plan. Such awards may be granted singularly, in tandem, or in combination with each of the other awards.

We reserved 30,000,000 shares of our common stock for issuance under the Plan. On the first day of each fiscal year beginning during the ten-year term of the Plan and in and after calendar year 2014, that number will be increased by a number of shares of our common stock equal to 10% of the number of shares of our common stock newly issued by us during the immediately preceding fiscal year (and, in the case of fiscal year 2013, after the effective date of the Plan). The shares of our common stock which may be issued pursuant to an award under the Plan may be treasury stock, authorized but unissued stock or stock acquired on the open market to satisfy the requirements of the Plan. Awards may consist of any combination of such stock, or, at our election cash. The aggregate number of shares of our common stock that may be granted during any calendar year to any participant who is a covered employee for purposes of Section 162(m) of the Code during such calendar year may not be greater than 30,000,000. If any shares of our common stock subject to an award are forfeited, cancelled, exchanged or surrendered or if an award otherwise terminates or expires without a distribution of shares to the participant, such shares will again be available for grants



under the Plan. The grant of a tandem award will not reduce the number of shares of our common stock reserved and available for issuance under the Plan.

Upon the occurrence of any event which affects the shares of our common stock in such a way that an adjustment of outstanding awards is appropriate to prevent the dilution or enlargement of rights under the awards, the

## **Table of Contents**

Committee will make appropriate equitable adjustments. The Committee may also provide for other substitutions or adjustments in its sole discretion, including, without limitation, the cancellation of any outstanding award and payment in cash or other property in exchange thereof, equal to the excess, if any, of the fair market value of the shares or other property subject to the award over the exercise price, if any.

We anticipate that we will grant our Manager options in connection with our equity offerings as compensation for our Manager's role in raising capital for us. In the event that we offer shares of our common stock to the public, we intend to simultaneously grant to our Manager or an affiliate of our Manager a number of options equal to up to 10% of the aggregate number of shares being issued in such offering at an exercise price per share equal to the offering price per share, as determined by the Committee. The main purpose of these options is to provide transaction-specific compensation to the Manager, in a form that aligns our Manager's interests with those of our stockholders, for the valuable services it provides in raising capital for us to invest through equity offerings. In addition, the plan enables the Manager to incentivize its employees who render services to us by making tandem equity awards to them and thus also aligning their interests with those of our stockholders. We are granting an affiliate of our Manager options to purchase 2,500,000 shares of our common stock in connection with this offering pursuant to the Plan. In each case, the Plan provides that such options will be fully vested as of the date of grant and exercisable as to 1/30 of the shares subject to the option on the first day of each of the 30 calendar months following the date of the grant. Options granted to our Manager are contractually required to be settled in an amount of cash equal to the excess of the fair market value of a share on the date of exercise over the exercise price per share, unless a majority of the independent members of the Board determines to settle the option in shares. If the option is settled in shares, the independent members of the Board will determine whether the exercise price will be payable in cash, by withholding from shares of our common stock otherwise issuable upon exercise of such option or through another method permitted under the plan.

In addition, the Committee has the authority to grant such other awards to our Manager as it deems advisable, provided that no such award may be granted to our Manager in connection with any issuance by us of equity securities in excess of 10% of the maximum number of equity securities then being issued. Our board of directors may also determine to issue options to the Manager that are not subject to the Plan, provided that the number of shares underlying any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to NYSE rules.

Each of the Committee and our Manager also has the authority under the terms of the Plan to direct awards of tandem options ( Tandem Awards ) to employees of our Manager who act as officers or perform other services for us that correspond on a one-to-one basis with the options granted to our Manager, such that exercise by such employee of the Tandem Awards would result in the corresponding options held by our Manager being cancelled. As a condition to the grant of Tandem Awards, our Manager is required to agree that so long as such Tandem Awards remain outstanding, our Manager will not exercise any options under any designated Manager options that relate to the options outstanding under such Tandem Awards. If any Tandem Awards are forfeited, expire or are cancelled without being exercised, the related options under the designated Manager options will again become exercisable in accordance with their terms. The terms and conditions of any Tandem Awards (e.g., the per-share exercise price, the schedule of vesting, exercisability and delivery, etc.) will be determined by the Committee or the Manager, as the case may be, in its sole discretion and must be included in an award agreement, provided, that the term of such Tandem Awards may not be greater than the term of the designated Manager options to which they relate. Tandem Awards are contractually required to be settled in an amount of cash equal to the excess of the fair market value of a share on the date of exercise over the exercise price per share, unless one of our authorized officers determines to settle the award in shares. We have historically not settled at Tandem Awards in cash. If the Tandem Award is settled in shares, the authorized officer will determine whether the exercise price will be payable in cash, by withholding from shares of our common stock otherwise issuable upon exercise of such award or through another method permitted under the plan.

All options granted to our Manager will become fully vested and exercisable upon a change of control (as defined in the Plan) or a termination of the Manager's services to us for any reason, and any Tandem Awards will be governed by the terms and condition set forth in the applicable award agreements, as determined by the Committee or the Manager, as the case may be.

## **Table of Contents**

As a general matter, the Plan provides that the Committee has the power to determine at what time or times each option may be exercised and, subject to the provisions of the Plan, the period of time, if any, after death, disability or other termination of employment during which options may be exercised. Options may become vested and exercisable in installments, and the exercisability of options may be accelerated by the Committee. To the extent permitted by applicable law, we may make loans available to the optionee in connection with the exercise of stock options. Such loans must be evidenced by the delivery of a promissory note and will bear interest and be subject to such other terms and conditions (including, without limitation, the execution by the optionee of a pledge agreement) as the Committee may determine. In any event, such loan amount may not exceed the sum of (x) the exercise price less the par value of the shares of our common stock subject to such option then being exercised plus (y) any federal, state or local income taxes attributable to such exercise.

The Committee may also grant SARs in tandem with all or part of, or completely independent of, a grant of options or any other award under the Plan. A SAR issued in tandem with an option may be granted at the time of grant of the related option or at any time during the term of such option. The amount payable in cash and/or shares of our common stock with respect to each SAR will be equal in value to a percentage (including up to 100%) of the amount by which the fair market value per share of our common stock on the exercise date exceeds the fair market value per share of our common stock on the date of grant of the SAR. The applicable percentage will be established by the Committee. The award agreement under which the SAR is granted may state whether the amount payable is to be paid wholly in cash, wholly in shares of our common stock or in any combination of the foregoing, and if the award agreement does not state the manner of payment, the Committee will determine such manner of payment at the time of payment. The amount payable in shares of our common stock, if any, is determined with reference to the fair market value per share of our common stock on the date of exercise.

SARs issued in tandem with options shall be exercisable only to the extent that the options to which they relate are exercisable. Upon exercise of the tandem SAR, and to the extent of such exercise, the participant's underlying option shall automatically terminate. Similarly, upon the exercise of the tandem option, and to the extent of such exercise, the participant's related SAR will automatically terminate.

The Committee may also grant restricted stock, performance awards, and other stock and non-stock-based awards under the Plan. These awards will be subject to such conditions and restrictions as the Committee may determine, which may include, without limitation, the achievement of certain performance goals or continued employment with us through a specific period.

The Plan provides for automatic annual awards of shares of our common stock to our non-officer or non-employee directors, in any case in an amount to be determined by the Committee from time to time, based on the fair market value of shares of our common stock on the date of grant. Such automatic annual awards, which will be fully vested on the date of grant, will begin on the first business day after our first annual stockholders' meeting following December 31, 2013, and will continue to be made on the first business day after each such annual meeting thereafter during the term of the Plan. In addition, each new non-officer or non-employee member of our board of directors will be granted an initial one-time grant of an option relating to shares of our common stock upon the date of the first meeting of our board of directors attended by such director. Such initial option grant, which will be fully vested on the date of grant, will have an exercise price equal to the fair market value of the underlying shares of our common stock on the date of grant.

## **Equitable Adjustment of Options**

In connection with our separation from Newcastle, each Newcastle option held by our Manager or by the directors, officers, employees, service providers, consultants and advisors of our Manager at the date of the distribution of our

common stock to Newcastle's stockholders was converted into an adjusted Newcastle option as well as a new New Residential option. On May 15, 2013, we issued a total of 21,457,275 options. The exercise price of each adjusted Newcastle option and New Residential option was set to collectively maintain the intrinsic value of the Newcastle option immediately prior to the distribution and to maintain the ratio of the exercise price

## **Table of Contents**

of the adjusted Newcastle option and the New Residential option, respectively, to the fair market value of the underlying shares at the time the distribution was made. The terms and conditions applicable to each such New Residential option was substantially similar to the terms and condition otherwise applicable to the Newcastle option as of the date of distribution. The grant of such New Residential options did not reduce the number of shares of our common stock otherwise available for issuance under the Plan. These options are contractually required to be settled in an amount of cash equal to the excess of the fair market value of a share on the date of exercise over the exercise price per share, unless a majority of the independent members of the Board (or, with respect to a tandem award, one of our authorized officers) determines to settle the option in shares. If the option is settled in shares, the independent members of the Board or an authorized officer, as applicable, will determine whether the exercise price will be payable in cash, by withholding from shares of our common stock otherwise issuable upon exercise of such option or through another method permitted under the plan.

## **Potential Payments upon Termination or Change of Control**

All options granted to our Manager will become fully vested and exercisable upon a change of control (as defined in the Stock Incentive Plan). All tandem options will become fully vested and exercisable if the holder's employment with the Manager or an affiliate of the Manager is terminated without cause within twelve months following a change of control. However, no optionholder will be entitled to receive any payment or other items of value upon a change in control.

## **Risk Management**

Our officers receive compensation from our Manager based on their services both to us and to other entities, making their compensation unlikely to promote unreasonable risk-taking in the management of our business. Additionally, we expect to grant options to our Manager in connection with equity offerings to align our Manager's interests with shares of our stockholders while avoiding an emphasis purely on equity compensation. Based on the assessment of these factors, we have concluded that we have a balanced compensation program that does not promote excessive risk-taking.

## **CODE OF BUSINESS CONDUCT AND ETHICS**

Our board of directors has established a code of business conduct and ethics that applies to our directors and to our Manager's officers, directors and personnel when such individuals are acting for or on our behalf. Among other matters, our code of business conduct and ethics is designed to deter wrongdoing and to promote:

honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;

compliance with applicable governmental laws, rules and regulations;

prompt internal reporting of violations of the code to appropriate persons identified in the code; and

accountability for adherence to the code.

Any waiver of the code of business conduct and ethics for our officers or directors may be made only by our board of directors as a whole or by the audit committee and will be promptly disclosed as required by law or stock exchange regulations.

**Table of Contents****PRINCIPAL STOCKHOLDERS**

The following table sets forth certain information, prior to and, assuming 25,000,000 shares are sold by us in this offering, after this offering regarding the beneficial ownership of our common stock by: (i) each person who is a beneficial owner of more than 5% of our outstanding common stock, (ii) each of our directors and named executive officers and (iii) all directors, director nominees and executive officers as a group.

In accordance with SEC rules, each listed person's beneficial ownership includes:

- all shares of our common stock the holder actually owns beneficially and of record;
- all shares of our common stock over which the holder has or shares voting or dispositive control (such as in the capacity as a general partner of an investment fund); and
- all shares of our common stock the holder has the right to acquire within 60 days.

Unless otherwise indicated, all shares of our common stock are owned directly, and the indicated person has sole voting and investment power. Percentage ownership calculations immediately prior to this offering are based on shares outstanding as of April 15, 2014.

Name and Address of Beneficial Owner(1)	Immediately Prior to this Offering		Immediately After this Offering	
	Amount and Nature of Beneficial Ownership	Percent of Class(2)	Amount and Nature of Beneficial Ownership	Percent of Class(2)
BlackRock, Inc.(3)	15,106,774	6.0%	15,106,774	5.4%
Leon G. Cooperman(4)	15,254,965	6.0%	15,254,965	5.5%
Wesley R. Edens(5)	14,672,739	5.5%	14,672,739	5.1%
Kevin J. Finnerty(6)	349,030	*	349,030	*
Douglas L. Jacobs(6)	2,000	*	2,000	*
David Saltzman(6)	2,000	*	2,000	*
Alan L. Tyson(6)	60,300	*	60,300	*
Michael Nierenberg(6)	836,214	*	836,214	*
Susan Givens(6)	138,400	*	138,400	*
Jonathan R. Brown(6)	17,055	*	17,055	*
Cameron D. MacDougall(6)	179,300	*	179,300	*
All directors, nominees and executive officers as a group (9 persons)	16,257,038	6.1%	16,257,038	5.6%

\* Denotes less than 1%.

(1) The address of all of the officers and directors listed above are in the care of Fortress Investment Group LLC, 1345 Avenue of the Americas, 46th Floor, New York, New York 10105.



- (2) Percentages shown assume the exercise by such persons of all options to acquire shares of our Common Stock that are exercisable within 60 days of April 15, 2014, and no exercise by any other person.
- (3) Sole voting power in respect of 14,310,755 shares and sole dispositive power in respect of 15,106,774 shares, as stated in a Schedule 13G filed with the SEC on January 30, 2014. BlackRock, Inc.'s address is 40 East 52nd Street, New York, NY 10022.
- (4) Sole voting power in respect of 11,628,721 shares; shared voting power in respect of 3,626,244 shares; sole dispositive power in respect of 11,628,721 shares; and shared dispositive power in respect of 3,626,244 shares, as stated in a Schedule 13G filed with the SEC on February 10, 2014. Leon G. Cooperman's address is 11431 W. Palmetto Park Road, Boca Raton, FL 33428.

**Table of Contents**

- (5) Includes 2,183,215 shares held by Mr. Edens, 1,037,091 shares held by FOE I, which is an affiliate of our Manager that holds the options granted to our Manager, and 11,652,433 shares issuable upon the exercise of options held by FOE I. FOE I is the sole managing member of FIG LLC. FIG Corp. is the general partner of FOE I. FIG Corp. is wholly-owned by Fortress Investment Group LLC. As of December 31, 2013, Mr. Edens owns 14.3% of Fortress (Class A and B shares). By virtue of his ownership interest in Fortress and certain of its affiliates, Mr. Edens may be deemed to own the shares listed as beneficially owned by FOE I. Mr. Edens disclaims beneficial ownership of the shares held by FOE I and of the shares issuable upon the exercise of options held by FOE I except, in each case, to the extent of his pecuniary interest therein. Does not include 100,000 shares held by a charitable trust of which Mr. Edens's spouse is sole trustee, and Mr. Edens disclaims beneficial ownership of the shares held by this charitable trust; does not include 100,000 shares held by a charitable trust of which Mr. Edens is sole trustee, and Mr. Edens disclaims beneficial ownership of the shares.
- (6) Includes with respect to each of these individuals the following number of shares issuable upon the exercise of options that are currently exercisable or exercisable within 60 days of April 15, 2014: Finnerty 4,000; Jacobs 2,000; Saltzman 2,000; Tyson 4,000; Nierenberg 835,714; Givens 138,400; Brown 17,055 and MacDougall 179,300.

**Table of Contents**

**CERTAIN RELATIONSHIPS AND TRANSACTIONS WITH RELATED PERSONS,  
AFFILIATES AND AFFILIATED ENTITIES**

Our board of directors has adopted a policy regarding the approval of any related person transaction, which is any transaction or series of transactions in which we or any of our subsidiaries is or are to be a participant, the amount involved exceeds \$120,000, and a related person (as defined under SEC rules) has a direct or indirect material interest. Under the policy, a related person is required to promptly disclose to the legal department of our Manager any proposed related person transaction and all material facts about the proposed transaction. The legal department would then assess and promptly communicate that information to our independent directors. Based on their consideration of all of the relevant facts and circumstances, our independent directors will decide whether or not to approve such transaction and will generally approve only those transactions that are in, or are not inconsistent with, our best interests, as determined by at least a majority of the independent directors acting with ordinary care and in good faith. If we become aware of an existing related person transaction that has not been pre-approved under this policy, the transaction will be referred to our independent directors, who will evaluate all options available, including ratification, revision or termination of such transaction. Our policy requires any director who may be interested in a related person transaction to recuse himself or herself from any consideration of such related person transaction.

**Management Agreement**

We entered into a Management Agreement with our Manager, an affiliate of Fortress, which was subsequently amended and restated on August 1, 2013, pursuant to which our Manager provides for the day-to-day management of our operations. The Management Agreement requires our Manager to manage our business affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. See Our Manager and Management Agreement included elsewhere in this prospectus.

FOE I is the sole member of our Manager. The beneficial owners of FOE I include Messrs. Wesley R. Edens, Peter L. Briger, Jr., Randal A. Nardone and Michael E. Novogratz.

**Investments in Excess MSRs**

As described elsewhere in this prospectus, since the end of 2011, we have entered into the following Excess MSR transactions with Nationstar, which is majority-owned by Fortress funds managed by our Manager. As described elsewhere in this prospectus, in each of our Excess MSR investments, Nationstar is the servicer of the loans and it shares with us, and in the cases of Pools 6 – 11 both us and a Fortress-managed fund, Excess MSRs resulting from any refinancing of loans in the original portfolios, subject to certain limitations. The agreements relating to certain of these transactions have previously been filed and are incorporated by reference into the exhibits to the registration statement on Form S-11 of which this prospectus forms a part. The descriptions of each of these agreements are qualified in their entirety by reference to the full text of the applicable agreements.

**Pool 1:** In the fourth quarter of 2011, we acquired from Nationstar a 65% interest in the Excess MSRs on a portfolio of Agency residential mortgage loans for approximately \$43.7 million, and Nationstar co-invested pari passu with us in 35% of the Excess MSRs.

**Pool 2:** In the second quarter of 2012, we acquired from Nationstar a 65% interest in the Excess MSRs on a portfolio of residential mortgage loans for approximately \$42.3 million, and Nationstar co-invested pari passu with us in 35% of the Excess MSRs.

**Pools 3, 4 and 5.** In the second quarter of 2012, we acquired from Nationstar a 65% interest in the Excess MSR on a portfolio of residential mortgage loans for approximately \$176.5 million, and Nationstar co-invested pari passu with us in 35% of the Excess MSR. In the third quarter of 2013, we increased our interest in the Excess MSR in Pool 5 from 65% to 80% for approximately \$26.6 million.

## **Table of Contents**

**Pool 6.** In the first quarter of 2013, we acquired, through a joint venture, an interest in Excess MSR from Nationstar on a portfolio of mortgage loans for approximately \$28.9 million. Nationstar retained a one-third interest in the Excess MSR, and a Fortress managed fund has acquired the remaining one-third interest.

**Pools 7, 8, 9, 10.** In the first quarter of 2013, we agreed to acquire, through a joint venture, an interest in Excess MSR from Nationstar on a portfolio of residential mortgage loans with a UPB of approximately \$213.5 billion as of November 30, 2012. We committed to invest approximately \$340 million (based on the November 30, 2012 UPB) to acquire an approximately one-third interest in the Excess MSR. Nationstar retained a one-third interest in the Excess MSR, and a Fortress managed fund agreed to acquire the remaining one-third interest.

**Pool 11.** In the second quarter of 2013, we acquired, through a joint venture, an interest in Excess MSR from Nationstar on a portfolio of mortgage loans for approximately \$37.8 million. Nationstar retained a one-third interest in the Excess MSR, and a Fortress managed fund has acquired the remaining one-third interest.

**Pool 12.** In September 2013, we invested approximately \$17.4 million to acquire a 40% interest in the Excess MSR on a portfolio of residential mortgage loans with a UPB of approximately \$5.4 billion (Pool 12), comprised of loans in PLS. A Fortress-managed fund also acquired a 40% interest in the Excess MSR and the remaining 20% interest in the Excess MSR is owned by Nationstar. As the servicer, Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities with this portfolio. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations.

**Pools 13, 14, 15, 16, 17 and 18.** In November 2013, we agreed to invest \$70.0 million to acquire from Nationstar a 33% interest in the Excess MSR on a five portfolios of residential mortgage loans with an aggregate UPB of approximately \$31.3 billion and a 40% interest in the Excess MSR on an additional portfolio (Pool 18) of residential mortgage loans with a UPB of approximately \$9.2 billion. Our investment in Pool 18 has closed and the investment in the remaining pools is expected to close in the second quarter of 2014, subject to the receipt of regulatory, third-party and certain rating agency approvals.

## **Investment in Servicer Advances**

Since December 17, 2013, the Buyer has acquired servicer advances from Nationstar through a co-investment with certain third-parties. In February and March 2014, the Buyer partially exercised the Call Right. For a description of the transaction See [Business Our Portfolio Servicer Advances](#).

## **Other Transactions**

As of December 31, 2013, we held on our balance sheet a total face amount of \$851.5 million of Non-Agency RMBS serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately \$11.5 billion as of December 31, 2013.

On March 5, 2013, we agreed to co-invest in a portfolio of consumer loans with a UPB of approximately \$4.2 billion as of December 31, 2012. The portfolio includes over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. On April 1, 2013, we completed this co-investment through the Consumer Loan Companies. The Consumer Loan Companies acquired the portfolio from HSBC Finance Corporation and its affiliates. We invested approximately \$250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf, which is

majority-owned by Fortress funds managed by our Manager, acquired 47%, and an affiliate of Blackstone Tactical Opportunities Advisors L.L.C. acquired 23%. Springleaf will act as the managing member of the Consumer Loan Companies. The Consumer Loan Companies financed \$2.2 billion (\$1.7 billion outstanding as of December 31, 2013) of the approximately \$3.0 billion purchase price with asset-backed notes that have a maturity

## **Table of Contents**

of April 2021, and pay a coupon of 3.75%. In September 2013, the Consumer Loan Companies issued and sold an additional \$372 million of asset-backed notes for 96% of par. These notes are subordinate to the debt issued in April 2013, have a maturity of December 2024 and pay a coupon of 4%. The 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 is now the servicer of the loans and will provide all servicing and advancing functions for the portfolio.

As of December 31, 2013, we had approximately \$57.6 million outstanding face amount of residential mortgage loans. In February 2013, we invested approximately \$35.1 million to acquire a 70% interest in the mortgage loans. Nationstar co-invested pari passu with us in 30% of the 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. On December 31, 2013, Nationstar financed the mortgage loans and related participation interests in a repurchase facility, which resulted in our receipt of approximately \$22.8 million of financing proceeds corresponding to our 70% interest in the mortgage loans.

On June 27, 2013, we purchased Agency ARM RMBS with an aggregate face amount of approximately \$22.7 million from Newcastle for approximately \$1.2 million, net of related financing. We purchased the securities on the same terms as they were purchased by Newcastle.

On March 6, 2014, we and the Co-Investor entered into an agreement pursuant to which we agreed to purchase the NRZ Purchased Securities for the NRZ Purchase Price. The NRZ Purchased Securities represent 75% of the Subordinate Tranches of a securitization previously sponsored by an affiliate of Springleaf. The securitization, including the NRZ Purchased Securities, is collateralized by residential mortgage loans with a current face amount of approximately \$0.9 billion. The Subordinate Tranches were offered for sale in a competitive auction held by Third Street Funding LLC, an affiliate of Springleaf. Prior to entering into the agreement, the Co-Investor submitted a bid for 100% of the Subordinate Tranches. On March 6, 2014, the Co-Investor was declared the winning bidder, and it will purchase 25% of the Subordinate Tranches on the same terms as our purchase. We settled the purchase on March 31, 2014. Springleaf is majority owned by a private equity fund managed by an affiliate of the Manager.

## **Separation and Distribution Agreement with Newcastle**

On April 26, 2013, we entered into a Separation and Distribution Agreement with Newcastle to effect the separation and provide a framework for our relationship with Newcastle after the separation. This agreement governs the relationship between us and Newcastle subsequent to the completion of the separation plan and provides for the allocation between us and Newcastle of Newcastle's assets, liabilities and obligations (including tax-related assets and liabilities) attributable to periods prior to the respective separations of the businesses from Newcastle. The Separation and Distribution Agreement is incorporated by reference into the exhibits to the registration statement on Form S-11 of which this prospectus forms a part.

The Separation and Distribution Agreement sets forth our agreements with Newcastle regarding the principal transactions that were necessary to separate us from Newcastle. It also sets forth other agreements that govern certain aspects of our relationship with Newcastle after the completion of the separation plan. For purposes of the Separation and Distribution Agreement: (i) the New Residential Group means New Residential and its subsidiaries and (ii) the Newcastle Group means Newcastle and its subsidiaries other than New Residential and the New Residential subsidiaries.

**Transfer of Assets and Assumption of Liabilities.** The Separation and Distribution Agreement identifies the assets and liabilities to be retained by, transferred to, assumed by, or assigned to, as the case may be, each of us and

Newcastle as part of the separation of Newcastle into two companies, and describes when and how these transfers, assumptions and assignments will occur, although, many of the transfers, assumptions and assignments occurred prior to the parties entering into the Separation and Distribution Agreement. In particular, the Separation and



---

**Table of Contents**

Distribution Agreement provided that, subject to the terms and conditions contained in the Separation and Distribution Agreement immediately prior to the time of effectiveness of the Separation and Distribution Agreement, Newcastle and New Residential took all actions necessary so that the New Residential Group:

- (a) owned, to the extent it does not already own, all of Newcastle's Excess MSR assets, a portion of Newcastle's Agency RMBS, all of Newcastle's Non-Agency RMBS acquired since the beginning of 2012, all of the mortgage loans Newcastle has acquired since the beginning of 2013, all of Newcastle's consumer loans and certain cash transferred to the New Residential Group by Newcastle; and
- (b) assumed, to the extent it is not already liable for:
  - (i) any liabilities relating to or arising out of our portfolio of assets described under (a) above whether arising prior to, at the time of, or after, the effectiveness of the Separation and Distribution Agreement;
  - (ii) any liabilities arising out of claims by our directors, officers and affiliates arising after the time of effectiveness of the Separation and Distribution Agreement against either Newcastle or us to the extent they relate to our portfolio of assets described under (a) above as of the date of the Separation and Distribution Agreement; and
  - (iii) any other potential liabilities related to (A) recent Newcastle equity offerings in certain specified percentages as disclosed in the Separation and Distribution Agreement; (B) Newcastle's Exchange Act reports relating to disclosures about our portfolio of assets described under (a) above; and (C) indemnification obligations under the Management Agreement with respect to our portfolio of assets described under (a) above.

Except as otherwise provided in the Separation and Distribution Agreement, Newcastle retained all other assets and liabilities.

Except as may expressly be set forth in the Separation and Distribution Agreement or any ancillary agreement, all assets were transferred on an as is, where is basis without representation or warranty.

Information in this prospectus with respect to the assets and liabilities of the parties following the separation is presented based on the allocation of such assets and liabilities as set forth in the Separation and Distribution Agreement, unless the context otherwise requires. Certain of the liabilities and obligations assumed by one party or for which one party will have an indemnification obligation under the Separation and Distribution Agreement are the legal or contractual liabilities or obligations of another party. Each such party that continues to be subject to such legal or contractual liability or obligation will rely on the applicable party that assumed the liability or obligation or the applicable party that undertook an indemnification obligation with respect to the liability or obligation, as applicable, under the Separation and Distribution Agreement, to satisfy the performance and payment obligations or indemnification obligations with respect to such legal or contractual liability or obligation.

**Further Assurances.** Each party agreed to cooperate with the other and use commercially reasonable efforts, prior to, on and after the distribution date, to take promptly, or cause to be taken promptly, all actions to do promptly, or cause to be done promptly, all things reasonably necessary, proper or advisable on its part to consummate and make

effective the transactions contemplated by, and the intent and purposes of, the Separation and Distribution Agreement. In addition, each party agreed that neither party would, nor would either party allow its respective subsidiaries to, without the prior consent of the other party, take any action which would reasonably be expected to prevent or materially impede, interfere with or delay the transactions contemplated by the Separation and Distribution Agreement and the ancillary agreements thereto, if any. Both parties will also use commercially reasonable efforts to cause third parties, such as insurers or trustees, to fulfill any obligations they are required to fulfill under the Separation and Distribution Agreement.

***The Distribution.*** The Separation and Distribution Agreement also governed the rights and obligations of the parties regarding the proposed distribution, including our distribution to Newcastle, as a stock dividend, the number of

## **Table of Contents**

shares of our common stock distributable in the distribution to effectuate the separation. In addition, Newcastle agreed to cause its agent to distribute to Newcastle stockholders that hold shares of Newcastle common stock as of the applicable record date all the shares of common stock of the company being separated from Newcastle.

Additionally, the Separation and Distribution Agreement provided that the distribution was subject to several conditions that had to be satisfied or waived by Newcastle in its sole discretion.

***Termination of Other Agreement Arrangements; Bank Accounts.*** The Separation and Distribution Agreement provides that, other than the Separation and Distribution Agreement, the ancillary agreements to the Separation and Distribution Agreement (if any), certain confidentiality and non-disclosure agreements among any members of the New Residential Group, the Newcastle Group or employees of our Manager and certain contribution agreements related to Agency RMBS and Non-Agency RMBS between Newcastle and certain third parties as disclosed in the Separation and Distribution Agreement, all prior agreements and arrangements, whether written or not, between any member of the Newcastle Group on the one hand, and any member of the New Residential Group on the other hand (except to the extent any person that is not a member of the New Residential Group or Newcastle Group is also a party to such agreements or arrangements), were terminated and ceased to be of further force and effect as of the time of effectiveness of the Separation and Distribution Agreement. At the time of such termination, all parties were released from liability under such agreements and arrangements, other than with respect to the settlement of intercompany accounts, which were satisfied and/or settled in full in cash or otherwise cancelled and terminated or extinguished by the relevant members of the New Residential Group or Newcastle Group prior to the time of effectiveness of the Separation and Distribution Agreement.

***Releases and Indemnification.*** Subject to certain exceptions including with respect to liabilities assumed by, or allocated to, us or Newcastle, the Separation and Distribution Agreement provided that we and Newcastle generally agreed to release each other from all liabilities existing or arising from acts or events prior to or on the distribution date.

In addition, the Separation and Distribution Agreement provided that, except as otherwise provided for in other documents related to the separation, we would indemnify Newcastle and its affiliates and representatives against losses arising from:

- (a) any liabilities relating to our portfolio of assets, which included all of Newcastle's Excess MSR assets, a portion of Newcastle's Agency RMBS, all of Newcastle's Non-Agency RMBS acquired since the beginning of 2012, all of the mortgage loans Newcastle had acquired since the beginning of 2013, all of Newcastle's consumer loans and certain cash transferred to the New Residential Group by Newcastle, whether arising prior to, at the time of, or after, the effectiveness of the Separation and Distribution Agreement;
- (b) any liabilities arising out of claims by our directors, officers and affiliates arising after the time of effectiveness of the Separation and Distribution Agreement against either Newcastle or us to the extent they relate to the our portfolio of assets described under (a) above as of the date of the Separation and Distribution Agreement;
- (c) any other potential liabilities related to (A) recent Newcastle equity offerings in certain specified percentages as disclosed in the Separation and Distribution Agreement; (B) Newcastle's Exchange Act reports relating to

disclosures about our portfolio of assets described under (a) above; and (C) indemnification obligations under the Management Agreement with respect to the our portfolio of assets described under (a) above;

- (d) any failure by any member of the New Residential Group or any other person to pay, perform or otherwise promptly discharge any liability listed under (a)-(c) above in accordance with their respective terms, whether prior to, at or after the time of effectiveness of the Separation and Distribution Agreement;

**Table of Contents**

- (e) any breach by any member of the New Residential Group of any provision of the Separation and Distribution Agreement and any agreements ancillary thereto (if any), subject to any limitations of liability provisions and other provisions applicable to any such breach set forth therein; and
  - (f) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in our registration statement on Form 10, including the information statement exhibited thereto, other than information that relates solely to any assets owned, directly or indirectly by Newcastle, excluding the assets that will comprise our portfolio described under (a) above.
- Newcastle agreed to indemnify us and our affiliates and representatives against losses arising from:

- (a) any liability related to Newcastle's junior subordinated notes due 2035 issued pursuant to the Junior Subordinated Indenture, dated April 30, 2009, between Newcastle and The Bank of New York Mellon Trust Company, National Association;
- (b) any other liability of Newcastle or its subsidiaries (excluding any liabilities related to New Residential);
- (c) any failure of any member of the Newcastle Group or any other person to pay, perform or otherwise promptly discharge any liability listed under (a) and (b) above in accordance with their respective terms, whether prior to, at or after the time of effectiveness of the Separation and Distribution Agreement;
- (d) any breach by any member of the Newcastle Group of any provision of the Separation and Distribution Agreement and any agreements ancillary thereto (if any), subject to any limitations of liability provisions and other provisions applicable to any such breach set forth therein; and
- (e) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in our registration statement on Form 10, including the information statement exhibited thereto, that relates solely to any assets owned, directly or indirectly by Newcastle, other than our portfolio of assets, which included all of Newcastle's Excess MSR assets, a portion of Newcastle's Agency RMBS, all of Newcastle's Non-Agency RMBS acquired since the beginning of 2012, all of the mortgage loans Newcastle had acquired since the beginning of 2013, all of Newcastle's consumer loans and certain cash transferred to the New Residential Group by Newcastle.

Indemnification obligations shall generally be net of any insurance proceeds actually received by the indemnified person. The Separation and Distribution Agreement provides that we and Newcastle will waive any right to special, indirect, punitive, exemplary, remote, speculative or similar damages in excess of compensatory damages provided that any such liabilities with respect to third party claims shall be considered direct damages. The Separation and Distribution Agreement also contains customary procedures relating to the receipt of any indemnification payments that may constitute non-qualifying REIT income.

**Competition.** The Separation and Distribution Agreement does not include any non-competition or other similar restrictive arrangements with respect to the range of business activities that may be conducted, or investments that may be made, by either the Newcastle Group or the New Residential Group. Each of the parties agreed that nothing set forth in the agreement shall be construed to create any restriction or other limitation on the ability of any of the Newcastle Group or New Residential Group to engage in any business or other activity that overlaps or competes with the business of any other party, including investing in residential mortgage related securities.

**Certain Tax-Related Covenants.** If we are treated as a successor to Newcastle under applicable U.S. federal income tax rules, and if Newcastle fails to qualify as a REIT, we could be prohibited from electing to be a REIT.

**Table of Contents**

Accordingly, in the Separation and Distribution Agreement, Newcastle has (i) represented that it has no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT, (ii) covenanted to use commercially reasonable efforts to cooperate with us as necessary to enable us to qualify for taxation as a REIT and receive customary legal opinions concerning REIT status, including providing information and representations to us and our 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 us to fail to qualify as a REIT under the successor REIT rule referred to above). Additionally, in the Separation and Distribution Agreement, we covenanted to use our reasonable best efforts to qualify for taxation as a REIT for our taxable year ended December 31, 2013.

***Insurance.*** Following the distribution date, Newcastle shall maintain its currently existing insurance policies related to director and officer liability (the Newcastle D&O Policies). Prior to the distribution date, Newcastle and New Residential shall use commercially reasonable efforts to obtain separate insurance policies for New Residential on substantially similar terms as the Newcastle D&O Policies. New Residential will be responsible for all premiums, costs and fees associated with any new insurance policies placed for the benefit of New Residential.

***Dispute Resolution.*** In the event of any dispute arising out of the Separation and Distribution Agreement, the parties, each having designated a representative for such purpose, will negotiate in good faith for 30 days to resolve any disputes between the parties. If the parties are unable to resolve disputes in this manner within 30 days, the disputes will be resolved through binding arbitration.

***Other Matters Governed by the Separation and Distribution Agreement.*** Other matters governed by the Separation and Distribution Agreement include, amongst others, access to financial and other information, confidentiality, assignability and treatment of stock options.

**Table of Contents**

**DESCRIPTION OF OUR CAPITAL STOCK**

*The following descriptions are summaries of the material terms of our certificate of incorporation and bylaws. These descriptions may not contain all of the information that is important to you. To understand them fully, you should read our certificate of incorporation and bylaws, copies of which are filed with the SEC as exhibits to the registration statement of which this prospectus is a part.*

*Please note that, with respect to any of our shares held in book-entry form through The Depository Trust Company or any other share depository, the depository or its nominee will be the sole registered and legal owner of those shares, and references in this prospectus to any stockholder or holder of those shares means only the depository or its nominee. Persons who hold beneficial interests in our shares through a depository will not be registered or legal owners of those shares and will not be recognized as such for any purpose. For example, only the depository or its nominee will be entitled to vote the shares held through it, and any dividends or other distributions to be paid, and any notices to be given, in respect of those shares will be paid or given only to the depository or its nominee. Owners of beneficial interests in those shares will have to look solely to the depository with respect to any benefits of share ownership, and any rights they may have with respect to those shares will be governed by the rules of the depository, which are subject to change from time to time. We have no responsibility for those rules or their application to any interests held through the depository.*

**AUTHORIZED CAPITAL STOCK**

Our authorized capital stock consists of:

2,000,000,000 shares of common stock, par value \$0.01 per share; and

100,000,000 shares of preferred stock, par value \$0.01 per share.

As of April 15, 2014, 253,209,669 shares of our common stock were issued and outstanding. All the outstanding shares of our common stock are fully paid and non-assessable. No shares of our preferred stock are outstanding.

**COMMON STOCK**

Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess the exclusive right to vote for the election of directors and for all other purposes. Our certificate of incorporation does not provide for cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors standing for election, and the holders of the remaining shares will not be able to elect any directors.

Subject to any preference rights of holders of any preferred stock that we may issue in the future, holders of our common stock are entitled to receive dividends, if any, declared from time to time by our board of directors out of legally available funds. In the event of our liquidation, dissolution or winding up, the holders of our common stock are entitled to share ratably in all assets remaining after the payment of liabilities, subject to any rights of holders of our preferred stock to prior distribution.



Holders of our common stock have no preemptive, subscription, redemption or conversion rights. Any shares of common stock issued pursuant to this prospectus will be validly issued, fully paid and nonassessable.

**PREFERRED STOCK**

Our board of directors has the authority, without action by our stockholders, to issue preferred stock and to fix voting powers for each class or series of preferred stock, and to provide that any class or series may be subject to

## Table of Contents

redemption, entitled to receive dividends, entitled to rights upon dissolution, or convertible or exchangeable for shares of any other class or classes of capital stock. The rights with respect to a series or class of preferred stock may be greater than the rights attached to our common stock. It is not possible to state the actual effect of the issuance of any shares of our preferred stock on the rights of holders of our common stock until our board of directors determines the specific rights attached to that preferred stock. The effect of issuing preferred stock could include, among other things, one or more of the following:

restricting dividends in respect of our common stock;

diluting the voting power of our common stock or providing that holders of preferred stock have the right to vote on matters as a class;

impairing the liquidation rights of our common stock; or

delaying, deferring or preventing a change of control of us.

## **RESTRICTIONS ON OWNERSHIP AND TRANSFER OF OUR CAPITAL STOCK**

In order to qualify as a REIT under the Code, for each taxable year beginning after December 31, 2013, our shares of capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, for our taxable years beginning after December 31, 2013, no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or constructively, by five or fewer individuals (as defined in the Code to include certain entities) during the second half of any calendar year.

Our certificate of incorporation, subject to certain exceptions, contains restrictions on the number of shares of our capital stock that a person may own and may prohibit certain entities from owning our shares. Our certificate of incorporation provides that (subject to certain exceptions described below) no person may beneficially or constructively own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding shares of common or capital stock. Pursuant to our certificate of incorporation, our board of directors has the power to increase or decrease the percentage of common or capital stock that a person may beneficially or constructively own. However, any decreased stock ownership limit will not apply to any person whose percentage ownership of our common or capital stock, as the case may be, is in excess of such decreased stock ownership limit until that person's percentage ownership of our common or capital stock, as the case may be, equals or falls below the decreased stock ownership limit. Until such a person's percentage ownership of our common or capital stock, as the case may be, falls below such decreased stock ownership limit, any further acquisition of common stock will be in violation of the decreased stock ownership limit.

Our certificate of incorporation also prohibits any person from beneficially or constructively owning shares of our capital stock that would result in our being closely held under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT (including through ownership that results in our owning (actually or constructively) an interest in a tenant as described in Section 856(d)(2)(B) of the Code) and from transferring shares of our capital stock if the transfer would result in our capital stock being beneficially owned by fewer than 100 persons. Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our capital stock that will

or may violate any of the foregoing restrictions on transferability and ownership, or who is the intended transferee of shares of our capital stock that are transferred to the trust (as described below), is required to give written notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfer on our qualification as a REIT. The foregoing restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

Our board of directors, in its sole discretion, may exempt a person from the foregoing restrictions. The person seeking an exemption must provide to our board of directors such conditions, representations and undertakings as

## **Table of Contents**

our board of directors may deem reasonably necessary to conclude that granting the exemption will not cause us to lose our qualification as a REIT. Our board of directors may also require a ruling from the IRS or an opinion of counsel in order to determine or ensure our qualification as a REIT in the context of granting such exemptions.

Any attempted transfer of our capital stock which, if effective, would result in a violation of the foregoing restrictions will cause the number of shares causing the violation (rounded up to the nearest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in such shares. The automatic transfer will be deemed to be effective as of the close of business on the business day (as defined in our certificate of incorporation) prior to the date of the transfer. If, for any reason, the transfer to the trust does not occur or would not prevent a violation of the restrictions on ownership contained in our certificate of incorporation, our certificate of incorporation provides that the purported transfer will be void ab initio. Shares of our capital stock held in the trust will be issued and outstanding shares. The proposed transferee will not benefit economically from ownership of any shares of our capital stock held in the trust, will have no rights to dividends and no rights to vote or other rights attributable to the shares of capital stock held in the trust. The trustee of the trust will have all voting rights and rights to dividends or other distributions with respect to shares held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or other distribution paid prior to our discovery that shares of capital stock have been transferred to the trust will be paid by the recipient to the trustee upon demand. Any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or distribution paid to the trustee will be held in trust for the charitable beneficiary. Subject to Delaware law, the trustee will have the authority to rescind as void any vote cast by the proposed transferee prior to our discovery that the shares have been transferred to the trust and to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that shares of our capital stock have been transferred to the trust, the trustee will sell the shares to a person designated by the trustee, whose ownership of the shares will not violate the above ownership limitations. Upon such sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows: the proposed transferee will receive the lesser of (1) the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the trust (e.g., a gift, devise or other similar transaction), the market price (as defined in our certificate of incorporation) of the shares on the day of the event causing the shares to be held in the trust and (2) the price received by the trustee from the sale or other disposition of the shares. The trust may reduce the amount payable to the proposed transferee by the amount of dividends and distributions paid to the proposed transferee and owned by the proposed transferee to the trust.

Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. If, prior to our discovery that shares of our capital stock have been transferred to the trust, the shares are sold by the proposed transferee, then (1) the shares shall be deemed to have been sold on behalf of the trust and (2) to the extent that the proposed transferee received an amount for the shares that exceeds the amount the proposed transferee was entitled to receive, the excess shall be paid to the trustee upon demand.

In addition, shares of our capital stock held in the trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of the price per share in the transaction that resulted in the transfer to the trust (or, in the case of a devise or gift, the market price at the time of the devise or gift) and the market price on the date we, or our designee, accept the offer. We will have the right to accept the offer until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee.

Every owner of more than 5% (or such lower percentage as required by the Code or the regulations promulgated thereunder) in number or in value of all classes or series of our capital stock, including shares of our common

**Table of Contents**

stock, within 30 days after the end of each taxable year, will be required to give written notice to us stating the name and address of such owner, the number of shares of each class and series of shares of our capital stock that the owner beneficially owns and a description of the manner in which the shares are held. Each owner shall provide to us such additional information as we may request to determine the effect, if any, of the beneficial ownership on our qualification as a REIT and to ensure compliance with the ownership limitations. In addition, each such owner shall, upon demand, be required to provide to us such information as we may request, in good faith, to determine our qualification as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance and to ensure compliance with the 9.8% ownership limitations in our certificate of incorporation.

These ownership limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

**TRANSFER AGENT**

The registrar and transfer agent for our common stock is American Stock Transfer & Trust Company, LLC.

**LISTING**

Our common stock is listed on the NYSE under the symbol NRZ.

**Table of Contents**

**CERTAIN PROVISIONS OF THE DELAWARE GENERAL CORPORATION LAW AND OUR  
CERTIFICATE OF INCORPORATION AND BYLAWS**

**ANTI-TAKEOVER EFFECTS OF DELAWARE LAW, OUR CERTIFICATE OF INCORPORATION AND  
BYLAWS**

The following is a summary of certain provisions of our certificate of incorporation and bylaws that may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

**Authorized but Unissued Shares**

The authorized but unissued shares of our common stock and our preferred stock will be available for future issuance without obtaining stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future offerings to raise additional capital and corporate acquisitions. The existence of authorized but unissued shares of our common stock and preferred stock could render more difficult or discourage an attempt to obtain control over us by means of a proxy contest, tender offer, merger or otherwise.

**Delaware Business Combination Statute**

We are organized under Delaware law. Some provisions of Delaware law may delay, defer or prevent a transaction that would cause a change in our control. Our certificate of incorporation provides that Section 203 of the Delaware General Corporation Law, as amended, an anti-takeover law, will not apply to us. In general, this statute prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction by which that person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an interested stockholder is a person who, together with affiliates and associates, owns, or within three years prior, did own, 15% or more of voting stock.

**Other Provisions of Our Certificate of Incorporation and Bylaws**

Our certificate of incorporation provides for a staggered board of directors consisting of three classes of directors. Directors of each class are chosen for three-year terms upon the expiration of their current terms and each year one class of our directors will be elected by our stockholders. The terms of the first, second and third classes will expire in 2014, 2015 and 2016, respectively. We believe that classification of our board of directors will help to assure the continuity and stability of our business strategies and policies as determined by our board of directors. Additionally, there is no cumulative voting in the election of directors. This classified board provision could have the effect of making the replacement of incumbent directors more time consuming and difficult. At least two annual meetings of stockholders, instead of one, will generally be required to effect a change in a majority of our board of directors.

Thus, the classified board provision could increase the likelihood that incumbent directors will retain their positions. The staggered terms of directors may delay, defer or prevent a tender offer or an attempt to change control of us, even though a tender offer or change in control might be believed by our stockholders to be in their best interest. In addition, our bylaws provide that directors may be removed only for cause and only with the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote in the election of directors.

Pursuant to our certificate of incorporation, shares of our preferred stock may be issued from time to time, and the board of directors is authorized to determine and alter all rights, preferences, privileges, qualifications, limitations and restrictions without limitation. See Description of Our Capital Stock Preferred Stock. Our bylaws do not provide our stockholders with the ability to call a special meeting of the stockholders.



## **Table of Contents**

### **Ability of Our Stockholders to Act**

Our certificate of incorporation and bylaws do not permit our stockholders to call special stockholders meetings. Written notice of any special meeting so called shall be given to each stockholder of record entitled to vote at such meeting not less than 10 or more than 60 days before the date of such meeting, unless otherwise required by law.

Our certificate of incorporation and bylaws also prohibits our stockholders from consenting in writing to take any action in lieu of taking such action at a duly called annual or special meeting of our stockholders.

Our bylaws provide that nominations of persons for election to our board of directors may be made at any annual meeting of our stockholders, or at any special meeting of our stockholders called for the purpose of electing directors, (a) by or at the direction of our board of directors or (b) by any of our stockholders. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to our Secretary. To be timely, a stockholder's notice must be delivered to or mailed and received at our principal executive offices (i) in the case of an annual meeting, not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within 25 days before or after such anniversary date, notice by a stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs and (ii) in the case of a special meeting, not later than the tenth day following the day on which such notice of the date of the special meeting was mailed or such public disclosure of the date of the special meeting was made, whichever first occurs.

### **Limitations on Liability and Indemnification of Directors and Officers**

Our certificate of incorporation and bylaws provide that our directors will not be personally liable to us or our stockholders for monetary damages for breach of a fiduciary duty as a director, except for:

any breach of the director's duty of loyalty to us or our stockholders,

intentional misconduct or a knowing violation of law;

liability under Delaware corporate law for an unlawful payment of dividends or an unlawful stock purchase or redemption of stock; or

any transaction from which the director derives an improper personal benefit.

Our certificate of incorporation provides that we must indemnify our directors and officers to the fullest extent permitted by Delaware law. We are also expressly authorized to advance certain expenses (including attorneys' fees and disbursements and court costs) to our directors and officers and carry directors' and officers' insurance providing indemnification for our directors and officers for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and officers.

Prior to the completion of the distribution, we intend to enter into separate indemnification agreements with each of our directors and executive officers. Each indemnification agreement will provide, among other things, for indemnification to the fullest extent permitted by law and our certificate of incorporation against (i) any and all expenses and liabilities, including judgments, fines, penalties and amounts paid in settlement of any claim with our approval and counsel fees and disbursements, (ii) any liability pursuant to a loan guarantee, or otherwise, for any of our indebtedness, and (iii) any liabilities incurred as a result of acting on our behalf (as a fiduciary or otherwise) in connection with an employee benefit plan. The indemnification agreements will provide for the advancement or payment of all expenses to the indemnitee and for reimbursement to us if it is found that such indemnitee is not entitled to such indemnification under applicable law and our certificate of incorporation.

**Table of Contents**

These provisions and agreements may have the practical effect in some cases of eliminating our stockholders' ability to collect monetary damages from our directors and executive officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"), may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

**CORPORATE OPPORTUNITY**

Under our certificate of incorporation, to the extent permitted by law:

Fortress and Fortress's affiliates and their permitted transferees have the right to, and have no duty to abstain from, exercising such right to, engage or invest in the same or similar business as us, do business with any of our clients, customers or vendors or employ or otherwise engage any of our officers, directors or employees;

if Fortress and Fortress's affiliates and their permitted transferees or any of their officers, directors or employees acquire knowledge of a potential transaction that could be a corporate opportunity, it has no duty to offer such corporate opportunity to us, our stockholders or affiliates;

we have renounced any interest or expectancy in, or in being offered an opportunity to participate in, such corporate opportunities; and

in the event that any of our directors and officers who is also a director, officer or employee of Fortress or Fortress's affiliates or their permitted transferees acquire knowledge of a corporate opportunity or is offered a corporate opportunity, provided that this knowledge was not acquired solely in such person's capacity as our director or officer and such person acted in good faith, then such person is deemed to have fully satisfied such person's fiduciary duty and is not liable to us if Fortress, or its affiliates, pursues or acquires the corporate opportunity or if such person did not present the corporate opportunity to us.

**Table of Contents**

**SHARES ELIGIBLE FOR FUTURE SALE**

Upon completion of this offering, we will have outstanding 278,209,669 shares of our common stock, assuming a total of 25,000,000 shares are sold in this offering (or 281,959,669 shares if the underwriter exercises its option to purchase additional shares of common stock in full).

Of these shares, the 25,000,000 shares of common stock sold in this offering (or 28,750,000 shares if the underwriter exercises its option to purchase additional shares of common stock in full) and the 253,209,669 shares of common stock already outstanding will be freely transferable without restriction or further registration under the Securities Act, subject to the limitations on ownership set forth in our certificate of incorporation and bylaws and except for any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act and as described more fully below.

No prediction can be made as to the effect, if any, that future issuances or sales of shares of our common stock, or the availability of shares of our common stock for future issuance or sale, will have on the market price of our common stock prevailing from time to time. Issuances or sales of substantial amounts of shares of common stock, or the perception that such issuances or sales could occur, may affect adversely the prevailing market price of our common stock. See **Risk Factors** **Risks Related to Our Common Stock**.

In connection with this offering, we will grant pursuant to the Plan options to purchase 2,500,000 shares of our common stock to an affiliate of our manager at an exercise price per share equal to the public offering price, representing 10% of the number of shares being offered by us hereby, and subject to adjustment if the underwriter's option to purchase additional shares is exercised, at the public offering price of our shares in this offering. The option shares will not be registered in connection with this offering.

**Rule 144**

Shares of common stock that are restricted securities under the meaning of Rule 144 under the Securities Act may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemption provided by Rule 144.

In general, under Rule 144 under the Securities Act, a person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months (including any period of consecutive ownership of preceding non-affiliated holders) would be entitled to sell those shares, subject only to the availability of current public information about us (which requires that we are current in our periodic reports under the Exchange Act). A non-affiliated person who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year would be entitled to sell those shares without regard to the other provisions of Rule 144.

A person (or persons whose shares are aggregated) who is deemed to be an affiliate of ours and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months would be entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of our common stock or the average weekly trading volume of our common stock during the four calendar weeks preceding such sale. Such sales are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about us.

**Lock-Up Agreements**

We, FOE I, our Manager and our directors and executive officers have entered into lock-up agreements with the underwriter prior to the commencement of this offering pursuant to which each of these persons or entities, with limited exceptions, for a period of 30 days after the date of this prospectus, may not, without the prior written consent of the underwriter, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any

## **Table of Contents**

shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement.

### **Nonqualified Stock Option and Incentive Award Plan Shares**

Our board of directors has adopted the Plan which provides for the grant of equity-based awards, including restricted stock, stock options, SARs, performance awards, tandem awards and other equity-based and non equity-based awards, in each case to our Manager, to the directors, officers, employees, service providers, consultants and advisor of our Manager who perform services for us, and to our directors, officers, employees, service providers, consultants and advisors. We have initially reserved 30,000,000 shares of our common stock for issuance under the Plan; on the first day of each fiscal year beginning during the ten-year term of the Plan and in and after calendar year 2014, that number will be increased by a number of shares of our common stock equal to 10% of the number of shares of our common stock newly issued by us during the immediately preceding fiscal year (and, in the case of fiscal year 2013, after the effective date of the Plan). We do not intend to file a Registration Statement on Form S-8 to register the shares of our common stock issued under the Plan. Any shares of common stock issued under the Plan will be restricted securities as that term is defined in Rule 144 under the Securities Act.

### **Equitable Adjustment of Options**

In connection with the distribution, each Newcastle option that was held as of the date of the distribution by our Manager or by the directors, officers, employees, service providers, consultants and advisors of our Manager, was converted into an adjusted Newcastle option and a new New Residential option. The exercise price of each adjusted Newcastle option and New Residential option was set to collectively maintain the intrinsic value of the Newcastle option immediately prior to the distribution and to maintain the ratio of the exercise price of the adjusted Newcastle option and the New Residential option, respectively, to the fair market value of the underlying shares as of the distribution. On May 15, 2013, we issued 21.5 million options. We do not intend to register the common stock issuable upon exercise of the new New Residential options. Any shares of common stock issuable upon exercise of the new New Residential options will be restricted securities as that term is defined in Rule 144 under the Securities Act.

**Table of Contents**

**U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of the material U.S. federal income tax consequences of an investment in common stock of New Residential. For purposes of this section under the heading U.S. Federal Income Tax Considerations, references to New Residential, we, our and us mean only New Residential Investment Corp. and not its subsidiaries or other lower-tier entities, except as otherwise indicated and references to Newcastle refer to Newcastle Investment Corp. This summary is based upon the Code, the regulations promulgated by the U.S. Treasury Department, rulings and other administrative pronouncements issued by the IRS, and judicial decisions, all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. Except as indicated below, we have not sought and do not intend to seek, an advance ruling from the IRS regarding any matter discussed in this prospectus. The summary is also based upon the assumption that we will operate New Residential and its subsidiaries and affiliated entities in accordance with their applicable organizational documents or partnership agreements. This summary is for general information only and is not tax advice. The Code provisions governing the U.S. federal income tax treatment of REITs and their stockholders are highly technical and complex, and this summary is qualified in its entirety by the express language of applicable Code provisions, Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof. Moreover, this summary does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular investor in light of its investment or tax circumstances, or to investors subject to special tax rules, such as:

financial institutions;

insurance companies;

broker-dealers;

regulated investment companies;

partnerships and trusts;

persons who hold our stock on behalf of another person as a nominee;

persons who receive our stock through the exercise of employee stock options or otherwise as compensation;

persons holding our stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment;

and, except to the extent discussed below:

tax-exempt organizations; and

foreign investors.

This summary assumes that investors will hold their common stock as a capital asset, which generally means as property held for investment.

For purposes of this discussion, a domestic holder is a stockholder of New Residential that is for U.S. federal income tax purposes:

a citizen or resident of the U.S.,

a corporation created or organized in the U.S. or under the laws of the U.S., or of any state thereof, or the District of Columbia,

an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source, or

a trust if a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. fiduciaries have the authority to control all substantial decisions of the trust.



## **Table of Contents**

A non-U.S. holder is a stockholder of New Residential that is neither a domestic holder nor a partnership (or other entity treated as a partnership) for U.S. federal income tax purposes. If a partnership, including for this purpose any entity that is treated as a partnership for U.S. federal income tax purposes, holds our stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. An investor that is a partnership and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of the acquisition, ownership and disposition of our stock.

**THE U.S. FEDERAL INCOME TAX TREATMENT OF OUR COMMON STOCKHOLDERS DEPENDS IN SOME INSTANCES ON DETERMINATIONS OF FACT AND INTERPRETATIONS OF COMPLEX PROVISIONS OF U.S. FEDERAL INCOME TAX LAW FOR WHICH NO CLEAR PRECEDENT OR AUTHORITY MAY BE AVAILABLE. IN ADDITION, THE TAX CONSEQUENCES TO ANY PARTICULAR STOCKHOLDER OF HOLDING OUR COMMON STOCK WILL DEPEND ON THE STOCKHOLDER'S PARTICULAR TAX CIRCUMSTANCES. FOR EXAMPLE, A STOCKHOLDER THAT IS A PARTNERSHIP OR TRUST WHICH HAS ISSUED AN EQUITY INTEREST TO CERTAIN TYPES OF TAX EXEMPT ORGANIZATIONS MAY BE SUBJECT TO A SPECIAL ENTITY-LEVEL TAX IF WE MAKE DISTRIBUTIONS ATTRIBUTABLE TO EXCESS INCLUSION INCOME. SEE TAXATION OF NEW RESIDENTIAL TAXABLE MORTGAGE POOLS AND EXCESS INCLUSION INCOME BELOW. A SIMILAR TAX MAY BE PAYABLE BY PERSONS WHO HOLD OUR STOCK AS NOMINEE ON BEHALF OF SUCH A TAX EXEMPT ORGANIZATION. YOU ARE URGED TO CONSULT YOUR TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES TO YOU IN LIGHT OF YOUR PARTICULAR INVESTMENT OR TAX CIRCUMSTANCES OF ACQUIRING, HOLDING, EXCHANGING, OR OTHERWISE DISPOSING OF OUR COMMON STOCK.**

### **Private Letter Ruling Regarding Our Excess MSR**

We have received from the IRS a private letter ruling substantially to the effect that our Excess MSR investments represent interests in mortgages on real property and thus are qualifying real estate assets for purposes of the 75% REIT asset test (as described below), which generate income that qualifies as interest on obligations secured by mortgages on real property for purposes of the 75% REIT gross income test (as described below). The ruling is based on, among other things, certain assumptions as well as on the accuracy of certain factual representations and statements that we and Newcastle have made to the IRS (including factual representations and statements relating to the terms and conditions of our Excess MSR investments and our future actions). Although a private letter ruling from the IRS is generally binding on the IRS, if any of the representations or statements that we have made in connection with the private letter ruling, are, or become, inaccurate or incomplete in any material respect with respect to one or more Excess MSR investments, or if we acquire an Excess MSR investment with terms that are not consistent with the terms of the Excess MSR investments described in the private letter ruling, then we will not be able to rely on the private letter ruling. If we are unable to rely on the private letter ruling with respect to an Excess MSR investment, no assurance can be given as to the status of such Excess MSR investment for purposes of the REIT asset and income tests.

The remainder of this discussion assumes that we are able to rely on the private letter ruling.

### **Taxation of New Residential**

We intend to elect to be taxed as a REIT, commencing with our initial taxable year ended December 31, 2013. We believe that we have been organized, and expect to operate in such a manner as to qualify for taxation, as a REIT.

The law firm of Skadden, Arps, Slate, Meagher & Flom LLP has acted as our tax counsel in connection with our formation and this registration statement. In connection with this offering, we expect to receive an opinion of Skadden, Arps, Slate, Meagher & Flom LLP to the effect that we have been organized in conformity with the requirements for qualification as a REIT under the Code, and that our actual method of operation has enabled, and our proposed method of operation will enable, us to meet the requirements for qualification and taxation as a

---

**Table of Contents**

REIT. It must be emphasized that the opinion of tax counsel will be based on various assumptions relating to our organization and operation, and will be conditioned upon fact-based representations and covenants made by our management regarding our organization, assets, income, and the past, present and future conduct of our business operations. While we intend to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given by tax counsel or by us that we will qualify as a REIT for any particular year. The opinion will be expressed as of the date issued, and will not cover subsequent periods. Tax counsel will have no obligation to advise us or our stockholders of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in the applicable law. You should be aware that opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not challenge the conclusions set forth in such opinions. Tax counsel's opinion relies on a separate opinion of Skadden, Arps, Slate, Meagher & Flom LLP regarding Newcastle's organization and operation as a REIT (the Newcastle Opinion). The Newcastle Opinion, in turn, relies upon various legal opinions issued by other counsel for Newcastle and its predecessors, including Sidley Austin Brown & Wood LLP and Thacher Proffitt & Wood, with respect to certain issues and transactions.

Qualification and taxation as a REIT depends on our ability to meet on a continuing basis, through actual operating results, distribution levels, and diversity of stock and asset ownership, various qualification requirements imposed upon REITs by the Code, the compliance with which will not be reviewed by tax counsel. In addition, our ability to qualify as a REIT depends in part upon the operating results, organizational structure and entity classification for U.S. federal income tax purposes of certain affiliated entities, the status of which may not have been reviewed by tax counsel. Our ability to qualify as a REIT also requires that we satisfy certain asset tests, some of which depend upon the fair market values of assets that we own directly or indirectly. Such values may not be susceptible to a precise determination. Accordingly, no assurance can be given that the actual results of our operations for any taxable year will satisfy such requirements for qualification and taxation as a REIT.

***Taxation of REITs in General***

As indicated above, our qualification and taxation as a REIT depends upon our ability to meet, on a continuing basis, various qualification requirements imposed upon REITs by the Code. The material qualification requirements are summarized below under Requirements for Qualification-General. While we intend to operate so that we qualify as a REIT, no assurance can be given that the IRS will not challenge our qualification, or that we will be able to operate in accordance with the REIT requirements in the future. See Failure to Qualify.

Provided that we qualify as a REIT, we generally will be entitled to a deduction for dividends that we pay and therefore will not be subject to U.S. federal corporate income tax on our net income that is currently distributed to our stockholders. This treatment substantially eliminates the double taxation at the corporate and stockholder levels that generally results from investment in a corporation. In general, the income that we generate is taxed only at the stockholder level upon a distribution of dividends to our stockholders.

Most domestic holders that are individuals, trusts or estates will be taxed on corporate dividends at a reduced maximum rate. With limited exceptions, however, dividends from us or from other entities that are taxed as REITs are generally not eligible for the reduced rates, and will continue to be taxed at rates applicable to ordinary income. See Taxation of Stockholders Taxation of Taxable Domestic Holders Distributions.

Net operating losses, foreign tax credits and other tax attributes generally do not pass through to our stockholders, subject to special rules for certain items such as the capital gains that we recognize. See Taxation of Stockholders.

Even if we qualify as a REIT, we will nonetheless be subject to U.S. federal tax in the following circumstances:

We will be taxed at regular corporate rates on any undistributed income, including undistributed net capital gains.

## Table of Contents

We may be subject to the alternative minimum tax on our items of tax preference, including any deductions of net operating losses.

If we have net income from prohibited transactions, which are, in general, sales or other dispositions of property held primarily for sale to customers in the ordinary course of business, other than foreclosure property, such income will be subject to a 100% tax. See Prohibited Transactions, and Foreclosure Property, below.

If we elect to treat property that we acquire in connection with a foreclosure of a mortgage loan or certain leasehold terminations as foreclosure property, we may thereby avoid the 100% tax on gain from a resale of that property (if the sale would otherwise constitute a prohibited transaction), but the income from the sale or operation of the property may be subject to corporate income tax at the highest applicable rate (currently 35%).

If we derive excess inclusion income from an interest in certain mortgage loan securitization structures (i.e., a taxable mortgage pool or a residual interest in a REMIC, we could be subject to corporate level U.S. federal income tax at a 35% rate to the extent that such income is allocable to specified types of tax-exempt stockholders known as disqualified organizations that are not subject to unrelated business income tax. See Taxable Mortgage Pools and Excess Inclusion Income below.

If we should fail to satisfy the 75% gross income test or the 95% gross income test, as discussed below, but nonetheless maintain our qualification as a REIT because we satisfy other requirements, we will be subject to a 100% tax on an amount based on the magnitude of the failure adjusted to reflect the profit margin associated with our gross income.

If we should fail to satisfy the asset or other requirements applicable to REITs, as described below, and yet maintain our qualification as a REIT because there is reasonable cause for the failure and other applicable requirements are met, we may be subject to an excise tax. In that case, the amount of the excise tax will be at least \$50,000 per failure, and, in the case of certain asset test failures, will be determined as the amount of net income generated by the assets in question multiplied by the highest corporate tax rate (currently 35%) if that amount exceeds \$50,000 per failure.

If we should fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a non-deductible 4% excise tax on the excess of the required distribution over the sum of (i) the amounts that we actually distributed, plus (ii) the amounts we retained and upon which we paid income tax at the corporate level.

We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet record keeping requirements intended to monitor our compliance with rules relating to the composition of a REIT's stockholders, as described below in Requirements for Qualification-General.

A 100% tax may be imposed on transactions between us and a TRS (as described below) that do not reflect arm's length terms.

If we acquire appreciated assets from a corporation that is not a REIT (i.e., a corporation taxable under subchapter C of the Code) in a transaction in which the adjusted tax basis of the assets in our hands is determined by reference to the adjusted tax basis of the assets in the hands of the subchapter C corporation, we may be subject to tax on such appreciation at the highest corporate income tax rate then applicable if we subsequently recognize gain on a disposition of any such assets during the ten-year period following their acquisition from the subchapter C corporation.

The earnings of any subsidiary that is a subchapter C corporation, including any TRS, may be subject to U.S. federal corporate income tax.

## **Table of Contents**

In addition, we and our subsidiaries may be subject to a variety of taxes, including payroll taxes and state, local, and foreign income, property and other taxes on assets and operations. We could also be subject to tax in situations and on transactions not presently contemplated.

### ***Requirements for Qualification-General***

The Code defines a REIT as a corporation, trust or association:

- (1) that is managed by one or more trustees or directors;
- (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;
- (3) that would be taxable as a domestic corporation but for the special Code provisions applicable to REITs;
- (4) that is neither a financial institution nor an insurance company subject to specific provisions of the Code;
- (5) the beneficial ownership of which is held by 100 or more persons;
- (6) in which, during the last half of each taxable year, not more than 50% in value of the outstanding stock is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include specified tax-exempt entities);
- (7) which meets other tests described below, including with respect to the nature of its income and assets; and
- (8) that makes an election to be a REIT for the current taxable year or has made such an election for a previous taxable year that has not been terminated or revoked.

The Code provides that conditions (1) through (4) must be met during the entire taxable year, and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable year. Conditions (5) and (6) need not be met during a corporation's initial tax year as a REIT (which, in our case, is 2013). Our certificate of incorporation provides restrictions regarding the ownership and transfers of our shares, which are intended to assist us in satisfying the share ownership requirements described in conditions (5) and (6) above.

To monitor compliance with the share ownership requirements, we generally are required to maintain records regarding the actual ownership of our shares. To do so, we must demand written statements each year from the record holders of significant percentages of our stock pursuant to which the record holders must disclose the actual owners of the shares (i.e., the persons required to include our dividends in their gross income). We must maintain a list of those persons failing or refusing to comply with this demand as part of our records. We could be subject to monetary

penalties if we fail to comply with these record keeping requirements. If you fail or refuse to comply with the demands, you will be required by Treasury regulations to submit a statement with your tax return disclosing the actual ownership of the shares and other information.

In addition, a corporation generally may not elect to become a REIT unless its taxable year is the calendar year. We have adopted December 31 as our year end, and therefore satisfy this requirement.

The Code provides relief from violations of the REIT gross income requirements, as described below under **Income Tests**, in cases where a violation is due to reasonable cause and not willful neglect, and other requirements are met, including the payment of a penalty tax that is based upon the magnitude of the violation. In addition, certain provisions of the Code extend similar relief in the case of certain violations of the REIT asset requirements (see **Asset Tests** below) and other REIT requirements, again provided that the violation is due to reasonable cause and not willful neglect, and other conditions are met, including the payment of a penalty tax.

If we fail to satisfy any of the various REIT requirements, there can be no assurance that these relief provisions would be available to enable us to maintain our qualification as a REIT, and, if such relief provisions are available, the amount of any resultant penalty tax could be substantial.



---

**Table of Contents*****Effect of Subsidiary Entities***

*Ownership of Partnership Interests.* If we are a partner in an entity that is treated as a partnership for U.S. federal income tax purposes, Treasury regulations provide that we are deemed to own our proportionate share of the partnership's assets, and to earn our proportionate share of the partnership's income, for purposes of the asset and gross income tests applicable to REITs. Our proportionate share of a partnership's assets and income is based on our capital interest in the partnership (except that for purposes of the 10% value test described below, our proportionate share of the partnership's assets is based on our proportionate interest in the equity and certain debt securities issued by the partnership). In addition, the assets and gross income of the partnership are deemed to retain the same character in our hands. Thus, our proportionate share of the assets and items of income of any of our subsidiary partnerships will be treated as our assets and items of income for purposes of applying the REIT requirements. A summary of certain rules governing the U.S. federal income taxation of partnerships and their partners is provided below in [Tax Aspects of Investments in Affiliated Partnerships](#).

*Disregarded Subsidiaries.* If we own a corporate subsidiary that is a qualified REIT subsidiary, that subsidiary is generally disregarded for U.S. federal income tax purposes, and all of the subsidiary's assets, liabilities and items of income, deduction and credit are treated as our assets, liabilities and items of income, deduction and credit, including for purposes of the gross income and asset tests applicable to REITs. A qualified REIT subsidiary is any corporation, other than a TRS as described below, that we wholly own, either directly or through one or more other qualified REIT subsidiaries or disregarded entities. Other entities that are wholly owned by us, including single member limited liability companies that have not elected to be taxed as corporations for U.S. federal income tax purposes, are also generally disregarded as separate entities for U.S. federal income tax purposes, including for purposes of the REIT income and asset tests. Disregarded subsidiaries, along with any partnerships in which we hold an equity interest, are sometimes referred to herein as [pass-through subsidiaries](#).

In the event that a disregarded subsidiary of ours ceases to be wholly owned—for example, if any equity interest in the subsidiary is acquired by a person other than us or a disregarded subsidiary of ours—the subsidiary's separate existence would no longer be disregarded for U.S. federal income tax purposes. Instead, the subsidiary would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect our ability to satisfy the various asset and gross income requirements applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the securities of another corporation. See [Asset Tests](#) and [Income Tests](#).

*Taxable Subsidiaries.* In general, we may jointly elect with a subsidiary corporation, whether or not wholly owned, to treat the subsidiary corporation as a TRS. We generally may not own more than 10% of the securities of a taxable corporation, as measured by voting power or value, unless we and such corporation elect to treat such corporation as a TRS. The separate existence of a TRS or other taxable corporation is not ignored for U.S. federal income tax purposes. Accordingly, a TRS or other taxable corporation generally would be subject to corporate income tax on its earnings, which may reduce the cash flow that we and our subsidiaries generate in the aggregate, and may reduce our ability to make distributions to our stockholders.

We are not treated as holding the assets of a TRS or other taxable subsidiary corporation or as receiving any income that the subsidiary earns. Rather, the stock issued by a taxable subsidiary to us is an asset in our hands, and we treat the dividends paid to us from such taxable subsidiary, if any, as income. This treatment can affect our income and asset test calculations, as described below. Because we do not include the assets and income of TRSs or other taxable subsidiary corporations in determining our compliance with the REIT requirements, we may use such entities to undertake indirectly activities that the REIT rules might otherwise preclude us from doing directly or through pass-through subsidiaries. For example, we could use TRSs or other taxable subsidiary corporations to conduct

activities that give rise to certain categories of income or to conduct activities that, if conducted by us directly, would be treated in our hands as prohibited transactions. We may also use a TRS to earn income in respect of certain Excess MSR, to invest in servicer advances or to hold basic fees or certain other assets. In addition, our existing investments in servicer advances and the related cash flows are currently held through a TRS and, therefore, will be subject to corporate taxation so long as they are so held.

---

**Table of Contents**

The TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% excise tax on certain transactions involving a TRS and its parent REIT that are not conducted on an arm's-length basis. We intend that all of our transactions with any TRS will be conducted on an arm's-length basis.

We may hold a significant amount of assets in one or more TRSs, subject to the limitation that securities in TRSs may not represent more than 25% of our assets. In general, we intend that loans that we originate or buy with an intention of selling in a manner that might expose us to a 100% tax on prohibited transactions will be sold by a TRS. We anticipate that the TRS through which any such sales are made may be treated as a dealer for U.S. federal income tax purposes. As a dealer, the TRS may in general mark all the loans it holds on the last day of each taxable year to their market value, and may recognize ordinary income or loss on such loans with respect to such taxable year as if they had been sold for that value on that day. In addition, the TRS may further elect to be subject to the mark-to-market regime described above in the event that the TRS is properly classified as a trader as opposed to a dealer for U.S. federal income tax purposes.

***Income Tests***

In order to qualify as a REIT, we must satisfy two annual gross income requirements. First, at least 75% of our gross income for each taxable year, excluding gross income from sales of inventory or dealer property in prohibited transactions and certain hedging transactions, generally must be derived from investments relating to real property or mortgages on real property, including interest income derived from mortgage loans secured by real property (including, generally, certain Agency RMBS and certain types of MBS), rents from real property, dividends received from other REITs, and gains from the sale of real estate assets, as well as specified income from temporary investments. Second, at least 95% of our gross income in each taxable year, excluding gross income from prohibited transactions and certain hedging transactions, must be derived from some combination of income that qualifies under the 75% gross income test described above, as well as other dividends, interest, and gain from the sale or disposition of stock or securities, which need not have any relation to real property. Income and gain from certain hedging transactions will be excluded from both the numerator and the denominator for purposes of both the 75% and 95% gross income tests. See *Derivatives and Hedging Transactions* below.

As described above, we have received a private letter ruling from the IRS substantially to the effect that interest received by us from our Excess MSR investments will be considered interest on obligations secured by mortgages on real property for purposes of the 75% REIT gross income test. Although a private letter ruling from the IRS is generally binding on the IRS, if any of the assumptions of the private letter ruling, or any of the representations or statements that we have made in connection therewith, are, or become, inaccurate or incomplete in any material respect with respect to one or more Excess MSR investments, or if we acquire an Excess MSR investment with terms that are not consistent with the terms of the Excess MSR investments described in the private letter ruling, then we will not be able to rely on the private letter ruling. If we are unable to rely on the private letter ruling with respect to an Excess MSR investment, no assurance can be given as to the status of such Excess MSR investment for purposes of the 75% gross income test.

We invest in RMBS whose principal and interest payments are guaranteed by a U.S. Government agency, such as Ginnie Mae, or a GSE that are pass-through certificates. We expect that these agency pass-through certificates will be treated as interests in grantor trusts for U.S. federal income tax purposes. We will be treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust. The interest on such mortgage loans will be qualifying income for purposes of the 75% gross income test to the extent that the obligation is secured by real property, as discussed below. We also may invest in collateralized mortgage obligations (CMOs) representing interests in pass-through certificates or RMBS that are not issued or guaranteed by a U.S. Government agency or a

GSE. We expect that our investments in CMOs and Non-Agency RMBS will be treated as interests in REMICs for U.S. federal income tax purposes. In the case of CMOs and RMBS treated as interests in a REMIC, such interests will generally qualify as real estate assets and income derived from REMIC interests will generally be treated as qualifying income for purposes of the 75% and 95% gross income tests described above.

## Table of Contents

If less than 95% of the assets of a REMIC are real estate assets, however, then only a proportionate part of our interest in the REMIC and income derived from the interest will qualify for purposes of the 75% gross income test. In addition, some REMIC securitizations include imbedded interest rate swap or cap contracts or other derivative instruments that potentially could produce non-qualifying income for the stockholder of the related REMIC securities. We expect that substantially all of our income from agency mortgage investments, RMBS, and other mortgage loans will be qualifying income for purposes of the REIT gross income tests. See below under **Asset Tests** for a discussion of the effect of such investments on our qualification as a REIT.

To the extent that we hold mortgage participations or MBS that do not represent REMIC interests, such assets may not qualify as real estate assets, and, consequently, the income generated from them might not qualify for purposes of either or both of the REIT income tests, depending upon the circumstances and the specific structure of the investment. Our ability to invest in those assets may be limited by our intention to qualify as a REIT.

Interest income constitutes qualifying mortgage interest for purposes of the 75% gross income test to the extent that the obligation upon which such interest is paid is secured by a mortgage on real property. If we receive interest income with respect to a mortgage loan that is secured by both real property and other property, and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property on the date that we acquired or originated the mortgage loan, the interest income will be apportioned between the real property and the other collateral, and our income from the arrangement will qualify for purposes of the 75% gross income test only to the extent that the interest is allocable to the real property. In addition, in certain cases (unless a safe harbor applies pursuant to IRS guidance), the modification of a debt instrument could result in the conversion of the interest paid on the instrument from qualifying income to wholly or partially non-qualifying income, which may require that we dispose of the debt instrument or contribute it to our TRS in order to satisfy the income tests described above. Moreover, the IRS has taken the position that, for purposes of the REIT income tests, the principal amount of a loan is equal to its face amount, even in situations where the loan was acquired at a significant discount. Under this position, a portion of the income generated by the instrument would not qualify for purposes of the 75% gross income test in cases where the underlying real property has declined in value. Even if a loan is not secured by real property, or is undersecured, the income that it generates may nonetheless qualify for purposes of the 95% gross income test.

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

We have invested in consumer loans. Our investments in consumer loans generally will not generate qualifying gross income for purposes of the 75% gross income test. However, to the extent the investments are purchased with new

capital, such investments will generate qualifying gross income for purposes of both the 75% and 95% gross income tests for one year following the receipt of such new capital. Accordingly, our ability to make and retain ownership of these kinds of investments may be limited.

## Table of Contents

Because the status of investments in servicer advances for purposes of the REIT income tests is uncertain, we intend to hold some or all of such investments and the related other cash flows through a TRS, and, consequently, our ability to make such investments may be limited.

To the extent that the terms of a loan provide for contingent interest that is based on the cash proceeds realized upon the sale of the property securing the loan, income attributable to the participation feature will be treated as gain from sale of the underlying property, which generally will be qualifying income for purposes of both the 75% and 95% gross income tests provided that the property is not held as inventory or dealer property. To the extent that we derive interest income from a mortgage loan, or income from the rental of real property, where all or a portion of the amount of interest or rental income payable is contingent, such income generally will qualify for purposes of the gross income tests only if it is based upon the gross receipts or sales, and not the net income or profits, of the borrower or lessee. This limitation does not apply, however, where the borrower or lessee leases substantially all of its interest in the property to tenants or subtenants, to the extent that the rental income derived by the borrower or lessee, as the case may be, would qualify as rents from real property had we earned the income directly.

We may invest in mezzanine loans, which are loans secured by equity interests in an entity that directly or indirectly owns real property, rather than by a direct mortgage of the real property. The IRS has issued Revenue Procedure 2003-65, which provides a safe harbor applicable to mezzanine loans. Under the Revenue Procedure, if a mezzanine loan meets each of the requirements contained in the Revenue Procedure, (1) the mezzanine loan will be treated by the IRS as a real estate asset for purposes of the asset tests described below, and (2) interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the 75% gross income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. We intend to structure any investments in mezzanine loans in a manner that complies with the various requirements applicable to our qualification as a REIT. To the extent that any of our mezzanine loans do not meet all of the requirements for reliance on the safe harbor set forth in the Revenue Procedure, however, there can be no assurance that the IRS will not challenge the tax treatment of these loans.

We may hold certain participation interests, including B-Notes, in mortgage loans and other instruments. Such interests in an underlying loan are created by virtue of a participation or similar agreement to which the originator of the loan is a party, along with one or more participants. The borrower on the underlying loan is typically not a party to the participation agreement. The performance of this investment depends upon the performance of the underlying loan, and if the underlying borrower defaults, the participant typically has no recourse against the originator of the loan. The originator often retains a senior position in the underlying loan, and grants junior participations which absorb losses first in the event of a default by the borrower. We intend that any participation interests in which we may invest will qualify as real estate assets for purposes of the REIT asset tests described below, and that any interest that we derive from such investments will be treated as qualifying mortgage interest for purposes of the 75% gross income test. The appropriate treatment of participation interests for U.S. federal income tax purposes is not entirely certain, however, and no assurance can be given that the IRS will not challenge our treatment of our participation interests. In the event of a determination that such participation interests do not qualify as real estate assets, or that the income that we derive from such participation interests does not qualify as mortgage interest for purposes of the REIT asset and income tests, we could be subject to a penalty tax, or could fail to qualify as a REIT, if we were to invest in such participation interests. See [Taxation of REITs in General](#), [Requirements for Qualification-General](#), [Asset Tests](#) and [Failure to Qualify](#).

Rents received by us, if any, will qualify as rents from real property in satisfying the gross income requirements described above only if several conditions are met. If rent is partly attributable to personal property leased in connection with a lease of real property, the portion of the rent that is attributable to the personal property will not qualify as rents from real property unless it constitutes 15% or less of the total rent received under the lease. In

addition, the amount of rent must not be based in whole or in part on the income or profits of any person. Amounts received as rent, however, generally will not be excluded from rents from real property solely by reason of being based on fixed percentages of gross receipts or sales. Moreover, for rents received by



---

**Table of Contents**

us, if any, to qualify as rents from real property, we generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through an independent contractor from which we derive no revenue. We are permitted, however, to perform services that are usually or customarily rendered in connection with the rental of space for occupancy only and which are not otherwise considered rendered to the occupant of the property. In addition, we may directly or indirectly provide non-customary services to tenants of our properties without disqualifying all of the rent from the property if the payments for such services does not exceed 1% of the total gross income from the property. For purposes of this test, we are deemed to have received income from such non-customary services in an amount at least 150% of the direct cost of providing the services. Moreover, we are generally permitted to provide services to tenants or others through a TRS without disqualifying the rental income received from tenants for purposes of the income tests. Also, rental income will qualify as rents from real property only to the extent that we do not directly or constructively hold a 10% or greater interest, as measured by vote or value, in the lessee's equity.

We may directly or indirectly receive distributions from TRSs or other corporations that are not REITs or qualified REIT subsidiaries. These distributions generally are treated as dividend income to the extent of the earnings and profits of the distributing corporation. Such distributions will generally constitute qualifying income for purposes of the 95% gross income test, but not for purposes of the 75% gross income test. Any dividends that we receive from a REIT, however, will be qualifying income for purposes of both the 95% and 75% gross income tests.

Fees will generally be qualifying income for purposes of both the 75% and 95% gross income tests if they are received in consideration for entering into an agreement to make a loan secured by real property and the fees are not determined by income and profits. Other fees generally will not be qualifying income for purposes of either gross income test and will not be favorably counted for purposes of either gross income test. Any fees earned by a TRS will not be included for purposes of the gross income tests.

Any income or gain that we or our pass-through subsidiaries derive from instruments that hedge certain risks, such as the risk of changes in interest rates, will be excluded from gross income for purposes of both the 75% and the 95% gross income tests, provided that specified requirements are met, including the requirement that the instrument hedge risks associated with our indebtedness that is incurred to acquire or carry real estate assets or risks associated with certain currency fluctuations (as described below under *Asset Tests*), and the instrument is properly identified as a hedge along with the risk that it hedges within prescribed time periods.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may still qualify as a REIT for the year if we are entitled to relief under applicable provisions of the Code. Those relief provisions generally will be available if our failure to meet the gross income tests was due to reasonable cause and not due to willful neglect and we file a schedule of the sources of our gross income in accordance with Treasury regulations. It is not possible to state whether we would be entitled to the benefit of these relief provisions in all circumstances. If these relief provisions are inapplicable to a particular set of circumstances, we will not qualify as a REIT. As discussed above under *Taxation of REITs in General*, even where these relief provisions apply, the Code imposes a tax based upon the amount by which we fail to satisfy the particular gross income test.

***Asset Tests***

At the close of each calendar quarter, we must also satisfy four tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by some combination of real estate assets, cash, cash items, U.S. government securities, and, under some circumstances, stock or debt instruments purchased with new capital. For this purpose, real estate assets include interests in real property, such as land, buildings, leasehold interests in real property, stock of other corporations that qualify as REITs, and some kinds of MBS and mortgage loans. Assets that

do not qualify for purposes of the 75% asset test are subject to the additional asset tests described below.

---

**Table of Contents**

Second, the value of any one issuer's securities that we own may not exceed 5% of the value of our total assets. Third, we may not own more than 10% of any one issuer's outstanding securities, as measured by either voting power or value. The 5% and 10% asset tests do not apply to real estate assets, securities of TRSs, and qualified REIT subsidiaries and the value prong of the 10% asset test does not apply to straight debt having specified characteristics and to certain other securities described below. Solely for purposes of the 10% asset test, the determination of our interest in the assets of a partnership or limited liability company in which we own an interest will be based on our proportionate interest in any securities issued by the partnership or limited liability company, excluding for this purpose certain securities described in the Code. Fourth, the aggregate value of all securities of TRSs that we hold may not exceed 25% of the value of our total assets.

Notwithstanding the general rule, as noted above, that for purposes of the REIT income and asset tests, we are treated as owning our proportionate share of the underlying assets of a subsidiary partnership, if we hold indebtedness issued by a partnership, the indebtedness will be subject to, and may cause a violation of, the asset tests unless the indebtedness is a qualifying mortgage asset, or other conditions are met. Similarly, although stock of another REIT is a qualifying asset for purposes of the REIT asset tests, any non-mortgage debt that is issued by another REIT may not so qualify (such debt, however, will not be treated as a security for purposes of the 10% value test, as explained below).

The Code provides that certain securities will not cause a violation of the 10% value test described above. Such securities include instruments that constitute straight debt, which includes, among other things, securities having certain contingency features. A security does not qualify as straight debt where a REIT (or a controlled TRS of the REIT) owns other securities of the same issuer which do not qualify as straight debt, unless the value of those other securities constitute, in the aggregate, 1% or less of the total value of that issuer's outstanding securities. In addition to straight debt, the Code provides that certain other securities will not violate the 10% value test. Such securities include (a) any loan made to an individual or an estate, (b) certain rental agreements pursuant to which one or more payments are to be made in subsequent years (other than agreements between a REIT and certain persons related to the REIT under attribution rules), (c) any obligation to pay rents from real property, (d) securities issued by governmental entities that are not dependent in whole or in part on the profits of (or payments made by) a non-governmental entity, (e) any security (including debt securities) issued by another REIT, and (f) any debt instrument issued by a partnership if the partnership's income is of a nature that it would satisfy the 75% gross income test described above under Income Tests. The Code also provides that in applying the 10% value test, a debt security issued by a partnership is not taken into account to the extent, if any, of the REIT's proportionate interest in that partnership.

As described above, we have received a private letter ruling from the IRS substantially to the effect that our Excess MSR investments represent interests in mortgages on real property and thus are qualifying real estate assets for purposes of the 75% REIT asset test. Although a private letter ruling from the IRS is generally binding on the IRS, if any of the assumptions of the private letter ruling, or any of the representations or statements that we have made in connection therewith, are, or become, inaccurate or incomplete in any material respect with respect to one or more Excess MSR investments, or if we acquire an Excess MSR investment with terms that are not consistent with the terms of the Excess MSR investments described in the private letter ruling, then we will not be able to rely on the private letter ruling. If we are unable to rely on the private letter ruling with respect to an Excess MSR investment, no assurance can be given as to the status of such Excess MSR investment for purposes of the 75% asset test.

We invest in RMBS whose principal and interest payments are guaranteed by a U.S. Government agency, such as Ginnie Mae, or a GSE, that are pass-through certificates. We expect that these agency pass-through certificates will be treated as interests in grantor trusts for U.S. federal income tax purposes. We will be treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust.

We also may invest in CMOs representing interests in agency pass-through certificates and RMBS that are not issued or guaranteed by a U.S. Government agency or a GSE. We expect that our investments in CMOs and Non-Agency RMBS will be treated as interests in REMICs for U.S. federal income tax purposes. Such interests will

## **Table of Contents**

generally qualify as real estate assets, and income derived from REMIC interests will generally be treated as qualifying income for purposes of the REIT income tests described above. If less than 95% of the assets of a REMIC are real estate assets, however, then only a proportionate part of our interest in the REMIC and income derived from the interest qualifies for purposes of the REIT asset and income tests.

To the extent that we hold mortgage participations or MBS that do not represent REMIC interests, such assets may not qualify as real estate assets, depending upon the circumstances and the specific structure of the investment. Our ability to invest in those assets may be limited by our intention to qualify as a REIT.

In addition, in certain cases (unless a safe harbor applies pursuant to IRS guidance), the modification of a debt instrument or, potentially, an increase in the value of a debt instrument that we acquired at a significant discount, could result in the conversion of the instrument from a qualifying real estate asset to a wholly or partially non-qualifying asset that must be contributed to a TRS or disposed of in order for us to satisfy the asset tests described above.

We have purchased and sold Agency RMBS through TBAs. There is no direct authority with respect to the qualification of TBAs as real estate assets or Government securities for purposes of the 75% asset test. For a particular taxable year, we would treat such TBAs as qualifying assets for purposes of the 75% asset test, to the extent set forth in an opinion from Skadden, Arps, Slate, Meagher & Flom LLP substantially to the effect that, for purposes of the REIT asset tests, our ownership of a TBA should be treated as ownership of the underlying Agency RMBS. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS would not successfully challenge the conclusions set forth in such opinions. In addition, any opinion of Skadden, Arps, Slate, Meagher & Flom LLP would be based on various assumptions relating to such TBAs and would be conditioned upon fact-based representations and covenants made by our management regarding such TBAs. No assurance can be given that the IRS would not assert that such assets are not qualifying assets. If the IRS were to successfully challenge any conclusion of Skadden, Arps, Slate, Meagher & Flom LLP, we could be subject to a penalty tax or we could fail to qualify as a REIT if a sufficient portion of our assets consists of TBAs.

We have invested in consumer loans. Our investments in consumer loans generally will not be qualifying real estate assets for purposes of the 75% asset test. However, to the extent the investments are purchased with new capital, such investments will be qualifying real estate assets for purposes of the 75% asset test for one year following the receipt of such new capital. Accordingly, our ability to make and retain ownership of these kinds of investments may be limited.

Because the status of investments in servicer advances for purposes of the REIT asset tests is uncertain, we intend to hold some or all of such investments and the related other cash flows through a TRS, and, consequently, our ability to make such investments may be limited.

If we hold a residual interest in a REMIC from which we derive excess inclusion income, we will be required to either distribute the excess inclusion income or pay tax on it (or a combination of the two), even though we may not receive the income in cash. To the extent that distributed excess inclusion income is allocable to a particular stockholder, the income (1) would not be allowed to be offset by any net operating losses otherwise available to the stockholder, (2) would be subject to tax as unrelated business taxable income in the hands of most types of stockholders that are otherwise generally exempt from U.S. federal income tax, and (3) would result in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction pursuant to any otherwise applicable income tax treaty or other exemption, to the extent allocable to most types of non-U.S. holders. Moreover, any excess inclusion income that we receive that is allocable to specified categories of tax-exempt investors which are not subject to unrelated business income tax, such as government entities or charitable remainder trusts, may be subject to corporate-level income tax in our hands, whether or not it is distributed. See Taxable Mortgage Pools and Excess

Inclusion Income.

200

---

**Table of Contents**

In addition, certain of our mezzanine loans may qualify for the safe harbor in Revenue Procedure 2003-65 pursuant to which certain loans secured by a first priority security interest in ownership interests in a partnership or limited liability company will be treated as qualifying assets for purposes of the 75% real estate asset test and the 10% vote or value test. See Income Tests. We may make some mezzanine loans that do not qualify for that safe harbor and that do not qualify as straight debt securities or for one of the other exclusions from the definition of securities for purposes of the 10% value test. We intend to make such investments in such a manner as not to fail the asset tests described above, and we believe that our existing investments satisfy such requirements. We believe that our holdings of securities and other assets will comply with the foregoing REIT asset requirements, and we intend to monitor compliance on an ongoing basis.

We have entered into sale and repurchase agreements under which we nominally sell certain of our Agency RMBS to a counterparty and simultaneously enter into an agreement to repurchase the sold assets in exchange for a purchase price that reflects a financing charge. We believe that we are treated for REIT asset and income test purposes as the owner of the Agency RMBS that are the subject of any such agreement notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we do not own the Agency RMBS during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

Independent valuations have not been obtained to support our conclusions as to the value of all of our assets. Moreover, values of some assets, including instruments issued in securitization transactions, may not be susceptible to a precise determination, and values are subject to change in the future. Furthermore, the proper classification of an instrument as debt or equity for U.S. federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT asset requirements. Accordingly, there can be no assurance that the IRS will not contend that our interests in our subsidiaries or in the securities of other issuers will not cause a violation of the REIT asset tests.

The Code contains a number of relief provisions that make it easier for REITs to satisfy the asset requirements, or to maintain REIT qualification notwithstanding certain violations of the asset and other requirements. One such provision allows a REIT which fails one or more of the asset requirements to nevertheless maintain its REIT qualification if (1) the REIT provides the IRS with a description of each asset causing the failure, (2) the failure is due to reasonable cause and not willful neglect, (3) the REIT pays a tax equal to the greater of (a) \$50,000 per failure, and (b) the product of the net income generated by the assets that caused the failure multiplied by the highest applicable corporate tax rate (currently 35%), and (4) the REIT either disposes of the assets causing the failure within 6 months after the last day of the quarter in which it identifies the failure, or otherwise satisfies the relevant asset tests within that time frame. A second relief provision applies to de minimis violations of the 10% and 5% asset tests. A REIT may maintain its qualification despite a violation of such requirements if (a) the value of the assets causing the violation does not exceed the lesser of 1% of the REIT's total assets, and \$10,000,000, and (b) the REIT either disposes of the assets causing the failure within 6 months after the last day of the quarter in which it identifies the failure, or the relevant tests are otherwise satisfied within that time frame.

If we fail to satisfy the asset tests at the end of a calendar quarter, such a failure would not cause us to lose our REIT qualification if we (1) satisfied the asset tests at the close of the preceding calendar quarter and (2) the discrepancy between the value of our assets and the asset requirements was not wholly or partly caused by an acquisition of non-qualifying assets, but instead arose from changes in the market value of our assets. If the condition described in (2) were not satisfied, we still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose or by making use of relief provisions described below. No assurance can be given that we would qualify for relief under those provisions.





**Table of Contents**

***Annual Distribution Requirements***

In order to qualify as a REIT, we are required to distribute dividends, other than capital gain dividends, to our stockholders in an amount at least equal to:

- (a) the sum of
  - (1) 90% of our REIT taxable income, computed without regard to our net capital gains and the deduction for dividends paid, and
  - (2) 90% of our net income, if any, (after tax) from foreclosure property (as described below), minus
- (b) the sum of specified items of noncash income.

We generally must make these distributions in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for the year and if paid with or before the first regular dividend payment after such declaration. In addition, any dividend declared by us in October, November, or December of any year and payable to a stockholder of record on a specified date in any such month will be treated as both paid by us and received by the stockholder on December 31 of such year, so long as the dividend is actually paid by us before the end of January of the next calendar year. In order for distributions to be counted as satisfying the annual distribution requirement, and to give rise to a tax deduction for us, the distributions must not be preferential dividends. A dividend is not a preferential dividend if the distribution is (1) pro rata among all outstanding shares of stock within a particular class, and (2) in accordance with the preferences among different classes of stock as set forth in our organizational documents.

To the extent that we distribute at least 90%, but less than 100%, of our REIT taxable income, as adjusted, we will be subject to tax at ordinary corporate tax rates on the retained portion. We may elect to retain, rather than distribute, our net long-term capital gains and pay tax on such gains. In this case, we could elect for our stockholders to include their proportionate shares of such undistributed long-term capital gains in income, and to receive a corresponding credit for their share of the tax that we paid. Our stockholders would then increase their adjusted basis of their stock by the difference between (a) the amounts of capital gain dividends that we designated and that they include in their taxable income, and (b) the tax that we paid on their behalf with respect to that income.

To the extent that in the future we may have available net operating losses carried forward from prior tax years, such losses may reduce the amount of distributions that we must make in order to comply with the REIT distribution requirements. Such losses, however, will generally not affect the character of any distributions that are actually made as ordinary dividends or capital gains. See *Taxation of Stockholders Taxation of Taxable Domestic Holders Distributions*.

If we should fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (x) the amounts actually distributed, plus (y) the amounts of income we retained and on which we have paid corporate income tax.

It is possible that, from time to time, we may not have sufficient cash to meet the distribution requirements due to timing differences between (a) our actual receipt of cash, including receipt of distributions from our subsidiaries, and (b) our inclusion of items in income for U.S. federal income tax purposes. Other potential sources of non-cash taxable income include:

Excess MSRs,

loans or MBS held as assets that are issued at a discount and require the accrual of taxable economic interest in advance of receipt in cash,

**Table of Contents**

loans on which the borrower is permitted to defer cash payments of interest, and distressed loans on which we may be required to accrue taxable interest income even though the borrower is unable to make current servicing payments in cash,

real estate securities that are financed through securitization structures, and

residual interests in REMICs or taxable mortgage pools.

Based on IRS guidance concerning the classification of Excess MSR, we intend to treat our Excess MSR as ownership interests in the interest payments made on the underlying pool of mortgage loans, akin to an interest only strip. Under this treatment, for purposes of determining the amount and timing of taxable income, each Excess MSR is treated as a bond that was issued with original issue discount on the date we acquired such Excess MSR. In general, we will be required to accrue original issue discount based on the constant yield to maturity of each Excess MSR, and to treat such original issue discount as taxable income in accordance with the applicable U.S. federal income tax rules. The constant yield of an Excess MSR will be determined, and we will be taxed based on, a prepayment assumption regarding future payments due on the mortgage loans underlying the Excess MSR. If the mortgage loans underlying an Excess MSR prepay at a rate different than that under the prepayment assumption, our recognition of original issue discount will be either increased or decreased depending on the circumstances. Thus, in a particular taxable year, we may be required to accrue an amount of income in respect of an Excess MSR that exceeds the amount of cash collected in respect of that Excess MSR. Furthermore, it is possible that, over the life of the investment in an Excess MSR, the total amount we pay for, and accrue with respect to, the Excess MSR may exceed the total amount we collect on such Excess MSR. No assurance can be given that we will be entitled to an ordinary loss or deduction for such excess, meaning that we may not be able to use any such loss or deduction to offset original issue discount recognized with respect to our Excess MSR or other ordinary income recognized by us. As a result of this potential mismatch in character between the income and losses generated by our Excess MSR, our REIT taxable income may be higher than it otherwise would have been in the absence of that mismatch, in which case we would be required to distribute larger amounts to our stockholders in order to maintain our status as a REIT.

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

We may acquire debt instruments in the secondary market for less than their face amount. The amount of such discount will generally be treated as market discount for U.S. federal income tax purposes. If we so elect, accrued market discount will be recognized as taxable income over our holding period in the instrument in advance of the receipt of cash. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

In addition, we may acquire debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are significant modifications under the applicable Treasury regulations, the modified debt may be considered to have been reissued to us in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt, even if the value of the debt or the payment expectations have not changed. Following such a taxable modification, we would hold the modified loan with a cost basis equal to its principal amount for U.S. federal tax purposes. To the extent that such modifications are made with respect to a debt instrument held by a TRS that is treated as a dealer or trader and that makes an election to use mark-to-market accounting, such TRS would be required at the end of each taxable year, including the taxable year in which any such

modification were made, to mark the modified debt instrument to its fair market value as if the debt instrument were sold. In that case, the TRS could recognize a loss at the end of the taxable year in which the modifications were made to the extent that the fair market value of such debt instrument at such time was less than the instrument's tax basis.

---

**Table of Contents**

Moreover, in the event that any debt instruments or MBS acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income. Similarly, we may be required to accrue interest income with respect to subordinate MBS at the stated rate regardless of whether corresponding cash payments are received.

Differences in timing between the recognition of taxable income and the actual receipt of cash could require us to (i) sell assets, (ii) borrow funds on a short-term or long-term basis, or (iii) pay dividends in the form of taxable in-kind distributions of property, to meet the 90% distribution requirement. Alternatively, we may declare a taxable distribution payable in cash or stock at the election of each stockholder, where the aggregate amount of cash to be distributed in such distribution may be subject to limitation. In such case, for U.S. federal income tax purposes, the amount of the distribution paid in stock will be equal to the amount of cash that could have been received instead of stock.

We may be able to rectify a failure to meet the distribution requirements for a year by paying deficiency dividends to stockholders in a later year, which may be included in our deduction for dividends paid for the earlier year. In this case, we may be able to avoid losing REIT status or being taxed on amounts distributed as deficiency dividends. We will be required to pay interest and a penalty based on the amount of any deduction taken for deficiency dividends.

***Failure to Qualify***

If we fail to satisfy one or more requirements for REIT qualification other than the gross income or asset tests, we could avoid disqualification if our failure is due to reasonable cause and not to willful neglect and we pay a penalty of \$50,000 for each such failure. Relief provisions are available for failures of the income tests and asset tests, as described above in **Income Tests** and **Asset Tests**.

If we fail to qualify for taxation as a REIT in any taxable year, and the relief provisions described above do not apply, we would be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. We cannot deduct distributions to stockholders in any year in which we are not a REIT, nor would we be required to make distributions in such a year. In this situation, to the extent of current and accumulated earnings and profits, distributions to domestic holders that are individuals, trusts and estates would generally be taxable at capital gains rates. In addition, subject to the limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Unless we are entitled to relief under specific statutory provisions, we would also be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year during which we lost qualification. It is not possible to state whether, in all circumstances, we would be entitled to this statutory relief. The rule against re-electing REIT status following a loss of such status would also apply to us if Newcastle fails to qualify as a REIT, and we are treated as a successor to Newcastle for U.S. federal income tax purposes. Although, as described under the heading **Certain Relationships and Transactions with Related Persons, Affiliates and Affiliated Entities**, Newcastle represented in the Separation and Distribution Agreement that it has no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT, and covenanted in the Separation and Distribution Agreement to use its reasonable best efforts to maintain its REIT status for each of Newcastle's taxable years ending on or before December 31, 2014 (unless Newcastle obtains an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS to the effect that Newcastle's failure to maintain its REIT status will not cause us to fail to qualify as a REIT under the successor REIT rule referred to above), no assurance can be given that such representation and covenant would prevent us from failing to qualify as a REIT. Although, in the event of a breach, we may be able to seek damages from Newcastle, there can be no assurance that such damages, if any, would appropriately compensate us. In addition, if Newcastle were to fail to qualify as a REIT despite its reasonable best efforts, we would have no claim against Newcastle.



---

**Table of Contents*****Prohibited Transactions***

Net income that we derive from a prohibited transaction is subject to a 100% tax. The term prohibited transaction generally includes a sale or other disposition of property (other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of a trade or business. We intend to conduct our operations so that no asset that we own (or are treated as owning) will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. Whether property is held primarily for sale to customers in the ordinary course of a trade or business depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates.

***Foreclosure Property***

Foreclosure property is real property and any personal property incident to such real property (1) that we acquire as the result of having bid in the property at foreclosure, or having otherwise reduced the property to ownership or possession by agreement or process of law, after a default (or upon imminent default) on a lease of the property or a mortgage loan held by us and secured by the property, (2) for which we acquired the related loan or lease at a time when default was not imminent or anticipated, and (3) with respect to which we made a proper election to treat the property as foreclosure property. We generally will be subject to tax at the maximum corporate rate (currently 35%) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that would otherwise be qualifying income for purposes of the 75% gross income test. Any gain from the sale of property for which a foreclosure property election has been made will not be subject to the 100% tax on gains from prohibited transactions described above, even if the property would otherwise constitute inventory or dealer property.

***Derivatives and Hedging Transactions***

We and our subsidiaries may in the future enter into hedging transactions with respect to interest rate exposure on one or more assets or liabilities. Any such hedging transactions could take a variety of forms, including the use of derivative instruments such as interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, including short positions in TBA contracts, and options. To the extent that we or a pass-through subsidiary enter into a hedging transaction to reduce interest rate risk on indebtedness incurred to acquire or carry real estate assets or risks associated with certain currency fluctuations and the instrument is properly identified as a hedge along with the risk it hedges within prescribed time periods, any periodic income from the instrument, or gain from the disposition of such instrument, would not be treated as gross income for purposes of the REIT 75% and 95% gross income tests. To the extent that we hedge in certain other situations, the resultant income may be treated as income that does not qualify under the 75% or 95% gross income tests. We intend to structure any hedging transactions in a manner that does not jeopardize our status as a REIT. We may conduct some or all of our hedging activities through a TRS or other corporate entity, the income from which may be subject to U.S. federal income tax, rather than by participating in the arrangements directly or through pass-through subsidiaries.

No assurance can be given, however, that our hedging activities will not give rise to income that does not qualify for purposes of the REIT gross income tests, or that our hedging activities will not adversely affect our ability to satisfy the REIT qualification requirements.

***Taxable Mortgage Pools and Excess Inclusion Income***

An entity, or a portion of an entity, may be classified as a taxable mortgage pool ( TMP ) under the Code if:

substantially all of its assets consist of debt obligations or interests in debt obligations,



**Table of Contents**

more than 50% of those debt obligations are real estate mortgages or interests in real estate mortgages as of specified testing dates,

the entity has issued debt obligations (liabilities) that have two or more maturities, and

the payments required to be made by the entity on its debt obligations (liabilities) bear a relationship to the payments to be received by the entity on the debt obligations that it holds as assets.

Under regulations issued by the U.S. Treasury Department, if less than 80% of the assets of an entity (or a portion of an entity) consist of debt obligations, these debt obligations are considered not to comprise substantially all of its assets, and therefore the entity would not be treated as a TMP. We may enter into financing and securitization arrangements that are classified as TMPs, with the consequences as described below.

Where an entity, or a portion of an entity, is classified as a TMP, it is generally treated as a taxable corporation for U.S. federal income tax purposes. In the case of a REIT, or a portion of a REIT, or a disregarded subsidiary of a REIT, that is a TMP, however, special rules apply. The TMP is not treated as a corporation that is subject to corporate income tax, and the TMP classification does not directly affect the tax status of the REIT. Rather, the consequences of the TMP classification would, in general, except as described below, be limited to the stockholders of the REIT.

A portion of the REIT's income from the TMP arrangement, which might be non-cash accrued income, could be treated as excess inclusion income. Under IRS guidance, the REIT's excess inclusion income, including any excess inclusion income from a residual interest in a REMIC, must be allocated among its stockholders in proportion to dividends paid. The REIT is required to notify stockholders of the amount of excess inclusion income allocated to them. A stockholder's share of excess inclusion income:

cannot be offset by any net operating losses otherwise available to the stockholder,

is subject to tax as unrelated business taxable income in the hands of most types of stockholders that are otherwise generally exempt from U.S. federal income tax, and

results in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction for any otherwise applicable income tax treaty or other exemption, to the extent allocable to most types of non-U.S. holders.

See Taxation of Stockholders. Under IRS guidance, to the extent that excess inclusion income is allocated to a tax-exempt stockholder of a REIT that is not subject to unrelated business income tax (such as a government entity or charitable remainder trust), the REIT may be subject to tax on this income at the highest applicable corporate tax rate (currently 35%). In that case, the REIT could reduce distributions to such stockholders by the amount of such tax paid by the REIT attributable to such stockholder's ownership. Treasury regulations provide that such a reduction in distributions does not give rise to a preferential dividend that could adversely affect the REIT's compliance with its distribution requirements. See Annual Distribution Requirements. The manner in which excess inclusion income is calculated, or would be allocated to stockholders, including allocations among shares of different classes of stock, is not clear under current law. As required by IRS guidance, we intend to make such determinations using a reasonable method. Tax-exempt investors, foreign investors and taxpayers with net operating losses should carefully consider the

tax consequences described above, and are urged to consult their tax advisors.

If a subsidiary partnership of ours that we do not wholly-own, directly or through one or more disregarded entities, were a TMP, the foregoing rules would not apply. Rather, the partnership that is a TMP would be treated as a corporation for U.S. federal income tax purposes, and potentially would be subject to corporate income tax or withholding tax. In addition, this characterization would alter our income and asset test calculations, and could adversely affect our compliance with those requirements. We intend to monitor the structure of any TMPs in which we have an interest to ensure that they will not adversely affect our status as a REIT.

**Table of Contents****Tax Aspects of Investments in Affiliated Partnerships*****General***

We may hold investments through entities that are classified as partnerships for U.S. federal income tax purposes. In general, partnerships are pass-through entities that are not subject to U.S. federal income tax. Rather, partners are allocated their proportionate shares of the items of income, gain, loss, deduction and credit of a partnership, and are potentially subject to tax on these items, without regard to whether the partners receive a distribution from the partnership. We will include in our income our proportionate share of these partnership items for purposes of the various REIT income tests and in computation of our REIT taxable income. Moreover, for purposes of the REIT asset tests, we will include in our calculations our proportionate share of any assets held by subsidiary partnerships. Our proportionate share of a partnership's assets and income is based on our capital interest in the partnership (except that for purposes of the 10% value test, our proportionate share is based on our proportionate interest in the equity and certain debt securities issued by the partnership). See [Taxation of New Residential](#) [Effect of Subsidiary Entities](#) [Ownership of Partnership Interests](#).

***Entity Classification***

Any investment in partnerships involves special tax considerations, including the possibility of a challenge by the IRS of the status of any subsidiary partnership as a partnership, as opposed to an association taxable as a corporation, for U.S. federal income tax purposes (for example, if the IRS were to assert that a subsidiary partnership is a TMP). See

[Taxation of New Residential](#) [Taxable Mortgage Pools and Excess Inclusion Income](#). If any of these entities were treated as an association for U.S. federal income tax purposes, it would be taxable as a corporation and therefore could be subject to an entity-level tax on its income. In such a situation, the character of our assets and items of gross income would change and could preclude us from satisfying the REIT asset tests or the gross income tests as discussed in [Taxation of New Residential](#) [Asset Tests](#) and [Income Tests](#), and in turn could prevent us from qualifying as a REIT, unless we are eligible for relief from the violation pursuant to relief provisions described above. See

[Taxation of New Residential](#) [Asset Tests](#), [Income Test](#) and [Failure to Qualify](#), above, for discussion of the effect of failure to satisfy the REIT tests for a taxable year, and of the relief provisions. In addition, any change in the status of any subsidiary partnership for tax purposes might be treated as a taxable event, in which case we could have taxable income that is subject to the REIT distribution requirements without receiving any cash.

***Tax Allocations with Respect to Partnership Properties***

Under the Code and the Treasury regulations, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for tax purposes so that the contributing partner is charged with, or benefits from, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of the unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution, and the adjusted tax basis of such property at the time of contribution. Such allocations are solely for U.S. federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners.

To the extent that any of our subsidiary partnerships acquires appreciated (or depreciated) properties by way of capital contributions from its partners, allocations would need to be made in a manner consistent with these requirements. Where a partner contributes cash to a partnership at a time that the partnership holds appreciated (or depreciated) property, the Treasury regulations provide for a similar allocation of these items to the other (i.e., non-contributing) partners. These rules may apply to a contribution that we make to any subsidiary partnerships of the cash proceeds

received in offerings of our stock. As a result, the partners of our subsidiary partnerships, including us, could be allocated greater or lesser amounts of depreciation and taxable income in respect of a partnership's properties than would be the case if all of the partnership's assets (including any contributed assets) had a tax basis equal to their fair market values at the time of any contributions to that

## **Table of Contents**

partnership. This could cause us to recognize, over a period of time, taxable income in excess of cash flow from the partnership, which might adversely affect our ability to comply with the REIT distribution requirements discussed above.

## **Taxation of Stockholders**

### ***Taxation of Taxable Domestic Holders***

*Distributions.* As a REIT, the distributions that we make to our taxable domestic holders out of current or accumulated earnings and profits that we do not designate as capital gain dividends will generally be taken into account by stockholders as ordinary income and will not be eligible for the dividends received deduction for corporations. With limited exceptions, our dividends are not eligible for taxation at the preferential income tax rates for qualified dividends received by domestic holders that are individuals, trusts and estates from taxable C corporations. Such stockholders, however, are taxed at the preferential rates on dividends designated by and received from REITs to the extent that the dividends are attributable to

income retained by the REIT in the prior taxable year on which the REIT was subject to corporate level income tax (less the amount of tax),

dividends received by the REIT from TRSs or other taxable C corporations, or

income in the prior taxable year from the sales of built-in gain property acquired by the REIT from C corporations in carryover basis transactions (less the amount of corporate tax on such income).

Distributions that we designate as capital gain dividends will generally be taxed to our stockholders as long-term capital gains, to the extent that such distributions do not exceed our actual net capital gain for the taxable year, without regard to the period for which the stockholder that receives such distribution has held its stock. We may elect to retain and pay taxes on some or all of our net long term capital gains, in which case provisions of the Code will treat our stockholders as having received, solely for tax purposes, our undistributed capital gains, and the stockholders will receive a corresponding credit for taxes that we paid on such undistributed capital gains. See Taxation of New Residential Annual Distribution Requirements. Corporate stockholders may be required to treat up to 20% of some capital gain dividends as ordinary income. Long-term capital gains are generally taxable at reduced maximum federal rates in the case of stockholders that are individuals, trusts and estates, and ordinary income rates in the case of stockholders that are corporations. Capital gains attributable to the sale of depreciable real property held for more than 12 months are subject to a 25% maximum federal income tax rate for taxpayers who are taxed as individuals, to the extent of previously claimed depreciation deductions.

Distributions in excess of our current and accumulated earnings and profits will generally represent a return of capital and will not be taxable to a stockholder to the extent that the amount of such distributions does not exceed the adjusted basis of the stockholder's shares in respect of which the distributions were made. Rather, the distribution will reduce the adjusted basis of the stockholder's shares. To the extent that such distributions exceed the adjusted basis of a stockholder's shares, the stockholder generally must include such distributions in income as long-term capital gain, or short-term capital gain if the shares have been held for one year or less. In addition, any dividend that we declare in October, November or December of any year and that is payable to a stockholder of record on a specified date in any such month will be treated as both paid by us and received by the stockholder on December 31 of such year, provided

that we actually pay the dividend before the end of January of the following calendar year.

To the extent that we have available net operating losses and capital losses carried forward from prior tax years, such losses may reduce the amount of distributions that we must make in order to comply with the REIT distribution requirements. See [Taxation of New Residential Annual Distribution Requirements](#). Such losses, however, are not passed through to stockholders and do not offset income of stockholders from other sources, nor would such losses affect the character of any distributions that we make, which are generally subject to tax in the hands of stockholders to the extent that we have current or accumulated earnings and profits.

---

**Table of Contents**

If excess inclusion income from a taxable mortgage pool or REMIC residual interest is allocated to any stockholder, that income will be taxable in the hands of the stockholder and would not be offset by any net operating losses of the stockholder that would otherwise be available. See *Taxation of New Residential Taxable Mortgage Pools and Excess Inclusion Income*. As required by IRS guidance, we intend to notify our stockholders if a portion of a dividend paid by us is attributable to excess inclusion income.

*Dispositions of New Residential Stock.* In general, capital gains recognized by individuals, trusts and estates upon the sale or disposition of our stock will be subject to reduced maximum U.S. federal income tax rates if the stock is held for more than one year, and will be taxed at ordinary income rates if the stock is held for one year or less. Gains recognized by stockholders that are corporations are subject to U.S. federal income tax at ordinary income rates, whether or not such gains are classified as long-term capital gains. Capital losses recognized by a stockholder upon the disposition of our stock that was held for more than one year at the time of disposition will be considered long-term capital losses, and are generally available only to offset capital gain income of the stockholder but not ordinary income (except in the case of individuals, who may offset up to \$3,000 of ordinary income each year). In addition, any loss upon a sale or exchange of shares of our stock by a stockholder who has held the shares for six months or less, after applying holding period rules, will be treated as a long-term capital loss to the extent of distributions that we make that are required to be treated by the stockholder as long-term capital gain.

If an investor recognizes a loss upon a subsequent disposition of our stock or other securities in an amount that exceeds a prescribed threshold, it is possible that the provisions of Treasury regulations involving reportable transactions could apply, with a resulting requirement to separately disclose the loss-generating transaction to the IRS. These regulations, though directed towards tax shelters, are written quite broadly, and apply to transactions that would not typically be considered tax shelters. The Code imposes significant penalties for failure to comply with these requirements. You should consult your tax advisors concerning any possible disclosure obligation with respect to the receipt or disposition of our stock or securities, or transactions that we might undertake directly or indirectly. Moreover, you should be aware that we and other participants in the transactions in which we are involved (including their advisors) might be subject to disclosure or other requirements pursuant to these regulations.

*Medicare Tax.* Certain U.S. stockholders who are individuals, estates or trusts and whose income exceeds certain thresholds will be required to pay a 3.8% Medicare tax on all or a portion of their dividend and other investment income, including dividends received from us and capital gains from the sale or other disposition of our stock.

**Taxation of Non-U.S. Holders**

The following is a summary of certain U.S. federal income and estate tax consequences of the ownership and disposition of our stock applicable to non-U.S. holders. This discussion is based on current law, and is for general information only. It addresses only selected, and not all, aspects of U.S. federal income and estate taxation.

*Ordinary Dividends.* The portion of dividends received by non-U.S. holders that is (1) payable out of our earnings and profits, (2) which is not attributable to our capital gains and (3) which is not effectively connected with a U.S. trade or business of the non-U.S. holder, will be subject to U.S. withholding tax at the rate of 30%, unless reduced or eliminated by treaty. Reduced treaty rates and other exemptions are not available to the extent that income is attributable to excess inclusion income allocable to the non-U.S. holder. Accordingly, we will withhold at a rate of 30% on any portion of a dividend that is paid to a non-U.S. holder and attributable to that stockholder's share of our excess inclusion income. See *Taxation of New Residential Taxable Mortgage Pools and Excess Inclusion Income*. As required by IRS guidance, we intend to notify our stockholders if a portion of a dividend paid by us is attributable to excess inclusion income.

In general, non-U.S. holders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our stock. In cases where the dividend income from a non-U.S. holder's investment in our stock is, or is treated as, effectively connected with the non-U.S. holder's conduct of a U.S. trade or business, the



---

**Table of Contents**

non-U.S. holder generally will be subject to U.S. federal income tax at graduated rates, in the same manner as domestic holders are taxed with respect to such dividends. Such income must generally be reported on a U.S. income tax return filed by or on behalf of the non-U.S. holder. The income may also be subject to the 30% branch profits tax in the case of a non-U.S. holder that is a corporation.

*Non-Dividend Distributions.* Unless our stock constitutes a U.S. real property interest ( *USRPI* ), distributions that we make which are not dividends out of our earnings and profits will not be subject to U.S. income tax. If we cannot determine at the time a distribution is made whether or not the distribution will exceed current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to dividends. The non-U.S. holder may seek a refund from the IRS of any amounts withheld if it is subsequently determined that the distribution was, in fact, in excess of our current and accumulated earnings and profits. If our stock constitutes a *USRPI*, as described below, distributions that we make in excess of the sum of (a) the stockholder's proportionate share of our earnings and profits, plus (b) the stockholder's basis in its stock, will be taxed under the Foreign Investment in Real Property Tax Act of 1980, as amended ( *FIRPTA* ) at the rate of tax, including any applicable capital gains rates, that would apply to a domestic holder of the same type (e.g., an individual or a corporation, as the case may be), and the collection of the tax will be enforced by a refundable withholding tax at a rate of 10% of the amount by which the distribution exceeds the stockholder's share of our earnings and profits. As described below, although it is not currently anticipated that our stock will constitute a *USRPI*, we cannot assure you that our stock will not become a *USRPI*.

*Capital Gain Dividends.* Under *FIRPTA*, a dividend that we make to a non-U.S. holder, to the extent attributable to gains from dispositions of *USRPIs* that we held directly or through pass-through subsidiaries (such gains, *USRPI capital gains* ), will, except as described below, be considered effectively connected with a U.S. trade or business of the non-U.S. holder and will be subject to U.S. income tax at the rates applicable to U.S. individuals or corporations. We will be required to withhold tax equal to 35% of the maximum amount that could have been designated as a *USRPI capital gain dividend*. Distributions subject to *FIRPTA* may also be subject to a 30% branch profits tax in the hands of a non-U.S. holder that is a corporation. A distribution is not a *USRPI capital gain dividend* if we held an interest in the underlying asset solely as a creditor. Capital gain dividends received by a non-U.S. holder that are attributable to dispositions of our assets other than *USRPIs* are not subject to U.S. federal income tax, unless (1) the gain is effectively connected with the non-U.S. holder's U.S. trade or business, in which case the non-U.S. holder would be subject to the same treatment as U.S. holders with respect to such gain, or (2) the non-U.S. holder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and has a *tax home* in the U.S., in which case the non-U.S. holder will incur a 30% tax on his capital gains.

A dividend that would otherwise have been treated as a *USRPI capital gain dividend* will not be so treated or be subject to *FIRPTA*, and generally will not be treated as income that is effectively connected with a U.S. trade or business, but instead will be treated in the same manner as ordinary income dividends (discussed above), provided that (1) the dividend is received with respect to a class of stock that is regularly traded on an established securities market located in the U.S., and (2) the recipient non-U.S. holder does not own more than 5% of that class of stock at any time during the year ending on the date on which the dividend is received. We anticipate that our common stock will be regularly traded on an established securities exchange.

*Dispositions of New Residential Stock.* Unless our stock constitutes a *USRPI*, a sale of our stock by a non-U.S. holder generally will not be subject to U.S. taxation under *FIRPTA*. Our stock will not be treated as a *USRPI* if less than 50% of our assets throughout a prescribed testing period consist of interests in real property located within the U.S., excluding, for this purpose, interests in real property solely in a capacity as a creditor. It is not currently anticipated that our stock will constitute a *USRPI*. However, we cannot assure you that our stock will not become a *USRPI*.

Even if the foregoing 50% test is not met, our stock nonetheless will not constitute a USRPI if we are a domestically-controlled qualified investment entity. A domestically-controlled qualified investment entity includes a REIT, less than 50% of value of which is held directly or indirectly by non-U.S. holders at all times

## **Table of Contents**

during a specified testing period. We believe that we will be a domestically-controlled qualified investment entity, and that a sale of our stock should not be subject to taxation under FIRPTA. No assurance can be given that we will remain a domestically-controlled qualified investment entity.

In the event that we are not a domestically-controlled qualified investment entity, but our stock is regularly traded, as defined by applicable Treasury regulations, on an established securities market, a non-U.S. holder's sale of our stock nonetheless would not be subject to tax under FIRPTA as a sale of a USRPI, provided that the selling non-U.S. holder held 5% or less of our stock at all times during a specified testing period. Our stock is, and we expect that it will continue to be publicly traded.

In addition, if a non-U.S. holder owning more than 5% of our common stock disposes of such common stock during the 30-day period preceding the ex-dividend date of any dividend payment, and such non-U.S. holder acquires or enters into a contract or option to acquire our common stock within 61 days of the first day of such 30-day period described above, and any portion of such dividend payment would, but for the disposition, be treated as USRPI capital gain to such non-U.S. holder under FIRPTA, then such non-U.S. holder will be treated as having USRPI capital gain in an amount that, but for the disposition, would have been treated as USRPI capital gain.

If gain on the sale of our stock were subject to taxation under FIRPTA, the non-U.S. holder would be required to file a U.S. federal income tax return and would be subject to the same treatment as a domestic holder with respect to such gain, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals, and the purchaser of the stock could be required to withhold 10% of the purchase price and remit such amount to the IRS.

Gain from the sale of our stock that would not otherwise be subject to FIRPTA will nonetheless be taxable in the U.S. to a non-U.S. holder in two cases: (1) if the non-U.S. holder's investment in our stock is effectively connected with a U.S. trade or business conducted by such non-U.S. holder, the non-U.S. holder will be subject to the same treatment as a domestic holder with respect to such gain, or (2) if the non-U.S. holder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and has a tax home in the U.S., the nonresident alien individual will be subject to a 30% tax on the individual's capital gain.

*Other Withholding Rules.* Legislation enacted in 2010 and existing guidance issued thereunder will require, after June 30, 2014, withholding at a rate of 30% on dividends in respect of, and, after December 31, 2016, gross proceeds from the sale of, our common stock held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Treasury to report, on an annual basis, information with respect to shares in, and accounts maintained by, the institution to the extent such shares or accounts are held by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments. An intergovernmental agreement between the United States and an applicable foreign country, or future Treasury regulations or other guidance, may modify these requirements. Accordingly, the entity through which our common stock is held will affect the determination of whether such withholding is required. Similarly, dividends in respect of, and gross proceeds from the sale of, our common stock held by an investor that is a non-financial non-U.S. entity that does not qualify under certain exemptions will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any substantial United States owners or (ii) provides certain information regarding the entity's substantial United States owners, which we will in turn provide to the Secretary of the Treasury. We will not pay any additional amounts to stockholders in respect of any amounts withheld. Non-U.S. stockholders are encouraged to consult their tax advisors regarding the possible implications of the legislation on their investment in our common stock.

*Estate Tax.* If our stock is owned or treated as owned by an individual who is not a citizen or resident (as specially defined for U.S. federal estate tax purposes) of the U.S. at the time of such individual's death, the stock will be includable in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise, and may therefore be subject to U.S. federal estate tax.

---

**Table of Contents**

***Taxation of Tax-Exempt Stockholders***

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from U.S. federal income taxation. Such entities, however, may be subject to taxation on their unrelated business taxable income (UBTI). While some investments in real estate may generate UBTI, the IRS has ruled that dividend distributions from a REIT to a tax-exempt entity do not constitute UBTI. Based on that ruling, and provided that (1) a tax-exempt stockholder has not held our stock as debt financed property within the meaning of the Code (i.e., where the acquisition or holding of the property is financed through a borrowing by the tax-exempt stockholder), and (2) our stock is not otherwise used in an unrelated trade or business, distributions that we make and income from the sale of our stock generally should not give rise to UBTI to a tax-exempt stockholder.

To the extent that we are (or a part of us, or a disregarded subsidiary of ours is) a TMP, or if we hold residual interests in a REMIC, a portion of the dividends paid to a tax-exempt stockholder that is allocable to excess inclusion income may be treated as UBTI. If, however, excess inclusion income is allocable to some categories of tax-exempt stockholders that are not subject to UBTI, we might be subject to corporate level tax on such income, and, in that case, may reduce the amount of distributions to those stockholders whose ownership gave rise to the tax. See *Taxation of New Residential Taxable Mortgage Pools and Excess Inclusion Income*. As required by IRS guidance, we intend to notify our stockholders if a portion of a dividend paid by us is attributable to excess inclusion income.

Tax-exempt stockholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from U.S. federal income taxation under sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Code are subject to different UBTI rules, which generally require such stockholders to characterize distributions that we make as UBTI.

In certain circumstances, a pension trust that owns more than 10% of our stock could be required to treat a percentage of the dividends as UBTI, if we are a pension-held REIT. We will not be a pension-held REIT unless (1) we are required to look through one or more of our pension stockholders in order to satisfy the REIT closely held test and (2) either (i) one pension trust owns more than 25% of the value of our stock, or (ii) a group of pension trusts, each individually holding more than 10% of the value of our stock, collectively owns more than 50% of our stock. Certain restrictions on ownership and transfer of our stock should generally prevent a tax-exempt entity from owning more than 10% of the value of our stock, and should generally prevent us from becoming a pension-held REIT.

**Tax-exempt stockholders are urged to consult their tax advisors regarding the federal, state, local and foreign income and other tax consequences of owning our stock.**

**Other Tax Considerations**

***Legislative or Other Actions Affecting REITs***

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to the U.S. federal tax laws and interpretations thereof could adversely affect an investment in our stock.

***State, Local and Foreign Taxes***

We and our subsidiaries and stockholders may be subject to state or local taxation in various jurisdictions, including those in which we or they transact business, own property or reside. Our state and local tax treatment and that of our stockholders may not conform to the U.S. federal income tax treatment discussed above. Prospective investors should

consult their tax advisors regarding the application and effect of state and local income and other tax laws on an investment in our stock or other securities.

**Table of Contents**

**UNDERWRITING**

Citigroup Global Markets Inc. is the underwriter of this offering. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus, the underwriter named below has agreed to purchase from us, and we have agreed to sell to the underwriter, 25,000,000 shares of our common stock.

The underwriting agreement provides that the obligations of the underwriter to purchase the shares included in this offering are subject to approval of certain conditions. The underwriter is obligated to purchase all the shares (other than those covered by the option to purchase additional shares described below) if it purchases any of the shares. If the underwriter defaults, the underwriting agreement provides that the underwriting agreement may be terminated. The offering of the shares by the underwriter is subject to receipt and acceptance and subject to the underwriter's right to reject any order in whole or in part.

The underwriter proposes to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the shares to dealers at the public offering price less a concession not to exceed \$        per share. If all of the shares are not sold at the initial offering price, the underwriter may change the public offering price and the other selling terms.

The underwriter has an option to purchase up to an additional 3,750,000 shares of common stock from us, exercisable for 30 days from the date of this prospectus, at the public offering price less the underwriting discount.

We, FOE I, our Manager and our officers and directors have agreed that, subject to certain exceptions, for a period of 30 days from the date of this prospectus, we and they will not, without the prior written consent of the underwriter, dispose of or hedge any of our common stock or any securities convertible into or exchangeable for our common stock. The underwriter may, in its sole discretion, release any of the securities subject to these lock-up agreements at any time without notice.

Certain officers and directors may purchase shares of our common stock in this offering directly from us at the public offering price. The underwriter will not receive any underwriting discounts or commissions on fees relating to these shares.

**Table of Contents**

The following table shows the underwriting discounts and commissions that we are to pay to the underwriter in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the option to purchase additional shares.

Per Share	No exercise	Full exercise
Total		

In connection with the offering, the underwriter, may purchase and sell shares of common stock in the open market. These transactions may include short sales, covering transactions and stabilizing transactions. Short sales involve sales of common stock in excess of the number of shares to be purchased by the underwriter in the offering, which creates a short position. Covered short sales are sales of shares made in an amount up to the number of shares represented by the underwriter's option to purchase additional shares. In determining the source of shares to close out the covered syndicate short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which it may purchase shares through the option to purchase additional shares. Transactions to close out the covered short involve either purchases of common stock in the open market after the distribution has been completed or the exercise of the option to purchase additional shares. The underwriter may also make naked short sales of shares in excess of the option to purchase additional shares. The underwriter must close out any naked short position by purchasing common stock in the open market. A naked short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They may also cause the price of the common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriter may conduct these transactions on the NYSE or in the over-the-counter market, or otherwise. If the underwriter commences any of these transactions, they may discontinue them at any time.

Neither we nor the underwriter make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our shares. In addition, neither we nor the underwriter make any representation that the underwriter will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We estimate that the total expenses of this offering, excluding the underwriting discount, will be approximately \$2.4 million. We will pay the filing fees and up to \$35,000 of the expenses (including the reasonable fees and disbursements of counsel to the underwriters) related to obtaining the required approval of certain terms of this offering from FINRA.

The underwriter or its affiliates may engage in transactions with, and may perform and have, from time to time, performed investment banking and advisory services for us, Fortress and certain of Fortress's affiliates in the ordinary course of its business and for which it has received or would receive customary fees and expenses. As discussed below, in certain circumstances conflicts will arise in connection with the repayment of outstanding indebtedness under these facilities with proceeds from the offering. See Business Conflicts of Interest.





**Table of Contents**

On March 27, 2013, we entered into a Master Repurchase Agreement with Citigroup Global Markets Inc., one of the underwriters in this offering, pursuant to which we finance our investments in Agency RMBS from time to time.

## **Table of Contents**

In addition, in the ordinary course of their business activities, the underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriter and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that it acquires, long and/or short positions in such securities and instruments.

A prospectus in electronic format may be made available on the websites maintained by the underwriter. The underwriter may agree to allocate a number of shares to itself for sale to its online brokerage account holders. The underwriter will allocate shares to itself for the purpose of making internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriter to securities dealers who resell shares to online brokerage account holders.

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriter may be required to make because of any of those liabilities.

## **Notice to Prospective Investors in Australia**

No placement document, prospectus, product disclosure statement or other disclosure document has been lodged with the Australian Securities and Investments Commission in relation to the offering. This prospectus does not constitute a prospectus, product disclosure statement or other disclosure document under the Corporations Act 2001 (the Corporations Act ), and does not purport to include the information required for a prospectus, product disclosure statement or other disclosure document under the Corporations Act.

Any offer in Australia of the shares may only be made to persons (the Exempt Investors ) who are sophisticated investors (within the meaning of section 708(8) of the Corporations Act), professional investors (within the meaning of section 708(11) of the Corporations Act) or otherwise pursuant to one or more exemptions contained in section 708 of the Corporations Act so that it is lawful to offer the shares without disclosure to investors under Chapter 6D of the Corporations Act.

The shares applied for by Exempt Investors in Australia must not be offered for sale in Australia in the period of 12 months after the date of allotment under the offering, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act. Any person acquiring shares must observe such Australian on-sale restrictions.

This prospectus contains general information only and does not take account of the investment objectives, financial situation or particular needs of any particular person. It does not contain any securities recommendations or financial product advice. Before making an investment decision, investors need to consider whether the information in this prospectus is appropriate to their needs, objectives and circumstances, and, if necessary, seek expert advice on those matters.

## **Table of Contents**

### **Notice to Prospective Investors in the Dubai International Financial Centre**

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ( DFSA ). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

### **Notice to Prospective Investors in the European Economic Area**

In relation to each Member State of the European Economic Area (each, a Relevant Member State ), no offer of shares may be made to the public in that Relevant Member State other than:

- A. to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- B. to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives; or
- C. in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares shall require us or the representatives to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive. In the case of any shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the representatives has been obtained to each such proposed offer or resale.

We, the representatives and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

This prospectus has been prepared on the basis that any offer of shares in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of shares. Accordingly any person making or intending to make an offer in that Relevant Member State of shares which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation

arises for us or the underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither we nor the underwriter have authorized, nor do we or the underwriter authorize, the making of any offer of shares in circumstances in which an obligation arises for us or the underwriter to publish a prospectus for such offer.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus

## **Table of Contents**

Directive in the Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

### **Notice to Prospective Investors in Hong Kong**

The shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the shares has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### **Notice to Prospective Investors in Switzerland**

We have not and will not register with the Swiss Financial Market Supervisory Authority (FINMA) as a foreign collective investment scheme pursuant to Article 119 of the Federal Act on Collective Investment Scheme of 23 June 2006, as amended (CISA), and accordingly the securities being offered pursuant to this prospectus have not and will not be approved, and may not be licenseable, with FINMA. Therefore, the securities have not been authorized for distribution by FINMA as a foreign collective investment scheme pursuant to Article 119 CISA and the securities offered hereby may not be offered to the public (as this term is defined in Article 3 CISA) in or from Switzerland. The securities may solely be offered to qualified investors, as this term is defined in Article 10 CISA, and in the circumstances set out in Article 3 of the Ordinance on Collective Investment Scheme of 22 November 2006, as amended (CISO), such that there is no public offer. Investors, however, do not benefit from protection under CISA or CISO or supervision by FINMA. This prospectus and any other materials relating to the securities are strictly personal and confidential to each offeree and do not constitute an offer to any other person. This prospectus may only be used by those qualified investors to whom it has been handed out in connection with the offer described herein and may neither directly or indirectly be distributed or made available to any person or entity other than its recipients. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in Switzerland or from Switzerland. This prospectus does not constitute an issue prospectus as that term is understood pursuant to Article 652a and/or 1156 of the Swiss Federal Code of Obligations. We have not applied for a listing of the securities on the SIX Swiss Exchange or any other regulated securities market in Switzerland, and consequently, the information presented in this prospectus does not necessarily comply with the information standards set out in the listing rules of the SIX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange.

### **Notice to Prospective Investors in the United Kingdom**

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are qualified investors (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the Order) and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article

49(2)(a) to (d) of the Order (all such persons together being referred to as

relevant persons ). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

**Table of Contents**

**LEGAL MATTERS**

Certain legal matters relating to this offering will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Sidley Austin LLP, New York, New York will act as counsel to the underwriter. Sidley Austin LLP has represented us in the past and continues to represent us on a regular basis on a variety of matters.

**EXPERTS**

The consolidated financial statements of New Residential Investment Corp. and Subsidiaries at December 31, 2013 and 2012, and for the years ended December 31, 2013 and 2012 and the period from December 8, 2011 (commencement of operations) through December 31, 2011, and the effectiveness of New Residential Investment Corp. and Subsidiaries' internal control over financial reporting as of December 31, 2013 appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon appearing elsewhere herein, and are included in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated and combined financial statements of SpringCastle Finance, LLC, SpringCastle Credit, LLC, SpringCastle America, LLC and SpringCastle Acquisition, LLC incorporated in this Prospectus by reference to the Annual Report on Form 10-K of New Residential Investment Corp. for the year ended December 31, 2013 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-11 for the common stock we are offering by this prospectus. This prospectus does not contain all of the information set forth in the registration statement. You should refer to the registration statement and its exhibits and schedules for additional information. Statements contained in this prospectus as to the contents of any contract or other document referred to in this prospectus are not necessarily complete and, where that contract or other document has been filed as an exhibit to the registration statement, each statement in this prospectus is qualified in all respects by the exhibit to which the reference relates. We are subject to the information and periodic reporting requirements of the Exchange Act, and we are required to file annual, quarterly and special reports, proxy statements and other information with the SEC.

Our SEC filings, including our registration statement, are also available to you, free of charge, on the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section at the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.



**Table of Contents**

**INDEX TO FINANCIAL STATEMENTS OF NEW RESIDENTIAL INVESTMENT CORP.  
AND SUBSIDIARIES**

<u>Unaudited Pro Forma Condensed Consolidated Financial Information</u>	F-2
<u>Report of Independent Registered Public Accounting Firm</u>	F-8
<u>Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting</u>	F-9
<u>Consolidated Balance Sheets as of December 31, 2013 and 2012</u>	F-10
<u>Consolidated Statements of Income for the years ended December 31, 2013 and 2012 and the period from December 8, 2011 (commencement of operations) through December 31, 2011</u>	F-11
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2013 and 2012 and the period from December 8, 2011 (commencement of operations) through December 31, 2011</u>	F-12
<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2013 and 2012 and the period from December 8, 2011 (commencement of operations) through December 31, 2011</u>	F-13
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012 and the period from December 8, 2011 (commencement of operations) through December 31, 2011</u>	F-14
<u>Notes to Consolidated Financial Statements</u>	F-16

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The unaudited pro forma condensed consolidated financial information presented below was derived from the application of pro forma adjustments to our consolidated financial statements. These unaudited pro forma condensed consolidated financial statements should be read in conjunction with the information under Management's Discussion and Analysis of Financial Condition and Results of Operations, and our historical financial statements and related notes, which are included elsewhere in this prospectus.

The unaudited pro forma information set forth below reflects our historical information with certain adjustments. The unaudited pro forma condensed consolidated balance sheet has been adjusted to give effect to all of the transactions described below as if each had occurred on December 31, 2013.

Acquisition and settlement of additional Excess MSR's subsequent to December 31, 2013.

Commitments to acquire additional Excess MSR's subsequent to December 31, 2013.

Acquisition and settlement of additional servicer advances subsequent to December 31, 2013 and the net increase of notes payable thereto.

Repayment of certain notes payable using new notes issued pursuant to an advance receivables trust that issued variable funding and term notes.

The sale of Agency ARM RMBS subsequent to December 31, 2013. The Agency ARM RMBS had a face amount of approximately \$154.2 million and a sales price of approximately \$162.9 million.

The net decrease in repurchase agreements related to Agency ARM RMBS, which includes the repurchase agreements related to Agency ARM RMBS which had not settled on December 31, 2013.

The purchase and settlement of Non-Agency RMBS subsequent to December 31, 2013. The Non-Agency RMBS had a face amount of approximately \$740.6 million and a purchase price of approximately \$308.9 million.

The sale of Non-Agency RMBS subsequent to December 31, 2013. The Non-Agency RMBS had a face amount of approximately \$437.9 million, an amortized cost basis of \$244.6 million and a sales price of approximately \$248.5 million.

The net increase in repurchase agreements related to Non-Agency RMBS, which includes the repurchase agreements related to Non-Agency RMBS that had not settled on December 31, 2013.

Acquisition of long and short positions in to-be-announced ( TBA ) Agency RMBS, which did not require an initial net investment.

The purchase of mezzanine and subordinate tranches of a Non-Agency RMBS securitization previously sponsored by Springleaf and a repurchase agreement to finance this transaction.

The purchase of non-performing loans which were financed with repurchase agreements and treated as linked transactions with the net basis recorded as a non-hedge derivative instrument.

The \$150.0 million of financing related to our ownership interest in the Consumer Loan Companies.

The offering of 25,000,000 shares of common stock by us to which this prospectus relates.

The unaudited pro forma condensed consolidated statements of income only include adjustments to reflect (i) interest income from certain Agency ARM RMBS acquired or sold during the period from January 1, 2014 through April 15, 2014; (ii) interest expense from the financing of certain Agency ARM RMBS from the period January 1, 2014 through April 15, 2014; (iii) interest expense from the financing of certain Non-Agency RMBS, Excess MSR's, residential mortgage loans, and Consumer Loan Companies during the period from January 1, 2014 through April 15, 2014 and (iv) interest expense from the financing of the Funded Advances subsequent to December 31, 2013, in each case as if the transactions giving rise to (i), (ii) (iii) and (iv), had occurred on January 1, 2013. Accordingly, the unaudited pro forma condensed consolidated statement of income excludes adjustments for (i) earnings from the consumer loan co-investment transaction; (ii) earnings from the additional

**Table of Contents**

Excess MSR transactions; (iii) interest income from investments in Non-Agency RMBS; (iv) earnings from the non-performing loans transactions; and (v) earnings from the servicer advances transaction.

Our decision to include or exclude an adjustment in the unaudited pro forma condensed consolidated statement of income was based on whether such adjustment would be factually supportable and historically based, as set forth in more detail below.

With respect to Agency ARM RMBS, Newcastle held substantial investments in Agency ARM RMBS during the entire period covered by the pro forma statement of income. Although Newcastle did not own the exact securities contributed to New Residential for the entire period presented, management considers Agency ARM RMBS to be fungible because, among other factors, they are guaranteed by the U.S. government and thus have consistent credit characteristics. As a result, New Residential determined that adjustments related to these securities are factually supportable.

In contrast to Agency ARM RMBS, the yields of Non-Agency RMBS can have significant variances as a result of differences in the collateral and credit characteristics of each asset. Newcastle did not hold the specific Non-Agency RMBS contributed to us during the entire period presented, and neither Newcastle nor New Residential have records relating to the performance of these assets prior to their acquisition. As a result, management believes that adjustments for the interest income from the Non-Agency RMBS would not be factually supportable.

The investments in equity method investees were made in newly formed entities with no historical operations. Neither we nor Newcastle owned any of the underlying excluded investments prior to their acquisition by the investee entities. Furthermore, the underlying loans were not serviced by an affiliate of our Manager prior to their acquisition. As a result, Newcastle does not have records relating to the performance of these loans prior to the acquisition of the related investments. In addition, the composition of the loan pools and the loans underlying the Excess MSRs and consumer loan investees necessarily differ from the composition of the respective pools during the period covered by the pro forma statement of income due to prepayment and default activity prior to acquisition. As a result, an adjustment related to these investees was not considered factually supportable.

The investments in the Funded Advances were also made in a newly formed entity with no historical operations. The Funded Advances were not held by an affiliate of our Manager for the entire period covered by the pro forma statements of income. In addition, the composition of the Funded Advances balance necessarily differs from the composition of the respective servicer advances covered by the pro forma statements of income due to repayments and new advances made. As a result, an adjustment related to the Funded Advances was not considered factually supportable.

In the opinion of management, all adjustments necessary to reflect the effects of the transactions described in the notes to the unaudited pro forma condensed consolidated balance sheet and pro forma condensed statement of income have been included and are based upon available information and assumptions that we believe are reasonable.

Further, the historical financial information presented herein has been adjusted to give pro forma effect to events that we believe are factually supportable and which are expected to have a continuing impact on our results. However, such adjustments are estimates and may not prove to be accurate. Information regarding these adjustments is subject to risks and uncertainties that could cause actual results to differ materially from those anticipated. See Risk Factors and Cautionary Statement Regarding Forward-Looking Statements.

These unaudited pro forma condensed consolidated financial statements are provided for information purposes only. The unaudited pro forma condensed consolidated statements of income and consolidated balance sheet do not purport

to represent what our results of operations and/or financial condition would have been had such transactions been consummated on the dates indicated, nor do they represent our financial position or results of operations for any future date.

F-3

**Table of Contents****UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**

At December 31, 2013

(Dollars in thousands)	Historical (A)	Closed Transaction Adjustments	Pending Transaction Adjustments	Offering Proceeds Adjustments (B)	Pro Forma
<b>Assets</b>					
Investments in:					
Excess mortgage servicing rights, at fair value	\$ 324,151	\$ 19,132 (C)	\$ 33,857(C)	\$	\$ 377,140
Excess mortgage servicing rights, equity method investees, at fair value	352,766				352,766
Servicer advances	2,665,551	1,561,999 (D)			4,227,550
Real estate securities, available-for-sale	1,973,189	450,816 (E)			2,424,005
Residential mortgage loans, held-for-investment	33,539				33,539
Consumer loans, equity method investees	215,062				215,062
Cash and cash equivalents	271,994	(194,961)(F)		150,227	227,260
Restricted cash	33,338	11,483 (G)			44,821
Derivative assets	35,926	8,427 (H)			44,353
Other assets	53,142				53,142
	\$ 5,958,658	\$ 1,856,896	\$ 33,857	\$ 150,227	\$ 7,999,638
<b>Liabilities and Equity</b>					
<b>Liabilities</b>					
Repurchase agreements	\$ 1,620,711	\$ 612,648 (I)	\$	\$	\$ 2,233,359
Notes payable	2,488,618	1,462,625 (J)			3,951,243
Trades payable	246,931	(246,931)(K)			
Payable related to pending transactions			33,857(L)		33,857
Due to affiliates	19,169				19,169
Dividends payable	63,297				63,297
Accrued expenses and other liabilities	6,857				6,857
	4,445,583	1,828,342	33,857		6,307,782
Commitments and Contingencies					
<b>Equity</b>					

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Common Stock, \$0.01 par value, 2,000,000,000 shares authorized, 253,197,974 issued and outstanding at December 31, 2013	2,532		250	2,782
Additional paid-in capital	1,157,118		149,977	1,307,095
Retained earnings	102,986			102,986
Accumulated other comprehensive income, net of tax	3,214			3,214
Total New Residential stockholders equity	1,265,850		150,227	1,416,077
Noncontrolling interest in equity of consolidated subsidiaries	247,225	28,554 (M)		275,779
Total Equity	1,513,075	28,554	150,227	1,691,856
	\$ 5,958,658	\$ 1,856,896	\$ 33,857	\$ 150,227
				\$ 7,999,638

F-4

**Table of Contents**

**NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**

- (A) Represents our historical consolidated balance sheet at December 31, 2013.
- (B) Represents the estimated net cash proceeds, common stock issued, and additional paid-in-capital from the issuance of 25,000,000 shares of our common stock for net proceeds of \$150.2 million after deducting underwriting discounts and commissions and the estimated offering expenses payable by us, assuming the underwriter does not exercise their option to purchase additional shares of our common stock.
- (C) Represents the commitment to invest \$53.0 million in Excess MSR on portfolios of residential mortgage loans with an aggregate UPB of approximately \$22.1 billion. We have closed on \$19.1 million of these investments. The commitment amount is based on the UPB as of the commitment date. The actual amount invested will be based on the UPB at the time of close.
- (D) Represents the purchase of servicer advances from equity contributions (\$1.6 billion).
- (E) Represents our net investments in Non-Agency RMBS and Agency ARM RMBS subsequent to December 31, 2013.
- (F) Represents adjustments to the cash and cash equivalents balance. The adjustment to the cash and cash equivalents balance includes cash inflows from (i) the net increase in repurchase agreements related to Agency ARM RMBS and Non-Agency RMBS (\$462.6 million); (ii) the repurchase agreement related to the Consumer Loan Companies (\$150.0 million). The adjustment to the cash and cash equivalents balance includes cash outflows from (i) the servicer advance investments (\$82.3 million); (ii) the trades payable balance at December 31, 2013 (\$246.9 million); (iii) the net purchase of Agency ARM RMBS and Non-Agency RMBS (\$450.8 million); (iv) the Excess MSR transactions (\$19.1 million); and (v) the acquisition of non-performing loans, which are treated as derivative assets (\$8.4 million).
- (G) Represents the increase in restricted cash from the financing of servicer advances.
- (H) Represents our net investment in non-performing loans of \$8.4 million accounted as linked transactions not used for hedging purposes. Additionally, we hold TBA positions with \$1.1 billion in a long notional amount of Agency RMBS and \$1.2 billion in a short notional amount of Agency RMBS, as of April 15, 2014, and any amounts or obligations owed by or to us are subject to the right of set-off with the TBA counterparty.
- (I) Represents the change in repurchase agreements related to Agency ARM RMBS, Non-Agency RMBS, and the Consumer Loan Companies. The increase of \$612.6 million is comprised of a \$590.2 million increase related to the financing of Non-Agency RMBS purchases and a \$150.0 million financing of our investment in the Consumer Loan Companies, partially offset by a \$127.5 million decrease related to the sale of Agency RMBS.
- (J) Represents the notes payable related to the financing of servicer advances (\$1.5 billion), including the repayment of certain notes payable using new notes issued pursuant to an advance receivables trust that issued variable funding and term notes.
- (K) Represents the settlement of trades payable related to Agency ARM RMBS and Non-Agency RMBS which had not settled on December 31, 2013 (\$246.9 million).
- (L) Represents the payable related to pending transactions on Excess MSRs.
- (M) Represents the non-controlling interest of the third party co-investors in our consolidated subsidiary that holds our investment in servicer advances.



Table of Contents**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME****Year Ended December 31, 2013**

<b>(Dollars in thousands)</b>	<b>Historical (A)</b>	<b>Pro Forma Adjustments</b>	<b>Pro Forma</b>
Interest income	\$ 87,567	\$ (2,167)(B)	\$ 85,400
Interest expense	15,024	62,029 (C)	77,053
<b>Net Interest Income</b>	<b>72,543</b>	<b>(64,196)</b>	<b>8,347</b>
<b>Impairment</b>			
Other-than-temporary impairment ( OTTI ) on securities	4,993		4,993
Valuation allowance on loans	461		461
	5,454		5,454
Net interest income after impairment	67,089	(64,196)	2,893
<b>Other Income</b>			
Change in fair value of investments in excess mortgage servicing rights	53,332		53,332
Change in fair value of investments in excess mortgage servicing rights, equity method investees	50,343		50,343
Earnings from investments in consumer loans, equity method investees	82,856		82,856
Gain on settlement of securities	52,657		52,657
Other income	1,820		1,820
	241,008		241,008
<b>Operating Expenses</b>			
General and administrative expenses	10,284		10,284
Management fee allocated by Newcastle	4,134	71 (D)	4,205
Management fee to affiliate	11,209	2,250 (E)	13,459
Incentive compensation to affiliate	16,847		16,847
	42,474	2,321	44,795
<b>Income (Loss) Before Income Taxes</b>	<b>265,623</b>	<b>(66,517)</b>	<b>199,106</b>
Income tax expense			
<b>Net Income (Loss)</b>	<b>\$ 265,623</b>	<b>\$ (66,517)</b>	<b>\$ 199,106</b>

<b>Noncontrolling interests in Income (Loss) of Consolidated Subsidiaries</b>	\$	(326)	\$	(29,189)(F)	\$	(29,515)
<b>Net Income (Loss) Attributable to Common Stockholders</b>	\$	265,949	\$	(37,328)	\$	228,621
<b>Income Per Share of Common Stock</b>						
Basic	\$	1.05			\$	0.90 (G)
Diluted	\$	1.03			\$	0.89 (H)
<b>Weighted Average Number of Shares of Common Stock Outstanding</b>						
Basic		253,078,048				253,078,048 (G)
Diluted		257,368,255				257,368,255 (H)

F-6

**Table of Contents**

**NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED**

**STATEMENTS OF INCOME**

- (A) Represents our historical consolidated statement of income for the year ended December 31, 2013.
- (B) Represents the reduction in interest income from the net Agency ARM RMBS with a net face of \$154.2 million sold subsequent to December 31, 2013. The full year of interest income was computed based on the weighted average accounting yield of the securities of 1.33%. A 1/8% increase (decrease) in the benchmark interest rate would result in an increase (decrease) in interest income of approximately \$0.2 million for the year ended December 31, 2013, respectively.
- (C) Represents additional interest expense from the additional repurchase agreements and notes payable. The full year of interest expense on the repurchase agreements related to Agency ARM RMBS and Non-Agency RMBS was computed based on a weighted average rate of the repurchase agreements of 0.65%. Additional interest expense related to the repurchase agreement for the purchase of mezzanine and subordinate tranches of a Non-Agency RMBS securitization previously sponsored by Springleaf was computed at a rate of 2.17%, which is based on the stated interest rate in the repurchase agreement of one-month LIBOR plus 2%. The repurchase agreement related to the Consumer Loan Companies had an outstanding balance of \$150.0 million and funding cost of approximately 4.17%. The interest expense on the notes payable related to the servicer advance investments was computed based on the weighted average funding cost of the three servicer advance financing facilities, including the interest rate and commitment and non-usage fees, which was 3.01% as of March 28, 2014. The funding cost of these facilities ranges from 2.48% to 3.77%. A 1/8% increase (decrease) in the benchmark interest rate, considering servicer advances are financed with approximately 66.7% floating rate debt, would result in an increase (decrease) in interest expense of approximately \$2.0 million for the year ended December 31, 2013.
- (D) Represents additional management fees related to the capital transactions noted herein.
- (E) Represents the estimated increase to the management fees we will pay Fortress as a result of this offering pursuant to the management agreement, according to which we pay 1.5% of our gross equity, as defined in the management agreement, assuming the underwriter does not exercise their option to purchase additional shares of our common stock.
- (F) Represents the interest expense related to the servicer advances attributable to non-controlling interests.
- (G) Basic earnings per share and weighted average number of basic shares outstanding reflect shares of common stock issued in connection with the spinoff as if they had been outstanding for the entire year ended December 31, 2013.
- (H) Diluted earnings per share and weighted average number of diluted shares outstanding reflect shares of common stock issued in connection with the spin-off as if they had been outstanding for the entire year ended December 31, 2013. For periods prior to the spin-off on May 15, 2013, the options issued on the spin-off date as a result of the conversion of Newcastle options were treated as if they were granted on May 15, 2013 since no New Residential awards were outstanding prior to that date. The pro forma weighted average diluted shares outstanding have not been adjusted to reflect options issued in connection with this offering as if they had been issued on January 1, 2013 since pro forma adjustments for the investments acquired with the related proceeds have not been applied to the income statement as described above. The estimated fair value of these options is \$1.3 million, based on an assumed offering price of \$6.23, which was the last reported sale price on April 23, 2014.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of New Residential Investment Corp. and Subsidiaries

We have audited the accompanying consolidated balance sheets of New Residential Investment Corp. and Subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2013 and 2012 and the period from December 8, 2011 (commencement of operations) through December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the combined financial statements of SpringCastle Finance, LLC, SpringCastle Credit, LLC, SpringCastle America, LLC and SpringCastle Acquisition, LLC (the Limited Liability Companies), limited liability companies in which the Company has a 30% interest. In the consolidated financial statements, the Company's investment in the Limited Liability Companies is stated at \$215,062,000 and \$0 as of December 31, 2013 and 2012, respectively, and the Company's equity in the net income of the Limited Liability Companies is stated at \$82,856,000, \$0 and \$0 for the years ended December 31, 2013 and 2012 and the period from December 8, 2011 (commencement of operations) through December 31, 2011. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Limited Liability Companies, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of New Residential Investment Corp. and Subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years ended December 31, 2013 and 2012 and the period from December 8, 2011 (commencement of operations) through December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), New Residential Investment Corp.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

March 28, 2014

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of New Residential Investment Corp. and Subsidiaries

We have audited New Residential Investment Corp. and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). New Residential Investment Corp. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, New Residential Investment Corp. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of New Residential Investment Corp. and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2013 and 2012 and the period from December 8, 2011 (commencement of operations) through December 31, 2011 of New Residential Investment Corp. and Subsidiaries and our report dated March 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

March 28, 2014

F-9

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Investments in:		
Excess mortgage servicing rights, at fair value	\$ 324,151	\$ 245,036
Excess mortgage servicing rights, equity method investees, at fair value	352,766	
Servicer advances	2,665,551	
Real estate securities, available-for-sale	1,973,189	289,756
Residential mortgage loans, held-for-investment	33,539	
Consumer loans, equity method investees	215,062	
Cash and cash equivalents	271,994	
Restricted cash	33,338	
Derivative assets	35,926	
Other assets	53,142	84
	<b>\$ 5,958,658</b>	<b>\$ 534,876</b>

**Liabilities and Equity****Liabilities**

Repurchase agreements	\$ 1,620,711	\$ 150,922
Notes payable	2,488,618	
Trades payable	246,931	
Due to affiliates	19,169	5,136
Dividends payable	63,297	
Accrued expenses and other liabilities	6,857	462
	<b>4,445,583</b>	<b>156,520</b>

**Commitments and Contingencies****Equity**

Common Stock, \$0.01 par value, 2,000,000,000 shares authorized, 253,197,974 issued and outstanding as of December 31, 2013	2,532	
Additional paid-in capital	1,157,118	362,830
Retained earnings	102,986	
Accumulated other comprehensive income, net of tax	3,214	15,526

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Total New Residential stockholders equity	1,265,850	378,356
Noncontrolling interest in equity of consolidated subsidiaries	247,225	
Total equity	1,513,075	378,356
	\$ 5,958,658	\$ 534,876

See notes to consolidated financial statements.

F-10



**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 AND THE PERIOD FROM DECEMBER 8, 2011

(COMMENCEMENT OF OPERATIONS) THROUGH DECEMBER 31, 2011

(dollars in thousands, except share and per share data)

	<b>Years Ended December 31,</b>		<b>December 8 through December 31, 2011</b>
	<b>2013</b>	<b>2012</b>	
Interest income	\$ 87,567	\$ 33,759	\$ 1,260
Interest expense	15,024	704	
<b>Net Interest Income</b>	<b>72,543</b>	<b>33,055</b>	<b>1,260</b>
<b>Impairment</b>			
Other-than-temporary impairment ( OTTI ) on securities	4,993		
Valuation allowance on loans	461		
	5,454		
Net interest income after impairment	67,089	33,055	1,260
<b>Other Income</b>			
Change in fair value of investments in excess mortgage servicing rights	53,332	9,023	367
Change in fair value of investments in excess mortgage servicing rights, equity method investees	50,343		
Earnings from investments in consumer loans, equity method investees	82,856		
Gain on settlement of securities	52,657		
Other income	1,820	8,400	
	241,008	17,423	367
<b>Operating Expenses</b>			
General and administrative expenses	10,284	5,878	874
Management fee allocated by Newcastle	4,134	3,353	39
Management fee to affiliate	11,209		
Incentive compensation to affiliate	16,847		

	42,474	9,231	913
<b>Income (Loss) Before Income Taxes</b>	265,623	41,247	714
Income tax expense			
<b>Net Income (Loss)</b>	\$ 265,623	\$ 41,247	\$ 714
<b>Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries</b>	\$ (326)	\$	\$
<b>Net Income (Loss) Attributable to Common Stockholders</b>	\$ 265,949	\$ 41,247	\$ 714
<b>Net Income Per Share of Common Stock</b>			
Basic	\$ 1.05	\$ 0.16	\$
Diluted	\$ 1.03	\$ 0.16	\$
<b>Weighted Average Number of Shares of Common Stock Outstanding</b>			
Basic	253,078,048	253,025,645	253,025,645
Diluted	257,368,255	253,025,645	253,025,645

See notes to consolidated financial statements.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 AND THE PERIOD FROM DECEMBER 8, 2011

(COMMENCEMENT OF OPERATIONS) THROUGH DECEMBER 31, 2011

(dollars in thousands)

	<b>December 31,</b>		<b>December 8 through December 31, 2011</b>
	<b>2013</b>	<b>2012</b>	
Comprehensive income (loss), net of tax			
Net income (loss)	\$ 265,623	\$ 41,247	\$ 714
Other comprehensive income (loss)			
Net unrealized gain (loss) on securities	35,352	15,526	
Reclassification of net realized (gain) loss on securities into earnings	(47,664)		
	(12,312)	15,526	
<b>Total comprehensive income (loss)</b>	<b>\$ 253,311</b>	<b>\$ 56,773</b>	<b>\$ 714</b>
Comprehensive income (loss) attributable to noncontrolling interests	\$ (326)	\$	\$
Comprehensive income (loss) attributable to common stockholders	\$ 253,637	\$ 56,773	\$ 714

See notes to consolidated financial statements.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 AND THE PERIOD FROM DECEMBER 8, 2011

(COMMENCEMENT OF OPERATIONS) THROUGH DECEMBER 31, 2011

(dollars in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total New Residential Stockholders' Equity	Noncontrolling Interests in Equity of Consolidated Subsidiaries	Total Equity
	Shares	Amount						
<b>Period beginning - December 8, 2011</b>		\$	\$	\$	\$	\$	\$	\$
Total contributions			40,492			40,492		40,492
Total distributions			(1,398)			(1,398)		(1,398)
Net income			714			714		714
<b>Period ending - December 31, 2011</b>		\$	\$ 39,808	\$	\$	\$ 39,808	\$	\$ 39,808
Total contributions			368,294			368,294		368,294
Contributions in-kind			164,142			164,142		164,142
Total distributions			(250,661)			(250,661)		(250,661)
Comprehensive income (loss), net of								
Net income			41,247			41,247		41,247
Unrealized gain (loss) on securities					15,526	15,526		15,526
Net comprehensive income (loss)						56,773		56,773
<b>Period ending - December 31, 2012</b>		\$	\$ 362,830	\$	\$ 15,526	\$ 378,356	\$	\$ 378,356
Dividends declared				(125,317)		(125,317)		(125,317)
Total contributions			893,466			893,466	247,551	1,141,017
Contributions in-kind			1,093,684			1,093,684		1,093,684
Total distributions			(1,228,054)			(1,228,054)		(1,228,054)
Issuance of common stock	253,025,645	2,530	(2,530)					
Stock purchased on exercise	160,634	2	(2)					

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Director share grant	11,695		78			78		
Comprehensive income (loss), net of								
Income (loss)			37,646	228,303		265,949	(326)	265,623
Unrealized gain (loss) on securities					35,352	35,352		35,352
Classification of net realized (loss) on securities into earnings					(47,664)	(47,664)		(47,664)
Net comprehensive income (loss)						253,637	(326)	253,311
<b>Balance - December 31, 2013</b>	253,197,974	\$ 2,532	\$ 1,157,118	\$ 102,986	\$ 3,214	\$ 1,265,850	\$ 247,225	\$ 1,513,000

See notes to consolidated financial statements.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 AND THE PERIOD FROM DECEMBER 8, 2011

(COMMENCEMENT OF OPERATIONS) THROUGH DECEMBER 31, 2011

(dollars in thousands)

	Year Ended December 31, 2013	2012	December 8 through December 31, 2011
<b>Cash Flows From Operating Activities</b>			
Net income (loss)	\$ 265,623	\$ 41,247	\$ 714
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	(53,332)	(9,023)	(367)
Change in fair value of investments in excess mortgage servicing rights, equity method investees	(50,343)		
Distributions of earnings from excess mortgage servicing rights, equity method investees	44,454		
Earnings from consumer loan equity method investees	(82,856)		
Distributions of earnings from consumer loan equity method investees	82,856		
Change in fair value of investments in derivative assets	(1,820)		
Accretion of discount and other amortization	(13,908)	(5,339)	
(Gain) / loss on settlement of investments (net)	(52,657)		
Other-than-temporary impairment ( OTTI )	4,993		
Valuation allowance on loans	461		
Non-cash directors compensation	78		
Changes in:			
Restricted cash	(2,790)		
Other assets	(8,274)	(84)	
Due to affiliates	14,033	4,978	158
Accrued expenses and other liabilities	6,360	(352)	755
Reduction of liability deemed as capital contribution by Newcastle	11,515		
Other operating cash flows:			
Cash proceeds from investments, in excess of interest income	41,435	43,113	138
Net cash proceeds deemed as capital distributions to Newcastle	(52,888)	(74,540)	(1,398)
Net cash provided by operating activities	152,940		

**Cash Flows From Investing Activities**

Acquisition of investments in excess mortgage servicing rights	(63,434)
Acquisition of investments in excess mortgage servicing rights, equity method investees	(233,764)
Purchase of servicer advance investments	(670,820)
Purchase of Agency ARM RMBS	(605,114)
Purchase of Non-Agency RMBS	(407,689)
Purchase of derivative assets	(70,227)
Return of investments in excess mortgage servicing rights	24,735
Return of investments in excess mortgage servicing rights, equity method investees	4,018
Principal repayments from servicer advance investments	103,394
Principal repayments from Agency ARM RMBS	302,920
Principal repayments from Non-Agency RMBS	66,495
Proceeds from sale of Non-Agency RMBS	521,865
Principal repayments from residential mortgage loans	3,809
Return of investments in consumer loan equity method investees	30,359
Net cash used in investing activities	(993,453)

Continued on next page.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 AND THE PERIOD FROM DECEMBER 8, 2011

(COMMENCEMENT OF OPERATIONS) THROUGH DECEMBER 31, 2011

(dollars in tables in thousands, except share data)

	<b>Year Ended December 31, 2013</b>	<b>2012</b>	<b>December 8 through December 31, 2011</b>
<b>Cash Flows From Financing Activities</b>			
Repayments of repurchase agreements	(2,271,765)		
Margin deposits under repurchase agreements	(61,152)		
Repayments of notes payable	(59,149)		
Payment of deferred financing fees	(5,541)		
Common stock dividends paid	(62,020)		
Borrowings under repurchase agreements	2,634,990		
Return of margin deposits under repurchase agreements	21,020		
Borrowings under notes payable	423,515		
Capital contributions	245,058		
Noncontrolling interest in equity of consolidated subsidiaries, contributions	247,551		
Net cash provided by financing activities	1,112,507		
<b>Net Increase in Cash and Cash Equivalents</b>	<b>271,994</b>		
<b>Cash and Cash Equivalents, Beginning of Period</b>			
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 271,994</b>	<b>\$</b>	<b>\$</b>
<b>Supplemental Disclosure of Cash Flow Information</b>			
Cash paid during the period for interest expense	\$ 10,212	\$ 649	\$
Cash paid during the period for income tax expense	\$	\$	\$
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities Prior to</b>			



**Date of Cash Contribution by Newcastle**

Cash proceeds from investments, in excess of interest income	\$ 41,435	\$ 43,113	\$ 138
Acquisition of real estate securities	242,750	121,262	
Acquisition of investments in excess mortgage servicing rights		221,832	40,492
Deposit paid on investment in excess mortgage servicing rights		25,200	
Return of deposit paid on investment in excess mortgage servicing rights		25,200	
Purchase price payable on investments in excess mortgage servicing rights		59	3,250
Acquisition of investments in excess mortgage servicing rights, equity method investees at fair value	125,099		
Acquisition of investments in consumer loan equity method investees	245,121		
Acquisition of residential mortgage loans, held-for-investment	35,138		
Borrowings under repurchase agreements	1,179,068	153,510	
Repayments of repurchase agreements	3,902	2,588	
Capital contributions by Newcastle	648,408	368,294	40,492
Contributions in-kind by Newcastle	1,093,684	164,142	
Capital distributions to Newcastle	1,228,054	250,661	1,398

**Supplemental Schedule of Non-Cash Investing and Financing Activities****Subsequent to Date of Cash Contribution by Newcastle**

Acquisition of restricted cash	\$ 30,548	\$	\$
Acquisition of servicer advance investments	2,093,704		
Borrowings under notes payable - servicer advance investments	2,124,252		
Dividends declared but not paid	63,297		

See notes to consolidated financial statements.

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(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 intends to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes for the tax year ending December 31, 2013. 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.

New Residential has entered into a management agreement (the Management Agreement ) with FIG LLC (the Manager ), an affiliate of Fortress Investment Group LLC ( Fortress ), under which the Manager advises New Residential on various aspects of its business and manages its day-to-day operations, 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. For a further discussion of the Management Agreement, see Note 15. 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 December 31, 2013, New Residential conducted its business through the following segments: (i) investments in Excess MSR's, (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 5.3 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals as of December 31, 2013. In addition, Fortress, through its affiliates, held options to purchase approximately 17.7 million shares of New Residential's common stock as of December 31, 2013.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting*** The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ( GAAP ). The consolidated financial statements include the accounts of New Residential and its consolidated subsidiaries. All significant intercompany transactions and balances have been eliminated. New Residential consolidates those entities in which it has control over significant operating, financial and investing decisions of the entity, as well as those entities deemed to be variable interest entities ( VIEs ) in which New Residential is determined to be the primary beneficiary. 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

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

financial support from other parties. A VIE is required to be consolidated 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 be potentially significant to the VIE. For entities over which New Residential exercises significant influence, but which do not meet the requirements for consolidation, New Residential uses the equity method of accounting whereby it records its share of the underlying income of such entities.

New Residential's investments in Non-Agency RMBS are variable interests. New Residential monitors these investments and analyzes the potential need to consolidate the related securitization entities pursuant to the VIE consolidation requirements. New Residential has not consolidated the securitization entities that issued its Non-Agency RMBS. This determination is based, in part, on New Residential's assessment that it does not have the power to direct the activities that most significantly impact the economic performance of these entities, such as through ownership of a majority of the currently controlling class. In addition, New Residential is not obligated to provide, and has not provided, any financial support to these entities.

Noncontrolling interests represent the ownership interests in certain consolidated subsidiaries held by entities or persons other than New Residential. These interests are related to noncontrolling interests in consolidated entities that hold New Residential's investment in servicer advances (Note 6).

The consolidated financial statements for periods prior to May 15, 2013 have been prepared on a spin-off basis from the consolidated financial statements and accounting records of Newcastle and reflect New Residential's historical results of operations, financial position and cash flows, in accordance with U.S. GAAP. As presented in the Consolidated Statements of Cash Flows, New Residential did not have any cash balance during periods prior to April 5, 2013, which is the first date Newcastle contributed cash to New Residential. All of its cash activity occurred in Newcastle's accounts during these periods. The consolidated financial statements for periods prior to May 15, 2013 do not necessarily reflect what New Residential's consolidated results of operations, financial position and cash flows would have been had New Residential operated as an independent company prior to the spin-off.

Certain expenses of Newcastle, comprised primarily of a portion of its management fee, have been allocated to New Residential to the extent they were directly associated with New Residential for periods prior to the spin-off on May 15, 2013. The portion of the management fee allocated to New Residential prior to the spin-off represents the product of the management fee rate payable by Newcastle (1.5%) and New Residential's gross equity, which management believes is a reasonable method for quantifying the expense of the services provided by the employees of the Manager to New Residential. The incremental cost of certain legal, accounting and other expenses related to New Residential's operations prior to May 15, 2013 are reflected in the accompanying consolidated financial statements. New Residential and Newcastle do not share any expenses following the spin-off.

***Risks and Uncertainties*** In the normal course of business, New Residential encounters primarily two significant types of economic risk: credit and market. Credit risk 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. Market risk reflects changes in the value of investments due to changes in prepayment speeds, interest rates, spreads or other market factors, including risks that impact the value of the collateral underlying New Residential's investments. Management believes that the carrying values of its investments are reasonable taking into consideration these risks along with estimated prepayments, financings, collateral values,

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

payment histories, and other information. Furthermore, for each of the periods presented, a significant portion of New Residential's assets are dependent on Nationstar's ability to perform its obligations as the servicer of residential mortgage loans underlying New Residential's investments in Excess MSR's, servicer advances, Non-Agency RMBS and residential mortgage loans. If Nationstar is terminated as the servicer, New Residential's right to receive its portion of the cash flows related to interests in MSR's is also terminated. New Residential is similarly dependent on Springleaf as the servicer of the loans underlying its investment in the Consumer Loan Companies (Note 9).

Additionally, New Residential is subject to significant tax risks. If New Residential were to fail to qualify as a REIT in any taxable year, New Residential would be subject to U.S. federal corporate income tax (including any applicable alternative minimum tax), which could be material. Unless entitled to relief under certain statutory provisions, New Residential would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost.

***Use of Estimates*** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Comprehensive Income*** Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. For New Residential's purposes, comprehensive income represents net income, as presented in the Consolidated Statements of Income, adjusted for unrealized gains or losses on securities available for sale.

**INCOME RECOGNITION**

***Investments in Excess Mortgage Servicing Rights ( Excess MSR's )*** Excess MSR's are aggregated into pools as applicable; each pool of Excess MSR's is accounted for in the aggregate. Interest income for Excess MSR's is accreted into interest income on an effective yield or interest method, based upon the expected excess mortgage servicing amount through the expected life of the underlying mortgages. Changes to expected cash flows result in a cumulative retrospective adjustment, which will be recorded in the period in which the change in expected cash flows occurs. Under the retrospective method, the interest income recognized for a reporting period is 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, New Residential's policy is to recognize interest income only on its Excess MSR's in existing eligible underlying mortgages. The difference between the fair value of Excess MSR's and

their amortized cost basis is recorded as Change in fair value of investments in excess mortgage servicing rights. 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.

***Investments in Servicer Advances ( Servicer Advances )*** New Residential accounts for its investments in Servicer Advances similarly to its investments in Excess MSR. Interest income for Servicer Advances is accreted into interest income on an effective yield or interest method, based upon the expected aggregate cash

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

flows of the servicer advances, including the basic fee component of the related MSR (but excluding any Excess MSR component) through the expected life of the underlying mortgages, net of a portion of the basic fee component of the MSR that New Residential remits to Nationstar as compensation for Nationstar's servicing activities. 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. Refer to *Investments in Excess Mortgage Servicing Rights* for a description of the retrospective method. 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 Servicer Advances, and therefore may differ from their effective yields.

Interest income recognized by New Residential related to its investment in Servicer Advances for the year ended December 31, 2013 was comprised of the following:

Interest income, gross of amounts attributable to servicer compensation	\$ 6,708
Amounts attributable to servicer compensation	(2,287)
<b>Interest income</b>	<b>\$ 4,421</b>

***Investments in Real Estate Securities*** Discounts or premiums are accreted into interest income on an effective yield or interest method, based upon a comparison of actual and expected cash flows, through the expected maturity date of the security. For securities acquired at a discount for credit quality, the difference between contractual cash flows and expected cash flows at acquisition is not accreted (non-accretable difference). Depending on the nature of the investment, changes to expected cash flows may result in a prospective change to yield or a retrospective change which would include a catch up adjustment. Deferred fees and costs, if any, are recognized as a reduction to the interest income over the terms of the securities using the interest method. Upon settlement of securities, the excess (or deficiency) of net proceeds over the net carrying value of such security is recognized as a gain (or loss) in the period of settlement.

***Investments in Residential Mortgage Loans*** Income on these loans is recognized similarly to that on securities using a level yield methodology. For loans acquired at a discount for credit quality, the difference between contractual cash flows and expected cash flows at acquisition is not accreted (non-accretable difference).

***Impairment of Securities and Loans*** New Residential continually evaluates securities and loans for impairment. Securities and loans are considered to be other-than-temporarily impaired ( OTTI ), for financial reporting purposes,



generally when it is probable that New Residential will be unable to collect all principal or interest when due according to the contractual terms of the original agreements, or for securities or loans purchased at a discount for credit quality or that represent retained beneficial interests in securitizations when New Residential determines that it is probable that it will be unable to collect as anticipated. The evaluation of a security's or loan's estimated cash flows includes the following, as applicable: (i) review of the credit of the issuer or borrower, (ii) review of the credit rating of the security, (iii) review of the key terms of the security or loan, (iv) review of the performance of the loan or underlying loans, including debt service coverage and loan to value ratios, (v) analysis of the value of the collateral for the loan or underlying loans, (vi) analysis of the effect of local, industry and broader economic factors, and (vii) analysis of historical and anticipated trends in defaults, loss severities and prepayments for similar securities or loans. Furthermore, New Residential must record a write down if it has the intent to sell a given security in an unrealized loss position, or if it is more likely than not that it

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

will be required to sell such a security. Upon determination of impairment, New Residential establishes specific valuation allowances for loans or records a direct write down for securities based on the estimated fair value of the security or underlying collateral using a discounted cash flow analysis or based on an observable market value. New Residential also establishes allowances for estimated unidentified incurred losses on pools of loans. The allowance for each loan is maintained at a level believed adequate by management to absorb probable losses, based on periodic reviews of actual and expected losses. It is New Residential's policy to establish an allowance for uncollectible interest on performing securities or loans that are past due more than 90 days or sooner when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. Upon such a determination, those securities or loans are deemed to be non-performing and put on nonaccrual status. Significant judgment is required in determining impairment and in estimating the resulting loss allowance, and actual losses may differ from New Residential's estimates. New Residential may resume accrual of income on a loan or security if, in management's opinion, full collection is probable. Subsequent to a determination of impairment, and a related write down, income is accrued on an effective yield method from the new carrying value to the related expected cash flows, with cash received treated as a reduction of basis.

***Accretion of Discount and Other Amortization*** As reflected on the consolidated statements of cash flows, this item is comprised of the following:

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Accretion of net discount on securities and loans	\$ 14,676	\$ 5,339
Amortization of deferred financing costs	(768)	
	<b>\$ 13,908</b>	<b>\$ 5,339</b>

***Other Income*** This item is comprised of the following:

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Other income		

Gain (loss) on non-hedge derivative instruments	\$ 1,820	\$
Other income (loss)		8,400
	\$ 1,820	\$ 8,400

On May 14, 2012, New Residential entered into definitive agreements to co-invest in Excess MSR's related to mortgage servicing rights that Nationstar proposed to acquire from Residential Capital, LLC and related entities ( ResCap ) in an auction conducted as part of ResCap 's bankruptcy proceedings. The auction commenced on October 23, 2012, and Nationstar did not submit the highest bid on October 24, 2012. Therefore, New Residential did not complete this co-investment and was entitled to its portion of the breakup fee of approximately \$8.4 million, which was recorded as other income for the year ended December 31, 2012.

#### **EXPENSE RECOGNITION**

**Interest Expense** New Residential finances certain investments using floating rate repurchase agreements and loans. Interest is expensed as incurred.

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

***General and Administrative Expenses*** General and administrative expenses, including legal fees, audit fees, insurance premiums, and other costs and are expensed as incurred.

***Management Fee and Incentive Compensation to Affiliate*** These represent amounts due to the Manager pursuant to the Management Agreement. For further information on the Management Agreement, see Note 15.

**BALANCE SHEET MEASUREMENT**

***Investments in Servicing Related Assets*** Servicing Related Assets consist of New Residential's investments in Excess MSR and Servicer Advances. Upon acquisition, New Residential has elected to record each of such investments at fair value. New Residential elected to record its investments 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 Servicing Related Assets. Under this election, New Residential records a valuation adjustment on its investments in Servicing Related Assets on a quarterly basis to recognize the changes in fair value in net income as described in Income Recognition Investments in Excess Mortgage Servicing Rights and Income Recognition Investments in Servicer Advances.

***Investments in Real Estate Securities*** New Residential has classified its investments in securities as available for sale. Securities available for sale are carried at market value with the net unrealized gains or losses reported as a separate component of accumulated other comprehensive income, to the extent impairment losses are considered temporary. At disposition, the net realized gain or loss is determined on the basis of the amortized cost of the specific investments and is included in earnings. Unrealized losses on securities are charged to earnings if they reflect a decline in value that is other-than-temporary.

***Investments in Residential Mortgage Loans*** Residential mortgage loans are presented at cost net of any unamortized discount (or gross of any unamortized premium), including any fees received, and an allowance for loan losses. New Residential determines at acquisition whether loans will be aggregated into pools based on common risk characteristics (credit quality, loan type, and date of origination or acquisition); loans aggregated into pools are accounted for as if each pool were a single loan. Loans which New Residential does not have the intent or the ability to hold into the foreseeable future are considered held-for-sale and are carried at the lower of average amortized cost or market value. Loans for which New Residential has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are classified as held-for-investment. Other loans are classified as held-for-sale and recorded at the lower of their amortized cost basis or fair value. New Residential discontinues the accretion of discounts on loans if they are reclassified from held-for-investment to held-for-sale. To the extent that the loans are classified as held-for-investment, New Residential periodically evaluates such loans for possible impairment as described in Impairment of Securities and Loans.

***Cash and Cash Equivalents and Restricted Cash*** New Residential considers all highly liquid short-term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits. New Residential held \$33.3 million of restricted cash related to the financing of the servicer advances (Note 6) that has been pledged to the note holders for interest and fees payable.

***Derivatives*** New Residential financed certain investments with the same counterparty from which it purchased those investments, and accounts for the contemporaneous purchase of the investments and the associated financings as linked transactions. Accordingly, New Residential records a non-hedge derivative

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

instrument on a net basis, with changes in market value recorded as *Other Income* in the Consolidated Statements of Income. In the Consolidated Statement of Cash Flows, New Residential presents the linked transactions on a gross basis with the related asset purchased reflected as an investment activity and the related financing as a financing activity.

***Income Taxes*** New Residential operates so as to qualify as a REIT under the requirements of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of New Residential's stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. Distribution of the remaining balance may extend until timely filing of New Residential's tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

Certain activities of New Residential are conducted through taxable REIT subsidiaries ( *TRSs* ) and therefore are subject to federal and state income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

New Residential recognizes tax benefits for uncertain tax positions only if it is more likely than not that the position is sustainable based on its technical merits. Interest and penalties on uncertain tax positions are included as a component of the provision for income taxes on the consolidated statements of operations.

***Other Assets and Other Liabilities*** Other assets and liabilities are comprised of the following:

	<b>Other Assets</b>			<b>Other Liabilities</b>	
	<b>December 31,</b>			<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>		<b>2013</b>	<b>2012</b>
Margin receivable (A)	\$ 40,132	\$	Interest payable	\$ 4,010	\$ 55
Interest and other receivables	7,548	84	Accounts payable	2,829	348

Deferred financing costs (B)	5,541	Other	18	59
Accumulated amortization	(768)		\$ 6,857	\$ 462
Other	689			
	\$ 53,142	\$ 84		

- (A) Margin receivable represents amounts due to New Residential from counterparties resulting from changes in the counterparties' estimated value of the underlying collateral of New Residential's financed investments resulting from market fluctuations and principal paydowns. Brief periods of time may lapse between the time New Residential pays, or receives, margin from one counterparty relative to other counterparties.
- (B) Deferred financing costs consist primarily of costs incurred in obtaining financing, which are amortized into interest expense over the term of the financing generally using the effective interest method.

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

***Repurchase Agreements and Notes Payable*** New Residential's repurchase agreements and notes payable are generally short-term debt that expire within one year. Such agreements and notes payable are carried at their contractual amounts, as specified by each repurchase or financing agreement, and generally treated as collateralized financing transactions.

***Recent Accounting Pronouncements***

In February 2013, the FASB issued new guidance regarding the reporting of reclassifications out of accumulated other comprehensive income. The new guidance does not change current requirements for reporting net income or other comprehensive income in financial statements. However, it requires companies to present the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income if the item reclassified is required to be reclassified to net income in its entirety during the same reporting period. Presentation should occur either on the face of the income statement where net income is presented, or in the notes to the financial statements. New Residential has adopted this accounting standard. Refer to Note 16 for this presentation.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, financial statement presentation, revenue recognition, financial instruments, hedging, and contingencies. 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.

**3. SEGMENT REPORTING**

New Residential conducts its business through the following segments: (i) investments in Excess MSR's, (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 allocation of management fees by Newcastle until the spin-off on May 15, 2013, (iii) the management fees and incentive compensation owed to the Manager by New Residential following the spin-off, (iv) corporate cash and related interest income and (v) the secured corporate loan and related interest expense.

In the fourth quarter of 2013, New Residential determined that its investments in real estate loans represented a separate reportable segment due to New Residential's increased focus on this previously immaterial business line. As a result, the real estate loans segment was disaggregated from the real estate securities segment for all periods presented.





**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

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			Corporate	Total
	Excess MSR	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans		
<b>Year Ended December 31, 2013</b>							
Interest income	\$ 40,921	\$ 4,421	\$ 39,533	\$ 2,650	\$	\$ 42	\$ 87,567
Interest expense		3,901	10,876			247	15,024
Net interest income	40,921	520	28,657	2,650		(205)	72,543
Impairment			4,993	461			5,454
Other income	103,675		52,645	1,832	82,856		241,008
Operating expenses	215	2,077	312	357	2,076	37,437	42,474
Income (Loss) Before Income Taxes	144,381	(1,557)	75,997	3,664	80,780	(37,642)	265,623
Income tax expense							
Net Income (Loss)	\$ 144,381	\$ (1,557)	\$ 75,997	\$ 3,664	\$ 80,780	\$ (37,642)	\$ 265,623
Noncontrolling interests in income (loss) of consolidated subsidiaries	\$	\$ (326)	\$	\$	\$	\$	\$ (326)
Net income attributable to common shareholders	\$ 144,381	\$ (1,231)	\$ 75,997	\$ 3,664	\$ 80,780	\$ (37,642)	\$ 265,949

	Servicing Related Assets		Residential Securities and Loans			Corporate	Total
	Excess MSR	Servicer Advances	Real Estate	Real Estate Loans	Consumer Loans		

## Securities

**December 31, 2013**

Investments	\$ 676,917	\$ 2,665,551	\$ 1,973,189	\$ 33,539	\$ 215,062	\$	\$ 5,564,258
Cash and restricted cash		85,243	51,627	22,840		145,622	305,332
Derivative assets			1,452	34,474			35,926
Other assets	2	7,062	44,848			1,230	53,142
Total assets	\$ 676,919	\$ 2,757,856	\$ 2,071,116	\$ 90,853	\$ 215,062	\$ 146,852	\$ 5,958,658
Debt	\$	\$ 2,390,778	\$ 1,620,711	\$ 22,840	\$	\$ 75,000	\$ 4,109,329
Other liabilities	80	4,271	215,159	32,553	33	84,158	336,254
Total liabilities	80	2,395,049	1,835,870	55,393	33	159,158	4,445,583
Total equity	676,839	362,807	235,246	35,460	215,029	(12,306)	1,513,075
Noncontrolling interests in equity of consolidated subsidiaries		247,225					247,225
Total New Residential stockholders equity	\$ 676,839	\$ 115,582	\$ 235,246	\$ 35,460	\$ 215,029	\$ (12,306)	\$ 1,265,850
Investments in equity method investees	\$ 352,766	\$	\$	\$	\$ 215,062	\$	\$ 567,828

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

	<b>Residential Securities Servicing Related Assets and Loans</b>								
	<b>Excess MSR</b>		<b>Advances</b>		<b>Real Estate Securities</b>	<b>Real Estate Loans</b>	<b>Consumer Loans</b>	<b>Corporate</b>	<b>Total</b>
<b><u>Year Ended December 31, 2012</u></b>									
Interest income	\$	27,496	\$	\$	6,263	\$	\$	\$	\$ 33,759
Interest expense					704				704
Net interest income		27,496			5,559				33,055
Impairment									
Other income		17,423							17,423
Operating expenses		5,449					3,782		9,231
Income (Loss) Before Income Taxes		39,470			5,559		(3,782)		41,247
Income tax expense									
Net Income (Loss)	\$	39,470	\$	\$	5,559	\$	\$	\$ (3,782)	\$ 41,247
Noncontrolling interests in income (loss) of consolidated subsidiaries	\$		\$	\$		\$	\$	\$	\$
Net income attributable to common shareholders	\$	39,470	\$	\$	5,559	\$	\$	\$ (3,782)	\$ 41,247

	<b>Residential Securities Servicing Related Assets and Loans</b>								
	<b>Excess MSR</b>		<b>Advances</b>		<b>Real Estate Securities</b>	<b>Real Estate Loans</b>	<b>Consumer Loans</b>	<b>Corporate</b>	<b>Total</b>
<b><u>December 31, 2012</u></b>									
Investments	\$	245,036	\$	\$	289,756	\$	\$	\$	\$ 534,792
Cash and restricted cash									
Derivative assets									

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Other assets	32	52	84
Total assets	\$ 245,068	\$ 289,808	\$ 534,876
Debt	\$	\$ 150,922	\$ 150,922
Other liabilities	174	56	5,368 5,598
Total liabilities	174	150,978	5,368 156,520
Total equity	244,894	138,830	(5,368) 378,356
Noncontrolling interests in equity of consolidated subsidiaries			
Total New Residential stockholders equity	\$ 244,894	\$ 138,830	\$ (5,368) \$ 378,356
Investments in equity method investees	\$	\$	\$ \$ \$ \$

F-25

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

	<b>Residential Securities</b>						
	<b>Servicing Related Assets</b>		<b>and Loans</b>		<b>ServiceReal EstatReal EstatConsumer</b>		
	<b>Excess MSR</b>	<b>Advances</b>	<b>Securities</b>	<b>Loans</b>	<b>Loans</b>	<b>Corporate</b>	<b>Total</b>
<b><u>Period from December 8, 2011</u></b>							
<b><u>(Commencement of Operations)</u></b>							
<b><u>through December 31, 2011</u></b>							
Interest income	\$ 1,260	\$	\$	\$	\$	\$	\$ 1,260
Interest expense							
Net interest income	1,260						1,260
Impairment							
Other income	367						367
Operating expenses	809					104	913
Income (Loss) Before Income Taxes	818					(104)	714
Income tax expenses							
Net Income (Loss)	\$ 818	\$	\$	\$	\$	\$ (104)	\$ 714
Noncontrolling interests in income of consolidated subsidiaries	\$	\$	\$	\$	\$	\$	\$
Net income attributable to shareholders	\$ 818	\$	\$	\$	\$	\$ (104)	\$ 714

**4. INVESTMENTS IN EXCESS MORTGAGE SERVICING RIGHTS AT FAIR VALUE**

**Pool 1.** On December 13, 2011, Newcastle announced the completion of the first co-investment between New Residential and Nationstar in Excess MSR related to mortgage servicing rights acquired by Nationstar. New Residential invested approximately \$43.7 million to acquire a 65% interest in the Excess MSR on a portfolio of government-sponsored enterprise ( GSE ) residential mortgage loans ( Pool 1 ). Nationstar has co-invested on a pari passu basis with New Residential in 35% of the Excess MSR and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, the servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR are shared on a pro rata basis by New Residential and Nationstar, subject to certain limitations.

**Pool 2.** On June 5, 2012, Newcastle announced the completion of a co-investment between New Residential and Nationstar in Excess MSR's related to mortgage servicing rights Nationstar acquired from Bank of America. New Residential invested approximately \$42.3 million to acquire a 65% interest in the Excess MSR's on a portfolio of residential mortgage loans ( Pool 2 ), comprised of loans in GSE pools. Nationstar has co-invested on a pari passu basis with New Residential in 35% of the Excess MSR's and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR's are shared on a pro rata basis by New Residential and Nationstar, subject to certain limitations.

**Pools 3, 4 and 5.** On June 29, 2012, Newcastle announced the completion of a co-investment between New Residential and Nationstar in Excess MSR's related to mortgage servicing rights Nationstar acquired from Aurora

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

Bank FSB, a subsidiary of Lehman Brothers Bancorp Inc. New Residential invested approximately \$176.5 million to acquire a 65% interest in the Excess MSR on a portfolio of residential mortgage loans, comprised of approximately 25% conforming loans in Fannie Mae ( Pool 3 ) and Freddie Mac ( Pool 4 ) GSE pools as well as approximately 75% non-conforming loans in private label securitizations ( Pool 5 ). Nationstar had co-invested on a pari passu basis with New Residential in 35% of the Excess MSR and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. In September 2013, New Residential invested an additional \$26.6 million to acquire an additional 15% interest in the Excess MSR related to Pool 5 from Nationstar. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR are shared on a pro rata basis by New Residential and Nationstar, subject to certain limitations. In December 2013, New Residential entered into a corporate loan secured by the Excess MSR related to Pool 5 (Note 11).

**Pool 11.** On May 20, 2013, New Residential entered into an excess spread agreement with Nationstar to purchase a two-thirds interest in the Excess MSR on a portion of the loans in the pool which are eligible to be refinanced by a specific third party for a period of time for \$2.4 million, with Nationstar retaining the remaining one-third interest in the Excess MSR and all servicing rights. After this period expired, Nationstar acquired the ability to refinance all of the loans in the pool. See Note 5 for information on New Residential's other agreements with Nationstar with respect to Excess MSR on Pool 11.

**Pool 12.** On September 23, 2013, New Residential invested approximately \$17.4 million to acquire a 40% interest in the Excess MSR on a portfolio of residential mortgage loans ( Pool 12 ), comprised of loans in private label securitizations. Fortress-managed funds also acquired a 40% interest in the Excess MSR and the remaining 20% interest in the Excess MSR is owned by Nationstar. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations.

**Pool 18.** In the fourth quarter of 2013, New Residential invested approximately \$17.0 million to acquire a 40% interest in the Excess MSR on a portfolio of residential mortgage loans ( Pool 18 ) comprised of loans in private label securitizations. Fortress-managed funds also acquired a 40% interest in the Excess MSR and the remaining 20% interest in the Excess MSR is owned by Nationstar. Nationstar performs all servicing and advancing functions and it retains the ancillary income, servicing obligations and liabilities associated with the portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations. New Residential, through co-investments made by its subsidiaries, has separately agreed to



purchase the servicer advances and the right to certain other cash flows associated with this portfolio. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 18.

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

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

New Residential elected to record its investments in Excess MSR's 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 MSR's.

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

	December 31, 2013						Year Ended December 31, 2013 Changes in Fair Value Recorded in Other Income (D)
	Unpaid Principal Balance ( UPB ) of Underlying Mortgages	Interest in Excess MSR	Amortized Cost Basis (A)	Carrying Value (B)	Weighted Average Yield	Weighted Average Life (Years) (C)	
MSR Pool 1	\$ 6,873,942	65.0%	\$ 26,279	\$ 36,235	12.5%	5.2	\$ 4,219
MSR Pool 1 - Recapture Agreement		65.0%	1,109	6,820	12.5%	11.9	5,205
MSR Pool 2	7,924,920	65.0%	30,217	35,234	12.5%	5.5	3,971
MSR Pool 2 - Recapture Agreement		65.0%	1,252	6,587	12.5%	12.5	5,154
MSR Pool 3	7,822,453	65.0%	24,636	32,899	12.5%	5.1	5,408
MSR Pool 3 - Recapture Agreement		65.0%	2,733	6,642	12.5%	12.1	3,985
MSR Pool 4	5,076,470	65.0%	9,876	13,823	12.5%	4.9	2,929
MSR Pool 4 - Recapture Agreement		65.0%	2,300	4,105	12.5%	12.0	1,819
MSR Pool 5 (E)	36,907,851	80.0%	117,544	140,634	12.5%	5.4	21,113

Edgar Filing: New Residential Investment Corp. - Form S-11/A

MSR Pool 5 - Recapture Agreement		80.0%	9,229	5,609	12.5%	13.4	221
MSR Pool 11	436,241	66.7%	2,091	2,080	12.5%	6.5	(11)
MSR Pool 11 - Recapture Agreement		66.7%	254	235	12.5%	14.3	(19)
MSR Pool 12 (E)	5,152,877	40.0%	16,233	16,294	16.4%	4.5	60
MSR Pool 12 - Recapture Agreement		40.0%	474	240	16.4%	13.2	(233)
MSR Pool 18(F)	8,758,860	40.0%	16,075	16,079	15.3%	4.6	3
MSR Pool 18 Recapture Agreement		40.0%	1,127	635	15.3%	12.3	(492)
	\$ 78,953,614		\$ 261,429	\$ 324,151	12.9%	5.8	\$ 53,332

F-28

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

	December 31, 2012						Year Ended December 31, 2012	Changes in Weighted Fair Value Recorded in
	UPB	Interest in Excess MSR	Amortized Cost Basis (A)	Carrying Value (B)	Weighted Average Yield (C)	Average Life (Years) (D)	Other Income (E)	
MSR Pool 1	\$ 8,403,211	65.0%	\$ 30,237	\$ 35,974	18.0%	4.8	\$ 5,569	
MSR Pool 1 - Recapture Agreement		65.0%	4,430	4,936	18.0%	10.8	307	
MSR Pool 2	9,397,120	65.0%	32,890	33,935	17.3%	5.0	1,045	
MSR Pool 2 - Recapture Agreement		65.0%	5,206	5,387	17.3%	11.8	181	
MSR Pool 3	9,069,726	65.0%	27,618	30,474	17.6%	4.7	2,856	
MSR Pool 3 - Recapture Agreement		65.0%	5,036	4,960	17.6%	11.3	(76)	
MSR Pool 4	5,788,133	65.0%	11,130	12,149	17.9%	4.6	1,019	
MSR Pool 4 - Recapture Agreement		65.0%	2,902	2,887	17.9%	11.1	(15)	
MSR Pool 5 (E)	43,902,561	65.0%	107,704	109,682	17.5%	4.8	1,978	
MSR Pool 5 - Recapture Agreement		65.0%	8,493	4,652	17.5%	11.7	(3,841)	
	\$ 76,560,751		\$ 235,646	\$ 245,036	17.6%	5.4	\$ 9,023	

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

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

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

(D) The portion of the change in fair value of the Recapture Agreements relating to loans recaptured to date is reflected in the respective pool. For the year ended December 31, 2011 the change in fair value recorded in other income related to Pool 1 was \$0.4 million.

(E) Pool in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR subsequent to December 31, 2013 (Note 18).

(F)

Pool in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (Note 6).

F-29

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(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 MSR as of December 31, 2013:

<b>Percentage of Total Outstanding Unpaid Principal Amount as of December 31,</b>			
<b>2013</b>		<b>2012</b>	
<b>State Concentration</b>	<b>Percentage of UPB</b>	<b>State Concentration</b>	<b>Percentage of UPB</b>
California	31.5%	California	32.0%
Florida	9.8%	Florida	10.1%
New York	4.9%	New York	4.3%
Texas	4.0%	Washington	4.3%
Washington	3.9%	Arizona	3.9%
Arizona	3.5%	Texas	3.6%
Maryland	3.5%	Colorado	3.5%
New Jersey	3.3%	Maryland	3.4%
Colorado	3.2%	New Jersey	3.1%
Virginia	3.1%	Virginia	3.0%
Other U.S.	29.3%	Other U.S.	28.8%
	<b>100.0%</b>		<b>100.0%</b>

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.

Refer to Notes 6, 14 and 18, for discussion of investments in servicer advances, capital commitments, and the recent activities related to New Residential's investments in Excess MSRs, respectively.

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

During the year ended December 31, 2013, New Residential entered into investments in joint ventures ( Excess MSR joint ventures ) jointly controlled by New Residential and Fortress-managed funds investing in Excess MSRs. New Residential elected to record these investments at fair value pursuant to the fair value option for financial instruments to provide users of the financial statements with better information regarding the effects of prepayment risk and other

market factors.

**Pool 6.** On January 4, 2013, New Residential, through a joint venture, co-invested in Excess MSR's on a portfolio of Government National Mortgage Association ( Ginnie Mae ) residential mortgage loans ( Pool 6 ). Nationstar acquired the related servicing rights from Bank of America in November 2012. New Residential contributed approximately \$28.9 million for a 50% interest in a joint venture which acquired an approximately 67% interest in the Excess MSR's on this portfolio. The remaining interests in the joint venture are owned by a Fortress-managed fund and the remaining interest of approximately 33% in the Excess MSR's is owned by Nationstar. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR's are shared on a pro rata basis by the joint venture and Nationstar, subject to certain limitations.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

**Pools 7, 8, 9, 10.** On January 6, 2013, New Residential, through joint ventures, agreed to co-invest in Excess MSR assets on a portfolio of four pools of residential mortgage loans Nationstar acquired from Bank of America. At the time of acquisition, approximately 53% of the loans in this portfolio were in private label securitizations ( Pool 10 ) and the remainder were owned, insured or guaranteed by Fannie Mae ( Pool 7 ), Freddie Mac ( Pool 8 ) or Ginnie Mae ( Pool 9 ). New Residential committed to invest approximately \$340 million for a 50% interest in joint ventures which were expected to acquire an approximately 67% interest in the Excess MSR assets on these portfolios. The remaining interests in the joint ventures are owned by Fortress-managed funds and the remaining interest of approximately 33% in the Excess MSR assets is owned by Nationstar. In September 2013, New Residential and a Fortress-managed fund each invested an additional \$13.9 million into the joint venture invested in Pool 10 to acquire an additional 10% in the Excess MSR assets held by the joint venture. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. New Residential, through co-investments made by its subsidiaries, have separately agreed to purchase the servicer advances and the right to certain other cash flows associated with Pool 10. See Note 6 for information on New Residential's investment in servicer advances. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSR assets are shared on a pro rata basis by the joint ventures and Nationstar, subject to certain limitations.

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

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

	<b>December 31, 2013</b>
Excess MSR assets	\$ 703,681
Other assets	5,534
Debt	



Edgar Filing: New Residential Investment Corp. - Form S-11/A

Other liabilities (3,683)

Equity \$ 705,532

New Residential s investment \$ 352,766

New Residential s ownership 50.0%

**Year Ended  
December 31, 2013**

Interest income \$ 50,306

Other income 53,964

Expenses (3,585)

Net income \$ 100,685

F-31

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

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

	December 31, 2013						
	Unpaid Principal Balance	Investee Interest in Excess MSR	New Residential Investee Interest	Amortized Cost Basis	Carrying Value (A) (B)	Weighted Average Yield	Weighted Average Life (Years) (C)
MSR Pool 6	\$ 10,152,488	66.7%	50.0%	\$ 38,488	\$ 47,144	12.5%	5.0
MSR Pool 6 - Recapture Agreement		66.7%	50.0%	7,666	9,969	12.5%	11.9
MSR Pool 7	31,518,733	66.7%	50.0%	99,743	102,947	12.5%	5.1
MSR Pool 7 - Recapture Agreement		66.7%	50.0%	16,706	26,388	12.5%	12.3
MSR Pool 8	14,040,636	66.7%	50.0%	55,905	54,759	12.5%	5.1
MSR Pool 8 - Recapture Agreement		66.7%	50.0%	7,542	14,713	12.5%	11.9
MSR Pool 9	30,814,192	66.7%	50.0%	103,713	127,646	12.5%	4.8
MSR Pool 9 - Recapture Agreement		66.7%	50.0%	33,905	34,154	12.5%	11.9
MSR Pool 10 (D)	68,890,509	66.7-77.0%	50.0%	205,975	208,055	12.5%	5.4
MSR Pool 10 - Recapture Agreement		66.7-77.0%	50.0%	13,739	7,165	12.5%	13.4
MSR Pool 11	18,202,920	66.7%	50.0%	43,157	51,687	12.5%	5.5
MSR Pool 11 - Recapture Agreement		66.7%	50.0%	23,178	19,054	12.5%	11.1
	\$ 173,619,478			\$ 649,717	\$ 703,681	12.5%	6.3

(A) Represents the amortized cost basis of the equity method investees in which New Residential holds a 50% interest. The amortized cost basis of the Recapture Agreements is determined based on the relative fair values of the Recapture Agreements and related Excess MSRs at the time they were acquired.

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

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

(D) Pool in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR as of December 31, 2013 (Note 6).



**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

The table below summarizes the geographic distribution of the underlying residential mortgage loans of the Excess MSR investments made through equity method investees as of December 31, 2013:

<b>State Concentration</b>	<b>Percentage of UPB</b>
California	23.5%
Florida	9.2%
New York	5.3%
Texas	4.9%
Georgia	4.0%
New Jersey	3.7%
Illinois	3.5%
Virginia	3.1%
Maryland	3.1%
Washington	2.8%
Other U.S.	36.9%
	100.0%

Refer to Notes 6 and 14 for discussion of investments in servicer advances and capital commitments, respectively, related to New Residential's investments in Excess MSRs made through equity method investees.

**6. INVESTMENTS IN SERVICER ADVANCES**

On December 17, 2013, New Residential and third-party co-investors, through a joint venture entity (the Buyer) consolidated by New Residential, agreed to purchase \$3.2 billion of outstanding servicer advances on a portfolio of loans, which is a subset of the same portfolio of loans in which New Residential invests in a portion of the Excess MSR (Pools 10, 17 and 18) (Notes 4 and 5), including the basic fee component of the related MSRs. As of December 31, 2013, New Residential and third-party co-investors had settled \$2.7 billion of servicer advances, financed with \$2.4 billion of notes payable (Note 11). A taxable wholly owned subsidiary of New Residential is the managing member of the Buyer that holds its investments in servicer advances and owned an approximately 32% interest in the Buyer as of December 31, 2013. Noncontrolling third-party investors owning the remaining interest in the Buyer have aggregate capital commitments to the Buyer of \$247.6 million, which were fully funded as of December 31, 2013. As of December 31, 2013, New Residential had capital commitments to the Buyer of

\$172.4 million, of which it had funded \$115.7 million. The Buyer may call capital up to the commitment amount on unfunded commitments and recall capital to the extent the Buyer makes distributions to the co-investors, including New Residential. 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 investments 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, net of compensation paid back to Nationstar in consideration of Nationstar's servicing activities. The compensation paid to Nationstar is approximately 8.6% of the basic fee component of the related MSR 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.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

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.

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

	December 31, 2013			Year Ended December 31, 2013	
	Amortized Cost Basis	Carrying Value (A)	Weighted Average Yield	Weighted Average Life (Years) (B)	Change in Fair Value Recorded in Other Income
Servicer advances	\$ 2,665,551	\$ 2,665,551	4.4%	2.7	\$

(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 the servicer advances, and related financing, of the Buyer, which New Residential consolidates as of December 31, 2013:

UPB of Underlying Residential Mortgage Loans	Outstanding Servicer Advances	Servicer Advances to UPB of	Carrying Value of Notes Payable	Loan-to-Value Gross Net (A)	Cost of Funds (B) Gross Net
--	-------------------------------------	---	--	--------------------------------	--------------------------------

**Underlying  
Residential  
Mortgage  
Loans**

Servicer advances									
(C)	\$ 43,444,216	\$ 2,661,130	6.1%	\$ 2,390,778	89.8%	88.6%	4.0%	2.3%	

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

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

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

	<b>December 31, 2013</b>
Principal and interest advances	\$ 1,516,715
Escrow advances (taxes and insurance advances)	934,525
Foreclosure advances	209,890
<b>Total</b>	<b>\$ 2,661,130</b>

Refer to Notes 11 and 18 for discussions of the financing associated with, and recent activities related to, investments in servicer advances, respectively.

## 7. INVESTMENTS IN REAL ESTATE SECURITIES

During 2013, New Residential acquired \$1.3 billion face amount of Non-Agency RMBS for approximately \$835.6 million and \$608.9 million face amount of Agency ARM RMBS for approximately \$645.5 million. In

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

addition, Newcastle contributed \$1.0 billion face amount of Agency ARM RMBS to New Residential during 2013, prior to the spin-off (Note 13). New Residential sold \$729.7 million face amount of Non-Agency RMBS for approximately \$521.9 million and recorded a gain of \$52.7 million.

During the third quarter of 2013, Nationstar exercised their cleanup call option related to four Non-Agency RMBS deals, in which Nationstar was the master servicer. New Residential owned \$2.6 million face amount of Non-Agency RMBS in these deals. New Residential received par on these securities, which had an amortized cost basis of \$2.1 million prior to the repayment, and recorded interest income of \$0.6 million related to these securities in the third quarter of 2013.

The following is a summary of New Residential's real estate securities as of December 31, 2013 and 2012, all of which are classified as available-for-sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired.

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized		Carrying Value (A)	Number of Securities	Rating (B)	Weighted Average		Life (C)	Principal Subordination (D)
			Gains	Losses				Coupon	Yield		
<b>December 31, 2013</b>											
Agency ARM RMBS (E)(F)	\$ 1,314,130	\$ 1,403,215	\$ 3,434	\$ (3,885)	\$ 1,402,764	114	AAA	3.18%	1.33%	4.1	N/A
Non-Agency RMBS	872,866	566,760	7,618	(3,953)	570,425	100	CCC-	0.94%	4.68%	8.0	7.4%
Total/Weighted Average (G)	\$ 2,186,996	\$ 1,969,975	\$ 11,052	\$ (7,838)	\$ 1,973,189	214	BBB+	2.28%	2.66%	5.7	
<b>December 31, 2012</b>											
Non-Agency RMBS	\$ 433,510	\$ 274,230	\$ 15,856	\$ (330)	\$ 289,756	29	CC	0.63%	6.55%	6.8	10.0%



- (A) Fair value, which is equal to carrying value for all securities. See Note 12 regarding the estimation of fair value.
- (B) Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. This excludes the ratings of two non-agency bonds with a face amount of \$6.3 million for which New Residential was unable to obtain rating information. For each security rated by multiple rating agencies, the lowest rating is used. New Residential used an implied AAA rating for the Agency ARM RMBS. Ratings provided were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.
- (C) The weighted average life is based on the timing of expected principal reduction on the assets.
- (D) Percentage of the outstanding face amount of securities and residual interests that is subordinate to New Residential's investments.
- (E) Includes securities issued or guaranteed by U.S. Government agencies such as the Federal National Mortgage Association ( Fannie Mae ) or the Federal Home Loan Mortgage Corporation ( Freddie Mac ).
- (F) Amortized cost basis and carrying value include principal receivable of \$10.6 million.
- (G) The total outstanding face amount was \$6.6 million for fixed rate securities and \$2.2 billion for floating rate securities.

Unrealized losses that are considered other-than-temporary are recognized currently in earnings. During the year ended December 31, 2013, New Residential recorded OTTI of \$5.0 million, of which \$3.8 million was recorded with respect to real estate securities included in the spin-off on May 15, 2013. Based on Newcastle management's analysis of these securities, Newcastle determined it did not have the intent to hold the securities past May 15, 2013. New Residential has also recorded OTTI of \$1.0 million with respect to real estate securities sold in January 2014 that were in an unrealized loss position as of December 31, 2013 since New Residential determined that it did not have the intent to hold the securities, as well as \$0.3 million with respect to expected credit loss related to real estate securities in an unrealized loss position as of December 31, 2013, based on

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

management's analysis of expected cash flows of these securities. Any remaining unrealized losses on New Residential's securities were primarily the result of changes in market factors, rather than issuer-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 December 31, 2013.

Securities in an Outstanding Unrealized Loss Position	Face Amount	Amortized Cost Basis Other- Than- Temporary			Gross Unrealized Losses	Carrying Value	Number of Securities	Weighted Average			Life (Years)
		Before Impairment	(A)	After Impairment				Rating (B)	Coupon	Yield	
Less than Twelve Months	\$ 878,993	\$ 827,517	\$(1,470)	\$ 826,047	\$(7,542)	\$ 818,505	78	A-	2.54%	2.07%	5.5
Twelve or More Months	48,078	51,930	(601)	51,329	(296)	51,033	7	AAA	3.36%	1.28%	3.3
Total/Weighted Average	\$ 927,071	\$ 879,447	\$(2,071)	\$ 877,376	\$(7,838)	\$ 869,538	85	A-	2.58%	2.03%	5.4

(A) This amount represents other-than-temporary impairment recorded on securities that are in an unrealized loss position as of December 31, 2013.

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

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

	<b>December 31, 2013</b>			
	<b>Amortized Cost Basis</b>		<b>Unrealized Losses</b>	
	<b>Fair Value</b>	<b>After Impairment</b>	<b>Credit (A)</b>	<b>Non-Credit (B)</b>
Securities New Residential intends to sell (C)	\$ 164,666	\$ 164,666	\$ (988)	\$
Securities New Residential is more likely than not to be required to sell (D)				N/A
Securities New Residential has no intent to sell and is not more likely than not to be required to sell:				
Credit impaired securities	288,306	290,487	(2,071)	(2,181)
Non-credit impaired securities	581,232	586,889		(5,657)
 Total debt securities in an unrealized loss position	 \$ 1,034,204	 \$ 1,042,042	 \$ (3,059)	 \$ (7,838)

(A) This amount is required to be recorded as other-than-temporary impairment through earnings. In measuring the portion of credit losses, New Residential's management estimates the expected cash flow for each of the securities. This evaluation includes a review of the

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

credit status and the performance of the collateral supporting those securities, including the credit of the issuer, key terms of the securities and the effect of local, industry and broader economic trends. Significant inputs in estimating the cash flows include management's expectations of prepayment speeds, default rates and loss severities. Credit losses are measured as the decline in the present value of the expected future cash flows discounted at the investment's effective interest rate.

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

(C) 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 December 31, 2013.

(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:

	<b>2013</b>	<b>2012</b>
Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	\$	\$
Additions for credit losses on securities for which an OTTI was not previously recognized	4,993	
Reduction for credit losses on securities for which no OTTI was recognized in other comprehensive income at the current measurement date	(2,878)	
Reduction for securities sold during the period	(44)	
Ending balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	\$ 2,071	\$

The securities are encumbered by certain repurchase agreements, as described in Note 11, as of December 31, 2013.

Edgar Filing: New Residential Investment Corp. - Form S-11/A

The table below summarizes the geographic distribution of the collateral securing New Residential's Non-Agency RMBS as of December 31, 2013:

<b>Geographic Location</b>	<b>Outstanding Face Amount</b>	<b>Percentage of Total Outstanding</b>
Western U.S.	\$ 317,111	36.3%
Southeastern U.S.	198,298	22.7%
Northeastern U.S.	164,481	18.9%
Midwestern U.S.	98,682	11.3%
Southwestern U.S.	51,425	5.9%
Other (A)	42,869	4.9%
	\$ 872,866	100.0%

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

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

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 those securities acquired during the year ended December 31, 2013, the face amount was \$1.1 billion, the total expected cash flows were \$0.9 billion and the fair value was \$0.7 billion on the dates that New Residential purchased the respective securities.

The following is the outstanding face amount and carrying value for securities as of December 31, 2013 and December 31, 2012, for which, as of the acquisition date, it was probable that New Residential would be unable to collect all contractually required payments:

	<b>Outstanding Face Amount</b>	<b>Carrying Value</b>
December 31, 2013	\$ 729,895	\$ 483,680
December 31, 2012	\$ 342,013	\$ 212,129

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

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Beginning Balance	\$ 90,077	\$
Additions	155,854	80,636
Accretion	(19,939)	(3,195)
Reclassifications from non-accretable difference	40,785	12,636
Disposals	(123,710)	
Ending Balance	\$ 143,067	\$ 90,077

**8. INVESTMENTS IN RESIDENTIAL MORTGAGE LOANS**

On February 27, 2013, New Residential, through a subsidiary, entered into an agreement to co-invest in reverse mortgage loans with a UPB of approximately \$83.1 million as of December 31, 2012. New Residential had invested approximately \$35.1 million to acquire a 70% interest in the residential mortgage loans. Nationstar co-invested pari

Edgar Filing: New Residential Investment Corp. - Form S-11/A

passu with New Residential in 30% of the mortgage loans and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities as the servicer.

The following is a summary of residential mortgage loans as of December 31, 2013, all of which are classified as held for investment:

Loan Type	December 31, 2013							
	Outstanding Face Amount (A)	Carrying Value (A)	Loan Count	Wtd. Avg. Yield	Weighted Average Coupon (B)	Weighted Average Life (C)	Floating Rate Loans % of Face Amount (A)	Delinquent (D)
Residential Mortgage Loans Held-for-Investment (E)	\$ 57,552	\$ 33,539	328	10.3%	5.1%	3.7	22.0%	\$ 48,696

(A) Represents a 70% interest New Residential holds in the reverse mortgage loans, which had an aggregate United States federal income tax basis of \$33.9 million. The average loan balance outstanding based on total UPB is \$0.2 million.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

(B) Represents the stated interest rate on the loans. Accrued interest on reverse mortgage loans is generally added to the principal balance and paid when the loan is resolved.

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

(D) Includes loans that have either experienced (i) a termination event or (ii) an event of default, substantially all of which are more than 90 days past the time at which they were considered delinquent or real estate owned ( REO ). Collateral value underlying loans considered delinquent is generally sufficient, however \$1.6 million face amount of REO loans, representing New Residential's 70% interest therein, was on non-accrual status resulting from the uncertainty of cash collections as of December 31, 2013.

(E) 82% 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.

Activities related to the carrying value of residential mortgage loans are as follows:

	<b>Year Ended December 31, 2013</b>
Balance as of December 31, 2012	\$
Purchases/additional fundings	35,138
Proceeds from repayments	(3,788)
Accretion of loan discount and other amortization	2,650
Valuation allowance	(461)
Balance as of December 31, 2013	\$ 33,539

	<b>Residential Mortgage Loans</b>
Balance as of December 31, 2011	\$
Charge-offs	
Valuation allowance on loans	
Balance as of December 31, 2012	
Charge-offs	
Valuation allowance on loans	461



Balance as of December 31, 2013	\$	461
---------------------------------	----	-----

The average carrying amount of New Residential's residential mortgage loans was approximately \$33.8 million during the year ended December 31, 2013, on which New Residential earned approximately \$2.7 million of interest income.

F-39

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

The table below summarizes the geographic distribution of the underlying residential mortgage loans as of December 31, 2013:

<b>State Concentration</b>	<b>Percentage of Total Outstanding Unpaid Principal Amount</b>
New York	22.0%
Florida	21.2%
Illinois	7.7%
New Jersey	6.9%
California	5.7%
Massachusetts	4.1%
Washington	3.9%
Connecticut	3.9%
Virginia	3.3%
Texas	2.8%
Other U.S.	18.5%
	<b>100.0%</b>

On December 31, 2013, Nationstar financed the mortgage loans and related participation interests in a repurchase facility with Barclays Bank PLC, an affiliate of Barclays Capital Inc., which resulted in New Residential's receipt of approximately \$22.8 million of financing proceeds correlating to New Residential's 70% interest in the mortgage loans. Refer to Notes 11 and 18 for discussions of the financing associated with, and the recent activities related to, residential mortgage loans.

**9. INVESTMENTS IN CONSUMER LOANS EQUITY METHOD INVESTEEES**

On April 1, 2013, New Residential completed, through newly formed limited liability companies (together, the Consumer Loan Companies) a co-investment in a portfolio of consumer loans with a UPB of approximately \$4.2 billion as of December 31, 2012. The portfolio included over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. The Consumer Loan Companies

acquired the portfolio from HSBC Finance Corporation and its affiliates. New Residential invested approximately \$250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf, which is majority-owned by Fortress funds managed by the Manager, acquired 47% and an affiliate of Blackstone Tactical Opportunities Advisors L.L.C. acquired 23%. Springleaf acts as the managing member of the Consumer Loan Companies. The Consumer Loan Companies initially financed \$2.2 billion of the approximately \$3.0 billion purchase price with asset-backed notes. In September 2013, the Consumer Loan Companies issued and sold an additional \$0.4 billion of asset-backed notes for 96% of par. These notes are subordinate to the \$2.2 billion of debt issued in April 2013. The Consumer Loan Companies were formed on March 19, 2013, for the purpose of making this investment, and commenced operations upon the completion of the investment. After a servicing transition period, Springleaf became the servicer of the loans and provides all servicing and advancing functions for the portfolio.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

New Residential accounts for its investment in the Consumer Loan Companies pursuant to the equity method of accounting because it can exercise significant influence over the Consumer Loan Companies, but the requirements for consolidation are not met. New Residential's share of earnings and losses in these equity method investees is included in Earnings from investments in consumer loans, equity method investees on the Consolidated Statements of Income. Equity method investments are included in Investments in consumer loans, equity method investees on the Consolidated Balance Sheets.

New Residential periodically reviews equity method investments for impairment in value whenever events or changes in circumstances indicate that the carrying amount of such investments may not be recoverable. New Residential will record an impairment charge to the extent that the estimated fair value of an investment is less than its carrying value and New Residential determines the impairment is other-than-temporary.

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

	<b>December 31, 2013</b>
Consumer Loan Assets	\$ 2,572,577
Other Assets	192,830
Debt (A)	(2,010,433)
Other Liabilities	(32,712)
<b>Equity</b>	<b>\$ 722,262</b>
New Residential's investment	\$ 215,062
<b>New Residential's ownership</b>	<b>30.0%</b>

(A) Represents the Class A asset-backed notes with a face amount of \$1.7 billion, an interest rate of 3.75% and a maturity of April 2021 and the Class B asset-backed notes with a face amount of \$0.4 billion, an interest rate of 4.0%, and a maturity of December 2024. Substantially all of the net cash flow generated by the Consumer Loan Companies is required to be used to pay down the Class A notes. When the balance of the outstanding Class A notes is reduced to 50% of the outstanding UPB of the performing consumer loans, 70% of the net cash flow generated is required to be used to pay down the Class A notes and the equity holders of the Consumer Loan Companies and holders of the Class B notes will each be entitled to receive 15% of the net cash flow of the

Consumer Loan Companies on a periodic basis.

	<b>Year Ended December 31, 2013</b>	
Interest income	\$	481,056
Interest expense		(71,639)
Provision for finance receivable losses		(60,619)
Other expenses, net		(67,225)
<b>Net income</b>	<b>\$</b>	<b>281,573</b>
New Residential s equity in net income	\$	82,856
New Residential s ownership		30.0%

F-41

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

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

	<b>December 31, 2013</b>					<b>Weighted Average Expected Life (Years) (C)</b>
	<b>Unpaid Principal Balance</b>	<b>Interest in Consumer Loan Companies</b>	<b>Carrying Value (A)</b>	<b>Weighted Average Coupon (B)</b>	<b>Weighted Average Asset Yield</b>	
Consumer Loans	\$ 3,298,769	30.0%	\$ 2,572,577	18.3%	15.9%	3.2

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

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

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

New Residential's investments in consumer loans, equity method investees changed during the year ended December 31, 2013 as follows:

	<b>Year Ended December 31, 2013</b>
Balance as of December 31, 2012	\$
Contributions to equity method investees	245,421
Distributions of earnings from equity method investees	(82,856)
Distributions of capital from equity method investees	(30,359)
Earnings from investments in consumer loan equity method investees	82,856
Balance as of December 31, 2013	\$ 215,062

Refer to Note 18 for discussion of the recent activities related to New Residential's investments in consumer loans.

## 10. DERIVATIVES

New Residential's derivative instruments are comprised of linked transactions that were not entered into for risk management purposes or for hedging activity. As discussed in Note 2, New Residential's credit risk with respect to these 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.

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

	<b>Balance Sheet Location</b>	<b>December 31,</b>	
		<b>2013</b>	<b>2012</b>
Real Estate Securities	Derivative assets	\$ 1,452	\$
Non-Performing Loans	Derivative assets	34,474	
		\$ 35,926	\$

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

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

	<b>Income Statement Location</b>	<b>Year Ended December 31,</b>	
		<b>2013</b>	<b>2012</b>
Real Estate Securities	Other Income	\$ (11)	\$
Non-Performing Loans	Other Income	1,831	
		\$ 1,820	\$

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

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b><u>Real Estate Securities</u></b>		
Real estate securities, at fair value (A)	\$ 9,952	\$
Repurchase agreements (B)	(8,500)	
	1,452	
<b><u>Non-Performing Loans</u></b>		
Non-performing loans, at fair value (C)	95,014	
Repurchase agreements (B)	(60,540)	
	34,474	
Net assets recognized as linked transactions	\$ 35,926	\$

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



(B) Represents their face amount that approximates fair value. Amounts for repurchase agreements related to non-performing loans also includes \$0.4 million of accrued interest and deferred financing costs.

(C) Non-performing loans that had a UPB of \$164.6 million as of December 31, 2013, which represents the notional amount of the linked transaction.

Refer to Notes 7 and 8 for further detail of these asset classes held by New Residential. Refer to Notes 11 and 18 for discussions of the financing associated with, and the recent activities related to, non-hedge derivative instruments, respectively.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

**11. DEBT OBLIGATIONS**

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

	Month Issued	Outstanding Face	Carrying Value	December 31, 2013 (A)			Collateral		Carrying Value	Weighted Average Life (Years)	Outstanding Face
				Final Stated Maturity	Weighted Average Funding Cost	Weighted Average Life (Years)	Amortized Cost Basis	Outstanding Face			
Repurchase Agreements (B)	Various	\$ 1,332,954	\$ 1,332,954	Mar-14	0.39%	0.3	\$ 1,277,570	\$ 1,353,630	\$ 1,353,719	4.1	\$ 1,277,570
Repurchase Agreements (C)	Various	287,757	287,757	Jan-14 to Oct-14	1.85%	0.1	576,146	388,855	392,360	8.2	150,000
Repurchase Agreements (D)		1,620,711	1,620,711		0.65%	0.2	1,853,716	1,742,485	1,746,079	5.4	150,000
Loan (E)	Dec-13	75,000	75,000	Mar-14	4.17%	0.3	36,907,851	126,773	146,243	6.0	
Loan (F)	Dec-13	2,390,778	2,390,778	Sep-14	4.04%	0.8	2,661,130	2,665,551	2,665,551	2.7	
Loan (G)	Dec-13	22,840	22,840	Sep-14	3.42%	0.7	57,552	33,539	33,539	3.7	
Loan (H)		2,488,618	2,488,618		4.04%	0.8	39,626,533	2,825,863	2,845,333	5.8	
		\$ 4,109,329	\$ 4,109,329		2.70%	0.6	\$ 41,480,249	\$ 4,568,348	\$ 4,591,412	5.8	\$ 150,000

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

(B) These repurchase agreements had approximately \$0.7 million of associated accrued interest payable as of December 31, 2013. All of the repurchase agreements that matured during the first quarter of 2014 were renewed or refinanced subsequent to December 31, 2013.

- (C) The counterparties of these repurchase agreements are Mizuho (\$186.8 million), Barclays (\$410.7 million), Royal Bank of Canada (\$101.8 million), Citi (\$129.3 million), Morgan Stanley (\$169.7 million) and Daiwa (\$334.7 million) and were subject to customary margin call provisions.
- (D) The counterparties of these repurchase agreements are Barclays (\$42.3 million), Credit Suisse (\$104.0 million), Royal Bank of Scotland (\$26.2 million) and Royal Bank of Canada (\$115.3 million) and were subject to customary margin call provisions. All of the Non-Agency repurchase agreements have LIBOR-based floating interest rates. Includes \$104.0 million borrowed under a \$414.2 million master repurchase agreement, which bears interest at one-month LIBOR plus 1.75%.
- (E) 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 4.0%. The outstanding face of the collateral represents the UPB of the residential mortgage loans underlying the Excess MSRs that secure this corporate loan.
- (F) The notes bore 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 2.0% to 2.6%.
- (G) The note is payable to Nationstar and bears interest equal to one-month LIBOR and a margin of 3.25%. Certain of the debt obligations included above are obligations of New Residential's consolidated subsidiaries, which own the related collateral. In some cases, including the servicer advances, such collateral is not available to other creditors of New Residential.

***Maturities***

New Residential's debt obligations as of December 31, 2013 had contractual maturities as follows (in thousands):

<b>Year</b>	<b>Nonrecourse</b>	<b>Recourse (A)</b>	<b>Total</b>
2014	\$ 2,548,387	\$ 1,560,942	\$ 4,109,329

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

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

***Covenants***

New Residential was in compliance with all of its debt covenants as of December 31, 2013. The following is a summary of covenants to which New Residential is subject.

***Repurchase Agreements***

**Agency ARM RMBS**

New Residential has outstanding repurchase agreements with terms that generally conform to the terms of the standard master repurchase agreement published by the Securities Industry and Financial Markets Association (SIFMA) as to repayment, margin requirements and segregation of all securities sold under any repurchase transactions. In addition, each counterparty typically requires additional terms and conditions to the standard master repurchase agreement, including changes to the margin maintenance requirements, required haircuts, purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction and cross default provisions. These provisions may differ by counterparty and are not determined until New Residential engages in a specific repurchase transaction.

**Non-Agency RMBS**

On October 30, 2013, New Residential terminated an existing \$342.9 million master repurchase agreement and entered into a new \$414.2 million master repurchase agreement with Alpine Securitization Corp., an asset-backed commercial paper facility sponsored by Credit Suisse AG, an affiliate of Credit Suisse Securities (USA) LLC, which has a one year maturity. The new \$414.2 million one year term master repurchase agreement is subject to margin call provisions as well as customary loan covenants and event of default provisions, including event of default provisions triggered by a 50% equity decline over any 12 month period and 35% equity decline over any 3 month period and a four-to-one indebtedness to tangible net worth provision.

***Notes Payable***

**Secured Corporate Loan**

On December 13, 2013, New Residential entered into a \$75.0 million secured corporate loan with Credit Suisse First Boston Mortgage LLC, an affiliate of Credit Suisse Securities (USA) LLC. The loan contains customary covenants and event of default provisions including event of default provisions triggered by a 50% equity decline as of the end of the corresponding period in the prior fiscal year, or a 35% equity decline as of the end of the quarter immediately

preceding the most recently completed fiscal quarter and a four-to-one indebtedness to tangible net worth provision. Subsequent to December 31, 2013, the loan was paid down by \$5.9 million, and the maturity was extended to May 31, 2014.

Servicer Advances

In December 2013, Advance Purchaser LLC funded the purchase of servicer advances, including the basic fee component of the related MSRs, with approximately \$2.4 billion of variable funding notes issued by special purpose subsidiaries of Advance Purchaser LLC pursuant to a servicer advance facility with Barclays Bank PLC and a servicer advance facility with Credit Suisse AG, New York Branch, Morgan Stanley Bank, N.A. and Natixis, New York Branch, which Advance Purchaser LLC holds in wholly owned special purpose subsidiaries. Each of the

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

wholly owned special purpose subsidiaries of Advance Purchaser LLC is structured as a bankruptcy remote special purpose entity and is the sole owner of its respective assets. Creditors of the wholly owned special purpose subsidiaries of Advance Purchaser LLC have no recourse to any assets or revenues of Nationstar or Advance Purchaser LLC other than to the limited extent contemplated by the facilities (which include, without limitation, indemnities for covenant violations). New Residential's creditors and/or creditors of Nationstar do not have recourse to any assets or revenues of the wholly owned special purpose subsidiaries of Advance Purchaser LLC.

Upon the occurrence of an early amortization event or a target amortization event, there is either an interest rate increase on the variable funding notes, a rapid amortization of the variable funding notes or an acceleration of principal repayment, or all of the foregoing. The early amortization and target amortization events under the servicer advance facilities include: (i) the occurrence of an event of default under the transaction documents, (ii) failure to satisfy an interest coverage test, (iii) the occurrence of any servicer default or termination event for pooling and servicing agreements representing 15% or more (by mortgage loan balance as of the date of termination) of all the pooling and servicing agreements related to the purchased basic fee subject to certain exceptions; (iv) failure to satisfy a collateral performance test measuring the ratio of collected advance reimbursements to the balance of advances; (v) for certain variable funding notes, failure to satisfy minimum tangible net worth requirements for Nationstar and Advance Purchaser LLC; (vi) for certain variable funding notes, failure to satisfy minimum liquidity requirements for Nationstar and Advance Purchaser LLC, (vii) failure to satisfy leverage tests for Nationstar; (viii) for certain variable funding notes, a change of control of Advance Purchaser LLC; (ix) for certain variable funding notes, certain judgments against Advance Purchaser LLC or each of its wholly owned special purpose subsidiaries in excess of certain thresholds; (x) for certain variable funding notes, payment default under, or an acceleration of, other debt of Advance Purchaser LLC; (xi) failure to deliver certain reports; and (xii) material breaches of any of the transaction documents.

The definitive documents related to the variable funding notes contain customary representations and warranties, as well as affirmative and negative covenants. Affirmative covenants include, among others, reporting requirements, provision of notices of material events, maintenance of existence, maintenance of books and records, compliance with laws, compliance with covenants under the designated servicing agreements and maintaining certain servicing standards with respect to the advances and the related mortgage loans. Negative covenants include, among others, limitations on amendments to the designated servicing agreements and limitations on amendments to the procedures and methodology for repaying the advances or determining that advances have become non-recoverable. The definitive documents related to the variable funding notes also contain customary events of default, including, among others, (i) non-payment of principal, interest or other amounts when due, (ii) insolvency of Nationstar, Advance Purchaser LLC or its applicable wholly owned special purpose subsidiary; (iii) the applicable wholly owned special purpose subsidiary becoming subject to registration as an investment company within the meaning of the 1940 Act; (iv) Nationstar or Advance Purchaser LLC fails to comply with the deposit and remittance requirements set forth in

any pooling and servicing agreement or such definitive documents; and (v) Nationstar's failure to make an indemnity payment after giving effect to any applicable grace period. Upon the occurrence and during the continuance of an event of default under any servicer advance facility, the requisite percentage of the related noteholders may declare the variable funding notes and all other obligations of the applicable wholly owned special purpose subsidiary of Advance Purchaser LLC immediately due and payable and may terminate the commitments. A bankruptcy event of default causes such obligations automatically to become immediately due and payable and the commitments automatically to terminate.

Additional borrowing is permitted on the Notes that are variable funding notes subject to a maximum balance and certain funding conditions, such as the accuracy of representations and warranties, the absence of a default

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

and the satisfaction of a collateral test that generally requires the sum of eligible servicer advances transferred to the applicable wholly owned special purpose subsidiary of Advance Purchaser LLC multiplied by an advance rate plus all collections in the applicable wholly owned special purpose subsidiary of Advance Purchaser LLC accounts to be greater than or equal to the aggregate outstanding principal balance of the variable funding notes. Generally, during the revolving period, payments to noteholders will consist of payments of interest, but excess cash flow from repaid servicer advances may be used to fund the purchase of new servicer advances.

**Residential Mortgage Loans**

On November 25, 2013, New Residential entered into a \$300.0 million master repurchase agreement with The Royal Bank of Scotland ( RBS ) with advance rates ranging from 65% to 85% and an interest cost of one-month LIBOR plus 2.5% to 2.75%. The repurchase agreement, which contains customary covenants and event of default provisions and is subject to margin calls, matures on November 24, 2014. Pursuant to the repurchase agreement New Residential may sell, and later repurchase, (x) trust certificates representing interests in certain residential mortgage loans and (y) the capital stock of a corporation that holds certain real estate owned properties. The principal amount paid by RBS for such assets is based on a percentage of the lesser of the market value or the UPB of such mortgage assets backing the assets. Upon New Residential's repurchase of such assets sold under the repurchase agreement, New Residential is required to repay RBS a repurchase amount based on the purchase price plus accrued interest. New Residential is also required to pay certain administrative costs and expenses in connection with the structuring, management and ongoing administration of the master repurchase agreement. The repurchase agreement contains customary covenants and event of default provisions, including a minimum liquidity requirement of \$15.0 million, a minimum tangible net worth provision of \$540.0 million, and a four to one indebtedness to tangible net worth provision. As of December 31, 2013, New Residential had purchased \$92.7 million of loans financed with \$60.1 million under this facility. This financing was treated as a linked transaction (Note 10) and is therefore not included in the table above.

***Borrowing Capacity***

The following table represents New Residential's borrowing capacity as of December 31, 2013:

<b>Debt Obligations / Collateral</b>	<b>Collateral Type</b>	<b>Borrowing Capacity</b>	<b>Balance Outstanding</b>	<b>Available Financing</b>
Notes Payable				
Secured Corporate Loan	Excess MSR's	\$ 75,000	\$ 75,000	\$
Servicer Advances (A)	Servicer Advances	3,900,000	2,390,778	1,509,222



Edgar Filing: New Residential Investment Corp. - Form S-11/A

Repurchase Agreements

Residential Mortgage Loans (B)	Real Estate Loans	300,000	60,102	239,898
--------------------------------	-------------------	---------	--------	---------

		\$ 4,275,000	\$ 2,525,880	\$ 1,749,120
--	--	--------------	--------------	--------------

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

(B) Financing related to linked transaction (Note 10).

Refer to Note 18 for a discussion of recent financing activities.

F-47

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

**12. FAIR VALUE OF FINANCIAL INSTRUMENTS**

U.S. GAAP requires the categorization of the fair value of financial instruments into three broad levels which form a hierarchy.

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

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

Quoted prices in active markets for similar instruments,

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

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

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

Level 3 - Valuations based significantly on unobservable inputs.

New Residential follows this hierarchy for its financial instruments. The classifications are based on the lowest level of input that is significant to the fair value measurement.

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 December 31, 2013 were as follows:

<b>Principal Balance or Notional Amount</b>	<b>Carrying Value</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	

**Assets:**

## Investments in:

Excess mortgage servicing rights, at fair value (A)	\$ 78,953,614	\$ 324,151	\$	\$	\$ 324,151	\$ 324,151
Excess mortgage servicing rights, equity method investees, at fair value (A)	173,619,478	352,766			352,766	352,766
Servicer advances	2,661,130	2,665,551			2,665,551	2,665,551
Real estate securities, available-for-sale	2,186,996	1,973,189		1,402,764	570,425	1,973,189
Residential mortgage loans, held for investment (B)	57,552	33,539			33,539	33,539
Non-hedge derivative investments (C)	101,775	35,926			35,926	35,926
Cash and restricted cash	305,332	305,332	305,332			305,332
	\$ 257,885,877	\$ 5,690,454	\$ 305,332	\$ 1,402,764	\$ 3,982,358	\$ 5,690,454

F-48

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

	Principal Balance or Notional Amount	Carrying Value	Fair Value			Total
			Level 1	Level 2	Level 3	
<b>Liabilities:</b>						
Repurchase agreements	\$ 1,620,711	\$ 1,620,711	\$ 1,620,711	\$	\$	\$ 1,620,711
Notes payable	2,488,618	2,488,618			2,488,618	2,488,618
	\$ 4,109,329	\$ 4,109,329	\$ 1,620,711	\$ 2,488,618		\$ 4,109,329

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

(B) Represents New Residential's 70% interest in the total unpaid principal balance of the Residential Mortgage Loans.

(C) Notional amount consists of the aggregate current face and UPB amounts of the securities and loans, respectively, that comprise the asset portion of the linked transaction.

New Residential has various processes and controls in place to ensure that fair value is reasonably estimated. With respect to the broker and pricing service quotations, to ensure these quotes represent a reasonable estimate of fair value, New Residential's quarterly procedures include a comparison to quotations from different sources, outputs generated from its internal pricing models and transactions New Residential has completed with respect to these or similar securities, as well as on its knowledge and experience of these markets. With respect to fair value estimates generated based on New Residential's internal pricing models, New Residential's management corroborates the inputs and outputs of the internal pricing models by comparing them to available independent third party market parameters, where available, and models for reasonableness. New Residential believes its valuation methods and the assumptions used are appropriate and consistent with other market participants.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value and such changes could result in a significant increase or decrease in the fair value.

***Investments in Excess MSRs Valuation***

Fair value estimates of New Residential's Excess MSRs were based on internal pricing models. The valuation technique is based on discounted cash flows. Significant inputs used in the valuations included expectations of prepayment rates, delinquency rates, recapture rates, the excess mortgage servicing amount of the underlying

mortgage loans and discount rates that market participants would use in determining the fair values of mortgage servicing rights on similar pools of residential mortgage loans.

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. The independent valuation firm determines an estimated fair value range of each pool based on its own models and issues a fairness opinion with this range. Management compares the range included in the opinion to the value generated by its internal models. For Excess MSR acquired prior to the current quarter, the fairness opinion relates to the valuation at the current quarter end date. For Excess MSR acquired during the current quarter, the fairness opinion relates to the valuation at the time of acquisition. To date, New Residential has not made any significant valuation adjustments as a result of these fairness opinions.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

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

In addition, in valuing the Excess MSR's, management considered the likelihood of Nationstar being removed as the servicer, which likelihood is considered to be remote. Fair value measurements of the Excess MSR's are sensitive to changes in the assumptions or methodology used to determine fair value, and such changes could result in a significant increase or decrease in the fair value. Significant increases (decreases) in the discount rates, prepayment or delinquency rates in isolation would result in a significantly lower (higher) fair value measurement, whereas significant increases (decreases) in the recapture rates or excess mortgage servicing amount in isolation would result in a significantly higher (lower) fair value measurement. Generally, a change in the delinquency rate assumption is accompanied by a directionally similar change in the assumption used for the prepayment speed.

The following table summarizes certain information regarding the inputs used in valuing the Excess MSR's owned directly and through equity method investees as of December 31, 2013:

	Significant Inputs				
	Prepayment Speed (A)	Delinquency (B)	Recapture Rate (C)	Excess Mortgage Servicing Amount (D)	Discount Rate
<b>Held Directly (Note 4)</b>					
MSR Pool 1	13.1%	8.9%	35.8%	27 bps	12.5%
MSR Pool 1 - Recapture Agreement	8.0%	5.0%	35.0%	21 bps	12.5%
MSR Pool 2	13.0%	10.1%	35.8%	22 bps	12.5%
MSR Pool 2 - Recapture Agreement	8.0%	5.0%	35.0%	21 bps	12.5%
MSR Pool 3	13.2%	11.2%	35.9%	22 bps	12.5%
MSR Pool 3 - Recapture Agreement	8.0%	5.0%	35.0%	21 bps	12.5%
MSR Pool 4	15.7%	15.0%	36.9%	17 bps	12.5%
MSR Pool 4 - Recapture Agreement	8.0%	5.0%	35.0%	21 bps	12.5%
MSR Pool 5	11.6%	N/A (E)	9.0%	13 bps	12.5%
MSR Pool 5 - Recapture Agreement	8.0%	N/A (E)	35.0%	21 bps	12.5%
MSR Pool 11	7.6%	5.0%	34.0%	19 bps	12.5%
MSR Pool 11 - Recapture Agreement	8.0%	5.0%	35.0%	19 bps	12.5%
MSR Pool 12	15.4%		8.8%	26 bps	16.4%

Edgar Filing: New Residential Investment Corp. - Form S-11/A

MSR Pool 12 - Recapture Agreement	8.0%	N/A (E)	35.0%	19 bps	16.4%
MSR Pool 18	15.0%	N/A (E)	9.0%	15 bps	15.3%
MSR Pool 18 - Recapture Agreement	10.0%	N/A (E)	35.0%	19 bps	15.3%

F-50

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

<b>Held through Equity Method Investees (Note 5)</b>	<b>Significant Inputs</b>				
	<b>Prepayment Speed (A)</b>	<b>Delinquency (B)</b>	<b>Recapture Rate (C)</b>	<b>Excess Mortgage Servicing Amount (D)</b>	<b>Discount Rate (E)</b>
MSR Pool 6	16.0%	8.2%	30.4%	25 bps	12.5%
MSR Pool 6 - Recapture Agreement	8.0%	5.0%	35.0%	23 bps	12.5%
MSR Pool 7	13.1%	7.8%	35.9%	16 bps	12.5%
MSR Pool 7 - Recapture Agreement	8.0%	5.0%	35.0%	19 bps	12.5%
MSR Pool 8	14.6%	6.8%	35.9%	20 bps	12.5%
MSR Pool 8 - Recapture Agreement	8.0%	5.0%	35.0%	19 bps	12.5%
MSR Pool 9	16.2%	5.0%	30.1%	22 bps	12.5%
MSR Pool 9 - Recapture Agreement	8.0%	5.0%	35.0%	26 bps	12.5%
MSR Pool 10	11.4%	N/A (E)	9.0%	11 bps	12.5%
MSR Pool 10 - Recapture Agreement	8.0%	N/A (E)	35.0%	19 bps	12.5%
MSR Pool 11	15.2%	9.6%	37.0%	16 bps	12.5%
MSR Pool 11 - Recapture Agreement	7.9%	5.0%	35.0%	19 bps	12.5%

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

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

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

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

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

All of the assumptions listed have some degree of market observability, based on New Residential's knowledge of the market, relationships with market participants, and use of common market data sources. Prepayment speed and delinquency rate projections are in the form of curves or vectors that vary over the expected life of the pool. New Residential uses assumptions that generate its best estimate of future cash flows for each investment in Excess MSRs.

When valuing Excess MSRs, New Residential uses the following criteria to determine the significant inputs:

**Prepayment Speed:** Prepayment speed projections are in the form of a vector that varies over the expected life of the pool. The prepayment vector specifies the percentage of the collateral balance that



is expected to prepay voluntarily (i.e., pay off) and involuntarily (i.e., default) at each point in the future. The prepayment vector is based on assumptions that reflect macroeconomic conditions and factors such as the borrower's FICO score, loan-to-value ratio, debt-to-income ratio, vintage on a loan level basis, as well as the projected effect on loans eligible for the Home Affordable Refinance Program 2.0 (HARP 2.0). Management considers collateral-specific prepayment experience when determining this vector. For the Recapture Agreements and recaptured loans, New Residential also considers industry research on the prepayment experience of similar loan pools (i.e., loan pools composed of refinanced loans). This data is obtained from remittance reports, market data services and other market sources.

**Delinquency Rates:** For existing mortgage pools, delinquency rates are based on the recent pool-specific experience of loans that missed their latest mortgage payments. For the Recapture Agreements and recaptured loans, delinquency rates are based on the experience of similar loan pools originated by Nationstar and delinquency experience over the past year. Management

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

believes this time period provides a reasonable sample for projecting future delinquency rates while taking into account current market conditions. Additional consideration is given to loans that are expected to become 30 or more days delinquent.

**Recapture Rates:** Recapture rates are based on actual average recapture rates experienced by Nationstar on similar mortgage loan pools. Generally, New Residential looks to one year worth of actual recapture rates, which management believes provides a reasonable sample for projecting future recapture rates while taking into account current market conditions.

**Excess Mortgage Servicing Amount:** For existing mortgage pools, excess mortgage servicing amount projections are based on the actual total mortgage servicing amount in excess of a basic fee. For loans expected to be refinanced by Nationstar and subject to a Recapture Agreement, New Residential considers the excess mortgage servicing amount on loans recently originated by Nationstar over the past year and other general market considerations. Management believes this time period provides a reasonable sample for projecting future excess mortgage servicing amounts while taking into account current market conditions.

**Discount Rate:** The discount rates used by New Residential are derived from market data on pricing of mortgage servicing rights backed by similar collateral.

New Residential uses different prepayment and delinquency assumptions in valuing the Excess MSR's relating to the original loan pools, the Recapture Agreements and the Excess MSR's relating to recaptured loans. The prepayment speed and delinquency rate assumptions differ because of differences in the collateral characteristics, eligibility for HARP 2.0 and expected borrower behavior for original loans and loans which have been refinanced. New Residential uses the same assumptions for recapture and discount rates when valuing Excess MSR's and Recapture Agreements. These assumptions are based on historical recapture experience and market pricing.

Excess MSR's, owned directly (Note 4), measured at fair value on a recurring basis using Level 3 inputs changed during the year ended December 31, 2013 as follows:

**Level 3 (A)**

**Total**

Edgar Filing: New Residential Investment Corp. - Form S-11/A

	<b>MSR Pool 1</b>	<b>MSR Pool 2</b>	<b>MSR Pool 3</b>	<b>MSR Pool 4</b>	<b>MSR Pool 5</b>	<b>MSR Pool 1</b>	<b>MSR Pool 1</b>	<b>MSR Pool 18</b>	
Balance as of December 31, 2011	\$ 43,971	\$	\$	\$	\$	\$	\$	\$	\$ 43,971
Transfers (B)									
Transfers from Level 3									
Transfers to Level 3									
Gains (losses) included in net income (C)	5,877	1,226	2,780	1,004	(1,864)				9,023
Interest income	7,955	3,450	3,409	1,381	11,293				27,488
Purchases, sales and repayments									
Purchases		43,872	36,218	15,439	124,813				220,342
Purchase adjustments	(178)	(1,522)							(1,700)
Proceeds from sales									
Proceeds from repayments	(16,715)	(7,704)	(6,973)	(2,788)	(19,908)				(54,088)
Balance as of December 31, 2012	\$ 40,910	\$ 39,322	\$ 35,434	\$ 15,036	\$ 114,334	\$	\$	\$	\$ 245,036

F-52

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

	Level 3 (A)								
	MSR Pool 1	MSR Pool 2	MSR Pool 3	MSR Pool 4	MSR Pool 5	MSR Pool 11	MSR Pool 12	MSR Pool 18	Total
Transfers (B)									
Transfers from Level 3									
Transfers to Level 3									
Gains (losses) included in net income (C)	9,424	9,125	9,393	4,748	21,334	(30)	(173)	(489)	53,332
Interest income	5,839	4,885	5,767	2,842	20,637	83	678	190	40,921
Purchases, sales and repayments									
Purchases					26,637	2,391	17,393	17,013	63,434
Purchase adjustments									
Proceeds from sales									
Proceeds from repayments	(13,118)	(11,511)	(11,053)	(4,698)	(36,699)	(129)	(1,364)		(78,572)
Balance as of December 31, 2013	\$ 43,055	\$ 41,821	\$ 39,541	\$ 17,928	\$ 146,243	\$ 2,315	\$ 16,534	\$ 16,714	\$ 324,151

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

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

(C) 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. These gains (losses) represent the change in fair value of the Excess MSR's and are recorded in Change in fair value of investments in excess mortgage servicing rights in the Consolidated Statements of Income.

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Excess MSR joint ventures (Note 5), measured at fair value on a recurring basis using Level 3 inputs changed during the year ended December 31, 2013 as follows:

	<b>MSR Pool 6</b>	<b>MSR Pool 7</b>	<b>MSR Pool 8</b>	<b>Level 3 (A) MSR Pool 9</b>	<b>MSR Pool 10</b>	<b>MSR Pool 11</b>	<b>Total</b>
Balance as of December 31, 2012	\$	\$	\$	\$	\$	\$	\$
Purchases, sales and repayments							
Purchases	57,803	137,469	70,440	147,015	229,430	75,572	717,729
Purchase adjustments							
Proceeds from sales							
Proceeds from repayments	(17,458)	(33,012)	(15,516)	(16,258)	(20,395)	(10,243)	(112,882)
Transfers (B)							
Transfers from Level 3							
Transfers to Level 3							
Gains (losses) included in net income (C)	10,958	12,887	6,025	24,181	(4,494)	4,407	53,964
Interest income	7,336	11,982	5,558	8,669	10,193	2,983	46,721
Balance as of December 31, 2013	\$ 58,639	\$ 129,326	\$ 66,507	\$ 163,607	\$ 214,734	\$ 72,719	\$ 705,532

(A) Includes the Recapture Agreement for each respective pool. Amounts represent all of the Excess MSR held by the respective joint ventures in which New Residential has a 50% interest.

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

(C) 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. These gains (losses) represent the change in fair value of the Excess MSR and are recorded in Change in fair value of investments in excess mortgage servicing rights in the Consolidated Statements of Income.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

***Excess Mortgage Servicing Rights Equity Method Investees Valuation***

Fair value estimates of New Residential's investments were based on internal pricing models. New Residential estimated the fair value of the assets and liabilities of the underlying entities in which it holds an equity interest. The valuation technique is based on discounted cash flows. Significant inputs represent the inputs required to estimate the fair value of the Excess MSR held by the entities and include expectations of prepayment rates, delinquency rates, recapture rates, the excess mortgage servicing amount of the underlying mortgage loans, and discount rates that market participants would use in determining the fair values of mortgage servicing rights on similar pools of residential mortgage loans. In addition, in valuing the Excess MSR, management considered the likelihood of Nationstar being removed as servicer, which likelihood is considered to be remote. Refer to the Investments in Excess MSR Valuation section above for further details.

New Residential's investments in equity method investees measured at fair value on a recurring basis using Level 3 inputs changed during the year ended December 31, 2013 as follows:

Balance as of December 31, 2012	\$
Contributions to equity method investees	358,864
Distributions of earnings from equity method investees	(33,189)
Distributions of capital from equity method investees	(23,252)
Change in fair value of investments in equity method investees	50,343
Balance as of December 31, 2013	\$ 352,766

***Investments in Servicer Advances Valuation***

On December 17, 2013, New Residential initially recorded its investment in servicer advances, including the basic fee component of the related MSR, at the purchase price paid, which New Residential's management believes reflects the value a market participant would attribute to the investment at the time of purchase and approximates the fair value of the investment as of December 31, 2013. New Residential categorizes its investment under Level 3 of the GAAP hierarchy. Management uses 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. Management's 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, the recovery of 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 changes over the term of the investment, (ii) the UPB of the underlying loans with respect to which New Residential has the obligation to make advances and owns the basic fee component of the related MSR which, in turn, is driven by prepayment speeds and (iii) the percentage of delinquent loans with respect to which New Residential owns the basic fee component of the related MSR. The valuation technique is based on discounted cash flows. Significant inputs used in the valuations included the assumptions used to establish the aforementioned cash flows and discount rates that market participants would use in determining the fair values of servicer advances.

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 investment in servicer advances. The independent valuation firm determines an estimated fair value range based on its own models and issues a fairness opinion

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

with this range. Management compares the range included in the opinion to the value generated by its internal models. For servicer advances acquired during the current quarter, the fairness opinion relates to the valuation at the time of acquisition. To date, New Residential has not made any significant valuation adjustments as a result of these fairness opinions.

For servicer advances acquired during the current quarter, New Residential revalues the servicer advances at the quarter end date if a payment is received between the acquisition date and the end of the quarter. Otherwise, servicer advances acquired during the current quarter are carried at their amortized cost basis if there has been no change in assumptions since acquisition.

In valuing the servicer advances, management considered the likelihood of Nationstar being removed as the servicer, which likelihood is considered to be remote. Fair value measurements of the servicer advances are sensitive to changes in the assumptions or methodology used to determine fair value, and such changes could result in a significant increase or decrease in the fair value. Significant increases (decreases) in the advance balance-to-UPB ratio, prepayment speed, delinquency rate, or discount rate, in isolation, would result in a significantly lower (higher) fair value measurement. Generally, a change in the delinquency rate assumption is accompanied by a directionally similar change in the assumption used for the advance balance-to-UPB ratio, but also a directionally opposite change in the prepayment rate.

The following table summarizes certain information regarding the inputs used in valuing the servicer advances as of December 31, 2013:

	<b>Significant Inputs</b>				
	<b>Weighted Average</b>				
<b>Outstanding Servicer Advances to UPB of Underlying Residential Mortgage Loans</b>	<b>Prepayment Speed</b>	<b>Delinquency</b>	<b>Mortgage Servicing Amount</b>	<b>Discount Rate</b>	
Servicer advances	2.7%	13.3%	20.0%	21.2 bps	4.4%

All of the assumptions listed have some degree of market observability, based on New Residential's knowledge of the market, relationships with market participants, and use of common market data sources. The prepayment speed, the delinquency rate and the advance-to-UPB ratio projections are in the form of curves or vectors that vary over the expected life of the underlying mortgages and related servicer advances. New Residential uses assumptions that



generate its best estimate of future cash flows for each investment in servicer advances, including the basic fee component of the related MSR.

When valuing servicer advances, New Residential uses the following criteria to determine the significant inputs:

**Servicer advance balance:** Servicer advance balance projections are in the form of a vector that varies over the expected life of the residential mortgage loan pool. The servicer advance balance projection is based on assumptions that reflect factors such as the borrower's expected delinquency status, the rate at which delinquent borrowers reperform or become current again, servicer modification offer and acceptance rates, liquidation timelines and the servicer's stop advance and clawback policies.

**Prepayment Speed:** Prepayment speed projections are in the form of a vector that varies over the expected life of the pool. The prepayment vector specifies the percentage of the collateral balance that is expected to prepay voluntarily (i.e., pay off) and involuntarily (i.e., default) at each point in the future.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

The prepayment vector is based on assumptions that reflect macroeconomic conditions and factors such as the borrower's FICO score, loan-to-value ratio, debt-to-income ratio, and vintage on a loan level basis. Management considers collateral-specific prepayment experience when determining this vector.

Delinquency Rates: For existing mortgage pools, delinquency rates are based on the recent pool-specific experience of loans that missed recent mortgage payment(s) as well as loan- and borrower-specific characteristics such as the borrower's FICO score, the loan-to-value ratio, debt-to-income ratio, occupancy status, loan documentation, payment history and previous loan modifications. Management believes the time period utilized provides a reasonable sample for projecting future delinquency rates while taking into account current market conditions.

Mortgage Servicing Amount: Mortgage servicing amounts are contractually determined on a pool-by-pool basis. Management projects the weighted average mortgage servicing amount based on its projections for prepayment speeds.

Discount Rate: The discount rates used by New Residential are derived from market data on pricing of mortgage servicing rights backed by similar collateral and the advances made thereon.

Servicer advances measured at fair value on a recurring basis using Level 3 inputs changed during the year ended December 31, 2013 as follows:

Balance as of December 31, 2012	\$
Transfers (A)	
Transfers from Level 3	
Transfers to Level 3	
Gains (losses) included in net income	
Interest income	4,421
Purchases, sales and repayments	
Purchases	2,764,524
Purchase adjustments	
Proceeds from sales	
Proceeds from repayments	(103,394)

Balance as of December 31, 2013

\$ 2,665,551

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

**Real Estate Securities Valuation**

As of December 31, 2013, New Residential's securities valuation methodology and results are further detailed as follows:

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Multiple Quotes (A)	Fair Value	
				Total	Level
Agency ARM RMBS	\$ 1,314,130	\$ 1,403,215	\$ 1,402,764	\$ 1,402,764	2
Non-Agency RMBS	872,866	566,760	570,425	570,425	3
<b>Total</b>	<b>\$ 2,186,996</b>	<b>\$ 1,969,975</b>	<b>\$ 1,973,189</b>	<b>\$ 1,973,189</b>	

F-56

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

(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.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value, and such changes could result in a significant increase or decrease in the fair value. For New Residential's investments in real estate securities categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs include the discount rates, assumptions related to prepayments, default rates and loss severities. Significant increases (decreases) in any of the discount rates, default rates or loss severities in isolation would result in a significantly lower (higher) fair value measurement. The impact of changes in prepayment speeds would have differing impacts on fair value, depending on the seniority of the investment. Generally, a change in the default assumption is accompanied by directionally similar changes in the assumptions used for the loss severity and the prepayment speed.

Fair value estimates of New Residential's Non-Agency RMBS were based on third party indications as of December 31, 2013 and classified as Level 3. Securities measured at fair value on a recurring basis using Level 3 inputs changed during the year ended December 31, 2013 as follows:

	<b>Level 3 Non-Agency RMBS</b>
Balance as of December 31, 2012	\$ 289,756
Transfer (A)	
Transfers from Level 3	
Transfers into Level 3	

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Total gains (losses)	
Included in net income as impairment	(978)
Gain on settlement of securities	52,657
Included in comprehensive income (B)	(11,604)
Amortization included in interest income	20,556
Purchases, sales and repayments	
Purchases/contributions from Newcastle	825,871
Sales	(521,865)
Proceeds from repayments	(83,968)
Balance as of December 31, 2013	\$ 570,425

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

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

F-57

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

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

As of December 31, 2013, loans which New Residential has the intent and ability to hold into the foreseeable future are classified as held-for-investment. Loans held-for-investment are carried at the aggregate unpaid principal balance adjusted for any unamortized premium or discount, deferred fees or expenses, an allowance for loan losses, charge-offs and write-downs for impaired loans.

The fair values of New Residential's reverse mortgage loans held-for-investment were estimated based on a discounted cash flow analysis using internal pricing models. The significant inputs to these models include discount rates and the timing and amount of expected cash flows that management believes market participants would use in determining the fair values on similar pools of reverse mortgage loans. New Residential's loans held-for-investment are categorized within Level 3 of the fair value hierarchy.

Loan Type	Outstanding Face Amount (A)	Carrying Value (A)	Fair Value	Significant Inputs		
				Valuation Allowance/ (Reversal) In Current Year	Discount Rate	Weighted Average Life (Years) (B)
Reverse Mortgage Loans	\$ 57,552	\$ 33,539	\$ 33,539	\$ 461	10.3%	3.7

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

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

***Derivative Valuation***

New Residential financed certain investments with the same counterparty from which it purchased those investments, and accounts for the contemporaneous purchase of the investments and the associated financings as linked transactions (Note 10). The linked transactions are valued on a net basis considering their underlying components, the investment value and the related repurchase financing agreement value, generally determined consistently with the relevant instruments as described in this note. The linked transactions, which are categorized as Level 3 and recorded as a non-hedge derivative instrument on a net basis, changed during the year ended December 31, 2013 as follows:

Balance as of December 31, 2012	\$
Transfers (A)	
Transfers from Level 3	
Transfers into Level 3	
Gains (losses) included in net income (B)	1,820
Purchases, sales and repayments	
Purchases	34,106
Sales	
Balance as of December 31, 2013	\$ 35,926

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

(B) 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. These gains (losses) represent the change in fair value of the non-hedge derivative instruments and are recorded in Other Income in the Consolidated Statements of Income.

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

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

Repurchase agreements and notes payable are not measured at fair value in the statement of position; however, management believes that their carrying value approximates fair value, primarily resulting from the short duration of related borrowings. Repurchase agreements and notes payable are 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.

**13. EQUITY AND EARNINGS PER SHARE**

***Equity and Dividends***

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

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

On June 3, 2013, New Residential declared a quarterly dividend of \$0.07 per common share, or \$17.7 million, for the quarter ended June 30, 2013, based on earnings for the period May 16, 2013 to June 30, 2013, which was paid in July 2013. On September 17, 2013, New Residential declared a quarterly dividend of \$0.175 per common share, or \$44.3 million, for the quarter ended on September 30, 2013, which was paid in October 2013. On December 17, 2013, New Residential declared a quarterly dividend of \$0.175 per common share and a special cash dividend of \$0.075 per common share, totaling \$63.3 million, for the quarter ended December 31, 2013. The combined dividend of \$0.25 was paid on January 31, 2014.



Approximately 5,314,416 shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals as of December 31, 2013.

See Note 18 for a discussion of a dividend declared by New Residential's board of directors subsequent to December 31, 2013.

***Option Plan***

Effective upon the spin-off, New Residential has a Nonqualified Stock Option and Incentive Award Plan (the Plan) which provides for the grant of equity-based awards, including restricted stock, stock options, stock appreciation rights, performance awards, tandem awards and other equity-based and non-equity based awards, in

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

each case to the Manager, and to the directors, officers, employees, service providers, consultants and advisor of the Manager who perform services for New Residential, and to New Residential's directors, officers, service providers, consultants and advisors. New Residential has initially reserved 30,000,000 shares of its common stock for issuance under the Plan; on the first day of each fiscal year beginning during the ten-year term of the Plan in and after calendar year 2014, that number will be increased by a number of shares of New Residential's common stock equal to 10% of the number of shares of common stock newly issued by New Residential during the immediately preceding fiscal year (and, in the case of fiscal year 2013, after the effective date of the Plan). No adjustment was made on January 1, 2014. New Residential's board of directors may also determine to issue options to the Manager that are not subject to the Plan, provided that the number of shares underlying any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to NYSE rules. Upon exercise, all options will be settled in an amount of cash equal to the excess of the fair market value of a share of common stock on the date of exercise over the strike price per share unless advance approval is made to settle the option in shares of common stock.

Prior to the spin-off, Newcastle had issued options to the Manager in connection with capital raising activities. In connection with the spin-off, 21.5 million options that were held by the Manager, or by the directors, officers or employees of the Manager, were converted into an adjusted Newcastle option and a new New Residential option. The exercise price of each adjusted Newcastle option and New Residential option was set to collectively maintain the intrinsic value of the Newcastle option immediately prior to the spin-off and to maintain the ratio of the exercise price of the adjusted Newcastle option and the New Residential option, respectively, to the fair market value of the underlying shares as of the spin-off date, in each case based on the five day average closing price subsequent to the spin-off date.

Upon joining the board, non-employee directors were, in accordance with the Plan, granted options relating to an aggregate of 8,000 shares of common stock. The fair value of such options was not material at the date of grant.

As a result of a resignation, a former employee of the Manager exercised 307,833 options with a weighted average exercise price of \$3.08 on September 3, 2013. Upon exercise, 160,634 shares of common stock of New Residential were issued, reflecting the \$1.0 million aggregate intrinsic value of the exercisable options. In addition, 192,167 unvested options and 2,170 vested options were forfeited by the employee and transferred back to the Manager.

As of December 31, 2013, New Residential's outstanding options were summarized as follows:

**December 31, 2013**

**December 31, 2012**

	<b>Issued Prior to 2011</b>	<b>Issued in 2011-2013</b>	<b>Total</b>	<b>Issued Prior to 2011</b>	<b>Issued in 2011 and 2012</b>	<b>Total</b>
Held by the Manager	1,496,555	16,176,333	17,672,888	1,751,172	7,934,166	9,685,338
Issued to the Manager and subsequently transferred to certain of the Manager's employees	535,570	2,510,000	3,045,570	701,937	2,860,000	3,561,937
Issued to the independent directors	2,000	10,000	12,000	2,000	2,000	4,000
Total	2,034,125	18,696,333	20,730,458	2,455,109	10,796,166	13,251,275

F-60

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

The following table summarizes New Residential's outstanding options as of December 31, 2013. The last sales price on the New York Stock Exchange for New Residential's common stock in the year ended December 31, 2013 was \$6.68 per share.

<b>Recipient</b>	<b>Date of Grant/ Exercise (A)</b>	<b>Number of Options</b>	<b>Options Exercisable as of December 31, 2013</b>	<b>Weighted Average Exercise Price (B)</b>	<b>Intrinsic Value as of December 31, 2013 (millions)</b>
Directors	Various	12,000	12,000	\$ 7.76	
Manager (C)	2003 - 2007	2,453,109	2,032,125	\$ 15.28	
Manager (C)	Mar-11	1,676,833	1,580,166	\$ 3.29	\$ 5.4
Manager (C)	Sep-11	2,539,833	2,170,850	\$ 2.49	\$ 9.1
Manager (C)	Apr-12	1,897,500	1,244,778	\$ 3.41	\$ 4.1
Manager (C)	May-12	2,300,000	1,421,667	\$ 3.67	\$ 4.3
Manager (C)	Jul-12	2,530,000	1,416,195	\$ 3.67	\$ 4.3
Manager (C)	Jan-13	5,750,000	2,108,333	\$ 5.12	\$ 3.3
Manager (C)	Feb-13	2,300,000	766,667	\$ 5.74	\$ 0.7
Exercised (D)	2013	(307,833)	N/A	\$ 3.08	N/A
Expired unexercised	2003	(420,984)	N/A	N/A	N/A
Outstanding		20,730,458	12,752,781		

(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.

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

<b>Date of Grant</b>	<b>Range of Strike Prices</b>	<b>Total Unexercised Inception to Date</b>
----------------------	---------------------------------------	--

Edgar Filing: New Residential Investment Corp. - Form S-11/A

2004 - 2007	\$13.86 - \$16.95	535,570
2011	\$2.49 - \$3.29	1,210,000
2012	\$3.41 - \$3.67	1,300,000
Total		3,045,570

(D) Exercised by employees of Fortress subsequent to their assignment. The options exercised had an intrinsic value of \$1.0 million.

***Income and Earnings Per Share***

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

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 year ended December 31, 2013, based on the treasury stock method, New Residential had 4,290,207 dilutive common stock equivalents.

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

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

***Noncontrolling Interests***

Noncontrolling interests is comprised of the interests held by third parties in consolidated entities that hold New Residential's investment 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 December 31, 2013, New Residential is not subject to any material litigation, individually or in the aggregate, nor, to management's knowledge, is any material litigation currently threatened against New Residential.

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

***Capital Commitments*** As of December 31, 2013, New Residential had outstanding capital commitments related to the acquisition of investments in the following investment types (also refer to Note 18 for additional capital commitments entered into subsequent to December 31, 2013):

***Excess MSR's*** As of December 31, 2013, New Residential had outstanding capital commitments of \$52.9 million related to the acquisition of five pools (Pools 13-17) of Excess MSR's on portfolios comprised of Fannie Mae, Freddie Mac and private label securitizations ( PLS ) residential mortgage loans. In January 2014, New Residential invested approximately \$19.1 million in Excess MSR's on a portfolio of PLS residential mortgage loans with a UPB of approximately \$8.1 billion (Pool 17). Additionally, through co-investments made by subsidiaries of New Residential, New Residential has separately purchased the servicer advances, including the right to receive the basic fee component of related MSR's on Pool 17.

*Servicer Advances* In December 2013, New Residential and third-party co-investors agreed to purchase, through Advance Purchaser LLC, future servicer advances related to the Non-Agency mortgage loans with an aggregate UPB of approximately \$54.6 billion underlying New Residential's first investment in servicer advances, including the basic fee component of the related MSR. 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.

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

***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 per share of common stock, excluding Funds from Operations from investments in equity method investees that are invested in consumer loans as of the date hereof (the Consumer Loan Companies) and any unrealized gains or losses from mark-to-market valuation changes on Excess MSR's and on equity method investees invested in Excess MSR's, per REIT Share (as defined in the Management Agreement, based on the weighted average number of REIT Shares outstanding), 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 MSR's as if such equity method investees had not made a fair value election, and gains (or losses) from debt restructuring and

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

gains (or losses) from sales of property and other assets 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.

Due to affiliate is comprised of the following amounts:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Management fees	\$ 1,495	\$ 3,392
Incentive compensation	16,847	
Expense reimbursements and other	827	
Purchase price payable		1,744
<b>Total</b>	<b>\$ 19,169</b>	<b>\$ 5,136</b>

Affiliate expenses and fees were comprised of:

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Management fees	\$ 15,343	\$ 3,353
Incentive compensation	16,847	

Expense reimbursements(A)	500		
Total	\$ 32,690	\$ 3,353	

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

On June 27, 2013, New Residential purchased Agency ARM RMBS with an aggregate face amount of approximately \$22.7 million from Newcastle for approximately \$1.2 million, net of related financing. New Residential purchased the securities on the same terms as they were purchased by Newcastle and paid the \$1.2 million to Newcastle during the third quarter of 2013.

See Notes 2, 4, 5, 6, 7, 8, 11, 14 and 18 for a discussion of transactions with Nationstar. As of December 31, 2013, a total face amount of \$848.6 million of New Residential's Non-Agency portfolio was serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced Non-Agency RMBS was approximately \$17.1 billion as of December 31, 2013.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

See Notes 9 and 18 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	Year Ended December 31/December 8 through December 31,		
		2013	2012	2011
Reclassification of net realized (gain) loss on securities into earnings	Gain on settlement of securities	\$ (52,657)	\$	\$
Reclassification of net realized (gain) loss on securities into earnings	Other-than-temporary impairment on securities	4,993		
<b>Total reclassifications</b>		<b>\$ (47,664)</b>	<b>\$</b>	<b>\$</b>

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

**17. INCOME TAXES**

New Residential intends to qualify as a REIT for the tax year ending December 31, 2013. A REIT is generally not subject to U.S. federal corporate income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements. New Residential was a wholly owned subsidiary of Newcastle until May 15, 2013 and, as a qualified REIT subsidiary, was a disregarded entity until such date. As a result, no provision or liability for U.S. federal or state income taxes has been included in the accompanying consolidated financial statements for the years ended December 31, 2013 or 2012.

New Residential has made certain investments, particularly its investment in servicer advances (Notes 6 and 18), through TRSs and is subject to regular corporate income taxes on these investments, New Residential and its TRSs

Edgar Filing: New Residential Investment Corp. - Form S-11/A

will file income tax returns with the U.S. federal government and various state and local jurisdictions for 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.

Common stock distributions were taxable as follows:

<b>Year</b>	<b>Dividends per Share</b>	<b>Ordinary Income</b>	<b>Long-term Capital Gain</b>	<b>Return of Capital</b>
2013	\$ 0.495000	\$ 0.445561	\$ 0.049439	\$

F-65

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

**18. RECENT ACTIVITIES**

These financial statements include a discussion of material events that have occurred subsequent to December 31, 2013 (referred to as subsequent events ) through the issuance of these consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

***Excess MSR*s**

On January 17, 2014, New Residential completed an additional closing of Excess MSR that it agreed to acquire as part of a previously committed transaction between Nationstar and First Tennessee Bank. New Residential invested approximately \$19.1 million in Pool 17 on loans with an aggregate UPB of approximately \$8.1 billion. New Residential has remaining commitments of approximately \$1.5 million to fund additional investments in Pool 17, which have not yet closed and will increase the outstanding principal balance of Pool 17 by an estimated \$0.9 billion.

New Residential has remaining commitments of \$32.3 million to invest in Excess MSR on a portfolio of GSE residential mortgages comprised of four pools (Pools 13-16) with an aggregate outstanding unpaid principal balance of approximately \$13.1 billion that New Residential committed to in 2013.

In each transaction (Pools 13-17), New Residential agreed to acquire a one-third interest in Excess MSR on the portfolio. Fortress-managed funds and Nationstar each agreed to acquire a one-third interest in the Excess MSR. 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 the portfolio. Commitments related to GSE residential mortgage loans are contingent upon GSE approval of Nationstar to service such loans and transfer Excess MSR to New Residential.

Subsequent to December 31, 2013, New Residential paid down \$5.9 million of the corporate loan (Note 11) secured by Excess MSR related to Pool 5 and extended the maturity of the loan to May 31, 2014.

***Servicer Advances***

Subsequent to December 31, 2013 and prior to March 17, 2014, Advance Purchaser LLC settled an additional \$509.4 million of advances, which represents substantially all of the remaining balance related to New Residential's first investment in servicer advances through Buyer and funded a total of \$2.1 billion of new servicer advances, financed using \$1.7 billion of notes payable. Restricted cash increased approximately \$9.8 million in relation to these fundings. Additionally, Advance Purchaser LLC received \$9.8 million from Nationstar to satisfy a targeted return shortfall.

On February 28 and March 7, 2014, Advance Purchaser LLC received \$105.0 million and \$37.0 million, respectively, from two co-investors to fund the purchase of \$756.2 million and \$299.1 million, respectively, of additional servicer advances.

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

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

(i) LIBOR or a cost of funds rate plus (ii) a spread of 1.375% to 2.5% depending on the class of the notes. The expected repayment date of the VFNs is March 2015. The Term Notes generally bear interest at approximately 1.9% and have expected repayment dates in March 2015 and March 2017. The VFNs and the Term Notes are secured by servicer advances, and the financing is nonrecourse to Advance Purchaser LLC, except for customary recourse provisions. As of March 18, 2014, the principal balance of notes issued by the NRART Master Trust is equal to approximately \$1.9 billion.

***Real Estate Securities***

Subsequent to December 31, 2013, New Residential acquired no new Agency ARM RMBS. New Residential sold Agency ARM RMBS with a face amount of \$154.2 million for \$162.9 million and recorded a gain of \$0.7 million. Furthermore, New Residential acquired Non-Agency RMBS with an aggregate face amount of approximately \$740.6 million financed with repurchase agreements. New Residential sold Non-Agency RMBS with a face amount of \$437.9 million for \$248.5 million and recorded a gain of \$3.8 million.

As of March 25, 2014, New Residential held TBA positions with \$625.0 million in a long notional amount of Agency RMBS and \$750.0 million in 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 of March 25, 2014, New Residential held a \$300.0 million short position of 3-Year U.S. Treasury notes.

On March 6, 2014, New Residential and Merrill Lynch, Pierce, Fenner & Smith Incorporated entered into an agreement pursuant to which New Residential agreed to purchase approximately \$625 million current face amount of Non-Agency residential mortgage securities for approximately \$553 million. The purchased securities represent 75% of the mezzanine and subordinate tranches of a securitization previously sponsored by Springleaf. The securitization, including the purchased securities, are collateralized by residential mortgage loans with a current face amount of approximately \$0.9 billion.

***Real Estate Loans***

On January 15, 2014, New Residential settled a portfolio of non-performing residential mortgage loans with a UPB of approximately \$170.1 million at a price of approximately \$92.7 million. The purchase was financed with \$60.1 million using the \$300.0 million master repurchase agreement with RBS. This purchase was accounted for as a linked transaction (Note 10). The repurchase agreement, which contains customary covenants and event of default provisions and is subject to margin calls, matures on November 24, 2014.



On January 15, 2014, New Residential purchased a portfolio of non-performing residential mortgage loans with a UPB of approximately \$65.6 million at a price of approximately \$33.7 million. To finance this purchase, on January 15, 2014, New Residential entered into a \$25.3 million repurchase agreement with Credit Suisse Securities (USA) LLC, which matures on January 14, 2015. Borrowings under the agreement bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 3.00%. The agreement contains customary covenants and event of default provisions.

F-67

**Table of Contents**

**NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

***Other Investments***

On January 8, 2014, New Residential financed all of its ownership interest in each of the Consumer Loan Companies under a \$150.0 million master repurchase agreement with Credit Suisse Securities (USA) LLC which matures on June 30, 2014. Borrowings under the facility bear interest equal to the sum of (i) a floating rate index rate equal to one-month LIBOR and (ii) a margin of 4.00%. The facility contains customary covenants and event of default provisions.

***Corporate Activities***

On March 19, 2014, New Residential's board of directors declared a first quarter 2014 dividend of \$0.175 per share of common stock, which is payable on April 30, 2014 to stockholders of record as of March 31, 2014.

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

**19. SUMMARY QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

The following is an unaudited summary information on New Residential's quarterly operations.

<b>2013</b>	<b>Quarter Ended</b>				<b>Year Ended</b>
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>	<b>December 31</b>
Interest income	\$ 16,191	\$ 22,999	\$ 21,885	\$ 26,492	\$ 87,567
Interest expense	899	2,651	3,443	8,031	15,024
<b>Net interest income</b>	<b>15,292</b>	<b>20,348</b>	<b>18,442</b>	<b>18,461</b>	<b>72,543</b>
<b>Impairment</b>					
Other-than-temporary impairment ( OTTI ) on Securities		3,756		1,237	4,993
Valuation allowance on loans				461	461
		3,756		1,698	5,454
Net interest income after impairment	15,292	16,592	18,442	16,763	67,089
<b>Other income (A)</b>	<b>2,827</b>	<b>98,182</b>	<b>56,195</b>	<b>83,804</b>	<b>241,008</b>
	2,827	98,182	56,195	83,804	241,008
<b>Operating Expenses</b>	<b>5,044</b>	<b>5,552</b>	<b>11,492</b>	<b>20,386</b>	<b>42,474</b>
	5,044	5,552	11,492	20,386	42,474
<b>Income (Loss) Before Income Taxes</b>	<b>13,075</b>	<b>109,222</b>	<b>63,145</b>	<b>80,181</b>	<b>265,623</b>
Income tax expense					
<b>Net Income (Loss)</b>	<b>13,075</b>	<b>109,222</b>	<b>63,145</b>	<b>80,181</b>	<b>265,623</b>

**Noncontrolling Interests in  
Income of  
Consolidated Subsidiaries**

(326) (326)

**Net Income (Loss) Attributable  
to Common Stockholders**

\$ 13,075 \$ 109,222 \$ 63,145 \$ 80,507 \$ 265,949

**Net Income Per Share of  
Common Stock**

Basic \$ 0.05 \$ 0.43 \$ 0.25 \$ 0.32 \$ 1.05

Diluted \$ 0.05 \$ 0.43 \$ 0.24 \$ 0.31 \$ 1.03

**Weighted Average Number of  
Shares of Common Stock  
Outstanding**

Basic 253,025,645 253,025,645 253,072,788 253,186,406 253,078,048

Diluted 253,025,645 256,659,488 259,889,285 259,796,493 257,368,255

**Dividends Declared per Share  
of Common Stock**

\$ 0.070 \$ 0.175 \$ 0.250 \$ 0.495

F-69

**Table of Contents****NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2013, 2012 and 2011

(dollars in tables in thousands, except share data)

2012	Quarter Ended					Year Ended December 31
	March 31	June 30	September 30	December 31	December 31	
Interest income	\$ 2,037	\$ 4,479	\$ 12,295	\$ 14,948	\$ 33,759	
Interest expense			298	406	704	
<b>Net interest income</b>	<b>2,037</b>	<b>4,479</b>	<b>11,997</b>	<b>14,542</b>	<b>33,055</b>	
<b>Impairment</b>						
Other-than-temporary impairment ( OTTI ) on Securities						
Net interest income after impairment	2,037	4,479	11,997	14,542	33,055	
<b>Other income</b>	<b>1,216</b>	<b>3,523</b>	<b>1,774</b>	<b>10,910</b>	<b>17,423</b>	
	1,216	3,523	1,774	10,910	17,423	
<b>Operating Expenses</b>	<b>565</b>	<b>1,528</b>	<b>2,003</b>	<b>5,135</b>	<b>9,231</b>	
	565	1,528	2,003	5,135	9,231	
<b>Net Income (Loss)</b>	<b>\$ 2,688</b>	<b>\$ 6,474</b>	<b>\$ 11,768</b>	<b>\$ 20,317</b>	<b>\$ 41,247</b>	
<b>Net Income Per Share of Common Stock</b>						
Basic	\$ 0.01	\$ 0.03	\$ 0.05	\$ 0.08	\$ 0.16	
Diluted	\$ 0.01	\$ 0.03	\$ 0.05	\$ 0.08	\$ 0.16	
<b>Weighted average number of shares of common stock outstanding</b>						
Basic	253,025,645	253,025,645	253,025,645	253,025,645	253,025,645	
Diluted	253,025,645	253,025,645	253,025,645	253,025,645	253,025,645	

<b>Dividends Declared per Share of Common Stock</b>	\$	\$	\$	\$	\$
---	----	----	----	----	----

(A) Earnings from investments in equity method investees is included in other income.

F-70

**Table of Contents**

**Shares**

**New Residential Investment Corp.**

**COMMON STOCK**

**PRELIMINARY PROSPECTUS**

**Citigroup**

**, 2014**

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 31. *Other Expenses of Issuance and Distribution.***

The following table shows the fees and expenses, other than underwriting discounts and commissions, to be paid by us in connection with the sale and distribution of the securities being registered hereby. All amounts except the SEC and FINRA registration fees are estimated.

SEC registration fee	\$ 23,830
FINRA filing fee	\$ 27,367
NYSE listing fee	\$ 107,813
Legal fees and expenses (including Blue Sky fees)	\$ 1,250,000
Accounting fees and expenses	\$ 500,000
Printing and engraving expenses	\$ 400,000
Miscellaneous	\$ 99,240
 Total	 \$ 2,408,250

**Item 32. *Sales to Special Parties.***

None.

**Item 33. *Recent Sales of Unregistered Securities.***

In connection with the distribution, each Newcastle option that was held as of the date of the distribution by our Manager or by the directors, officers, employees, service providers, consultants and advisors of our Manager, was converted into an adjusted Newcastle option and a new New Residential option. The exercise price of each adjusted Newcastle option and New Residential option was set to collectively maintain the intrinsic value of the Newcastle option immediately prior to the distribution and to maintain the ratio of the exercise price of the adjusted Newcastle option and the New Residential option, respectively, to the fair market value of the underlying shares as of the distribution, in each case based on the five day average closing price subsequent to the date of distribution. On May 15, 2013, we issued a total of 21,457,275 options. Such options were not issued pursuant to our Nonqualified Stock Option and Incentive Award Plan and therefore did not reduce the number of shares of our common stock otherwise available for issuance under the plan. The expiration dates range from May 30, 2013 to February 15, 2023. The terms and conditions applicable to each option are substantially similar to the terms and conditions otherwise applicable to the underlying Newcastle option as of the date of distribution. The grant of these options is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof.

**Item 34. *Indemnification and Limitation of Liability of Directors and Officers.***



## Edgar Filing: New Residential Investment Corp. - Form S-11/A

Section 102 of the Delaware General Corporation Law, as amended, allows a corporation to eliminate the personal liability of a director of a corporation to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except where the director breached his duty of loyalty to the corporation or its stockholders, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock purchase or redemption in violation of Delaware corporate law or obtained an improper personal benefit.

Section 145 of the Delaware General Corporation Law provides, among other things, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or

II-1

**Table of Contents**

completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the corporation's request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding. The power to indemnify applies (i) if such person is successful on the merits or otherwise in defense of any action, suit or proceeding or (ii) if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the corporation as well, but only to the extent of defense expenses, (including attorneys' fees but excluding amounts paid in settlement) actually and reasonably incurred by the indemnified person and not to any satisfaction of judgment or settlement of the claim itself, and with the further limitation that in such actions no indemnification shall be made in the event such person is adjudged liable to the corporation unless a court believes that in light of all the circumstances indemnification should apply.

Section 174 of the Delaware General Corporation Law provides, among other things, that a director who willfully and negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption may be held liable for such actions. A director who was either absent when the unlawful actions were approved or dissented at the time, may avoid liability by causing his dissent to such actions to be entered in the books containing the minutes of the meetings of the board of directors at the time the action occurred or immediately after the absent director receives notice of the unlawful acts.

Our certificate of incorporation provides that our directors shall not be personally liable to us and our stockholders for monetary damages for breach of certain fiduciary duties as a director, except for liability to the extent such director has committed willful misfeasance, bad faith, gross negligence or reckless disregard of such director's duties involved in the conduct of the office of director.

Our bylaws and certificate of incorporation provide that we may indemnify any person who is or was a director, officer, employee or agent of us to the fullest extent permitted by Delaware law. The indemnification provisions contained in our bylaws and certificate of incorporation are not exclusive of any other rights to which a person may be entitled by law, agreement, vote of stockholders or disinterested directors or otherwise. In addition, we have entered into separate indemnification agreements with each of our directors and executive officers, which are broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnification agreements require us, among other things, to indemnify our directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct.

Pursuant to the underwriting agreement to be entered into in connection with the offering of common stock pursuant to this registration statement, a substantially final form of which is filed as an exhibit to this registration statement, the underwriter will agree to indemnify our directors, officers and persons controlling us, within the meaning of the Securities Act, the Exchange Act or any U.S. federal or state statutory law or regulation or at common law or otherwise, against certain liabilities that might arise out of or are based upon certain information furnished to us by any such underwriter.

**Item 35. *Treatment of Proceeds from Stock Being Registered.***

None of the proceeds will be credited to an account other than the appropriate capital share account.



**Table of Contents****Item 36. Financial Statements and Exhibits.**

(a) *Financial Statements.* See page F-1 for an index of the financial statements that are being filed as part of this Registration Statement.

(b) *Exhibits.* The following is a complete list of exhibits filed as part of the registration statement, which are incorporated herein:

Exhibit Number	Exhibit Description
1.1	Form of Underwriting Agreement*
2.1	Separation and Distribution Agreement dated April 26, 2013, between New Residential Investment Corp. and Newcastle Investment Corp. (incorporated by reference to Amendment No. 6 of New Residential Investment Corp. s Registration Statement on Form 10, filed April 29, 2013)
2.2	Purchase Agreement, among the Sellers listed therein, HSBC Finance Corporation and SpringCastle Acquisition LLC, dated March 5, 2013 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed March 11, 2013)
2.3	Master Servicing Rights Purchase Agreement between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
2.4	Sale Supplement (Shuttle 1) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
2.5	Sale Supplement (Shuttle 2) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
2.6	Sale Supplement (First Tennessee) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
3.1	Amended and Restated Certificate of Incorporation of New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed May 3, 2013)
3.2	Amended and Restated Bylaws of New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed May 15, 2013)
4.1	Amended and Restated Indenture among NRZ Servicer Advance Receivables Trust BC (f/k/a Nationstar Servicer Advance Receivables Trust 2013-BC), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator, as owner of the rights to the servicing rights and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Barclays Bank PLC, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
4.2	

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Series 2013-VF1 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust BC (f/k/a Nationstar Servicer Advance Receivables Trust 2013-BC), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Barclays Bank PLC, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)

II-3

**Table of Contents****Exhibit  
Number****Exhibit Description**

- 4.3 Amended and Restated Indenture among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator, as owner of the rights to the servicing rights and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Credit Suisse AG, New York Branch, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
- 4.4 Series 2013-VF1 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Credit Suisse AG, New York Branch, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
- 4.5 Series 2013-VF2 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Natixis, New York Branch, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
- 4.6 Series 2013-VF3 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Morgan Stanley Bank, N.A., as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)
- 4.7 Indenture, dated as of March 18, 2014 among New Residential Advance Receivables Trust, as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Nationstar Mortgage LLC, as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), Advance Purchaser LLC, as administrator and as servicer (on and after the respective MSR transfer dates) and Credit Suisse AG, New York Branch, Barclays Bank PLC, Morgan Stanley Bank, N.A. and Natixis, New York Branch, as administrative agents \*\*
- 4.8 Series 2014-VF1 Indenture Supplement, dated as of March 18, 2014 among New Residential Advance Receivables Trust, as issuer, Wells Fargo, Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Nationstar Mortgage LLC, as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), Advance Purchaser LLC, as administrator and as servicer (on and after the respective MSR transfer dates) and Credit Suisse AG, New York Branch, Barclays Bank PLC, Natixis, New York Branch and Morgan Stanley Bank, N.A., as administrative agents \*\*



**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
4.9	Series 2014-VF2 Indenture Supplement, dated as of March 18, 2014 among New Residential Advance Receivables Trust, as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Nationstar Mortgage LLC, as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), Advance Purchaser LLC, as administrator and as servicer (on and after the respective MSR transfer dates) and Morgan Stanley Bank, N.A., as administrative agent **
4.10	Series 2014-T1 Indenture Supplement, dated as of March 18, 2014 among New Residential Advance Receivables Trust, as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Nationstar Mortgage LLC, as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), Advance Purchaser LLC, as administrator and as servicer (on and after the respective MSR transfer dates) and Credit Suisse AG, New York Branch, as administrative agent **
4.11	Series 2014-T2 Indenture Supplement, dated as of March 18, 2014 among New Residential Advance Receivables Trust, as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Nationstar Mortgage LLC, as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), Advance Purchaser LLC, as administrator and as servicer (on and after the respective MSR transfer dates) and Credit Suisse AG, New York Branch, as administrative agent **
5.1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP (including consent of such firm)*
8.1	Tax Opinion of Skadden, Arps, Slate, Meagher & Flom LLP related to New Residential Investment Corp. (including consent of such firm)*
8.2	Tax Opinion of Skadden, Arps, Slate, Meagher & Flom LLP related to Newcastle Investment Corp. (including consent of such firm)*
10.1	Management and Advisory Agreement between New Residential Investment Corp. and FIG LLC (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed May 17, 2013)
10.2	Amended and Restated Management and Advisory Agreement between New Residential Investment Corp. and FIG LLC, dated August 1, 2013 (incorporated by reference to New Residential Investment Corp. s Quarterly Report on Form 10-Q, filed August 8, 2013)
10.3	Form of Indemnification Agreement by and between New Residential Investment Corp. and its directors and officers (incorporated by reference to Amendment No. 3 of New Residential Investment Corp. s Registration Statement on Form 10, filed March 27, 2013)
10.4	New Residential Investment Corp. Nonqualified Stock Option and Incentive Award Plan (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed May 3, 2013)
10.5	Investment Guidelines (incorporated by reference to Amendment No. 4 of New Residential Investment Corp. s Registration Statement on Form 10, filed April 9, 2013)
10.6	Excess Servicing Spread Sale and Assignment Agreement, by and between Nationstar Mortgage LLC and NIC MSR I LLC, dated December 8, 2011 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed March 15, 2012)



- 10.7 Excess Spread Refinanced Loan Replacement Agreement, by and between Nationstar Mortgage LLC and NIC MSR I LLC, dated December 8, 2011 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed March 15, 2012)

II-5

**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.8	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR IV LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed May 15, 2012)
10.9	Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR V LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed May 15, 2012)
10.10	Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VI LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed May 15, 2012)
10.11	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VII, LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed May 15, 2012)
10.12	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR III LLC, dated May 31, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 6, 2012)
10.13	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR III LLC, dated May 31, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 6, 2012)
10.14	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.15	Amended and Restated Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.16	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.17	Amended and Restated Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.18	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.19	Amended and Restated Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.20	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR V LLC, dated June 28, 2012 (incorporated

Edgar Filing: New Residential Investment Corp. - Form S-11/A  
by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed July 5, 2012)

II-6

**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.21	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR IV LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed July 5, 2012)
10.22	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VI LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed July 5, 2012)
10.23	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VII LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed July 5, 2012)
10.24	Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR VIII LLC, dated December 31, 2012 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.25	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR VIII LLC, dated December 31, 2012 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.26	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and MSR IX LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.27	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and MSR IX LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.28	Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR X LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.29	Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR X LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.30	Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR XI LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.31	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR XI LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.32	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XII LLC, dated January 6, 2013, (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.33	

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XII LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp.'s Annual Report on Form 10-K, filed February 28, 2013)

II-7

**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.34	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XIII LLC, dated January 6, 2013, (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.35	Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XIII LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.36	Interim Servicing Agreement, among the Interim Servicers listed therein, HSBC Finance Corporation, as Interim Servicer Representative, HSBC Bank USA, National Association, SpringCastle America, LLC, SpringCastle Credit, LLC, SpringCastle Finance, LLC, Wilmington Trust, National Association, as Loan Trustee, and SpringCastle Finance LLC, as Owner Representative (incorporated by reference to Amendment No. 4 to New Residential Investment Corp. s Registration Statement on Form 10, filed April 9, 2013)
10.37	Amended and Restated Limited Liability Company Agreement of SpringCastle Acquisition LLC, dated April 1, 2013 (incorporated by reference to the confidential submission by the Registrant of the draft Registration Statement on Form S-11 on August 19, 2013)
10.38	Amended and Restated Receivables Sale Agreement among Nationstar Mortgage LLC, as initial receivables seller and as servicer, Advance Purchaser LLC, as receivables seller and as servicer, and NRZ Servicer Advance Facility Transferor BC, LLC (f/k/a Nationstar Servicer Advance Facility Transferor, LLC 2013-BC), as depositor, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
10.39	Amended and Restated Receivables Pooling Agreement between NRZ Servicer Advance Facility Transferor BC, LLC, as depositor, and NRZ Servicer Advance Receivables Trust BC (f/k/a Nationstar Servicer Advance Receivables Trust 2013-BC), as issuer, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
10.40	Receivables Pooling Agreement, dated as of March 18, 2014 between New Residential Advance Receivables Trust, as issuer and New Residential Advance Depositor LLC, as depositor **
10.41	Receivables Sale Agreement, dated as of March 18, 2014 among Nationstar Mortgage LLC, as initial receivables seller (prior to the respective MSR transfer dates), as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), New Residential Advance Depositor LLC, as depositor and Advance Purchaser LLC, as receivables seller and as servicer (on and after the respective MSR transfer dates) **
21.1	List of Subsidiaries of New Residential Investment Corp.*
23.1	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 5.1)*
23.2	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 8.1)*
23.3	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 8.2)*
23.4	Consent of Ernst & Young LLP*
23.5	Consent of PricewaterhouseCoopers LLP*
24.1	Powers of Attorney**

- 24.2 Power of Attorney of Michael Nierenberg\*\*
- 24.3 Power of Attorney of Susan Givens\*\*

II-8

**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
99.1	Audited Consolidated and Combined Financial Statements of SpringCastleAmerica, LLC, SpringCastle Credit, LLC, SpringCastle Finance, LLC and SpringCastle Acquisition, LLC (incorporated by reference to New Residential Investment Corp. s Annual Report on Form 10-K, filed March 28, 2014)
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

\* Filed herewith.

\*\* Previously filed.

\*\*\* Previously furnished electronically.

The following amended and restated limited liability company agreements of the Consumer Loan Companies are substantially identical in all material respects, except as to the parties thereto and the initial capital contributions required under each agreement, to the Amendment and Restated Limited Liability Company Agreement of SpringCastle Acquisition LLC that is filed as Exhibit 10.37 hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

Amended and Restated Limited Liability Company Agreement of SpringCastle America, LLC, dated as of April 1, 2013.

Amended and Restated Limited Liability Company Agreement of SpringCastle Credit, LLC, dated as of April 1, 2013.

Amended and Restated Limited Liability Company Agreement of SpringCastle Finance, LLC, dated as of April 1, 2013.

In addition, the following Amended and Restated Receivables Sale Agreement and Amended and Restated Receivables Pooling Agreement are substantially identical in all material respects, except as to the parties thereto, to the Amended and Restated Receivables Sale Agreement and Amended and Restated Receivables Pooling Agreement that are filed as Exhibits 10.38 and 10.39, respectively, hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

Amended and Restated Receivables Sale Agreement among Nationstar Mortgage LLC, as initial receivables seller and as servicer, Advance Purchaser LLC, as receivables seller and as servicer, and NRZ Servicer



Advance Facility Transferor CS, LLC (f/k/a Nationstar Servicer Advance Facility Transferor, LLC 2013-CS), as depositor, dated as of December 17, 2013.

Amended and Restated Receivables Pooling Agreement between NRZ Servicer Advance Facility Transferor CS, LLC, as depositor, and NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, dated as of December 17, 2013.

**Item 37. *Undertakings.***

(a) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

**Table of Contents**

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby further undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4), or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on April 24, 2014.

**NEW RESIDENTIAL INVESTMENT  
CORP.**

By: /s/ Jonathan R. Brown  
 Name: Jonathan R. Brown  
 Title: Chief Accounting Officer

**SIGNATURES AND POWER OF ATTORNEY**

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the date indicated.

<b>Signatures</b>	<b>Title</b>	<b>Date</b>
*	Chairman of the Board	April 24, 2014
By: Wesley R. Edens		
*	Director	April 24, 2014
By: Kevin J. Finnerty		
*	Director	April 24, 2014
By: Douglas L. Jacobs		
*	Director	April 24, 2014
By: David Saltzman		
*	Director	April 24, 2014
By: Alan L. Tyson		
*	Director, Chief Executive Officer and President (principal executive officer)	April 24, 2014
By: Michael Nierenberg		

\* Chief Financial Officer and Treasurer (principal financial officer) April 24, 2014

By: Susan Givens

/s/ Jonathan R. Brown

Chief Accounting Officer (principal accounting officer)

April 24, 2014

By: Jonathan R. Brown

\*By: /s/ Jonathan R. Brown  
Jonathan R. Brown  
Attorney-in-Fact

II-11

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
1.1	Form of Underwriting Agreement*
2.1	Separation and Distribution Agreement dated April 26, 2013, between New Residential Investment Corp. and Newcastle Investment Corp. (incorporated by reference to Amendment No. 6 of New Residential Investment Corp. s Registration Statement on Form 10, filed April 29, 2013)
2.2	Purchase Agreement, among the Sellers listed therein, HSBC Finance Corporation and SpringCastle Acquisition LLC, dated March 5, 2013 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed March 11, 2013)
2.3	Master Servicing Rights Purchase Agreement between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
2.4	Sale Supplement (Shuttle 1) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
2.5	Sale Supplement (Shuttle 2) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
2.6	Sale Supplement (First Tennessee) between Nationstar Mortgage LLC and Advance Purchaser LLC, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
3.1	Amended and Restated Certificate of Incorporation of New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed May 3, 2013)
3.2	Amended and Restated Bylaws of New Residential Investment Corp. (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed May 15, 2013)
4.1	Amended and Restated Indenture among NRZ Servicer Advance Receivables Trust BC (f/k/a Nationstar Servicer Advance Receivables Trust 2013-BC), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator, as owner of the rights to the servicing rights and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Barclays Bank PLC, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
4.2	Series 2013-VF1 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust BC (f/k/a Nationstar Servicer Advance Receivables Trust 2013-BC), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Barclays Bank PLC, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report

on Form 8-K, filed on December 23, 2013)

- 4.3 Amended and Restated Indenture among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator, as owner of the rights to the servicing rights and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Credit Suisse AG, New York Branch, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp.'s Current Report on Form 8-K, filed on December 23, 2013)

**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
4.4	Series 2013-VF1 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Credit Suisse AG, New York Branch, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
4.5	Series 2013-VF2 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Natixis, New York Branch, as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
4.6	Series 2013-VF3 Amended and Restated Indenture Supplement among NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Advance Purchaser LLC, as administrator and as servicer, Nationstar Mortgage LLC, as subservicer, and as servicer, and Morgan Stanley Bank, N.A., as administrative agent, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
4.7	Indenture, dated as of March 18, 2014 among New Residential Advance Receivables Trust, as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Nationstar Mortgage LLC, as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), Advance Purchaser LLC, as administrator and as servicer (on and after the respective MSR transfer dates) and Credit Suisse AG, New York Branch, Barclays Bank PLC, Morgan Stanley Bank, N.A. and Natixis, New York Branch, as administrative agents **
4.8	Series 2014-VF1 Indenture Supplement, dated as of March 18, 2014 among New Residential Advance Receivables Trust, as issuer, Wells Fargo, Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Nationstar Mortgage LLC, as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), Advance Purchaser LLC, as administrator and as servicer (on and after the respective MSR transfer dates) and Credit Suisse AG, New York Branch, Barclays Bank PLC, Natixis, New York Branch and Morgan Stanley Bank, N.A., as administrative agents **
4.9	Series 2014-VF2 Indenture Supplement, dated as of March 18, 2014 among New Residential Advance Receivables Trust, as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Nationstar Mortgage LLC, as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), Advance Purchaser LLC, as administrator and as servicer (on and after the respective MSR transfer dates) and Morgan Stanley Bank, N.A., as administrative agent **
4.10	Series 2014-T1 Indenture Supplement, dated as of March 18, 2014 among New Residential Advance

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Receivables Trust, as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Nationstar Mortgage LLC, as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), Advance Purchaser LLC, as administrator and as servicer (on and after the respective MSR transfer dates) and Credit Suisse AG, New York Branch, as administrative agent \*\*

II-13



**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
4.11	Series 2014-T2 Indenture Supplement, dated as of March 18, 2014 among New Residential Advance Receivables Trust, as issuer, Wells Fargo Bank, N.A., as indenture trustee, calculation agent, paying agent and securities intermediary, Nationstar Mortgage LLC, as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), Advance Purchaser LLC, as administrator and as servicer (on and after the respective MSR transfer dates) and Credit Suisse AG, New York Branch, as administrative agent **
5.1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP (including consent of such firm)*
8.1	Tax Opinion of Skadden, Arps, Slate, Meagher & Flom LLP related to New Residential Investment Corp. (including consent of such firm)*
8.2	Tax Opinion of Skadden, Arps, Slate, Meagher & Flom LLP related to Newcastle Investment Corp. (including consent of such firm)*
10.1	Management and Advisory Agreement between New Residential Investment Corp. and FIG LLC (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed May 17, 2013)
10.2	Amended and Restated Management and Advisory Agreement between New Residential Investment Corp. and FIG LLC, dated August 1, 2013 (incorporated by reference to New Residential Investment Corp. s Quarterly Report on Form 10-Q, filed August 8, 2013)
10.3	Form of Indemnification Agreement by and between New Residential Investment Corp. and its directors and officers (incorporated by reference to Amendment No. 3 of New Residential Investment Corp. s Registration Statement on Form 10, filed March 27, 2013)
10.4	New Residential Investment Corp. Nonqualified Stock Option and Incentive Award Plan (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed May 3, 2013)
10.5	Investment Guidelines (incorporated by reference to Amendment No. 4 of New Residential Investment Corp. s Registration Statement on Form 10, filed April 9, 2013)
10.6	Excess Servicing Spread Sale and Assignment Agreement, by and between Nationstar Mortgage LLC and NIC MSR I LLC, dated December 8, 2011 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed March 15, 2012)
10.7	Excess Spread Refinanced Loan Replacement Agreement, by and between Nationstar Mortgage LLC and NIC MSR I LLC, dated December 8, 2011 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed March 15, 2012)
10.8	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR IV LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed May 15, 2012)
10.9	Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR V LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed May 15, 2012)
10.10	Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VI LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp. s

Current Report on Form 8-K, filed May 15, 2012)

10.11

Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VII, LLC, dated May 13, 2012 (incorporated by reference to Newcastle Investment Corp.'s Current Report on Form 8-K, filed May 15, 2012)

II-14

**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.12	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR III LLC, dated May 31, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 6, 2012)
10.13	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR III LLC, dated May 31, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 6, 2012)
10.14	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.15	Amended and Restated Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.16	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.17	Amended and Restated Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.18	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.19	Amended and Restated Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR II LLC, dated June 7, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed June 7, 2012)
10.20	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR V LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed July 5, 2012)
10.21	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR IV LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed July 5, 2012)
10.22	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VI LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed July 5, 2012)
10.23	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and NIC MSR VII LLC, dated June 28, 2012 (incorporated by reference to Newcastle Investment Corp. s Current Report on Form 8-K, filed July 5, 2012)

2012)

10.24

Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR VIII LLC, dated December 31, 2012 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)

II-15

**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.25	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR VIII LLC, dated December 31, 2012 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.26	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and MSR IX LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.27	Future Spread Agreement for FHLMC Mortgage Loans, between Nationstar Mortgage LLC and MSR IX LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.28	Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR X LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.29	Future Spread Agreement for FNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR X LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.30	Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR XI LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.31	Future Spread Agreement for GNMA Mortgage Loans, between Nationstar Mortgage LLC and MSR XI LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.32	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XII LLC, dated January 6, 2013, (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.33	Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XII LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.34	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XIII LLC, dated January 6, 2013, (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.35	Future Spread Agreement for Non-Agency Mortgage Loans, between Nationstar Mortgage LLC and MSR XIII LLC, dated January 6, 2013 (incorporated by reference to Newcastle Investment Corp. s Annual Report on Form 10-K, filed February 28, 2013)
10.36	Interim Servicing Agreement, among the Interim Servicers listed therein, HSBC Finance Corporation, as Interim Servicer Representative, HSBC Bank USA, National Association, SpringCastle America, LLC, SpringCastle Credit, LLC, SpringCastle Finance, LLC, Wilmington Trust, National Association, as Loan Trustee, and SpringCastle Finance LLC, as Owner Representative (incorporated by reference to Amendment No. 4 to New Residential Investment Corp. s Registration Statement on Form 10, filed April 9, 2013)
10.37	

Edgar Filing: New Residential Investment Corp. - Form S-11/A

Amended and Restated Limited Liability Company Agreement of SpringCastle Acquisition LLC, dated April 1, 2013 (incorporated by reference to the confidential submission by the Registrant of the draft Registration Statement on Form S-11 on August 19, 2013)

II-16

**Table of Contents**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.38	Amended and Restated Receivables Sale Agreement among Nationstar Mortgage LLC, as initial receivables seller and as servicer, Advance Purchaser LLC, as receivables seller and as servicer, and NRZ Servicer Advance Facility Transferor BC, LLC (f/k/a Nationstar Servicer Advance Facility Transferor, LLC 2013-BC), as depositor, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
10.39	Amended and Restated Receivables Pooling Agreement between NRZ Servicer Advance Facility Transferor BC, LLC, as depositor, and NRZ Servicer Advance Receivables Trust BC (f/k/a Nationstar Servicer Advance Receivables Trust 2013-BC), as issuer, dated as of December 17, 2013 (incorporated by reference to New Residential Investment Corp. s Current Report on Form 8-K, filed on December 23, 2013)
10.40	Receivables Pooling Agreement, dated as of March 18, 2014 between New Residential Advance Receivables Trust, as issuer and New Residential Advance Depositor LLC, as depositor **
10.41	Receivables Sale Agreement, dated as of March 18, 2014 among Nationstar Mortgage LLC, as initial receivables seller (prior to the respective MSR transfer dates), as a subservicer (on and after the respective MSR transfer dates) and as servicer (prior to the respective MSR transfer dates), New Residential Advance Depositor LLC, as depositor and Advance Purchaser LLC, as receivables seller and as servicer (on and after the respective MSR transfer dates) **
21.1	List of Subsidiaries of New Residential Investment Corp. *
23.1	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 5.1)*
23.2	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 8.1)*
23.3	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 8.2)*
23.4	Consent of Ernst & Young LLP *
23.5	Consent of PricewaterhouseCoopers LLP*
24.1	Powers of Attorney**
24.2	Power of Attorney of Michael Nierenberg**
24.3	Power of Attorney of Susan Givens**
99.1	Audited Consolidated and Combined Financial Statements of SpringCastleAmerica, LLC, SpringCastle Credit, LLC, SpringCastle Finance, LLC and SpringCastle Acquisition, LLC (incorporated by reference to New Residential Investment Corp. s Annual Report on Form 10-K, filed March 28, 2014)
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

- \* Filed herewith.
- \*\* Previously filed.
- \*\*\* Previously furnished electronically.

II-17



**Table of Contents**

The following amended and restated limited liability company agreements of the Consumer Loan Companies are substantially identical in all material respects, except as to the parties thereto and the initial capital contributions required under each agreement, to the Amended and Restated Limited Liability Company Agreement of SpringCastle Acquisition LLC that is filed as Exhibit 10.37 hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

Amended and Restated Limited Liability Company Agreement of SpringCastle America, LLC, dated as of April 1, 2013.

Amended and Restated Limited Liability Company Agreement of SpringCastle Credit, LLC, dated as of April 1, 2013.

Amended and Restated Limited Liability Company Agreement of SpringCastle Finance, LLC, dated as of April 1, 2013.

In addition, the following Amended and Restated Receivables Sale Agreement and Amended and Restated Receivables Pooling Agreement are substantially identical in all material respects, except as to the parties thereto, to the Amended and Restated Receivables Sale Agreement and Amended and Restated Receivables Pooling Agreement that are filed as Exhibits 10.38 and 10.39, respectively, hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

Amended and Restated Receivables Sale Agreement among Nationstar Mortgage LLC, as initial receivables seller and as servicer, Advance Purchaser LLC, as receivables seller and as servicer, and NRZ Servicer Advance Facility Transferor CS, LLC (f/k/a Nationstar Servicer Advance Facility Transferor, LLC 2013-CS), as depositor, dated as of December 17, 2013.

Amended and Restated Receivables Pooling Agreement among NRZ Servicer Advance Facility Transferor CS, LLC, as depositor, and NRZ Servicer Advance Receivables Trust CS (f/k/a Nationstar Servicer Advance Receivables Trust 2013-CS), as issuer, dated as of December 17, 2013.