New Residential Investment Corp.
Form 10-K
February 15, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35777

New Residential Investment Corp.
(Exact name of registrant as specified in its charter)

Delaware	45-3449660
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1345 Avenue of the Americas, New York, NY	10105
(Address of principal executive offices)	(Zip Code)

(212) 798-3150
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
Securities registered pursuant to Section 12 (b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, $0.01 par value per share	New York Stock Exchange (NYSE)

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company) Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The aggregate market value of the common stock held by non-affiliates as of June 30, 2017 (computed based on the closing price on such date as reported on the NYSE) was: $4.7 billion.
Common stock, $0.01 par value per share: 336,135,391 shares outstanding as of February 8, 2018.
DOCUMENTS INCORPORATED BY REFERENCE
The information required by Part III (Items 10, 11, 12, 13 and 14) will be incorporated by reference from the registrant's Definitive Proxy Statement for its 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- reductions in cash flows received from our investments;
- the quality and size of the investment pipeline and our ability to take advantage of investment opportunities at attractive risk-adjusted prices;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- our ability to deploy capital accretively and the timing of such deployment;
- our counterparty concentration and default risks in Nationstar, Ocwen, OneMain, Ditech, PHH and other third parties;
- events, conditions or actions that might occur at Nationstar, Ocwen, OneMain, Ditech, PHH and other third parties, as well as the continued effect of prior events;
- 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 MSRs, Excess MSRs, Servicer Advance Investments, RMBS, residential mortgage loans and consumer loan portfolios;
- the risks that default and recovery rates on our MSRs, Excess MSRs, Servicer Advance Investments, RMBS, 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 MSRs or Excess MSRs;
- the risk that projected recapture rates on the loan pools underlying our MSRs or Excess MSRs are not achieved;
- 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 Servicer Advance Investments or MSRs;
- 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 relative spreads between the yield on the assets in which we invest and the cost of financing;
- adverse changes in the financing markets we access affecting our ability to finance our investments on attractive terms, or at all;
- changing risk assessments by lenders that potentially lead to increased margin calls, not extending our repurchase agreements or other financings in accordance with their current terms or not entering into new financings with us;
- changes in interest rates and/or credit spreads, as well as the success of any hedging strategy we may undertake in relation to such changes;
- the availability and terms of capital for future investments;
- changes in economic conditions generally and the real estate and bond markets specifically;

- competition within the finance and real estate industries;

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- the legislative/regulatory environment, including, but not limited to, the impact of the Dodd-Frank Act, U.S. government programs intended to grow the economy, future changes to tax laws, the federal conservatorship of Fannie Mae and Freddie Mac and legislation that permits modification of the terms of residential mortgage loans;
- the risk that GSE or other regulatory initiatives or actions may adversely affect returns from investments in MSRs and Excess MSRs;
- 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;
- our ability to maintain our exclusion from registration under the 1940 Act and the fact that maintaining such exclusion imposes limits on our operations;
- the risks related to Home Loan Servicing Solutions ("HLSS") liabilities that we have assumed;
- the impact of current or future legal proceedings and regulatory investigations and inquiries;
- the impact of any material transactions with FIG LLC (the "Manager") or one of its affiliates, including the impact of any actual, potential or perceived conflicts of interest; and
- effects of the recently completed merger of Fortress Investment Group LLC with affiliates of SoftBank Group Corp.

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

SPECIAL NOTE REGARDING EXHIBITS

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

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

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company's other public filings, which are available without charge through the SEC's website at http://www.sec.gov. See "Business—Corporate Governance and Internet Address; Where Readers Can Find Additional Information."

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

NEW RESIDENTIAL INVESTMENT CORP.
FORM 10-K

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PART I

Item 1. Business.

General

New Residential is a publicly traded real estate investment trust ("REIT") primarily focused on opportunistically investing in, and actively managing, investments related to residential real estate. We were formed as a wholly owned subsidiary of Drive Shack Inc. (formerly Newcastle Investment Corp., "Drive Shack") in September 2011 and were spun-off from Drive Shack on May 15, 2013, which we refer to as the "distribution date." Our stock is traded on the New York Stock Exchange under the symbol "NRZ." We are externally managed and advised by an affiliate (our "Manager") of Fortress Investment Group LLC ("Fortress") pursuant to a management agreement (the "Management Agreement"). In 2016, our wholly-owned subsidiary, New Residential Mortgage LLC ("NRM"), became a licensed or otherwise eligible mortgage servicer.

We seek to drive strong risk-adjusted returns primarily through investments in the U.S. residential real estate market, which at times incorporate the use of leverage. We generally target assets that generate significant current cash flows and/or have the potential for meaningful capital appreciation. Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets in diverse markets, including non-real estate related assets such as consumer loans. We 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." On December 27, 2017, SoftBank Group Corp. ("SoftBank") announced that it completed its previously announced acquisition of Fortress (the "SoftBank Merger"). In connection with the SoftBank Merger, Fortress will operate within SoftBank as an independent business headquartered in New York. Fortress's senior investment professionals will remain in place, including those individuals who perform services for New Residential.

Our portfolio is currently composed of mortgage servicing related assets, residential mortgage backed securities ("RMBS") (and associated call rights), residential mortgage loans and other opportunistic investments. For more details on our portfolio, see "—Our Portfolio" below, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Portfolio." For information concerning current market trends which impact our portfolio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Considerations" and "Quantitative and Qualitative Disclosures About Market Risk."

The Residential Real Estate Market

The residential mortgage industry is transforming the way mortgages are originated, owned and serviced. We believe significant investment opportunities exist in today's complex and dynamic mortgage market. As a major capital provider to the mortgage servicing industry, we believe we are one of only a select number of market participants that have the combination of capital, industry expertise and key business relationships that are necessary to take advantage of these opportunities.

The U.S. residential real estate market is vast: The value of the housing market totaled approximately $24.6 trillion as of September 2017, including about $14.1 trillion of home equity and $10.5 trillion of single-family mortgage debt outstanding, according to the Board of Governors of the Federal Reserve System.

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 residential 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 residential 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. GSEs (defined below) are currently the largest purchasers of residential mortgage loans. Under a process known as securitization, GSEs and financial institutions typically package residential mortgage loans into pools that are sold to securitization trusts. These securitization trusts fund the acquisition of residential mortgage loans by issuing securities, known as RMBS, which entitle the owner of such securities to receive a portion of the interest and/or principal collected on the residential mortgage loans in the pool. The purchasers of the RMBS are typically large institutions, such as pension funds, mutual funds, insurance companies, hedge funds and REITs. The agreement that governs the packaging of residential mortgage loans into a pool, the servicing of such residential mortgage loans and the terms of the RMBS issued by the securitization trust is often referred to as a pooling and servicing agreement.

As of the third quarter of 2017, approximately $7.5 trillion of the $10.5 trillion of one-to-four family residential mortgages outstanding had been securitized, according to Inside Mortgage Finance. Approximately $7.0 trillion were Agency RMBS according to Inside Mortgage Finance, and the balance were Non-Agency RMBS.

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. However, origination volume in recent years has been relatively robust. In 2017, according to Inside Mortgage Finance, first lien mortgage loan origination totaled approximately $1.8 trillion, up approximately 39% compared to full year 2014, although this trend could be dampened if market interest rates increase. The role of private capital has increased in financing the mortgage origination process despite the GSEs' presence as the largest purchasers of residential mortgage loans.

In connection with a securitization, a number of entities perform specific roles with respect to the residential mortgage loans in a pool, including the trustee and the mortgage servicer. The trustee holds legal title to the residential mortgage loans on behalf of the owner of the RMBS and either maintains the mortgage note and related documents itself or with a custodian. One or more other entities are appointed pursuant to the pooling and servicing agreement to service the residential 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 residential mortgage loans that have been securitized are generally required to be performed in accordance with industry-accepted servicing practices and the terms of the relevant pooling and servicing agreement, mortgage note and applicable law. A servicer generally takes actions, such as foreclosure, in the name and on behalf of the trustee. The trustee or a separate securities administrator for the trust receives the payments collected by the servicer on the residential mortgage loans and distributes them to the investors in the RMBS pursuant to the terms of the pooling and servicing agreement.

Following the credit crisis, the need for "high-touch" non-bank specialty servicers increased as loan performance declined, delinquencies rose and servicing complexities broadened. Specialty servicers have proven more willing and better equipped to perform the operationally intensive activities (e.g., collections, foreclosure avoidance and loan workouts) required to service credit-sensitive loans.

The Residential Mortgage Loan Market

Residential mortgage loans are classified based on certain payment characteristics. Performing loans are residential mortgage loans where the borrower is generally current on required payments; by contrast, non-performing loans are residential mortgage loans where the borrower is delinquent or in default. Re-performing loans were formally non-performing but became performing again, often as a result of a loan modification where the lender agrees to modified terms with the borrower rather than foreclosing on the underlying property. Reverse mortgage loans are a special type of loan under which the borrower is typically paid a monthly amount, increasing the balance of the loan, and are typically collected when the property is sold or the borrower no longer resides at the property. If a borrower defaults on a loan and the lender takes ownership of the underlying property through foreclosure, that property is referred to as real estate owned ("REO").

The residential mortgage loan market is commonly further divided into a number of categories based on certain residential 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.

- Government-Sponsored Enterprise and Government Guaranteed Loans. This category of residential mortgage loans includes "conforming loans," which are first lien residential mortgage loans that are secured by single-family residences that meet or "conform" to the underwriting standards established by the Federal National Mortgage Association ("Fannie

Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac," and collectively with Fannie Mae, the "GSEs"). The conforming loan limit is established by statute and currently is $453,100 with certain exceptions for high-priced real estate markets. This category also includes residential 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 the Government National Mortgage Association ("Ginnie Mae" and, collectively with the GSEs, the "Agencies" (with each of Fannie Mae, Freddie Mac and Ginnie Mae an "Agency")), primarily through federal programs operated by the Federal Housing Administration ("FHA") 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 weak 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 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.

Servicing Related Assets

MSRs, Mortgage Servicing Rights Financing Receivables and Excess MSRs

A mortgage servicing right ("MSR") provides a mortgage servicer with the right to service a pool of residential mortgage loans in exchange for a portion of the interest payments made on the underlying residential mortgage loans. This amount typically ranges from 25 to 50 basis points ("bps") times the unpaid principal balance ("UPB") of the residential mortgage loans, plus ancillary income and custodial interest. An MSR is made up of two components: a basic fee and an excess MSR ("Excess MSR"). The basic fee is the amount of compensation for the performance of servicing duties (including advance obligations), and the Excess MSR is the amount that exceeds the basic fee. Ownership of an MSR requires the owner to be a licensed mortgage servicer. An owner of an Excess MSR is not required to be licensed, and is not required to assume any servicing duties, advance obligations or liabilities associated with the loan pool underlying the MSR unless otherwise specified through agreement.

Servicer Advances Receivable and Servicer Advance Investments

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, since the advances are non-interest bearing. Servicer advances are generally reimbursable cash payments made by a servicer (i) when the borrower fails to make scheduled payments due on a residential mortgage loan or (ii) to support the value of the collateral property. Our interests in servicer advances include the following:

- Servicer Advance Investments. These investments are associated with specified pools of mortgage loans and include the related outstanding servicer advances, the requirement to purchase future servicer advances and the rights to the basic fee component of the related MSR. We have purchased Servicer Advance Investments on certain loan pools underlying our Excess MSRs.
- Servicer advances receivable. The outstanding servicer advances related to a specified pool of mortgage loans.

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 residential 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.

The purpose of the advances is to provide liquidity, rather than credit enhancement, to the underlying residential mortgage securitization transaction. Servicer advances are generally permitted to be repaid from amounts received with respect to the related residential 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."

Residential mortgage servicing agreements generally require a servicer to make advances in respect of serviced residential mortgage loans unless the servicer determines in good faith that the advance would not be ultimately recoverable from the proceeds of the related residential 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, most often, entitled to withdraw funds from the trustee custodial account for payments on the serviced residential mortgage loans to reimburse the applicable advance. This is what is often referred to as a "general collections backstop." Under certain circumstances, a servicer may also be reimbursed for an otherwise unrecoverable advance by a GSE, with respect to loans in Agency RMBS (defined below). 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 Servicer Advance Investments or MSRs."

The status of our interests in servicer advances for purposes of the REIT requirements is uncertain, and therefore our ability to acquire servicer advances may be limited. We currently hold our interests in servicer advances in taxable REIT subsidiaries.

We also purchase rated bonds backed by securitized pools of servicer advances issued through transactions sponsored by mortgage servicers. Servicer advance securitizations are generally rated "Master Trust" structures with multiple series of notes and one or more variable funding notes sharing in the same pool of collateral. Each note class has a specific advance rate and rating. We may pursue similar investments as opportunities arise.

Residential Securities and Loans

RMBS

Residential mortgage loans are often packaged into pools held in securitization entities which issue securities (RMBS) collateralized by such loans. Agency RMBS are RMBS issued or guaranteed by an Agency. "Non-Agency" RMBS are issued by either public trusts or private label securitization ("PLS") entities. We invest in both Agency RMBS and Non-Agency RMBS.

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 residential 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 residential mortgage loans that underlie the securities, net of fees paid in connection with the issuance of the securities and the servicing of the underlying residential 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 residential mortgage loans. 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.

To-be-announced forward contract positions ("TBAs"). We utilize TBAs in order to invest in Agency RMBS. Pursuant to these TBAs, we agree to purchase or sell, 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.

The Non-Agency RMBS we may acquire could be secured by fixed-rate mortgages, adjustable-rate mortgages or hybrid adjustable-rate mortgages. The residential mortgage loan collateral may be classified as "conforming" or "non-conforming," depending on a variety of factors.

RMBS, and in particular Non-Agency RMBS, may be subject to call rights, commonly referred to as "cleanup call rights." Call rights permit the holder of the rights to purchase all of the residential mortgage loans which are collateralizing the related securitization for a price generally equal to the outstanding balance of such loans plus interest and certain other amounts (such as outstanding servicer advances and unpaid servicing fees). Call rights may be subject to limitations with respect to when they may be exercised (such as specific dates or upon the reduction of the outstanding balances of the remaining residential mortgage loans to a specified level). Call rights generally become exercisable when the current principal balance of the underlying residential mortgage loans is equal to or lower than 10% of their original balance.

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 pursue opportunities in structured transactions that enable us to realize identified excesses of collateral value over related RMBS value, particularly through the acquisition and execution of call rights. We control the call rights on Non-Agency deals with a total UPB of approximately $144.9 billion.

We believe a call right is profitable when the aggregate underlying loan value is greater than the sum of par on the loans minus any discount from acquired bonds plus expenses, including outstanding advances, related to such exercise. Generally, profit with respect to our call rights is generated by:

- acquiring bonds issued by the securitization at a discount, prior to initiating the call, such that the portion of the payment we make to the trust, which is returned to us as bondholders when the call is exercised, exceeds our purchase price for the bonds;
- re-securitizing or selling performing loans for a gain; and
- retaining distressed loans to modify or liquidate over time at a premium to our basis (which results in increases in our portfolio of residential mortgage loans and REO).

We continue to evaluate the call rights we acquired, and our ability to exercise such rights and realize the benefits therefrom are subject to a number of risks. The timing, size and potential returns of future call transactions may be less attractive than our prior activity in this sector due to a number of factors, most of which are beyond our control. See "Risk Factors—Risks Related to Our Business—Our ability to exercise our cleanup call rights may be limited or delayed if a third party also possessing such cleanup call rights exercises such rights, if the related securitization trustee refuses to permit the exercise of such rights, or if a related party is subject to bankruptcy proceedings."

Residential Mortgage Loans and Real Estate Owned

We believe there may be attractive opportunities to invest in portfolios of non-performing and other residential mortgage loans, along with foreclosed properties. In certain of 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. In other investments, we would expect to acquire the foreclosed property at a deep discount to its value, and we would seek to monetize the discount through property improvements and sales. In addition, we may seek to employ leverage to increase returns, either through traditional financing lines or, if available, securitization options.

Other Investments

We may pursue other types of investments as the market evolves, such as our opportunistic investment in consumer loans. 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. For more information about our investment guidelines, see "—Investment Guidelines."

Our Portfolio

Our current investment portfolio is comprised primarily of:

- "Servicing Related Assets":
  - MSRs, including mortgage servicing rights financing receivables (which are MSRs where our subsidiary, NRM, is the named servicer and we acquired the entire economic interest in the MSR but, solely for accounting purposes, the acquisition was not treated as a sale);
  - Excess MSRs;
  - Servicer Advance Investments (which include the related servicer advances receivable, the requirement to make future servicer advances, and the rights to receive the base fee portion of the related MSR, each of which on the loans underlying such investments); and

- Servicer advances receivable (and the requirement under our MSRs to make future servicer advances);
- "Residential Securities and Loans":
  - Real estate securities, or RMBS; and
  - Residential mortgage loans; and
- Consumer loans.

For more detail, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Portfolio." The following table summarizes our consolidated investment portfolio as of December 31, 2017 (dollars in thousands):

	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis		Carrying Value	Weighted Average Life (years)[A]
Investments in:						
Excess MSRs[B]	$267,622,353	$1,145,271	6.1	%	$1,345,478	6.3
MSRs[B] [C]	172,454,150	1,476,330	7.9	%	1,735,504	6.3
Mortgage Servicing Rights Financing Receivables[B] [C]	64,344,893	489,144	2.6	%	598,728	5.8
Servicer Advance Investments[B] [D]	3,581,876	3,924,003	21.0	%	4,027,379	5.1
Agency RMBS[E]	2,065,629	2,105,121	11.3	%	2,096,351	7.5
Non-Agency RMBS[E]	12,757,357	5,599,644	29.9	%	5,974,789	7.7
Residential Mortgage Loans	2,713,686	2,447,953	13.1	%	2,416,689	4.6
Real Estate Owned	N/A	137,668	0.7	%	128,295	N/A
Consumer Loans	1,377,792	1,380,369	7.4	%	1,374,263	3.5
Consumer Loans, Equity Method Investees	178,422	N/A	N/A		51,412	1.4
Total / Weighted Average		$18,705,503	100.0	%	$19,748,888	6.1
Reconciliation to GAAP total assets:						
Cash and restricted cash					446,050	
Servicer advances receivable					675,593	
Trades receivable					1,030,850	
Deferred tax asset, net					—	
Other assets					312,181	
GAAP total assets					$22,213,562	

(A) Weighted average life is based on the timing of our expected principal reduction on the asset.
(B) The outstanding face amount of Excess MSRs, MSRs, Mortgage Servicing Rights Financing Receivables, and Servicer Advance Investments is based on 100% of the face amount of the underlying residential mortgage loans and currently outstanding advances, as applicable.
(C) Represents MSRs where our subsidiary, NRM, is the named servicer.
(D) The value of our Servicer Advance Investments also includes the rights to a portion of the related MSR.
(E) Amortized cost basis is net of impairment.

Over time, we expect to opportunistically adjust our portfolio composition in response to market conditions.

With respect to our Excess MSRs, Servicer Advance Investments, RMBS, residential mortgage loans and consumer loans, we engage servicers to service the loans, or loans underlying the investments, as applicable. With respect to our MSRs and servicer advances receivable, NRM is the named servicer but it engages a subservicer to service the loans underlying the investments. We refer to the servicers and subservicers we engage as our "Servicing Partners." As of December 31, 2017, our Servicing Partners include, but are not limited to: Nationstar Mortgage LLC ("Nationstar"), Ocwen Financial Corporation (together with its subsidiaries, including Ocwen Loan Servicing LLC, "Ocwen"), PHH

Corporation (together with its subsidiaries, including PHH Mortgage Corporation, “PHH”), Ditech Financial LLC (“Ditech,” a subsidiary of Walter Management Corp. (“Walter”)), Flagstar Bank, FSB (“Flagstar”), CitiMortgage, Inc. (“Citi”), Specialized Loan Servicing LLC (“SLS”), OneMain Holdings, Inc. (“OneMain”), and the Consumer Loan Seller (Note 9 to our Consolidated Financial Statements). In addition, NRM is referred to as a “Servicing Partner” when contextually applicable.

Our Segments

As of December 31, 2017, New Residential conducted its business through the following segments: (i) investments in Excess MSRs, (ii) investments in MSRs, (iii) Servicer Advance Investments (including the basic fee component of the related MSRs), (iv) investments in real estate securities, (v) investments in residential mortgage loans, (vi) investments in consumer loans and (vii) corporate.

The following table summarizes financial information about our segments as of December 31, 2017 (in thousands):

	Servicing Related Assets			Residential Securities and Loans				
	Excess MSRs	MSRs	Servicer Advances	Real Estate Securities	Residential Mortgage Loans	Consumer Loans	Corporate	Total
Investments	$1,345,478	$2,334,232	$4,027,379	$8,071,140	$2,544,984	$1,425,675	$—	$19,748,888
Cash and cash equivalents	408	104,545	78,353	38,728	15,483	40,687	17,594	295,798
Restricted cash	13,153	30,454	60,516	—	—	46,129	—	150,252
Other assets	2,891	726,530	18,576	1,098,921	113,035	28,621	30,050	2,018,624
Total assets	$1,361,930	$3,195,761	$4,184,824	$9,208,789	$2,673,502	$1,541,112	$47,644	$22,213,562
Debt	$483,978	$1,761,011	$3,526,380	$6,534,300	$2,108,007	$1,332,854	$—	$15,746,530
Other liabilities	1,033	194,465	(5,658)	1,200,905	23,917	6,596	249,612	1,670,870
Total liabilities	485,011	1,955,476	3,520,722	7,735,205	2,131,924	1,339,450	249,612	17,417,400
Total Equity	876,919	1,240,285	664,102	1,473,584	541,578	201,662	(201,968)	4,796,162
Noncontrolling interests in equity of consolidated subsidiaries	—	—	71,491	—	—	34,466	—	105,957
Total New Residential stockholders' equity	$876,919	$1,240,285	$592,611	$1,473,584	$541,578	$167,196	$(201,968)	$4,690,205

For additional information, see Note 3 to our Consolidated Financial Statements.

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.

Financing Strategy

Our objective is to generate attractive risk-adjusted returns for our stockholders, which at times incorporates the use of leverage. 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 on interest rates; the credit quality of the loans underlying our investments; and our outlook for asset spreads relative to financing costs. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt Obligations” for further details about our debt obligations.

Hedging 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 Investment Company Act of 1940 (the “1940 Act”), we may also engage in a variety of interest rate management techniques that seek on the one hand to mitigate

the 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 taxable REIT subsidiary ("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 and techniques that we deem appropriate. We expect these instruments and techniques may allow us to reduce, but not eliminate, the impact of changing interest rates on our earnings and liquidity.

The 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, on August 5, 2014 and on May 7, 2015, pursuant to which our Manager provides for a management team and other professionals who are responsible for implementing our business strategy, subject to the supervision of our board of directors. Our Manager is responsible for, among other things, (i) setting investment criteria in accordance with broad investment guidelines adopted by our board of directors, (ii) sourcing, analyzing and executing acquisitions, (iii) providing financial and accounting management services and (iv) performing other duties as specified in the Management Agreement.

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 Drive Shack 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.

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 investments and debt (and any deferred tax impact thereof), per share of common stock, plus (b) earnings (or losses) from the Consumer Loan Companies computed on a level-yield basis (such that the loans are treated as if they qualified as loans acquired with a discount for credit quality as set forth in ASC No. 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, plus earnings (or losses) from equity method investees invested in Excess MSRs as if such equity method investees had not made a fair value election, plus gains (or losses) from debt restructuring and gains (or losses) from sales of property, and plus non-routine items, minus amortization of non-routine items, 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 Drive Shack 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.

"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 is 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

is determined from the date of our separation from Drive Shack and without regard to Drive Shack's prior performance. Funds from operations does not represent and should not be considered as a substitute for, or superior to, net income, or as a substitute for, or superior to, cash flows from operating activities, each as determined in accordance with U.S. GAAP, and our calculation of this measure may not be comparable to similarly entitled measures reported by other companies.

The initial term of our Management Agreement expired on May 15, 2014, and the Management Agreement was and 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 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. 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 (taking into account, among other things, the expected future performance of the underlying investments).

Fortress, through its affiliates, and principals of Fortress held 2.4 million shares of our common stock, and Fortress, through its affiliates, held options relating to an additional 16.4 million shares of our common stock, representing approximately 5.8% of our common stock on a fully diluted basis, as of December 31, 2017.

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 New York Stock Exchange ("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.

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, at times, but not limited to, Nationstar Mortgage LLC ("Nationstar") (the servicer for a significant portion of our loans, and the loans underlying our MSRs, Excess MSRs, Servicer Advance Investments, and Non-Agency RMBS), and OneMain Holdings, Inc. (formerly Springleaf Holdings, Inc.) (together with its subsidiaries, "OneMain") (the servicer for a significant portion of the consumer loans in which we have invested). For example, we have and have had, at times, some of the same directors and officers as Nationstar and OneMain. 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 Drive Shack 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 Drive Shack 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 Drive Shack 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 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 a stockholder's investment in us.

We may compete with entities affiliated with our Manager or Fortress, including Nationstar, 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. Fortress has two funds primarily focused on investing in Excess MSRs with approximately $0.6 billion in investments in aggregate. We have co-invested with these funds in Excess MSRs and may do so with similar Fortress funds in the future. 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.

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 have elected and intend to qualify to be taxed as a REIT for U.S. federal income tax purposes. 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 "Internal Revenue 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 have been organized in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code, and that our manner 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 Specialized Loan

Servicing LLC ("SLS") 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 investments and are not excluded from the definition of "investment company" by Section 3(c)(5)(A), (B), or (C) of the 1940 Act 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 interest in SLS 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 Securities and Exchange Commission ("SEC") and its staff, we treat Agency 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 for which we do not own the related servicing rights 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 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.

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.”

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, REITs, 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, other than three part-time employees of NRM.

Legal Proceedings

For a discussion of our legal proceedings, see Part I, Item 3, “Legal Proceedings” in this report.

Corporate Governance and Internet Address; Where Readers Can Find Additional Information

We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives. Our board of directors consists of a majority of independent directors, and the Audit, Nominating and Corporate Governance, and Compensation committees of our board of directors are composed exclusively of independent directors. We have adopted corporate governance guidelines, and codes of business conduct and ethics, which delineate our standards for our officers and directors, and employees of our Manager.

New Residential files annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the ‘‘Exchange Act’’), with the SEC. Readers may read and copy any document that New Residential files at the SEC’s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call

the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our SEC filings are also available to the public from the SEC's internet site at http://www.sec.gov.

Our internet site is http://www.newresi.com. We make available free of charge through our internet site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website in the ''Investor Relations—Corporate Governance" section are charters for the Company's Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee as well as our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Information on, or accessible through, our website is not a part of, and is not incorporated into, this report.

Item 1A. Risk Factors

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

Risks Related to Our Business

We may not be able to successfully operate our business strategy or generate sufficient revenue to make or sustain distributions to our stockholders.

We cannot assure you that we will be able to successfully operate our business or implement our operating policies and strategies. 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, and conditions in the real estate market, the financial markets and economic conditions.

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

When we make investments, we base the price we pay and, in some cases, the rate of amortization of those investments on, among other things, our projection of the cash flows from the related pool of loans. We generally record such investments on our balance sheet at fair value, and we measure their fair value on a recurring basis. Our projections of the cash flow from our investments, and the determination of the fair value thereof, are based on assumptions about various factors, including, but not limited to:

- rates of prepayment and repayment of the underlying loans;
- potential fluctuations in prevailing interest rates and credit spreads;
- rates of delinquencies and defaults, and related loss severities;
- costs of engaging a subservicer to service MSRs;
- market discount rates;
- in the case of MSRs and Excess MSRs, recapture rates; and

- in the case of Servicer Advance Investments and servicer advances receivable, the amount and timing of servicer advances and recoveries.

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

We refer to our MSRs, mortgage servicing rights financing receivables, Excess MSRs, and the base fee portion of the related MSRs included in our Servicer Advance Investments, collectively, as our interests in MSRs.

With respect to our investments in interests in MSRs, residential mortgage loans and consumer loans, and a portion of our RMBS, when the related loans are prepaid as a result of a refinancing or otherwise, the related cash flows payable to us will either, in the case of interest-only RMBS, and/or interests in MSRs, cease (unless, in the case of our interests in MSRs, the loans are recaptured upon a refinancing), or we will cease to receive interest income on such investments, as applicable. Borrowers under residential mortgage loans and consumer loans are generally permitted to prepay their loans at any time without penalty. Our expectation of prepayment rates is a significant assumption underlying our cash flow projections. Prepayment rate 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. A significant increase in prepayment rates could materially reduce the ultimate cash flows and/or interest income, as applicable, we receive from our investments, and we could ultimately receive substantially less than what we paid for such assets, decreasing the fair value of our investments. If the fair value of our investment portfolio decreases, we would generally be required to record a non-cash charge, which would have a negative impact on our financial results. Consequently, the price we pay to acquire our investments may prove to be too high if there is a significant increase in prepayment rates.

The values of our investments are highly sensitive to changes in interest rates. Historically, the value of MSRs, which underpin the value of our investments, including interests in MSRs, has increased when interest rates rise and decreased when interest rates decline due to the effect of changes in interest rates on prepayment rates. Prepayment rates could increase as a result of a general economic recovery or other factors, which would reduce the value of our interests in MSRs.

Moreover, delinquency rates have a significant impact on the value of our investments. When the UPB of mortgage loans cease to be a part of the aggregate UPB of the serviced loan pool (for example, when delinquent loans are foreclosed on or repurchased, or otherwise sold, from a securitized pool), the related cash flows payable to us, as the holder of an interest in the related MSR, cease. An increase in delinquencies will generally result in lower revenue because typically we will only collect on our interests in 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. Additionally, in the case of residential mortgage loans, consumer loans and RMBS that we own, an increase in foreclosures could result in an acceleration of repayments, resulting in a decrease in interest income. Alternatively, increases in delinquencies and defaults could also adversely affect our investments in RMBS, residential mortgage loans and/or consumer loans if and to the extent that losses are suffered on residential mortgage loans, consumer loans or, in the case of RMBS, the residential mortgage loans underlying such RMBS. Accordingly, if delinquencies are significantly greater than expected, the estimated fair value of these investments 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 several “recapture agreements” whereby our MSR or Excess MSR is retained if the applicable Servicing Partner originates a new loan the proceeds of which are used to repay a loan underlying an MSR or Excess MSR in our portfolio. We believe that such agreements will mitigate the impact on our returns in the event of a rise in voluntary prepayment rates, with respect to investments where we have such agreements. There are no assurances, however, that counterparties will enter into such arrangements with us in connection with any future investment in MSRs or Excess MSRs. We are not party to any such arrangements with respect to any of our investments other than MSRs and Excess MSRs.

If the applicable Servicing Partner 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 MSRs or Excess MSRs and consequently on our business, financial condition, results of operations and cash flows. Our recapture target for our current recapture agreements is stated in the table in Note 12 to our Consolidated Financial Statements.

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 Servicer Advance Investments or MSRs.

NRM is generally required to make servicer advances related to the pools of loans for which it is the named servicer. In addition, we have agreed (in the case of Nationstar, together with certain third-party investors) to purchase from certain of our Servicing Partners 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 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 of servicer advances and payment of deferred servicing fees are generally made from late payments and other collections and recoveries on the related residential mortgage loan (including liquidation, insurance and condemnation proceeds) or, if the related servicing agreement provides for a “general collections backstop,” from collections on other residential mortgage loans

to which such servicing agreement relates. The rate and timing of payments on servicer advances and 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 residential mortgage loan, while others are also reimbursable out of principal and interest collections with respect to all residential 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 residential mortgage loans to third parties prior to a sale of the underlying real estate, resulting in the early reimbursement of outstanding unreimbursed servicer advances in respect of such residential mortgage loans.

As home values change, the servicer may have to reconsider certain of the assumptions underlying its decisions to make advances. In certain situations, its contractual obligations may require the servicer to make certain advances for which it may not be reimbursed. In addition, when a residential mortgage loan defaults or becomes delinquent, the repayment of the advance may be delayed until the residential mortgage loan is repaid or refinanced, or a liquidation occurs. To the extent that one of our Servicing Partners 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 residential mortgage loans unless the servicer determines in good faith that the servicer advance would not be ultimately recoverable from the proceeds of the related residential mortgage loan, mortgaged property or mortgagor. In many cases, if the servicer determines that a servicer advance previously made would not be recoverable from these sources, the servicer is entitled to withdraw funds from the related custodial account in respect of payments on the related pool of serviced mortgages to reimburse the related servicer advance. This is what is often referred to as a “general collections backstop.” The timing of when a servicer may utilize a general collections backstop can vary (some contracts require actual liquidation of the related loan first, while others do not), and contracts vary in terms of the types of servicer advances for which reimbursement from a general collections backstop is available. Accordingly, a servicer may not ultimately be reimbursed if both (i) the payments from related loan, property or mortgagor payments are insufficient for reimbursement, and (ii) a general collections backstop is not available or is insufficient. Also, if a servicer improperly makes a servicer advance, it would not be entitled to reimbursement. While we do not expect recovery rates to vary materially during the term of our investments, there can be no assurance regarding future recovery rates related to our portfolio.

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

The value of substantially all of our investments is dependent on the satisfactory performance of servicing obligations by the related mortgage servicer or subservicer, as applicable. The duties and obligations of mortgage servicers are defined through contractual agreements, generally referred to as Servicing Guides in the case of GSEs, the MBS

Guide in the case of Ginnie Mae or pooling agreements, securitization servicing agreements, pooling and servicing agreements or other similar agreements (collectively, "PSAs") in the case of Non-Agency RMBS (collectively, the "Servicing Guidelines"). The duties of the subservicers we engage to service the loans underlying our MSRs are contained in subservicing agreements with our subservicers. The duties of a subservicer under a subservicing agreement may not be identical to the obligations of the servicer under Servicing Guidelines. Our interests in MSRs are subject to all of the terms and conditions of the applicable Servicing Guidelines. Servicing Guidelines generally provide for the possibility of termination of the contractual rights of the servicer in the absolute discretion of the owner of the mortgages being serviced (or the required bondholders in the case of Non-Agency RMBS). Under the Agency Servicing Guidelines, the servicer may be terminated by the applicable Agency for any reason, "with" or "without" cause, for all or any portion of the loans being serviced for such Agency. In the event mortgage owners (or bondholders) terminate the servicer (regardless of whether such servicer is a subsidiary of New Residential or one of its subservicers), the related interests in MSRs would under most circumstances lose all value on a going forward basis. If the servicer is terminated as servicer for any Agency pools, the servicer's right to service the related mortgage loans will be extinguished and our interests in related MSRs will likely lose all of

their value. Any recovery in such circumstances, in the case of Non-Agency RMBS, will be highly conditioned and may require, among other things, a new servicer willing to pay for the right to service the applicable residential mortgage loans while assuming responsibility for the origination and prior servicing of the residential mortgage loans. In addition, in the case of Agency MSRs, any payment received from a successor servicer will be applied first to pay the applicable Agency for all of its claims and costs, including claims and costs against the servicer that do not relate to the residential mortgage loans for which we own interests in the MSRs. A termination could also result in an event of default under our related financings. It is expected that any termination of a servicer by mortgage owners (or bondholders) would take effect across all mortgages of such mortgage owners (or bondholders) and would not be limited to a particular vintage or other subset of mortgages. Therefore, it is possible that all investments with a given servicer would lose all their value in the event mortgage owners (or bondholders) terminate such servicer. See "—We have significant counterparty concentration risk in certain of our Servicing Partners, and are subject to other counterparty concentration and default risks." As a result, we could be materially and adversely affected if one of our Servicing Partners is unable to adequately carry out its duties as a result of:

- its failure to comply with applicable laws and regulations;
- its failure to comply with contractual and financing obligations and covenants;
- a downgrade in, or failure to maintain, any of its servicer ratings;
- its failure to maintain sufficient liquidity or access to sources of liquidity;
- its failure to perform its loss mitigation obligations;
- its failure to perform adequately in its external audits;
- a failure in or poor performance of its operational systems or infrastructure;
- regulatory or legal scrutiny or regulatory actions regarding any aspect of a servicer's operations, including, but not limited to, servicing practices and foreclosure processes lengthening foreclosure timelines;
- an Agency's or a whole-loan owner's transfer of servicing to another party; or
- any other reason.

In the ordinary course of business, our Servicing Partners are subject to numerous legal proceedings, federal, state or local governmental examinations, investigations or enforcement actions, which could adversely affect their reputation and their liquidity, financial position and results of operations. Mortgage servicers, including certain of our Servicing Partners, have experienced heightened regulatory scrutiny and enforcement actions, and our Servicing Partners could be adversely affected by the market's perception that they could experience, or continue to experience, regulatory issues. See "—Certain of our Servicing Partners have been and are subject to federal and state regulatory matters and other litigation, which may adversely impact us." In light of recent regulatory actions against Ocwen, we cannot assure you that Ocwen will not be removed as servicer by the Agencies or by bondholders, which could have a material adverse effect on our interests in MSRs serviced or subserviced by Ocwen.

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 any of our Servicing Partners fail to adequately perform their loss mitigation obligations, we could be required to make or purchase, as applicable, servicer advances in excess of those that we might otherwise have had to make or 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 one of our servicers from which we are obligated to purchase servicer advances is required by the applicable Servicing Guidelines to make advances in excess of amounts that we or, in the case of Nationstar, the co-investors, are willing or able to fund, such servicer 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 such servicer. As a result, we could experience a partial or total loss of the value of our Servicer Advance Investments.

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 Servicing Partner actually or allegedly failed to comply with applicable laws, rules or regulations, it could be terminated as the servicer, and could lead to civil and criminal liability, loss of licensing, damage to our reputation and litigation, 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 residential mortgage loan, which could cause us to suffer losses.

Favorable servicer ratings from third-party rating agencies, such as S&P Global Ratings (“S&P”), Moody’s Investors Service (“Moody’s”) and Fitch Ratings (“Fitch”), are important to the conduct of a mortgage servicer’s loan servicing business, and a downgrade in a Servicing Partner’s servicer ratings could have an adverse effect on the value of our interests in MSRs and result in an event of default under our financings. Downgrades in a Servicing Partner’s servicer ratings could adversely affect our ability

to finance our assets 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 financing that a Servicing Partner or we may seek in the future. A Servicing Partner's failure to maintain favorable or specified ratings may cause their termination as a servicer and may impair their ability to consummate future servicing transactions, which could result in an event of default under our financing for servicer advances and have an adverse effect on the value of our investments because we will rely heavily on Servicing Partners to achieve our investment objectives and have no direct ability to influence their performance.

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

A number of lawsuits, including class-actions, have been filed against mortgage servicers alleging improper servicing in connection with residential non-agency mortgage securitizations. Investors in, and counterparties to, such securitizations may commence legal action against us and responding to such claims, and any related losses, could negatively impact our business.

A number of lawsuits, including class actions, have been filed against mortgage servicers alleging improper servicing in connection with residential non-agency mortgage securitizations. Investors in, and counterparties to, such securitizations may commence legal action against us and responding to such claims, and any related losses, could negatively impact our business. The number of counterparties on behalf of which we service loans significantly increases as the size of our non-agency MSR portfolio increases and we may become subject to claims and legal proceedings, including purported class-actions, in the ordinary course of our business, challenging whether our loan servicing practices and other aspects of our business comply with applicable laws, agreements and regulatory requirements. We are unable to predict whether any such claims will be made, the ultimate outcome of any such claims, the possible loss, if any, associated with the resolution of such claims or the potential impact any such claims may have on us or our business and operations. Regardless of the merit of any such claims or lawsuits, defending any claims or lawsuits may be time consuming and costly and we may be required to expend significant internal resources and incur material expenses, and management time may be diverted from other aspects of our business, in connection therewith. Further, if our efforts to defend any such claims or lawsuits are not successful, our business could be materially and adversely affected. As a result of investor and other counterparty claims, we could also suffer reputational damage and trustees, lenders and other counterparties could cease wanting to do business with us.

Certain of our Servicing Partners have been and are subject to federal and state regulatory matters and other litigation, which may adversely impact us.

Regulatory actions or legal proceedings against certain of our Servicing Partners could increase our financing costs or operating expenses, reduce our revenues or otherwise materially adversely affect our business, financial condition, results of operations and liquidity. Such Servicing Partners may be subject to additional federal and state regulatory matters in the future that could materially and adversely affect the value of our investments to the extent we rely on them to achieve our investment objectives because we have no direct ability to influence their performance. Certain of our Servicing Partners have disclosed certain matters in their periodic reports filed with the SEC, and there can be no assurance that such events will not have a material adverse effect on them. We are currently evaluating the impact of such events and cannot assure you what impact these events may have or what actions we may take under our agreements with the servicer. In addition, any of our Servicing Partners could be removed as servicer by the related loan owner or certain other transaction counterparties, which could have a material adverse effect on our interests in the loans and MSRs serviced by such Servicing Partner.

In addition, certain of our Servicing Partners have been and continue to be subject to regulatory and governmental examinations, information requests and subpoenas, inquiries, investigations and threatened legal actions and

proceedings. In connection with formal and informal inquiries, such Servicing Partners may receive numerous requests, subpoenas and orders for documents, testimony and information in connection with various aspects of their activities, including whether certain of their residential loan servicing and originations practices, bankruptcy practices and other aspects of their business comply with applicable laws and regulatory requirements. Such Servicing Partners cannot provide any assurance as to the outcome of any of the aforementioned actions, proceedings or inquiries, or that such outcomes will not have a material adverse effect on their reputation, business, prospects, results of operations, liquidity or financial condition.

Completion of the pending transactions related to MSRs (the "MSR Transactions") is subject to various closing conditions, involves significant costs, and we cannot assure you if, when or the terms on which such transactions will close. Failure to complete the pending MSR Transactions could adversely affect our future business and results of operations.

We have entered into an agreement for the purchase and sale of approximately $60.1 billion UPB of MSRs and related servicer advances from PHH (the various aspects of such transaction, the "PHH Transaction"). Although we have completed a portion of the MSR transfers contemplated by the PHH Transaction, the completion of the pending portions of the PHH Transaction is subject to the satisfaction of closing conditions, consents of third parties and certain actions by rating agencies and we cannot assure you that such conditions will be satisfied or that such portions of the PHH Transaction will be successfully completed on their current terms, if at all. In the event that any portion of the PHH Transaction is not consummated, we will have spent considerable time and resources, and incurred substantial costs, many of which must be paid even if the PHH Transaction is not completed. The purchase settled in stages during 2017. As of December 31, 2017, MSRs, and related servicer advances receivables, with respect to private-label residential mortgage loans of approximately $6.0 billion in total UPB with a purchase price of approximately $35.5 million had not been settled.

In addition, we have entered into an agreement for Ocwen to transfer its remaining interests in $110.0 billion of UPB of non-Agency MSRs to NRM (the "Ocwen Subject MSRs"). We currently hold certain interests in the Ocwen Subject MSRs (including all servicer advances) pursuant to existing agreements with Ocwen. The transfer of Ocwen's interests in the Ocwen Subject MSRs is subject to numerous consents of third parties and certain actions by rating agencies. While certain of the Ocwen Subject MSRs have previously transferred to NRM, there is no assurance that we will be able to obtain such consents in order to transfer Ocwen's interests in the Ocwen Subject MSRs to NRM. We have spent considerable time and resources, and incurred substantial costs, in connection with the negotiation of such transaction and we will incur such costs even if the Ocwen Subject MSRs cannot be transferred to NRM. As of December 31, 2017, MSRs representing approximately $14.8 billion UPB of underlying loans have been transferred pursuant to the Ocwen Transaction, and MSRs representing approximately $86.8 billion UPB of underlying loans remain to be transferred (after paydowns and other factors).

We may be unable to become the named servicer in respect of certain Non-Agency MSRs because, among other potential reasons, we do not maintain any servicer ratings from rating agencies. If we are unable to become the named servicer in respect of any of the Ocwen Subject MSRs in accordance with the Ocwen Transaction (Note 5 to our Consolidated Financial Statements), Ocwen has the right, in certain circumstances, to purchase from us our interests in the related MSRs. In such a situation, we will be required to sell Ocwen those assets (and will cease to receive income on those investments) and/or may be required to refinance certain indebtedness on terms that are not favorable to us.

Our ability to acquire MSRs may be subject to the approval of various third parties and such approvals may not be provided on a timely basis or at all, or may be subject to conditions, representations and warranties and indemnities.

Our ability to acquire MSRs may be subject to the approval of various third parties and such approvals may not be provided on a timely basis or at all, or may be conditioned upon our satisfaction of significant conditions which could require material expenditures and the provision of significant representations, warranties and indemnities. Such third parties may include the Agencies and the Federal Housing Finance Agency ("FHFA") with respect to agency MSRs, and securitization trustees, master servicers, depositors, rating agencies and insurers, among others, with respect to non-agency MSRs. The process of obtaining any such approvals required for a servicing transfer, especially with respect to non-agency MSRs, may be time consuming and costly and we may be required to expend significant internal resources and incur material expenses in connection with such transactions. Further, the parties from whom approval is necessary may require that we provide significant representations and warranties and broad indemnities as a condition to their consent, which such representations and warranties and indemnities, if given, may expose us to material risks in addition to those arising under the related servicing agreements. Consenting parties may also charge a

material consent fee and may require that we reimburse them for the legal expenses they incur in connection with their approval of the servicing transfer, which such expenses may include costs relating to substantial contract due diligence and may be significant. No assurance can be given that we will be able to successfully obtain the consents required to acquire the MSRs that we have agreed to purchase.

We have significant counterparty concentration risk in certain of our Servicing Partners 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.

Our interests in MSRs relate to loans serviced or subserviced, as applicable, by our Servicing Partners. As disclosed in Notes 4, 5, and 6 of our Consolidated Financial Statements, certain of our Servicing Partners service and/or subservice a substantial portion

of our interests in MSRs. If any of these Servicing Partners is the named servicer of the related MSR and is terminated, its servicing performance deteriorates, or in the event that any of them files for bankruptcy, our expected returns on these investments could be severely impacted. In addition, a large portion of the loans underlying our Non-Agency RMBS are serviced by certain of our Servicing Partners. We closely monitor our Servicing Partners' mortgage servicing performance and overall operating performance, financial condition and liquidity, as well as their compliance with applicable regulations and Servicing Guidelines. We have various information, access and inspection rights in our agreements with these Servicing Partners that enable us to monitor aspects of their financial and operating performance and credit quality, which we periodically evaluate and discuss with their management. However, we have no direct ability to influence our Servicing Partners' performance, and our diligence cannot prevent, and may not even help us anticipate, the termination of any such Servicing Partners' servicing agreement or a severe deterioration of any of our Servicing Partners' servicing performance on our portfolio of interests in MSRs.

Furthermore, certain of our Servicing Partners are subject to numerous legal proceedings, federal, state or local governmental examinations, investigations or enforcement actions, which could adversely affect their operations, reputation and liquidity, financial position and results of operations. See "—Certain of our Servicing Partners have been and are subject to federal and state regulatory matters and other litigation, which may adversely impact us" for more information.

None of our Servicing Partners has an 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 from which to acquire interests in MSRs, which could impact our business strategy. See "—We rely heavily on our Servicing Partners to achieve our investment objective and have no direct ability to influence their performance."

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

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

In addition, our Servicing Partners are party to our servicer advance financing agreements, with respect to those advances where they service or subservice the loans underlying the related MSRs. Our ability to obtain financing for these assets is dependent on our Servicing Partners' agreement to be a party to the related financing agreements. If our Servicing Partners do not agree to be a party to these financing agreements for any reason, we may not be able to obtain financing on favorable terms or at all. Our ability to obtain financing on such assets is dependent on our Servicing Partners' ability to satisfy various tests under such financing arrangements. Breaches and other events with respect to our Servicing Partners (which may include, without limitation, failure of a Servicing Partner to satisfy certain financial tests) could cause certain or all of the relevant servicer advance financing to become due and payable prior to maturity.

We are dependent on our Servicing Partners as the servicer or subservicer of the residential mortgage loans with respect to which we hold interests in MSRs, and their servicing practices may impact the value of certain of our assets. We may be adversely impacted:

- By regulatory actions taken against our Servicing Partners;
- By a default by one of our Servicing Partners under their debt agreements;
- By downgrades in our Servicing Partners' servicer ratings;
- If our Servicing Partners fail to ensure their servicer advances comply with the terms of their PSAs;
- If our Servicing Partners were terminated as servicer under certain PSAs;
- If our Servicing Partners become subject to a bankruptcy proceeding; or
- If our Servicing Partners fail to meet their obligations or are deemed to be in default under the indenture governing notes issued under any servicer advance facility with respect to which such Servicing Partner is the servicer.

Our interests in MSRs relate to loans serviced or subserviced, as applicable, by our Servicing Partners. As disclosed in Notes 4, 5, and 6 of our Consolidated Financial Statements, certain of our Servicing Partners service and/or subservice a substantial portion of our interests in MSRs. In addition, Nationstar is currently the servicer for a significant portion of our loans, and the loans underlying our RMBS. If the servicing performance of one of our subservicers deteriorates, if one of our subservicers files for bankruptcy or if one of our subservicers is otherwise unwilling or unable to continue to subservice MSRs for us, our expected returns on these investments would be severely impacted. In addition, if a subservicer becomes subject to a regulatory consent order or similar enforcement proceeding, that regulatory action could adversely affect us in several ways. For example, the regulatory action could result in delays of transferring servicing from an interim subservicer to our designated successor subservicer or cause the subservicer's performance to degrade. Any such development would negatively affect our expected returns on these investments, and such effect could be materially adverse to our business and results of operations. We closely monitor each subservicer's mortgage servicing performance and overall operating performance, financial condition and liquidity, as well as its compliance with applicable regulations and GSE servicing guidelines. We have various information, access and inspection rights in our respective agreements with our subservicers that enable us to monitor aspects of their financial and operating performance and credit quality, which we periodically evaluate and discuss with each subservicer's respective management. However, we have no direct ability to influence each subservicer's performance, and our diligence cannot prevent, and may not even help us anticipate, a severe deterioration of each subservicer's respective servicing performance on our MSR portfolio.

In addition, a material portion of the consumer loans in which we have invested are serviced by OneMain. If OneMain is terminated as the servicer of some or all of these portfolios, or in the event that it files for bankruptcy or is otherwise unable to continue to service such loans, 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 or Servicing Partner, 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.

A bankruptcy of any of our Servicing Partners could materially and adversely affect us.

If any of our Servicing Partners becomes subject to a bankruptcy proceeding, we could be materially and adversely affected, and you could suffer losses, as discussed below.

A sale of MSRs or interests in MSRs and servicer advances or other assets, including loans, could be re-characterized as a pledge of such assets in a bankruptcy proceeding.

We believe that a mortgage servicer's transfer to us of MSRs or interests in MSRs and servicer advances or any other asset transferred pursuant to a related purchase agreement, including loans, constitutes a sale of such assets, in which case such assets would not be part of such servicer's bankruptcy estate. The servicer (as debtor-in-possession in the bankruptcy proceeding), a bankruptcy trustee appointed in such servicer's bankruptcy proceeding, or any other party in interest, however, might assert in a bankruptcy proceeding MSRs or interests in MSRs and servicer advances or any other assets transferred to us pursuant to the related purchase agreement were not sold to us but were instead pledged to us as security for such servicer's obligation to repay amounts paid by us to the servicer pursuant to the related purchase agreement. We generally create and perfect security interests with respect to the MSRs that we acquire, though we do not do so in all instances. If such assertion were successful, all or part of the MSRs or interests in MSRs and servicer advances or any other asset transferred to us pursuant to the related purchase agreement would constitute property of the bankruptcy estate of such servicer, and our rights against the servicer could be those of a secured creditor with a lien on such present and future assets. Under such circumstances, cash proceeds generated from our collateral would constitute "cash collateral" under the provisions of the U.S. bankruptcy laws. Under U.S. bankruptcy laws, the servicer could not use our cash collateral without either (a) our consent or (b) approval by the bankruptcy court, subject to providing us

with “adequate protection” under the U.S. bankruptcy laws. In addition, under such circumstances, an issue could arise as to whether certain of these assets generated after the commencement of the bankruptcy proceeding would constitute after-acquired property excluded from our entitlement pursuant to the U.S. bankruptcy laws.

If such a recharacterization occurs, the validity or priority of our security interest in the MSRs or interests in MSRs and servicer advances or other assets could be challenged in a bankruptcy proceeding of such servicer.

If the purchases pursuant to the related purchase agreement are recharacterized as secured financings as set forth above, we nevertheless created and perfected security interests with respect to the MSRs or interests in MSRs and servicer advances and other assets that we may have purchased from such servicer by including a pledge of collateral in the related purchase agreement and filing financing statements in appropriate jurisdictions. Nonetheless, to the extent we have created and perfected a security interest, our security interests may be challenged and ruled unenforceable, ineffective or subordinated by a bankruptcy court, and the amount of our claims may be disputed so as not to include all MSRs or interests in MSRs and servicer advances to be collected. If this were to occur, or if we have not created a security interest, then the servicer’s obligations to us with respect to purchased MSRs or interests in MSRs and servicer advances or other assets would be deemed unsecured obligations, payable from unencumbered assets to be shared among all of such servicer’s unsecured creditors. In addition, even if the security interests are found to be valid and enforceable, if a bankruptcy court determines that the value of the collateral is less than such servicer’s underlying obligations to us, the difference between such value and the total amount of such obligations will be deemed an unsecured “deficiency” claim and the same result will occur with respect to such unsecured claim. In addition, even if the security interest is found to be valid and enforceable, such servicer would have the right to use the proceeds of our collateral subject to either (a) our consent or (b) approval by the bankruptcy court, subject to providing us with “adequate protection” under U.S. bankruptcy laws. Such servicer also would have the ability to confirm a chapter 11 plan over our objections if the plan complied with the “cramdown” requirements under U.S. bankruptcy laws.

Payments made by a servicer to us could be voided by a court under federal or state preference laws.

If one of our Servicing Partners were to file, or to become the subject of, a bankruptcy proceeding under the United States Bankruptcy Code or similar state insolvency laws, and our security interest (if any) is declared unenforceable, ineffective or subordinated, payments previously made by a servicer to us pursuant to the related purchase agreement may be recoverable on behalf of the bankruptcy estate as preferential transfers. Among other reasons, a payment could constitute a preferential transfer if a court were to find that the payment was a transfer of an interest of property of such servicer that:

- Was made to or for the benefit of a creditor;
- Was for or on account of an antecedent debt owed by such servicer before that transfer was made;
- Was made while such servicer was insolvent (a company is presumed to have been insolvent on and during the 90 days preceding the date the company’s bankruptcy petition was filed);
- Was made on or within 90 days (or if we are determined to be a statutory insider, on or within one year) before such servicer’s bankruptcy filing;
- Permitted us to receive more than we would have received in a Chapter 7 liquidation case of such servicer under U.S. bankruptcy laws; and
- Was a payment as to which none of the statutory defenses to a preference action apply.

If the court were to determine that any payments were avoidable as preferential transfers, we would be required to return such payments to such servicer’s bankruptcy estate and would have an unsecured claim against such servicer with respect to such returned amounts.

Payments made to us by such servicer, or obligations incurred by it, could be voided by a court under federal or state fraudulent conveyance laws.

The mortgage servicer (as debtor-in-possession in the bankruptcy proceeding), a bankruptcy trustee appointed in such servicer's bankruptcy proceeding, or another party in interest could also claim that such servicer's transfer to us of MSRs or interests in MSRs and servicer advances or other assets or such servicer's agreement to incur obligations to us under the related purchase agreement was a fraudulent conveyance. Under U.S. bankruptcy laws and similar state insolvency laws, transfers made or obligations incurred could be voided if, among other reasons, such servicer, at the time it made such transfers or incurred such obligations: (a) received less than reasonably equivalent value or fair consideration for such transfer or incurrence and (b) either (i) was insolvent at the time of, or was rendered insolvent by reason of, such transfer or incurrence; (ii) was engaged in, or was about to engage in, a business or transaction for which the assets remaining with such servicer were an unreasonably small capital; or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature. If any transfer or incurrence is determined to be a fraudulent conveyance, our Servicing Partner, as applicable (as debtor-in-possession in the

bankruptcy proceeding), or a bankruptcy trustee on such Servicing Partner's behalf would be entitled to recover such transfer or to avoid the obligation previously incurred.

Any purchase agreement pursuant to which we purchase interests in MSRs, servicer advances or other assets, including loans, or any subservicing agreement between us and a subservicer on our behalf could be rejected in a bankruptcy proceeding of one of our Servicing Partners or counterparties.

A mortgage servicer (as debtor-in-possession in the bankruptcy proceeding) or a bankruptcy trustee appointed in such servicer's or counterparty's bankruptcy proceeding could seek to reject the related purchase agreement or subservicing agreement with a counterparty and thereby terminate such servicer's or counterparty's obligation to service the MSRs or interests in MSRs and servicer advances or any other asset transferred pursuant to such purchase agreement, and terminate our right to acquire additional assets under such purchase agreement and our right to require such servicer to use commercially reasonable efforts to transfer servicing. If the bankruptcy court approved the rejection, we would have a claim against such servicer or counterparty for any damages from the rejection, and the resulting transfer of our interests in MSRs or servicing of the MSRs relating to our Excess MSRs to another subservicer may result in significant cost and may negatively impact the value of our interests in MSRs.

A bankruptcy court could stay a transfer of servicing to another servicer.

Our ability to terminate a subservicer or to require a mortgage servicer to use commercially reasonable efforts to transfer servicing rights to a new servicer would be subject to the automatic stay in such servicer's bankruptcy proceeding. To enforce this right, we would have to seek relief from the bankruptcy court to lift such stay, and there is no assurance that the bankruptcy court would grant this relief.

Any Subservicing Agreement could be rejected in a bankruptcy proceeding.

If one of our Servicing Partners were to file, or to become the subject of, a bankruptcy proceeding under the United States Bankruptcy Code or similar state insolvency laws, such Servicing Partner (as debtor-in-possession in the bankruptcy proceeding) or the bankruptcy trustee could reject its subservicing agreement with us and terminate such Servicing Partner's obligation to service the MSRs, servicer advances or loans in which we have an investment. Any claim we have for damages arising from the rejection of a subservicing agreement would be treated as a general unsecured claim for purposes of distributions from such Servicing Partner's bankruptcy estate.

Our Servicing Partners could discontinue servicing.

If one of our Servicing Partners were to file, or to become the subject of, a bankruptcy proceeding under the United States Bankruptcy Code, such Servicing Partner could be terminated as servicer (with bankruptcy court approval) or could discontinue servicing, in which case there is no assurance that we would be able to continue receiving payments and transfers in respect of the interests in MSRs, servicer advances and other assets purchased under the related purchase agreement or subserviced under the related subservicing agreement. Even if we were able to obtain the servicing rights or terminate the related subservicer, because we do not and in the future may not have the employees, servicing platforms, or technical resources necessary to service mortgage loans, we would need to engage an alternate subservicer (which may not be readily available on acceptable terms or at all) or negotiate a new subservicing agreement with such servicer, which presumably would be on less favorable terms to us. Any engagement of an alternate subservicer by us would require the approval of the related RMBS trustees or the Agencies, as applicable.

The automatic stay under the United States Bankruptcy Code may prevent the ongoing receipt of servicing fees or other amounts due.

Even if we are successful in arguing that we own the interests in MSRs, servicer advances and other assets, including loans, purchased under the related purchase agreement, we may need to seek relief in the bankruptcy court to obtain turnover and payment of amounts relating to such assets, and there may be difficulty in recovering payments in respect of such assets that may have been commingled with other funds of such servicer.

A bankruptcy of any of our Servicing Partners may default our MSR, Excess MSR and servicer advance financing facilities and negatively impact our ability to continue to purchase interests in MSRs.

If any of our Servicing Partners were to file for bankruptcy or become the subject of a bankruptcy proceeding, it could result in an event of default under certain of our financing facilities that would require the immediate paydown of such facilities. In this scenario, we may not be able to comply with our obligations to purchase interests in MSRs and servicer advances under the related purchase agreements. Notwithstanding this inability to purchase, the related seller may try to force us to continue making such

purchases. If it is determined that we are in breach of our obligations under our purchase agreements, any claims that we may have against such related seller may be subject to offset against claims such seller may have against us by reason of this breach.

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

On January 18, 2011, the FHFA announced that it had instructed Fannie Mae and Freddie Mac to study possible alternatives to the current residential mortgage servicing and compensation system used for single-family mortgage loans. It is unclear what 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 MSRs 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 interests in MSRs 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 basis points 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 interests in MSRs 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 interests in MSRs. 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 interests in MSRs may involve complex or novel structures.

Interests in MSRs may entail new types of transactions and may involve complex or novel structures. Accordingly, the risks associated with the transactions and structures are not fully known to buyers and sellers. In the case of interests in MSRs on Agency pools, Agencies may require that we submit to costly or burdensome conditions as a prerequisite to their consent to an investment in, or our financing of, interests in MSRs on Agency pools. Agency conditions, including capital requirements, may diminish or eliminate the investment potential of interests in MSRs on Agency pools by making such investments too expensive for us or by severely limiting the potential returns available from interests in MSRs on Agency pools.

It is possible that an Agency’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. An Agency’s evolving posture toward an acquisition or disposition structure through which we invest in or dispose of interests in MSRs on Agency pools may cause such Agency to impose new conditions on our existing interests in MSRs on Agency pools, including the owner’s ability to hold such interests in MSRs 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 interests in MSRs 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.

Our ability to finance the MSRs and servicer advances acquired in the MSR Transactions may depend on the related Servicing Partner's cooperation with our financing sources and compliance with certain covenants.

We have in the past and intend to continue to finance some or all of the MSRs or servicer advances acquired in the MSR Transactions, and as a result, we will be subject to substantial operational risks associated with the related Servicing Partners. In our current financing facilities for interests in MSRs and servicer advances, the failure of the related Servicing Partner to satisfy various covenants and tests can result in an amortization event and/or an event of default. Our financing sources may require us to include similar provisions in any financing we obtain relating to the MSRs and servicer advances acquired in the MSR Transactions. If

we decide to finance such assets, we will not have the direct ability to control any party's compliance with any such covenants and tests and the failure of any party to satisfy any such covenants or tests could result in a partial or total loss on our investment. Some financing sources may be unwilling to finance any assets acquired in the MSR Transactions.

In addition, any financing for the MSRs and servicer advances acquired in the MSR Transactions may be subject to regulatory approval and the agreement of the relevant Servicing Partner to be party to such financing agreements. If we cannot get regulatory approval or these parties do not agree to be a party to such financing agreements, we may not be able to obtain financing on favorable terms or at all.

Mortgage servicing is heavily regulated at the U.S. federal, state and local levels, and each transfer of MSRs to our subservicer of such MSRs may not be approved by the requisite regulators.

Mortgage servicers must comply with U.S. federal, state and local laws and regulations. These laws and regulations cover topics such as licensing; allowable fees and loan terms; permissible servicing and debt collection practices; limitations on forced-placed insurance; special consumer protections in connection with default and foreclosure; and protection of confidential, nonpublic consumer information. The volume of new or modified laws and regulations has increased in recent years, and states and individual cities and counties continue to enact laws that either restrict or impose additional obligations in connection with certain loan origination, acquisition and servicing activities in those cities and counties. The laws and regulations are complex and vary greatly among the states and localities, and in some cases, these laws are in conflict with each other or with U.S. federal law. In connection with the MSR Transactions, there is no assurance that each transfer of MSRs to our selected subservicer will be approved by the requisite regulators. If regulatory approval for each such transfer is not obtained, we may incur additional costs and expenses in connection with the approval of another replacement subservicer.

We do not have legal title to the MSRs underlying our Excess MSRs or certain of our Servicer Advance Investments.

We do not have legal title to the MSRs underlying our Excess MSRs or certain of the MSRs related to the transactions contemplated by the purchase agreements pursuant to which we acquire Servicer Advance Investments from Ocwen, SLS and Nationstar, and are subject to increased risks as a result of the related servicer continuing to own the mortgage servicing rights. The validity or priority of our interest in the underlying mortgage servicing could be challenged in a bankruptcy proceeding of the servicer, and the related purchase agreement could be rejected in such proceeding. Any of the foregoing events might have a material adverse effect on our business, financial condition, results of operations and liquidity. As part of the Ocwen Transaction, we and Ocwen have agreed to cooperate to obtain any third party consents required to transfer Ocwen's remaining interest in the Ocwen Subject MSRs to us. As noted above, however, there is no assurance that we will be successful in obtaining those consents.

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.

Interests in MSRs 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 may require that holders of Excess MSRs obtain the mortgage owner's prior approval of any change of direct ownership of such

Excess MSRs. 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 interests in MSRs 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, interests in MSRs may entail complex transaction structures 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 interests in MSRs. There is some risk that we will be required to dispose of interests in MSRs 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 interests in MSRs, 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 interests in MSRs. 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 and other 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 and certain of our interests in MSRs, 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 and other 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 and other securities, resulting in less transparent prices for those securities, which would make selling such assets more difficult. Moreover, a decline in market demand for the types of assets that we hold would make it more difficult to sell our assets. If we are required to liquidate all or a portion of our illiquid investments quickly, we may realize significantly less than the amount at which we have previously valued these investments.

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

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

- interest rates and credit spreads;
- the availability of credit, including the price, terms and conditions under which it can be obtained;
- the quality, pricing and availability of suitable investments;
- the ability to obtain accurate market-based valuations;
- the ability of securities dealers to make markets in relevant securities and loans;
- 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, and credit losses with respect to our investments;
- prepayment and repayment rates, delinquency rates and legislative/regulatory changes with respect to our investments, and the timing and amount of servicer advances;
- the availability and cost of quality Servicing Partners, and advance, recovery and recapture rates;
- competition;
- the actual and perceived state of the real estate markets, bond 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, at various points in time, 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. Market conditions could be volatile or could deteriorate as a result of a variety of factors beyond our control with adverse effects to our financial condition.

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 interests in MSRs, servicer advances, Non-Agency RMBS and 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, hurricanes, earthquakes or other natural disasters; and changes in interest rates.

As of December 31, 2017, 24.0% and 19.0% of the total UPB of the residential mortgage loans underlying our Excess MSRs and MSRs, respectively, was secured by properties located in California, which are particularly susceptible to natural disasters such

as fires, earthquakes and mudslides. 8.7% and 6.0% of the total UPB of the residential mortgage loans underlying our Excess MSRs and MSRs, respectively, was secured by properties located in Florida, which are particularly susceptible to natural disasters such as hurricanes and floods. As of December 31, 2017, 38.4% of the collateral securing our Non-Agency RMBS was located in the Western U.S., 23.6% was located in the Southeastern U.S., 20.1% was located in the Northeastern U.S., 10.5% was located in the Midwestern U.S. and 7.3% was located in the Southwestern U.S. We were unable to obtain geographical information for 0.1% of the collateral. As a result of this concentration, we may be more susceptible to adverse developments in those markets than if we owned a more geographically diverse portfolio. To the extent any of the foregoing risks arise in states and regions where we hold significant investments, the performance of our investments, our results of operations, cash flows and financial condition could suffer a material adverse effect.

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

Many of the RMBS in which we invest are backed by collateral pools of subprime residential mortgage loans. “Subprime” mortgage loans refer to mortgage loans that have been originated using underwriting standards that are less restrictive than the underwriting requirements used as standards for other first and junior lien mortgage loan purchase programs, such as the programs of Fannie Mae and Freddie Mac. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories (including outstanding judgments or prior bankruptcies), mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Subprime mortgage loans may 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 interests in MSRs, servicer advances, residential mortgage loans 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 U.S. Department of Housing and Urban Development (“HUD”), 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 $25.0 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 agreements governing our Servicer Advance Investments and MSRs, we (in certain cases, together with third-party co-investors) are required to make or purchase from certain of our Servicing Partners, servicer advances on certain loan pools. While a residential mortgage loan is in foreclosure, servicers 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 we or our Servicing Partners are 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, servicer advance financing facilities contain provisions that modify the advance rates for, and limit the eligibility of, servicer advances to be financed based on the length of time that servicer advances are outstanding, and, as a result, an increase in foreclosure timelines could further increase the amount of servicer advances that we need to fund with our own capital. Such increases in foreclosure timelines could increase our need for capital to fund servicer advances (which do not bear interest), which would increase our interest expense, reduce the value of our investment and potentially reduce the cash that we have available to pay our operating expenses or to pay dividends.

Even in states where servicers have not suspended foreclosure proceedings or have lifted (or will soon lift) any such delayed foreclosures, servicers, including our Servicing Partners, 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 Servicer Advance Investments contain adjustment mechanisms that would reduce the amount of performance fees payable to the related Servicing Partner if servicer advances exceed pre-determined amounts, those fee reductions may not be sufficient to cover the expenses resulting from longer foreclosure timelines.

The integrity of the servicing and foreclosure processes is critical to the value of the residential mortgage loans in which we invest and of the portfolios of loans underlying our interests in MSRs 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 senior classes of RMBS that we may own, thus possibly adversely affecting these securities. Additionally, a substantial portion of the $25.0 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 interests in MSRs and RMBS.

While we believe that the sellers and servicers would be in violation of the applicable Servicing Guidelines 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.

A failure by any or all of the members of Buyer 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.

As described in Note 6 to our Consolidated Financial Statements, New Residential and third-party co-investors, through a joint venture entity (Advance Purchaser LLC, the “Buyer”) have agreed to purchase all future arising servicer advances from Nationstar under certain residential mortgage servicing agreements. Buyer relies, in part, on its members to make committed capital contributions in order to pay the purchase price for future servicer advances. A failure by any or all of the members to make such 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 residential mortgage 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, including manufactured housing loans and subprime mortgage loans, are secured by single-family residential property and are also subject to risks of delinquency and foreclosure, and risks of loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors may impair borrowers' abilities to repay their loans, including, among other things, changes in the borrower's employment status, changes in national, regional or local economic conditions, changes in interest rates or the availability of credit on favorable terms, changes in regional or local real estate values, changes in regional or local rental rates and changes in real estate taxes.

In the event of default under a residential mortgage 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 and other securities are subject to changes in credit spreads as well as available market liquidity, which could adversely affect our ability to realize gains on the sale of such investments.

Real estate and other 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, 2017, 90.5% of our Non-Agency RMBS Portfolio consisted of floating rate securities and 9.5% consisted of fixed rate securities, and 9.2% of our Agency RMBS portfolio consisted of floating rate securities and 90.8% consisted of fixed rate securities, based on the amortized cost basis of all securities (including the amortized cost basis of interest-only and residual classes). 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 and other 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 and other 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. 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 our residential mortgage loans and those underlying our real estate and other securities may adversely affect our profitability.

In general, residential mortgage loans may be prepaid at any time without penalty. Prepayments result when homeowners/mortgagors satisfy (i.e., pay off) the mortgage upon selling or refinancing their mortgaged property. When we acquire a particular loan or security, we anticipate that the loan or underlying residential mortgage loans will prepay at a projected rate which, together with expected coupon income, provides us with an expected yield on such investments. If we purchase assets at a premium to par value, and borrowers prepay their mortgage loans faster than expected, the corresponding prepayments on our assets may reduce the expected yield on such assets 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 our assets may reduce the expected yield on such assets 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, political and other factors, all of which are beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment or other such risks. In periods of declining interest rates, prepayment rates on mortgage loans generally increase. If general interest rates decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the market value of our loans and real estate and other securities may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates.

We may purchase assets that have a higher or lower 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 would amortize the premiums over the life of the related assets. If the mortgage loans securing these assets prepay at a more rapid rate than anticipated, we would have to amortize our premiums on an accelerated basis which may adversely affect our profitability. As compensation for a lower coupon rate, we would then pay a discount to par value to acquire these assets. In accordance with GAAP, we would accrete any discounts over the life of the related assets. If the mortgage loans securing these assets prepay at a slower rate than anticipated, we would have to accrete our discounts on an extended basis which may adversely affect our profitability. Defaults on the mortgage loans underlying Agency 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 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 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 and other 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 and other 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 and other 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 RMBS, the amount of unamortized premium or discount on our loans and real estate and other 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 loans, REO and RMBS may be subject to significant impairment charges, which would adversely affect our results of operations.

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

The lenders under our financing 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 with repurchase agreements and other short-term financing arrangements. Under the terms of repurchase agreements, we will sell an asset to the lending counterparty for a specified price and concurrently agree to repurchase the same asset 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 asset 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 asset 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 asset 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 or other financing agreements upon the expiration of their stated terms, which subjects us to a number of risks. Counterparties electing to roll our financing 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 financing agreement counterparty elects not to extend our financing, we would be required to pay the counterparty in full 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 asset financed with a repurchase agreement, the counterparty has the right to sell the asset 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). Moreover, our financing agreement obligations are currently with a limited number of counterparties. If any of our counterparties elected not to roll our financing agreements, we may not be able to find a replacement counterparty in a timely manner. Finally, some of our financing agreements contain covenants and our failure to comply with such covenants could result in a loss of our investment.

The financing sources under our servicer advance financing facilities may elect not to extend financing to us or may have or take positions adverse to us, which could quickly and seriously impair our liquidity.

We finance a meaningful portion of our Servicer Advance Investments and servicer advances receivable with structured financing arrangements. These arrangements are commonly of a short-term nature. These arrangements are generally accomplished by having the named servicer, if the named servicer is a subsidiary of the Company, or the purchaser of such Servicer Advance Investments (which is a subsidiary of the Company) transfer our right to repayment for certain servicer advances that we have as servicer under the relevant Servicing Guidelines or that we have acquired from one of our Servicing Partners, as applicable, to one of our wholly owned bankruptcy remote subsidiaries (a "Depositor"). We are generally required to continue to transfer to the related Depositor all of our rights to repayment for any particular pool of servicer advances as they arise (and, if applicable, are transferred from one of our Servicing Partners) until the related financing arrangement is paid in full and is terminated. The related Depositor then transfers such rights to an "Issuer." The Issuer then issues limited recourse notes to the financing sources backed by such rights to repayment.

The outstanding balance of servicer advances securing these arrangements is not likely to be repaid on or before the maturity date of such financing arrangements. Accordingly, we rely heavily on our financing sources to extend or refinance the terms of such financing arrangements. Our financing sources are not required to extend the arrangements upon the expiration of their stated terms, which subjects us to a number of risks. Financing sources electing to extend may charge higher interest rates and impose more onerous terms upon us, including without limitation, lowering the amount of financing that can be extended against any particular pool of servicer advances.

If a financing source is unable or unwilling to extend financing, including, but not limited to, due to legal or regulatory matters applicable to us or our Servicing Partners, the related Issuer will be required to repay the outstanding balance of the financing on the related maturity date. Additionally, there may be substantial increases in the interest rates under a financing arrangement if the related notes are not repaid, extended or refinanced prior to the expected repayment 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.

Currently, certain of the notes issued under our structured servicer advance financing arrangements accrue 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 counterparties. 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.

Many of our servicer advance financing arrangements are provided by financial institutions with whom we have substantial relationships. Some of our servicer advance financing arrangements entail the issuance of term notes to capital markets investors with whom we have little or no relationships or the identities of which we may not be aware and, therefore, we have no ability to control or monitor the identity of the holders of such term notes. Holders of such term notes may have or may take positions - for example, "short" positions in our stock or the stock of our servicers - that could be benefited by adverse events with respect to us or our Servicing Partners. If any holders of term notes allege or assert noncompliance by us or the related Servicing Partner under our servicer advance financing arrangements in order to realize such benefits, we or our Servicing Partners, or our ability to maintain servicer advance financing on favorable terms, could be materially and adversely affected.

In order to continue to finance servicer advances and deferred servicing fees arising in connection with the Ocwen Subject MSRs upon any transfer in connection with the Ocwen Transaction, we will need to amend our existing servicer advance financing facilities (or establish new servicer advance financing facilities) related to the Ocwen Subject MSRs to permit such continued financing. There is no assurance we will able to do so on favorable terms or at all. As of December 31, 2017, we had borrowed $2.6 billion against approximately $3.0 billion of servicer advances and deferred servicing fees arising under the Ocwen Subject MSRs that had not yet been transferred. Our obligation to pay Ocwen lump sum payments in connection with any transfer of interests in the Ocwen Subject MSRs in connection with the Ocwen Transaction is not conditioned on having such servicer advance financings amended (or having new servicer advance financing facilities established).

We may not be able to finance our investments on attractive terms or at all, and financing for interests in MSRs or servicer advances 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. These conditions may result in having to use less efficient forms of financing for any new investments, or the refinancing of current investments, which will likely require a larger portion of our cash flows to be put toward making the 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 a limited market for financing of interests in MSRs, and it is possible that one will not develop for a variety of reasons, such as the challenges with perfecting security interests in the underlying collateral.

Certain of our advance facilities may mature in the short term, 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 our Servicing Partners or fund servicer advances under our MSRs in accordance with the applicable Servicing Guidelines, we or any such Servicing Partner, as applicable, could default on its obligation to fund such advances, which could result in its termination of us or any applicable Servicing Partner, as applicable, as servicer under the applicable Servicing Guidelines, and a partial or total loss of our interests in MSRs and servicer advances, as applicable.

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

We use structured finance and other non-recourse long-term financing for our investments to the extent available and appropriate. In such structures, our financing sources typically have only a claim against the assets included in the securitizations rather than a general claim against us as an entity. Prior to any such financing, we would seek to finance our investments with relatively short-term facilities until a sufficient portfolio is accumulated. As a result, we would be subject to the risk that we would not be able to acquire, during the period that any short-term facilities are available, sufficient eligible assets or securities to maximize the efficiency of a securitization. We also bear the risk that we would not be able to obtain new short-term facilities or would not be able to renew any short-term facilities after they expire should we need more time to seek and acquire sufficient eligible assets or securities for a securitization. In addition, conditions in the capital markets may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets or securities. While we would generally intend to retain a portion of the interests issued under such 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.

The final Basel FRTB Ruling, which raised capital charges for bank holders of ABS, CMBS and Non-Agency MBS beginning in 2019, could adversely impact available trading liquidity and access to financing.

In January 2006, the Basel Committee on Banking Supervision released a finalized framework for calculating minimum capital requirements for market risk, which will take effect in January 2019. In the final proposal, capital requirements would overall be meaningfully higher than current requirements, but are less punitive than the previous December 2014 proposal. However, each country’s specific regulator may codify the rules differently. Under the framework, capital charges on a bond are calculated based on three components: default, market and residual risk. Implementation of the final proposal could impose meaningfully higher capital charges on dealers compared with

current requirements, and could reduce liquidity in the securitized products market.

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 mortgage loans, and thus the type of risks that we have experience managing, there are nevertheless substantial risks and uncertainties associated with engaging in a different 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 inclusion of consumer loans in 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. In addition, one of our consumer loan investments is held through LoanCo (Note 9 to our Consolidated Financial Statements), in which we hold a minority, non-controlling interest. We do not control LoanCo and, as a result, LoanCo may make decisions, or take risks, that we would otherwise not make, and LoanCo may not have access to the same management and financing expertise that we have. Failure to successfully manage these risks could have a material adverse effect on our business and financial results.

The consumer loans we invest in 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 we invest in 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. Furthermore, our returns on our consumer loan investments are dependent on the interest we receive exceeding any losses we may incur from defaults or delinquencies.The relatively higher interest rates paid by consumer loan borrowers could lead to increased delinquencies and defaults, or could lead to financially stronger borrowers prepaying their loans, thereby reducing the interest we receive from them, while financially weaker borrowers become delinquent or default, either of which would reduce the return on our investment or could cause losses.

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 mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. Further, repossessing personal property securing a consumer loan can present additional challenges, including locating the collateral and taking possession of it. In addition, borrowers under consumer loans may have lower credit scores. There can be no guarantee that we will not suffer unexpected losses on our investments as a result of the factors set out above, which could have a negative impact on our financial results.

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

A portion of our investment in consumer loans is secured by second and third liens on real estate. When we hold the second or third lien, another creditor or creditors, as applicable, holds the first and/or second, as applicable, lien on the real estate that is the subject of the security. In these situations our second or third lien is subordinate in right of payment to the first and/or second, as applicable, holder’s right to receive payment. Moreover, as the servicer of the loans underlying our consumer loan portfolio is not able to track the default status of a senior lien loan in instances where we do not hold the related first mortgage, the value of the second or third lien loans in our portfolio may be lower than our estimates indicate.

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

In recent years consumer advocacy groups and some media reports have advocated governmental action to prohibit or place severe restrictions on the types of short-term consumer loans in which we have invested. Such consumer advocacy groups and media reports generally focus on the annual percentage rate to a consumer for this type of loan,

which is compared unfavorably to the interest typically charged by banks to consumers with top-tier credit histories.

The fees charged on the consumer loans in the portfolio in which we have invested may be perceived as controversial by those who do not focus on the credit risk and high transaction costs typically associated with this type of investment. If the negative characterization of these types of loans becomes increasingly accepted by consumers, demand for the consumer loan products in which we have invested could significantly decrease. Additionally, if the negative characterization of these types of loans is accepted by legislators and regulators, we could become subject to more restrictive laws and regulations in the area.

In addition, we are, or may become, subject to federal, state and local laws, regulations, or regulatory policies and practices, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) (which, among other things, established the CFPB 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 we invest in, 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.

A significant portion of the residential mortgage loans that we acquire are, or may become, sub-performing loans, non-performing loans or REO assets, which increases our risk of loss.

We acquire distressed residential mortgage loans where the borrower has failed to make timely payments of principal and/or interest. As part of the residential mortgage loan portfolios we purchase, we also may acquire performing loans that are or subsequently become sub-performing or non-performing, meaning the borrowers fail to timely pay some or all of the required payments of principal and/or interest. Under current market conditions, it is likely that some of these loans will have current loan-to-value ratios in excess of 100%, meaning the amount owed on the loan exceeds the value of the underlying real estate.

The borrowers on sub-performing or non-performing loans may be in economic distress and may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due. Borrowers may also face difficulties with refinancing such loans, including due to reduced availability of refinancing alternatives and insufficient equity in their homes to permit them to refinance. Increases in mortgage interest rates would exacerbate these difficulties. We may need to foreclose on collateral securing such loans, and the foreclosure process can be lengthy and expensive. Furthermore, REO assets (i.e., real estate owned by the lender upon completion of the foreclosure process) are relatively illiquid, and we may not be able to sell such REO assets on terms acceptable to us or at all.

Even though we typically pay less than the amount owed on these loans to acquire them, if actual results differ from our assumptions in determining the price we paid to acquire such loans, we may incur significant losses. In addition, we may acquire REO assets directly, which involves the same risks. Any loss we incur may be significant and could materially and adversely affect us.

Certain jurisdictions require licenses to purchase, hold, enforce or sell residential mortgage loans and/or MSRs, 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 and/or MSRs. We currently hold some but not all 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. With respect to mortgage loans, 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 have formed 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 or MSRs 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.

A significant portion 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. 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, 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 interests in MSRs, RMBS, loans, derivatives 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 and other securities and loans at attractive prices, the value of our real estate and other securities, loans 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.

Recently, the Federal Reserve has increased the benchmark interest rate and indicated that there may be further increases in the future. 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 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 most of our investments are marked to market each quarter. Debt obligations are not marked to market. Generally, as interest rates increase, the value of our fixed rate securities decreases, which will decrease the book value of our equity.

Furthermore, shifts in the U.S. Treasury yield curve reflecting an increase in interest rates would also affect the yield required on our investments 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 and other securities and loan portfolio and our financial position and operations to a change in interest rates generally.

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

We may use, when feasible and appropriate, derivatives to hedge a portion of our interest rate exposure, and this approach has certain risks, including the risk that losses on a hedge position will reduce the cash available for distribution to stockholders and that such losses may exceed the amount invested in such instruments. We have

adopted a general policy with respect to the use of derivatives, which generally allows us to use derivatives where appropriate, but does not set forth specific policies and procedures or require that we hedge any specific amount of risk. From time to time, we may use derivative instruments, including forwards, futures, swaps and options, in our risk management strategy to limit the effects of changes in interest rates on our operations. A hedge may not be effective in eliminating all of the risks inherent in any particular position. Our profitability may be adversely affected during any period as a result of the use of derivatives.

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

instruments, we consider the effect of the expected hedging income on the REIT qualification tests that limit the amount of gross income that a REIT may receive from hedging. We need to carefully monitor, and may have to limit, our hedging strategy to assure that we do not realize hedging income, or hold hedges having a value, in excess of the amounts that would cause us to fail the REIT gross income and asset tests. See "—Risks Related to Our Taxation as a REIT—Complying with the REIT requirements may limit our ability to hedge effectively."

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

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

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the 1940 Act. We believe we will not be considered an investment company under Section 3(a)(1)(A) of the 1940 Act because we will not engage primarily, or hold ourselves out as being engaged primarily, in the business of investing, reinvesting or trading in securities. However, under Section 3(a)(1)(C) of the 1940 Act, because we are a holding company that will conduct its businesses primarily through wholly owned and majority owned subsidiaries, the securities issued by our subsidiaries that are excluded from the definition of "investment company" under Section 3(c)(1) or Section 3(c)(7) of the 1940 Act, together with any other investment securities we may own, may not have a combined value in excess of 40% of the value of our total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis, unless another exclusion from the definition of "investment company" is available to us. For purposes of the foregoing, we currently treat our interest in our SLS Servicer Advance Investment and our subsidiaries that hold consumer loans as investment securities because these subsidiaries presently rely on the exclusion provided by Section 3(c)(7) of the 1940 Act. The 40% test under Section 3(a)(1)(C) of the 1940 Act limits the types of businesses in which we may engage through our subsidiaries. In addition, the assets we and our subsidiaries may originate or acquire are limited by the provisions of the 1940 Act and the rules and regulations promulgated under the 1940 Act, which may adversely affect our business.

If the value of securities issued by our subsidiaries that are excluded from the definition of "investment company" by Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we own, exceeds the 40% test under Section 3(a)(1)(C) of the 1940 Act (e.g., the value of our interests in the taxable REIT subsidiaries that hold Servicer Advance Investments and are not excluded from the definition of "investment company" by Section 3(c)(5)(A), (B) or (C) of the 1940 Act 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 generally treat our interests in our SLS Servicer Advance Investment 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 constitute 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 is available for entities “primarily engaged” in the business of “purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” The Section 3(c)(5)(C) exclusion generally requires that at least 55% of these subsidiaries’ assets must comprise qualifying real estate assets and at least 80% of each of their portfolios must comprise qualifying real estate assets and real estate-related assets under the 1940 Act. We expect each of our subsidiaries relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff or on our analyses of such guidance to

determine which assets are qualifying real estate assets and real estate-related assets. However, the SEC's guidance was issued in accordance with factual situations that may be substantially different from the factual situations each of our subsidiaries may face, and much of the guidance was issued more than 20 years ago. No assurance can be given that the SEC staff will concur with the classification of each of our subsidiaries' assets. In addition, the SEC staff may, in the future, issue further guidance that may require us to re-classify some of our subsidiaries' assets for purposes of qualifying for an exclusion from regulation under the 1940 Act. For example, the SEC and its staff have not published guidance with respect to the treatment of whole pool Non-Agency RMBS for purposes of the Section 3(c)(5)(C) exclusion. Accordingly, based on our own judgment and analysis of the guidance from the SEC and its staff identifying Agency whole pool certificates as qualifying real estate assets under Section 3(c)(5)(C), we treat whole pool Non-Agency RMBS issued with respect to an underlying pool of mortgage loans in which our subsidiary relying on Section 3(c)(5)(C) holds all of the certificates issued by the pool as qualifying real estate assets. Based on our own judgment and analysis of the guidance from the SEC and its staff with respect to analogous assets, we treat Excess MSRs for which we do not own the related servicing rights as real estate-related assets for purposes of satisfying the 80% test under the Section 3(c)(5)(C) exclusion. If we are required to re-classify any of our subsidiaries' assets, including those subsidiaries holding whole pool Non-Agency RMBS and/or Excess MSRs, such subsidiaries may no longer be in compliance with the exclusion from the definition of an "investment company" provided by Section 3(c)(5)(C) of the 1940 Act, and in turn, we may not satisfy the requirements to avoid falling within the definition of an "investment company" provided by Section 3(a)(1)(C). To the extent that the SEC staff publishes new or different guidance or disagrees with our analysis with respect to any assets of our subsidiaries we have determined to be qualifying real estate assets or real estate-related assets, we may be required to adjust our strategy accordingly. In addition, we may be limited in our ability to make certain investments and these limitations could result in a subsidiary holding assets we might wish to sell or selling assets we might wish to hold.

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

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

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

under the 1940 Act.

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

We are subject to significant competition in seeking investments. We compete with other companies, including other REITs, insurance companies and other investors, including funds and companies affiliated with our Manager. Some of our competitors have greater resources than we possess or have greater access to capital or various types of financing structures than are available to us, and we may not be able to compete successfully for investments or provide attractive investment returns relative to our competitors. These competitors may be willing to accept lower returns on their investments and, as a result, our profit margins could be adversely affected. Furthermore, competition for investments that are suitable for us, including, but not limited to, interests in MSRs, may lead to decreased availability, higher market prices and decreased returns available from such investments, which may further limit our ability to generate our desired returns. We cannot assure you that other companies will not be formed that compete with us for investments or otherwise pursue investment strategies similar to ours or that we will be able to compete successfully against any such companies.

Furthermore, we currently do not have a mortgage servicing platform. Therefore, we may not be an attractive buyer for those sellers of MSRs that prefer to sell MSRs 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 our Servicing Partners may be unwilling or unable to act as servicer or subservicer on any acquisitions of interests in MSRs 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 because 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, directly or through their impact on our Servicing Partners or counterparties.

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 our loans or the loans underlying our securities, interests in MSRs and servicer advances, if the real estate economy weakens. Further, declining real estate values significantly increase the likelihood that we will incur losses on our investments 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.

Stockholder or other litigation against HLSS and/or us could result in the payment of damages and/or may materially and adversely affect our business, financial condition, results of operations and liquidity.

Transactions, such as the HLSS Acquisition, often give rise to lawsuits by stockholders or other third parties. Stockholders may, among other things, assert claims relating to the parties' mutual agreement to terminate the Agreement and Plan of Merger (the "HLSS Initial Merger Agreement"). The defense or settlement of any lawsuit or claim regarding the HLSS Acquisition may materially and adversely affect our business, financial condition, results of operations and liquidity. Further, such litigation could be costly and could divert our time and attention from the operation of the business.

On May 22, 2015, a purported stockholder of the Company, Chester County Employees' Retirement Fund, filed a class action and derivative action in the Delaware Court of Chancery purportedly on behalf of all stockholders and the Company, titled Chester County Employees' Retirement Fund v. New Residential Investment Corp., et al., C.A. No. 11058-VCMR. On October 30, 2015, plaintiff filed an amended complaint (the "Amended Complaint"). The lawsuit names the Company, our directors, our Manager, Fortress and Fortress Operating Entity I LP as defendants, and alleges breaches of fiduciary duties by the Company, our directors, our Manager, Fortress and Fortress Operating Entity I LP in connection with the HLSS Acquisition. The lawsuit also seeks declaratory judgment, among other things, as to the applicability of Article Twelfth of the Company's Certificate of Incorporation and as to the validity of the release of claims of the Company's stockholders related to the termination of the HLSS Initial Merger Agreement. The Amended Complaint seeks declaratory relief, equitable relief and damages. On December 11, 2015, defendants filed a motion to dismiss the Amended Complaint, which was heard by the court on June 14, 2016. On October 7, 2016, the court issued an opinion dismissing without prejudice the breach of fiduciary duty claims and declaratory judgment claims, except for the claim relating to the applicability of Article Twelfth. On October 14, 2016, plaintiff moved to reargue the Court's dismissal opinion, and defendants filed an opposition to the motion for reargument on October 28, 2016. On December 1, 2016, the court denied the motion for reargument. Plaintiff filed a second amended complaint (the "Second Amended Complaint") on February 27, 2017 containing allegations and seeking relief similar to that in the Amended Complaint. Defendants moved to dismiss the Second Amended Complaint on March 30, 2017. The court held an oral argument on the motion to dismiss on July 7, 2017, which the court granted in the defendants' favor on October 6, 2017. On November 2, 2017, the plaintiff filed a notice of appeal to the Delaware Supreme Court appealing the court's original motion to dismiss opinion, motion for reargument opinion, and second motion to dismiss opinion. The parties have briefed the appeal and are currently awaiting argument and decision.

We have engaged and may in the future engage in a number of acquisitions (including the HLSS Acquisition and the Shellpoint Acquisition described in Note 18 to our Consolidated Financial Statements), and we may be unable to successfully integrate the acquired assets and assumed liabilities in connection with such acquisitions.

As part of our business strategy, we regularly evaluate acquisitions of what we believe are complementary assets. Identifying and achieving the anticipated benefits of such acquisitions is subject to a number of uncertainties, including, without limitation, whether we are able to acquire the assets, within our parameters, integrate the acquired assets and manage the assumed liabilities efficiently. As an example, we depend on Ocwen for significant operational support with respect to HLSS assets and the Ocwen Subject MSRs. It is possible that the integration process could take longer than anticipated and could result in additional and unforeseen expenses, the disruption of our ongoing business, processes and systems, or inconsistencies in standards, controls, procedures, practices and policies, any of which could adversely affect our ability to achieve the anticipated benefits of such acquisitions. There may be increased risk due to integrating the assets into our financial reporting and internal control systems. Difficulties in adding the assets into our business could also result in the loss of contract counterparties or other persons with whom we conduct business and potential disputes or litigation with contract counterparties or other persons with whom we or such counterparties conduct business. We could also be adversely affected by any issues attributable to the related seller's operations that arise or are based on events or actions that occurred prior to the closing of such acquisitions. Completion of the integration process is subject to a number of uncertainties, and no assurance can be given that the

anticipated benefits will be realized in their entirety or at all or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect our future business, financial condition, operating results and cash flows. Due to the costs of engaging in a number of acquisitions, we may also have difficulty completing more acquisitions in the future.

There may be difficulties with integrating the loans related to the Citi Transaction into Nationstar's servicing platform, which could have a material adverse effect on our results of operations, financial condition and liquidity.

In connection with the Citi Transaction (Note 5 to our Consolidated Financial Statements), Citi's remaining interim servicing obligations will be transferred to Nationstar, subject to GSE and other regulatory approvals. The ability to integrate and service the assets acquired in the Citi Transaction and in all similar future transactions will depend in large part on the success of Nationstar's development and integration of expanded servicing capabilities with Nationstar's current operations. We may fail to realize some or all of the anticipated benefits of the transaction if the integration process takes longer, or is more costly, than expected.

Potential difficulties we may encounter during the integration process with the assets acquired in the Citi Transaction or future similar acquisitions include, but are not limited to, the following:

- the integration of the portfolio into Nationstar's information technology platforms and servicing systems;
- the quality of servicing during any interim servicing period after we purchase the portfolio but before Nationstar assumes servicing obligations from the seller or its agents;
- the disruption to our ongoing businesses and distraction of our management teams from ongoing business concerns;
- incomplete or inaccurate files and records;
- the retention of existing customers;
- the creation of uniform standards, controls, procedures, policies and information systems;
- the occurrence of unanticipated expenses; and
- potential unknown liabilities associated with the transactions, including legal liability related to origination and servicing prior to the acquisition.

Our failure to meet the challenges involved in successfully integrating the assets acquired in the Citi Transaction and in all similar future transactions with our current business could impair our operations. For example, it is possible that the data Nationstar acquires upon assuming the direct servicing obligations for the loans may not transfer from the Citi platform to its systems properly. This may result in data being lost, key information not being locatable on Nationstar's systems, or the complete failure of the transfer. If Nationstar's employees are unable to access customer information easily, or if Nationstar is unable to produce originals or copies of documents or accurate information about the loans, collections could be affected significantly, and Nationstar may not be able to enforce its right to collect in some cases. Similarly, collections could be affected by any changes to Nationstar's collections practices, the restructuring of any key servicing functions, transfer of files and other changes that occur as a result of the transfer of servicing obligations from Citi to Nationstar.

We are responsible for certain of HLSS's contingent and other corporate liabilities.

Under the HLSS acquisition agreement (see Note 1 to our Consolidated Financial Statements), we have assumed and are responsible for the payment of HLSS's contingent and other liabilities, including: (i) liabilities for litigation relating to, arising out of or resulting from certain lawsuits in which HLSS is named as the defendant, (ii) HLSS's tax liabilities, (iii) HLSS's corporate liabilities, (iv) generally any actions with respect to the HLSS Acquisition brought by any third party and (v) payments under contracts. We currently cannot estimate the amount we may ultimately be responsible for as a result of assuming substantially all of HLSS's contingent and other corporate liabilities. The amount for which we are ultimately responsible may be material and have a material adverse effect on our business, financial condition, results of operations and liquidity. In addition, certain claims and lawsuits may require significant costs to defend and resolve and may divert management's attention away from other aspects of operating and managing our business, each of which could materially and adversely affect our business, financial condition, results of operations and liquidity.

Refer to "Risk Factors—Risks Related to Our Business—Stockholder or other litigation against HLSS and/or us could result in the payment of damages and/or may materially and adversely affect our business, financial condition, results of operations and liquidity" for a description of the Chester County Employees' Retirement Fund litigation.

We cannot guarantee that we will not receive further regulatory inquiries or be subject to litigation regarding the subject matter of the subpoenas or matters relating thereto, or that existing inquires, or, should they occur, any future regulatory inquiries or litigation, will not consume internal resources, result in additional legal and consulting costs or negatively impact our stock price.

We could be materially and adversely affected by past events, conditions or actions with respect to HLSS or Ocwen.

HLSS acquired assets and assumed liabilities could be adversely affected as a result of events or conditions that occurred or existed before the closing of the HLSS Acquisition. Adverse changes in the assets or liabilities we have acquired or assumed, respectively, as part of the HLSS Acquisition, could occur or arise as a result of actions by HLSS or Ocwen, legal or regulatory developments, including the emergence or unfavorable resolution of pre-acquisition loss contingencies, deteriorating general business, market, industry or economic conditions, and other factors both within and beyond the control of HLSS or Ocwen. We are subject to a variety of risks as a result of our dependence on Servicing Partners, including, without limitation, the potential loss of all of the value of our Excess MSRs in the event that the servicer of the underlying loans is terminated by the mortgage loan owner or RMBS bondholders. A significant decline in the value of HLSS assets or a significant increase in HLSS liabilities we have acquired could adversely affect our future business, financial condition, cash flows and results of operations. HLSS is subject to a number of other risks and uncertainties, including regulatory investigations and legal proceedings against HLSS, and others with whom HLSS conducted business. Moreover, any insurance proceeds received with respect to such matters may be inadequate to cover the

associated losses. Adverse developments at Ocwen, including liquidity issues, ratings downgrades, defaults under debt agreements, servicer rating downgrades, failure to comply with the terms of PSAs, termination under PSAs, Ocwen bankruptcy proceedings and additional regulatory issues and settlements, including those described above, could have a material adverse effect on us. See "—We rely heavily on our Servicing Partners to achieve our investment objective and have no direct ability to influence their performance."

Our ability to borrow may be adversely affected by the suspension or delay of the rating of the notes issued under certain of our financing facilities by the credit agency providing the ratings.

Certain of our financing facilities are rated by one rating agency and we may sponsor financing facilities in the future that are rated by credit agencies. The related agency or rating agencies may suspend rating notes backed by servicer advances, MSRs, Excess MSRs and our other investments at any time. Rating agency delays may result in our inability to obtain timely ratings on new notes, or amend or modify other financing facilities which could adversely impact the availability of borrowings or the interest rates, advance rates or other financing terms and adversely affect our results of operations and liquidity. Further, if we are unable to secure ratings from other agencies, limited investor demand for unrated notes could result in further adverse changes to our liquidity and profitability.

A downgrade of certain of the notes issued under our financing facilities could cause such notes to become due and payable prior to their expected repayment date/maturity date, which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Regulatory scrutiny regarding foreclosure processes could lengthen foreclosure timelines, which could increase advances and materially and adversely affect our business, financial condition, results of operations and liquidity.

When a residential mortgage loan is in foreclosure, the servicer is generally required to continue to advance delinquent principal and interest to the securitization trust 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. These 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, lengthen the time it takes for reimbursement of such advances and increase the costs incurred during the foreclosure process. In addition, servicer advance financing facilities generally contain provisions that 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 need to be funded from the related servicer's own capital. Such increases in foreclosure timelines could increase the need for capital to fund servicer advances, which would increase our interest expense, delay the collection of interest income or servicing revenue until the foreclosure has been resolved and, therefore, reduce the cash that we have available to pay our operating expenses or to pay dividends. For more information, see "—We could be materially and adversely affected by past events, conditions or actions with respect to HLSS or Ocwen" above.

Certain of our Servicing Partners have triggered termination events or events of default under some PSAs underlying the MSRs with respect to which we are entitled to the basic fee component or Excess MSRs.

In certain of these circumstances, the related Servicing Partner may be terminated without any right to compensation for its loss, other than the right to be reimbursed for any outstanding servicer advances as the related loans are brought current, modified, liquidated or charged off. So long as we are in compliance with our obligations under our servicing agreements and purchase agreements, if we or one of our Servicing Partners is terminated as servicer, we may have the right to receive an indemnification payment from the applicable Servicing Partner, even if such termination related to servicer termination events or events of default existing at the time of any transaction with such Servicing Partner. If one of our Servicing Partners is terminated as servicer under a PSA, we will lose any investment related to such Servicing Partner's MSRs. If we or such Servicing Partner is terminated as servicer with respect to a PSA and we are

unable to enforce our contractual rights against such Servicing Partner, or if such Servicing Partner is unable to make any resulting indemnification payments to us, if any such payment is due and payable, it may have a material adverse effect on our financial condition, results of operations, ability to make distributions, liquidity and financing arrangements, including our servicer advance financing facilities, and may make it more difficult for us to acquire additional interests in MSRs in the future.

Our borrowings collateralized by loans require that we make certain representations and warranties that, if determined to be inaccurate, could require us to repurchase loans or cover losses.

Our financing facilities require us to make certain representations and warranties regarding the loans that collateralize the borrowings. Although we perform due diligence on the loans that we acquire, certain representations and warranties that we make

in respect of such loans may ultimately be determined to be inaccurate. In the event of a breach of a representation or warranty, we may be required to repurchase affected loans, make indemnification payments to certain indemnified parties or address any claims associated with such breach. Further, we may have limited or no recourse against the seller from whom we purchased the loans. Such recourse may be limited due to a variety of factors, including the absence of a representation or warranty from the seller corresponding to the representation provided by us or the contractual expiration thereof.

Representations and warranties made by us in our loan sale agreements may subject us to liability.

We may be liable to purchasers under the related sale agreement for any breaches of representations and warranties made by HLSS at the time the applicable loans were sold. Such representations and warranties may include, but are not limited to, issues such as the validity of the lien; the absence of delinquent taxes or other liens; the loans' compliance with all local, state and federal laws and the delivery of all documents required to perfect title to the lien. If the purchaser is successful in asserting its claim for recourse, this could adversely affect the availability of financing under loan financing facilities or otherwise adversely impact our results of operations and liquidity. From time to time we sell residential mortgage loans pursuant to loan sale agreements. The risks describe in this paragraph relate to any such sales as well.

Our ability to exercise our cleanup call rights may be limited or delayed if a third party contests our ability to exercise our cleanup call rights, if the related securitization trustee refuses to permit the exercise of such rights, or if a related party is subject to bankruptcy proceedings.

Certain servicing contracts permit more than one party to exercise a cleanup call-meaning the right of a party to collapse a securitization trust by purchasing all of the remaining loans held by the securitization trust pursuant to the terms set forth in the applicable servicing agreement. While the servicers from which we acquired our cleanup call rights (or other servicers from which these servicers acquired MSRs) may be named as the party entitled to exercise such rights, certain third parties may also be permitted to exercise such rights. If any such third party exercises a cleanup call, we could lose our ability to exercise our cleanup call right and, as a result, lose the ability to generate positive returns with respect to the related securitization transaction. In addition, another party could impair our ability to exercise our cleanup call rights by contesting our rights (for example, by claiming that they hold the exclusive cleanup call right with respect to the applicable securitization trust). Moreover, because the ability to exercise a cleanup call right is governed by the terms of the applicable servicing agreement, any ambiguous or conflicting language regarding the exercise of such rights in the agreement may make it more difficult and costly to exercise a cleanup call right. Furthermore, certain servicing contracts provide cleanup call rights to a servicer currently subject to bankruptcy proceedings from which our servicers have acquired MSRs. While, notwithstanding the related bankruptcy proceedings, it is possible that we will be able to exercise the related cleanup calls within our desired time frame, our ability to exercise such rights may be significantly delayed or impaired by the applicable securitization trustee or bankruptcy estate or any additional steps required because of the bankruptcy process. Finally, many of our call rights are not currently exercisable and may not become exercisable for a period of years. As a result, our ability to realize the benefits from these rights will depend on a number of factors at the time they become exercisable many of which are outside our control, including interest rates, conditions in the capital markets and conditions in the residential mortgage market.

The exercise of cleanup calls could negatively impact our interests in MSRs.

The exercise of cleanup call rights results in the termination of the MSRs on the loans held within the related securitization trusts. To the extent we own interests in MSRs with respect to loans held within securitization trusts where cleanup call rights are exercised, whether they are exercised by us or a third party, the value of our interests in those MSRs will likely be reduced to zero and we could incur losses and reduced cash flows from any such interests.

New Residential's subsidiary New Residential Mortgage LLC is or may become subject to significant state and federal regulations.

A subsidiary of New Residential, NRM, has obtained or is currently in the process of obtaining applicable qualifications, licenses and approvals to own Non-Agency and certain Agency MSRs in the United States and certain other jurisdictions. As a result of NRM's current and expected approvals, NRM is subject to extensive and comprehensive regulation under federal, state and local laws in the United States. These laws and regulations do, and may in the future, significantly affect the way that NRM does business, and subject NRM and New Residential to additional costs and regulatory obligations, which could impact our financial results.

NRM's business may become subject to increasing regulatory oversight and scrutiny in the future as it continues seeking and obtaining additional approvals to hold MSRs, which may lead to regulatory investigations or enforcement, including both formal and informal inquiries, from various state and federal agencies as part of those agencies' oversight of the mortgage servicing

business. An adverse result in governmental investigations or examinations or private lawsuits, including purported class action lawsuits, may adversely affect NRM's and our financial results or result in serious reputational harm. In addition, a number of participants in the mortgage servicing industry have been the subject of purported class action lawsuits and regulatory actions by state or federal regulators, and other industry participants have been the subject of actions by state Attorneys General.

Failure of New Residential's subsidiary, NRM, to obtain or maintain certain licenses and approvals required for NRM to purchase and own MSRs could prevent us from purchasing or owning MSRs, which could limit our potential business activities.

State and federal laws require a business to hold certain state licenses prior to acquiring MSRs. NRM is currently licensed or otherwise eligible to hold MSRs in each applicable state. As a licensee in such states, NRM may become subject to administrative actions in those states for failing to satisfy ongoing license requirements or for other state law violations, the consequences of which could include fines or suspensions or revocations of NRM's licenses by applicable state regulatory authorities, which could in turn result in NRM becoming ineligible to hold MSRs in the related jurisdictions. We could be delayed or prohibited from conducting certain business activities if we do not maintain necessary licenses in certain jurisdictions. We cannot assure you that we will be able to maintain all of the required state licenses.

Additionally, NRM has received approval from FHA to hold MSRs associated with FHA-insured mortgage loans, from Fannie Mae to hold MSRs associated with loans owned by Fannie Mae, and from Freddie Mac to hold MSRs associated with loans owned by Freddie Mac. NRM may seek approval from Ginnie Mae to become an approved Ginnie Mae Issuer, which would make NRM eligible to hold MSRs associated with Ginnie Mae securities. As an approved Fannie Mae Servicer, Freddie Mac Servicer and FHA Lender, NRM is required to conduct aspects of its operations in accordance with applicable policies and guidelines published by FHA, Fannie Mae and Freddie Mac in order to maintain those approvals. Should NRM fail to maintain FHA, Fannie Mae or Freddie Mac approval, or fail to obtain approval from Ginnie Mae, NRM may be unable to purchase certain types of MSRs, which could limit our potential business activities.

NRM is currently subject to various, and may become subject to additional information reporting and other regulatory requirements, and there is no assurance that we will be able to satisfy those requirements or other ongoing requirements applicable to mortgage loan servicers under applicable state and federal laws. Any failure by NRM to comply with such state or federal regulatory requirements may expose us to administrative or enforcement actions, license or approval suspensions or revocations or other penalties that may restrict our business and investment options, any of which could restrict our business and investment options, adversely impact our business and financial results and damage our reputation.

We may become subject to fines or other penalties based on the conduct of mortgage loan originators and brokers that originate residential mortgage loans related to MSRs that we acquire, and the third-party servicers we may engage to subservice the loans underlying MSRs we acquire.

We have acquired MSRs and may in the future acquire additional MSRs from third-party mortgage loan originators, brokers or other sellers, and we therefore are or will become dependent on such third parties for the related mortgage loans' compliance with applicable law, and on third-party mortgage servicers, including our Servicing Partners, to perform the day-to-day servicing on the mortgage loans underlying any such MSRs. Mortgage loan originators and brokers are subject to strict and evolving consumer protection laws and other legal obligations with respect to the origination of residential mortgage loans. These laws and regulations include the residential mortgage servicing standards, "ability-to-repay" and "qualified mortgage" regulations promulgated by the CFPB, which became effective in 2014. In addition, there are various other federal, state, and local laws and regulations that are intended to discourage predatory lending practices by residential mortgage loan originators. These laws may be highly subjective and open to

interpretation and, as a result, a regulator or court may determine that that there has been a violation where an originator or servicer of mortgage loans reasonably believed that the law or requirement had been satisfied. Although we do not currently originate or directly service any mortgage loans, failure or alleged failure by originators or servicers to comply with these laws and regulations could subject us, as an investor in MSRs, to state or CFPB administrative proceedings, which could result in monetary penalties, license suspensions or revocations, or restrictions to our business, all of which could adversely impact our business and financial results and damage our reputation.

The final servicing rules promulgated by the CFPB to implement certain sections of the Dodd-Frank Act include provisions relating to, among other things, periodic billing statements and disclosures, responding to borrower inquiries and complaints, force-placed insurance, and adjustable rate mortgage interest rate adjustment notices. Further, the mortgage servicing rules require servicers to, among other things, make good faith early intervention efforts to notify delinquent borrowers of loss mitigation options, to implement specified loss mitigation procedures, and if feasible, exhaust all loss mitigation options before proceeding to foreclosure. Proposed updates to further refine these rules have been published and will likely lead to further changes in requirements applicable to servicing mortgage loans.

We do not currently engage in any day-to-day servicing operations, and instead engage third-party servicers to subservice mortgage loans relating to any MSRs we acquire. It is therefore possible that a third-party servicer's failure to comply with the new and evolving servicing protocols could adversely affect the value of the MSRs we acquire. Additionally, we may become subject to fines, penalties or civil liability based upon the conduct of any third-party servicer who services mortgage loans related to MSRs that we have acquired or will acquire in the future.

Investments in MSRs may expose us to additional risks.

We hold investments in MSRs. Our investments in MSRs may subject us to certain additional risks, including the following:

- We have limited experience acquiring MSRs and operating a servicer. Although ownership of MSRs and the operation of a servicer includes many of the same risks as our other target assets and business activities, including risks related to prepayments, borrower credit, defaults, interest rates, hedging, and regulatory changes, there can be no assurance that we will be able to successfully operate a servicer subsidiary and integrate MSR investments into our business operations.
- As of today, we rely on subservicers to subservice the mortgage loans underlying our MSRs on our behalf. We are generally responsible under the applicable Servicing Guidelines for any subservicer's non-compliance with any such applicable Servicing Guideline. In addition, there is a risk that our current subservicers will be unwilling or unable to continue subservicing on our behalf on terms favorable to us in the future. In such a situation, we may be unable to locate a replacement subservicer on favorable terms.
- NRM's existing approvals from government-related entities or federal agencies are subject to compliance with their respective servicing guidelines, minimum capital requirements, reporting requirements and other conditions that they may impose from time to time at their discretion. Failure to satisfy such guidelines or conditions could result in the unilateral termination of NRM's existing approvals or pending applications by one or more entities or agencies.
- NRM is presently licensed or otherwise eligible to hold MSRs in all states within the United States and the District of Columbia. Such state licenses may be suspended or revoked by a state regulatory authority, and we may as a result lose the ability to own MSRs under the regulatory jurisdiction of such state regulatory authority.
- Changes in minimum servicing compensation for Agency loans could occur at any time and could negatively impact the value of the income derived from any MSRs that we hold or may acquire in the future.
- Investments in MSRs are highly illiquid and subject to numerous restrictions on transfer and, as a result, there is risk that we would be unable to locate a willing buyer or get approval to sell any MSRs in the future should we desire to do so.

Our business, results of operations, financial condition and reputation could be adversely impacted if we are not able to successfully manage these or other risks related to investing and managing MSR investments.

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.

None of our officers or other senior individuals who perform services for us (other than three part-time employees of NRM), is an employee of New Residential. Instead, these individuals are employees of our Manager. Accordingly, 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.

On December 27, 2017, SoftBank announced that it completed the SoftBank Merger. In connection with the SoftBank Merger, Fortress will operate within SoftBank as an independent business headquartered in New York. While Fortress's senior investment professionals are expected to remain in place, including those individuals who perform services for us, there can be no assurance that the SoftBank Merger will not have an impact on us or our relationship with the Manager.

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

Our Management Agreement with our Manager was not negotiated between unaffiliated parties, and its terms, including fees payable, although approved by the independent directors of New Residential as fair, may not be as favorable to us as if they 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 Nationstar and OneMain—invest in real estate and other securities and loans, consumer loans and interests in MSRs 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. Although we have the same Manager, we may compete with entities affiliated with our Manager or Fortress 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. Fortress has two funds primarily focused on investing in Excess MSRs with approximately $0.6 billion in investments in aggregate. We have broad investment guidelines, and we have co-invested and may co-invest with Fortress funds or portfolio companies of private equity funds managed by our Manager (or an affiliate thereof) in a variety of investments. We also may invest in securities that are senior or junior to securities owned by funds managed by our Manager. Fortress funds generally have a fee structure similar to ours, but the fees actually paid will vary depending on the size, terms and performance of each fund.

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 Nationstar and OneMain which may include, but are not limited to, certain financing arrangements, purchases of debt, co-investments in interests in MSRs, consumer loans, and other assets that present an actual, potential or perceived conflict of interest. It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction, litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential, actual or perceived conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation, which could materially adversely affect our business in a number of ways, including causing an inability to raise additional funds, a reluctance of counterparties to do business with us, a decrease in the prices of our equity securities and a resulting increased risk of litigation and regulatory

enforcement actions.

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

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

It would be difficult and costly for us to terminate our Management Agreement with our Manager. The Management Agreement may only be terminated annually upon (i) the affirmative vote of at least two-thirds of our independent directors, or by a vote of the holders of a simple majority of the outstanding shares of our common stock, that there has been unsatisfactory performance by our Manager that is materially detrimental to us or (ii) a determination by a simple majority of our independent directors that the management fee payable to our Manager is not fair, subject to our Manager's right to prevent such a termination by accepting a mutually acceptable reduction of fees. Our Manager will be provided 60 days' prior notice of any termination and will be paid a termination fee equal to the amount of the management fee earned by the Manager during the 12-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 performance of the underlying investments) or otherwise we may continue to pay the incentive compensation to our Manager. These provisions may increase the effective cost to us of terminating the Management Agreement, thereby adversely affecting our ability to terminate our Manager without cause.

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

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

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

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

Pursuant to our Management Agreement, our Manager will not assume any responsibility other than to render the services called for thereunder in good faith and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager, its members, managers, officers and employees will not be liable to us or any of our subsidiaries, to our board of directors, or our or any subsidiary's stockholders or partners for any acts or omissions by our Manager, its members, managers, officers or employees, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement. We shall, to the full extent lawful, reimburse, indemnify and hold our Manager, its members, managers, officers and employees and each other person, if any, controlling our Manager harmless of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including attorneys' fees) in respect of or arising from any acts or omissions of an indemnified party made in good faith in the performance of our Manager's duties under our Management Agreement and not constituting such indemnified party's bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement.

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

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

The ownership by our executive officers and directors of shares of common stock, options, or other equity awards of OneMain, 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 OneMain, 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. As we describe in more detail below, it affects our business in many ways but it is difficult at this time to know exactly how or what the cumulative impact will be.

First, generally the Dodd-Frank Act strengthens the regulatory oversight of securities and capital markets activities by the SEC and empowers the newly-created CFPB to enforce laws and regulations for consumer financial products and services. It requires market participants to undertake additional record-keeping activities and imposes many additional disclosure requirements for public companies.

Moreover, the Dodd-Frank Act contains a risk retention requirement for all asset-backed securities. We issue many asset-backed securities. In October 2014, final rules were promulgated by a consortium of regulators implementing the final credit risk retention requirements of Section 941(b) of the Dodd-Frank Act. Under these "Risk Retention Rules," sponsors of both public and private securitization transactions or one of their majority owned affiliates are required to retain at least 5% of the credit risk of the assets collateralizing such securitization transactions. These regulations generally prohibit the sponsor or its affiliate from directly or indirectly hedging or otherwise selling or transferring the retained interest for a specified period of time, depending on the type of asset that is securitized. Beginning December 2015 and December 2016, respectively, sponsors securitizing residential mortgages and certain other types of assets must comply with the Risk Retention Rules. The Risk Retention Rules provide for limited exemptions for certain types of assets, however, these exemptions may be of limited use under our current market practices. In any event, compliance with these new Risk Retention Rules has increased and will likely continue to increase the administrative and operational costs of asset securitization.

Further, 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 may 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.

Also, under the Dodd-Frank Act, financial regulators belonging to the Financial Stability Oversight Council are required to name financial institutions that are deemed to be systemically important to the economy and which may require closer regulatory supervision. Such systemically important financial institutions, or “SIFIs,” may be required to operate with greater safety margins,

such as higher levels of capital, and may face further limitations on their activities. The determination of what constitutes a SIFI is evolving, and in time SIFIs may include large investment funds and even asset managers. There can be no assurance that we will not be deemed to be a SIFI and thus subject to further regulation.

Even if certain of the new requirements of the Dodd-Frank Act 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. For instance, the 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.

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

The payments we receive on the Agency RMBS in which we invest depend upon a steady stream of payments by borrowers on the underlying mortgages and the fulfillment of guarantees by GSEs. Ginnie Mae is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the U.S. Fannie Mae and Freddie Mac are GSEs, but their guarantees are not backed by the full faith and credit of the U.S. Government.

In response to the deteriorating financial condition of Fannie Mae and Freddie Mac and the credit market disruption beginning in 2007, Congress and the U.S. Treasury undertook a series of actions to stabilize these GSEs and the financial markets, generally. The Housing and Economic Recovery Act of 2008 was signed into law on July 30, 2008, and established the FHFA, with enhanced regulatory authority over, among other things, the business activities of Fannie Mae and Freddie Mac and the size of their portfolio holdings. On September 7, 2008, FHFA placed Fannie Mae and Freddie Mac into federal conservatorship and, together with the U.S. Treasury, established a program designed to boost investor confidence in Fannie Mae’s and Freddie Mac’s debt and Agency RMBS.

As the conservator of Fannie Mae and Freddie Mac, the FHFA controls and directs the operations of Fannie Mae and Freddie Mac and may (1) take over the assets of and operate Fannie Mae and Freddie Mac with all the powers of the stockholders, the directors and the officers of Fannie Mae and Freddie Mac and conduct all business of Fannie Mae and Freddie Mac; (2) collect all obligations and money due to Fannie Mae and Freddie Mac; (3) perform all functions of Fannie Mae and Freddie Mac which are consistent with the conservator’s appointment; (4) preserve and conserve the assets and property of Fannie Mae and Freddie Mac; and (5) contract for assistance in fulfilling any function, activity, action or duty of the conservator.

Those efforts resulted in significant U.S. Government financial support and increased control of the GSEs.

The U.S. Federal Reserve (the “Fed”) announced in November 2008 a program of large-scale purchases of Agency RMBS in an attempt to lower longer-term interest rates and contribute to an overall easing of adverse financial conditions. Subject to specified investment guidelines, the portfolios of Agency RMBS purchased through the programs established by the U.S. Treasury and the Fed may be held to maturity and, based on mortgage market conditions, adjustments may be made to these portfolios. This flexibility may adversely affect the pricing and availability of Agency RMBS that we seek to acquire during the remaining term of these portfolios.

There can be no assurance that the U.S. Government's intervention in Fannie Mae and Freddie Mac will be adequate for the longer-term viability of these GSEs. These uncertainties lead to questions about the availability of and trading market for, Agency RMBS. Accordingly, if these government actions are inadequate and the GSEs defaulted on their guaranteed obligations, suffered losses or ceased to exist, the value of our Agency RMBS and our business, operations and financial condition could be materially and adversely affected.

Additionally, because of the financial problems faced by Fannie Mae and Freddie Mac that led to their federal conservatorships, many policymakers have been examining the value of a federal mortgage guarantee and the appropriate role for the U.S. government in providing liquidity for residential mortgage loans. In June 2013, legislation titled "Housing Finance Reform and Taxpayer Protection Act of 2013" was introduced in the U.S. Senate; in July 2013, legislation titled "Protecting American Taxpayers and Homeowners Act of 2013" was introduced in the U.S. House of Representatives. The bills differ in many respects, but both require the wind-down of the GSEs. Each chairman of the respective Congressional committees of jurisdiction, as well as the Secretary of the Treasury, has each stated that housing finance policy is a priority. However, the details of any plans, policies

or proposals with respect to the housing GSEs are unknown at this time. Other bills have been introduced that change the GSEs' business charters and eliminate the entities or make other changes to the existing framework. We cannot predict whether or when the introduced legislation, the amended legislation or any future legislation may be enacted. Such legislation could materially and adversely affect the availability of, and trading market for, Agency RMBS and could, therefore, materially and adversely affect the value of our Agency RMBS 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 interests in MSRs. As a result, such loan modifications are negatively affecting our business, results of operations, liquidity and financial condition. In addition, certain market participants propose reducing the amount of paperwork required by a borrower to modify a loan, which could increase the likelihood of fraudulent modifications and materially harm the U.S. mortgage market and investors that have exposure to this market. Additional legislation intended to provide relief to borrowers may be enacted and could further harm our business, results of operations and financial condition.

Risks Related to Our Taxation as a REIT

Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code.

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

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

We intend to operate in a manner intended to qualify us as a REIT for U.S. federal income tax purposes. Our ability to satisfy the asset tests depends upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we do not obtain independent appraisals. See "—Risks Related to our Business—The valuations of our assets are subject to uncertainty because most of our assets are not traded in an active market," and "—Risks Related to Our Business—Rapid changes in the values of our assets may make it more difficult for us to maintain our qualification as a REIT or our exclusion from the 1940 Act." Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of one or more of our investments (such as TBAs) may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements. Accordingly, there can be no assurance that the U.S. Internal Revenue Service ("IRS") will not contend that our investments violate the REIT requirements.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and distributions to stockholders would not be deductible by us in computing our taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of, and market price for, our stock. See also "—Our failure to qualify as a REIT would cause our stock to be delisted from the NYSE."

Unless entitled to relief under certain provisions of the Internal Revenue Code, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we initially ceased to qualify as a REIT. The rule against re-electing REIT status following a loss of such status would also apply to us if Drive Shack failed to qualify as a REIT for any taxable year ended on or before December 31, 2014, and we were treated as a successor to Drive Shack for U.S. federal income tax purposes. Although Drive Shack (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 Drive Shack's taxable years ended on or before December 31, 2014 (unless Drive Shack obtains an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS to the effect that Drive Shack'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 Drive Shack, there can be no assurance that such damages, if any, would appropriately compensate us. In addition, if Drive Shack were to fail to qualify as a REIT despite its reasonable best efforts, we would have no claim against Drive Shack.

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 MSRs to qualify as real estate assets or the income from our Excess MSRs 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 MSRs represent interests in mortgages on real property and thus are qualifying "real estate assets" for purposes of the REIT asset test, which generate income that qualifies as interest on obligations secured by mortgages on real property for purposes of the REIT income test. The ruling is based on, among other things, certain assumptions as well as on the accuracy of certain factual representations and statements that we and Drive Shack 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 “qualified dividends.”

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

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

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

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

Based on IRS guidance concerning the classification of Excess MSRs, we intend to treat our Excess MSRs as ownership interests in the interest payments made on the underlying residential 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 residential mortgage loans underlying the Excess MSR. If the residential 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.

Under the recently enacted Tax Cuts and Jobs Act (“TCJA”), we generally will be required to take certain amounts into income no later than the time such amounts are reflected on certain financial statements. The application of this rule may require the accrual of, among other categories of income, income with respect to certain debt instruments or mortgage-backed securities, such as original issue discount or market discount, earlier than would be the case under the general tax rules, although the precise application of this rule is unclear at this time. This rule generally will be effective for tax years beginning after December 31, 2017 or, for debt instruments or mortgage-backed securities issued with original issue discount, for tax years beginning after December 31, 2018.

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

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

In any event, if our investments generate more taxable income than cash in any given year, we may have difficulty satisfying our annual REIT distribution requirement.

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

As a REIT, we are generally required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and not including net capital gains) 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, subject to certain adjustments, although there can be no assurance that our operations will generate sufficient cash to make such distributions. Moreover, our ability to make distributions may be adversely affected by the risk factors described herein. See also "—Risks Related to our Common Stock—We have not established a minimum distribution payment level, and we cannot assure you of our ability to pay distributions in the future."

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

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

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

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Moreover, if a REIT distributes less than 85% of its ordinary income and 95% of its capital gain net income plus any undistributed shortfall from the prior year (the "Required Distribution") 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 Distribution 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 may hold some of our assets through TRSs. Such subsidiaries generally will be subject to corporate level income tax at regular rates and the payment of such taxes would reduce our return on the applicable investment. Currently, we hold some of our investments in TRSs, including Servicer Advance Investments and MSRs, and we may contribute other non-qualifying investments, such as our investment in consumer loans, to a TRS in the future.

Complying with the REIT requirements may negatively impact our investment returns or cause us to forgo 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, forgo otherwise attractive investment opportunities, liquidate assets in adverse market conditions or contribute assets to a TRS that is subject to regular corporate federal income tax. Our ability to

acquire and hold MSRs, interests in consumer loans, Servicer Advance Investments and other investments is subject to the applicable REIT qualification tests, and we may have to hold these interests through TRSs, which would negatively impact our returns from these assets. In general, compliance with the REIT requirements may hinder our ability to make and retain certain attractive investments.

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

The existing REIT provisions of the Internal Revenue Code may substantially limit our ability to hedge our operations because a significant amount of the income from those hedging transactions is likely to be treated as non-qualifying income for purposes of both REIT gross income tests. In addition, we must limit our aggregate income from non-qualified hedging transactions, from our provision of services and from other non-qualifying sources, to less than 5% of our annual gross income (determined without regard to gross income from qualified hedging transactions).

As a result, we may have to limit our use of certain hedging techniques or implement those hedges through TRSs. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur or could increase the cost of our hedging activities. If we fail to comply with these limitations, we could lose our REIT qualification for U.S. federal income tax purposes, unless our failure was due to reasonable cause, and not due to willful neglect, and we meet certain other technical requirements. Even if our failure were due to reasonable cause, we might incur a penalty tax. See also "—Risks Related to Our Business—Any hedging transactions that we enter into may limit our gains or result in losses."

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

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

- part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as unrelated business taxable income if shares of our stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income;
- part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the stock; and
- to the extent that we are (or a part of us, or a disregarded subsidiary of ours, is) a "taxable mortgage pool," or if we hold residual interests in a real estate mortgage investment conduit, a portion of the distributions paid to a tax exempt stockholder that is allocable to excess inclusion income may be treated as unrelated business taxable income.

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

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

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

Uncertainty exists with respect to the treatment of TBAs for purposes of the REIT asset and income tests, and the failure of TBAs to be qualifying assets or of income/gains from TBAs to be qualifying income could adversely affect our ability to qualify as a REIT.

We purchase and sell Agency RMBS through TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise. In a dollar roll transaction, we exchange an existing TBA for another TBA with a different settlement date. There is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the

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

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

Net income that we derive from a “prohibited transaction” is subject to a 100% tax. The term “prohibited transaction” generally includes a sale or other disposition of property (including mortgage loans, but other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of our trade or business. We might be subject to this tax if we were to dispose of or securitize loans or Excess MSRs 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 MSRs at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us. In addition, whether property is held “primarily for sale to customers in the ordinary course of a trade or business” depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held-for-sale to customers, or that we can comply with certain safe-harbor provisions of the Internal Revenue Code that would prevent such treatment. The 100% prohibited transaction tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to prevent prohibited transaction characterization.

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.

Changes to U.S. federal income tax laws could materially and adversely affect us and our stockholders.

The present U.S. federal income tax treatment of REITs and their shareholders 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 our shares. The U.S. federal income tax rules, including those dealing with

REITs, are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations.

The recently enacted TCJA makes substantial changes to the Internal Revenue Code. Among those changes are a significant permanent reduction in the generally applicable corporate tax rate, changes in the taxation of individuals and other non-corporate taxpayers that generally but not universally reduce their taxes on a temporary basis subject to "sunset" provisions, the elimination or modification of various currently allowed deductions (including substantial limitations on the deductibility of interest and, in the case of individuals, the deduction for personal state and local taxes), certain additional limitations on the deduction of net operating losses and preferential rates of taxation on most ordinary REIT dividends and certain business income derived by non-corporate taxpayers in comparison to other ordinary income recognized by such taxpayers. The effect of these, and the many other, changes made in the TCJA is highly uncertain, both in terms of their direct effect on the taxation of an investment in our common stock and their indirect effect on the value of our assets or market conditions generally. Furthermore, many of the provisions of

the TCJA will require guidance through the issuance of Treasury regulations in order to assess their effect. There may be a substantial delay before such regulations are promulgated, increasing the uncertainty as to the ultimate effect of the statutory amendments on us. It is also likely that there will be technical corrections legislation proposed with respect to the TCJA next year, the effect of which cannot be predicted and may be adverse to us or our stockholders.

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 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 and cash flows, or those of other comparable companies;
- actual or anticipated fluctuations in our operating results;
- changes in accounting standards, policies, guidance, interpretations or principles;
- announcements by us or our competitors of significant investments, acquisitions or dispositions;
- the failure of securities analysts to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- market performance of affiliates and other counterparties with whom we conduct business;
- the operating and stock price performance of other comparable companies;
- our failure to qualify as a REIT, maintain our exemption under the 1940 Act or satisfy the NYSE listing requirements;
- negative public perception of us, our competitors or industry;
- 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 market 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 or issuances of substantial amounts of shares of our common stock, or the perception that such sales or issuances 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 options or otherwise could also have an adverse effect on the market price of our common stock. We have an effective registration statement on file to sell common stock or convertible securities in public offerings.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 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 of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. We have made investments through joint ventures, such as our investment in consumer loans, and accounting for such investments can increase the complexity of maintaining effective internal control over financial reporting. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we had previously believed that our internal control over financial reporting was 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 control over financial reporting 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 the effectiveness of our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in our stock 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. We have adopted a Nonqualified Stock Option and Incentive Award Plan, as amended (the "Plan"), which provides for the grant of equity-based awards, including restricted stock, options, stock appreciation rights, 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 15 million shares of our common stock for issuance under the Plan. The term of the Plan expires in 2023. On the first day of each fiscal year beginning during the term of the Plan, 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. In connection with any offering of our common stock, we will issue to our Manager options relating to shares of our common stock, representing 10% of the number of shares being offered. Our board of directors may also determine to issue options to the Manager that are not subject to the Plan, provided that the number of shares relating to any options granted to the Manager in connection with an offering of our common stock would not exceed 10% of the shares sold in such offering and would be subject to NYSE rules.

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

We may in the future incur or issue debt or issue equity or equity-related securities. In the event of our liquidation, lenders and holders of our debt and holders of our preferred stock (if any) would receive a distribution of our available assets before common stockholders. Any future incurrence or issuance of debt would increase our interest cost and could adversely affect our results of operations and cash flows. We are not required to offer any additional equity securities to existing common stockholders on a preemptive basis. Therefore, additional issuances of common stock, directly or through convertible or exchangeable securities, 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 our REIT taxable income to holders of our common stock out of assets legally available therefor. We have not established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this report. Any distributions will be authorized by our board of directors and declared by us based upon a number of factors, including our actual and anticipated results of operations, liquidity and financial condition, restrictions under Delaware law or applicable financing covenants, our REIT taxable income, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, our operating expenses and other factors our directors deem relevant.

Our board of directors approved two increases in our quarterly dividends during 2017, which has resulted in reduced cash flows. Although we have other sources of liquidity, such as sales of and repayments from our investments, potential debt financing sources and the issuance of equity securities, there can be no assurance that we will generate

sufficient cash or 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 cash 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 and materially affect our business, results of operations, liquidity and financial condition as well as the market price of our common stock. No assurance can be given that we will make any distributions on shares of our common stock in the future.

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

We may in the future make taxable distributions that are payable in cash and shares of our common stock at the election of each stockholder. Taxable stockholders receiving such distributions will be required to include the full amount of the distribution 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 distributions in excess of the cash distributions received. If a U.S. stockholder sells the stock that it receives as a distribution in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the distribution, 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 distributions, including in respect of all or a portion of such distribution 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 distributions, it may put downward pressure on the market price of our common stock.

In August 2017, the IRS issued guidance authorizing elective cash/stock dividends to be made by public REITs where there is a minimum (of at least 20%) amount of cash that may be paid as part of the dividend, provided that certain requirements are met. It is unclear whether and to what extent we would be able to or choose to pay taxable distributions in cash and stock. In addition, no assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock distributions, including on a retroactive basis, or assert that the requirements for such taxable cash/stock distributions 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 stock 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 outstanding and future (variable and fixed) 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 market price of our common stock.

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

- a classified board of directors with staggered three-year terms;
- provisions regarding the election of directors, classes of directors, the term of office of directors, the filling of director vacancies and the resignation and removal of directors for cause only upon the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote thereon;
- provisions regarding corporate opportunity only upon the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote thereon;
-

removal of directors only for cause and only with the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote in the election of directors;
- our board of directors to determine the powers, preferences and rights of our preferred stock and to issue such preferred stock without stockholder approval;
- advance notice requirements applicable to stockholders for director nominations and actions to be taken at annual meetings;
- a prohibition, in our certificate of incorporation, stating that no holder of shares of our common stock will have cumulative voting rights in the election of directors, which means that the holders of a majority of the issued and outstanding shares of common stock can elect all the directors standing for election; and
- a requirement in our bylaws specifically denying the ability of our stockholders to consent in writing to take any action in lieu of taking such action at a duly called annual or special meeting of our stockholders.

Public stockholders who might desire to participate in these types of transactions may not have an opportunity to do so, even if the transaction is considered favorable to stockholders. These anti-takeover provisions could substantially impede the ability of

public stockholders to benefit from a change in control or a change in our management and board of directors and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium.

ERISA may restrict investments by plans in our common stock.

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

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties.

None.

Item 3. Legal Proceedings.

Following the HLSS Acquisition (see Note 1 to our Consolidated Financial Statements), material potential claims, lawsuits, regulatory inquiries or investigations, and other proceedings, of which we are currently aware, are as follows. We have not accrued losses in connection with these legal contingencies because management does not believe there is a probable and reasonably estimable loss. Furthermore, we cannot reasonably estimate the range of potential loss related to these legal contingencies at this time. However, the ultimate outcomes of the proceedings described below may have a material adverse effect on our business, financial position or results of operations.

In addition to the matters described below, from time to time, we are or may be involved in various disputes, litigation and regulatory inquiry and investigation matters that arise in the ordinary course of business. Given the inherent unpredictability of these types of proceedings, it is possible that future adverse outcomes could have a material adverse effect on our financial results.

Three putative class action lawsuits have been filed against HLSS and certain of its current and former officers and directors in the United States District Court for the Southern District of New York entitled: (i) Oliveira v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-652 (S.D.N.Y.), filed on January 29, 2015; (ii) Berglan v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-947 (S.D.N.Y.), filed on February 9, 2015; and (iii) W. Palm Beach Police Pension Fund v. Home Loan Servicing Solutions, Ltd., et al., No. 15-CV-1063 (S.D.N.Y.), filed on February 13, 2015. On April 2, 2015, these lawsuits were consolidated into a single action, which is referred to as the "Securities Action." On April 28, 2015, lead plaintiffs, lead counsel and liaison counsel were appointed in the Securities Action. On November 9, 2015, lead plaintiffs filed an amended class action complaint. On January 27, 2016, the Securities Action was transferred to the United States District Court for the Southern District of Florida and given the Index No. 16-CV-60165 (S.D. Fla.).

The Securities Action names as defendants HLSS, former HLSS Chairman William C. Erbey, HLSS Director, President, and Chief Executive Officer John P. Van Vlack, and HLSS Chief Financial Officer James E. Lauter. The Securities Action asserts causes of action under Sections 10(b) and 20(a) of the Exchange Act based on certain public disclosures made by HLSS relating to its relationship with Ocwen and HLSS's risk management and internal controls. More specifically, the consolidated class action complaint alleges that a series of statements in HLSS's disclosures

were materially false and misleading, including statements about (i) Ocwen's servicing capabilities; (ii) HLSS's contingencies and legal proceedings; (iii) its risk management and internal controls; and (iv) certain related party transactions. The consolidated class action complaint also appears to allege that HLSS's financial statements for the years ended 2012 and 2013, and the first quarter ended March 30, 2014, were false and misleading based on HLSS's August 18, 2014 restatement. Lead plaintiffs in the Securities Action also allege that HLSS misled investors by failing to disclose, among other things, information regarding governmental investigations of Ocwen's business practices. Lead plaintiffs seek money damages under the Exchange Act in an amount to be proven at trial and reasonable costs, expenses, and fees. On February 11, 2015, defendants filed motions to dismiss the Securities Action in its entirety. On June 6, 2016, all allegations except those regarding certain related party transactions were dismissed.

On June 15, 2017, the court entered an order preliminarily approving a settlement of the Securities Action for $6.0 million, certifying a settlement class, approving the form and content of notice of the settlement to class members, and setting a hearing to determine

whether the settlement should receive final approval. Following a hearing on November 17, 2017, the court entered an order and judgment finally approving the settlement and dismissing all claims with prejudice.

New Residential is, from time to time, subject to inquiries by government entities. New Residential currently does not believe any of these inquiries would result in a material adverse effect on New Residential's business.

Item 4. Mine Safety Disclosures.

None.

PART II

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

The following graph compares the cumulative total return for our common stock (stock price change plus reinvested dividends) with the comparable return of four indices: NAREIT All REIT, Russell 2000, NAREIT Mortgage REIT, and S&P 500. The graph assumes an investment of $100 in our common stock and in each of the indices on May 16, 2013 and that all dividends were reinvested. The past performance of our common stock is not an indication of future performance.

	Period Ended											
Index	5/16/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014	6/30/2014	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015
New Residential Investment Corp.	100.00	97.34	98.17	102.76	102.25	103.53	98.62	111.19	134.18	139.61	120.01	119.90
NAREIT All REIT		97.72	95.39	95.68	103.89	111.12	108.20	121.66	126.59	115.28	116.16	124.44
Russell 2000	100.00	99.41	109.56	119.12	120.45	122.92	113.87	124.95	130.34	130.89	115.29	119.43
NAREIT Mortgage REIT		96.13	94.28	94.42	104.96	111.17	106.40	111.31	113.92	105.64	102.51	101.43
S&P 500	100.00	97.55	102.66	113.45	115.50	121.55	122.92	128.98	130.21	130.57	122.17	130.77

	Period Ended							
Index	3/31/2016	6/30/2016	9/30/2016	12/31/2016	3/31/2017	6/30/2017	9/30/2017	12/31/2017
New Residential Investment Corp.	119.21	141.86	151.44	177.47	197.22	186.42	206.43	226.72
NAREIT All REIT	131.73	141.43	140.08	135.99	140.03	143.38	145.16	148.60
Russell 2000	117.62	122.08	133.12	144.88	148.46	152.11	160.74	166.10
NAREIT Mortgage REIT	105.75	116.07	121.88	124.60	138.09	144.52	149.58	149.26
S&P 500	132.53	135.79	141.02	146.41	155.29	160.09	167.26	178.37

We have one class of common stock, which is listed on the New York Stock Exchange (NYSE) under the symbol "NRZ." The following table sets forth, for the periods indicated, the high, low and last sale prices in U.S. dollars on the NYSE for our common stock and the distributions we declared with respect to the periods indicated.

2017	High	Low	Last Sale	Distributions Declared
First Quarter	$17.25	$15.03	$ 16.98	$ 0.48
Second Quarter	$17.86	$15.37	$ 15.56	$ 0.50
Third Quarter	$17.30	$15.04	$ 16.73	$ 0.50
Fourth Quarter	$18.43	$16.68	$ 17.88	$ 0.50
2016				
First Quarter	$12.50	$9.07	$ 11.63	$ 0.46
Second Quarter	$13.98	$11.36	$ 13.84	$ 0.46
Third Quarter	$14.89	$12.73	$ 13.81	$ 0.46
Fourth Quarter	$16.43	$13.30	$ 15.72	$ 0.46

We may declare quarterly distributions on our common stock. No assurance, however, can be given that any future distributions will be made or, if made, as to the amounts or timing of any future distributions as such distributions are subject to our earnings, financial condition, liquidity, capital requirements, REIT requirements and such other factors as our board of directors deems relevant. In addition, such distributions may be subject to the receipt of sufficient funds from our servicer subsidiary, NRM, which is subject to regulatory restrictions on its ability to pay distributions.

On February 8, 2018, the closing sale price for our common stock, as reported on the NYSE, was $16.09. As of February 8, 2018, there were approximately 35 record holders of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

Nonqualified Stock Option and Incentive Award Plan

On April 29, 2013, New Residential's board of directors adopted the Plan, which was amended and restated as of November 4, 2014. The Plan is intended to facilitate the use of long-term equity-based awards and incentives for the benefit of the service providers to New Residential and its Manager. All outstanding options granted under the Plan will be subject to the terms and conditions set forth in the agreements evidencing such options and the terms of the Plan. The maximum number of shares available for issuance in the aggregate over the ten-year term of the Plan is 15,000,000 shares. 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.

In connection with our separation from Drive Shack, each Drive Shack 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 Drive Shack's stockholders was converted into an adjusted Drive Shack option as well as a new New Residential option (a "Converted Option"). The exercise price of each adjusted Drive Shack option and Converted Option was set to collectively maintain the intrinsic value of the Drive Shack option immediately prior to the distribution and to maintain the ratio of the exercise price of the adjusted Drive Shack option and the Converted 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 Converted Option were substantially similar to the terms and condition otherwise applicable to the Drive Shack option as of the date of distribution. The grant of such Converted 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 of directors (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 of directors 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.

The following table summarizes the total number of outstanding securities in the incentive plan and the number of securities remaining for future issuance, as well as the weighted average exercise price of all outstanding securities as of December 31, 2017.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options		Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under the 2013 Equity Compensation Plan	
Equity Compensation Plans Approved by Security Holders:					
Nonqualified Stock Option and Incentive Award Plan	17,641,617		$ 14.90	14,859,204	
Total	17,641,617	(A)	$ 14.90	14,859,204	(B)
Equity Compensation Plans Not Approved by Security Holders:					
None					

(A) The number of securities to be issued upon exercise of outstanding options does not include 860,571 Converted Options (with a weighted average exercise price of $11.36) held by an affiliate of our Manager.

(B) No award shall be granted on or after May 15, 2023 (but awards granted may extend beyond this date). The number of securities remaining available for future issuance is net of an aggregate of 134,796 shares of our common stock and 6,000 options awarded to our directors, the shares being awarded in lieu of contractual cash compensation. The number of securities remaining available for future issuance is adjusted on the first day of each fiscal year beginning during the ten-year term of the plan and in and after calendar year 2014, 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). No adjustment was made on January 1, 2014. On January 1, 2018, 2017, 2016 and 2015, 5,654,578 shares, 2,000,000 shares, 8,543,539 shares and 1,437,500 shares, respectively, were added to the number of securities remaining available for future issuance; all of these amounts have been included in the table above.

Item 6. Selected Financial Data.

The selected historical consolidated financial information set forth below as of December 31, 2017, 2016, 2015, 2014 and 2013 and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 has been derived from our audited historical Consolidated Financial Statements.

The information below should be read in conjunction with Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements and notes thereto included in Part II, Item 8, “Financial Statements and Supplementary Data.”

Selected Consolidated Financial Information

(in thousands, except share and per share data)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Statement of Income Data					
Interest income	$1,519,679	$1,076,735	$645,072	$346,857	$87,567
Interest expense	460,865	373,424	274,013	140,708	15,024
Net Interest Income	1,058,814	703,311	371,059	206,149	72,543
Impairment	86,092	87,980	24,384	11,282	5,454
Net interest income after impairment	972,722	615,331	346,675	194,867	67,089
Servicing revenue, net	424,349	118,169	—	—	—
Other Income	207,786	62,337	42,029	375,088	241,008
Operating Expenses	422,577	174,210	117,823	104,899	42,474
Income Before Income Taxes	1,182,280	621,627	270,881	465,056	265,623
Income tax expense (benefit)	167,628	38,911	(11,001)	22,957	—
Net Income	$1,014,652	$582,716	$281,882	$442,099	$265,623
Noncontrolling Interests in Income of Consolidated Subsidiaries	$57,119	$78,263	$13,246	$89,222	$(326)
Net Income Attributable to Common Stockholders	$957,533	$504,453	$268,636	$352,877	$265,949
Net Income per Share of Common Stock, Basic	$3.17	$2.12	$1.34	$2.59	$2.10
Net Income per Share of Common Stock, Diluted	$3.15	$2.12	$1.32	$2.53	$2.07
Weighted Average Number of Shares of Common Stock Outstanding, Basic	302,238,065	238,122,665	200,739,809	136,472,865	126,539,024
Weighted Average Number of Shares of Common Stock Outstanding, Diluted	304,381,388	238,486,772	202,907,605	139,565,709	128,684,128
Dividends Declared per Share of Common Stock	$1.98	$1.84	$1.75	$1.58	$0.99

	December 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data					
Investments in:					
Excess mortgage servicing rights, at fair value	$1,173,713	$1,399,455	$1,581,517	$417,733	$324,151
Excess mortgage servicing rights, equity method investees, at fair value	171,765	194,788	217,221	330,876	352,766
Mortgage servicing rights, at fair value	1,735,504	659,483	—	—	—
Mortgage servicing rights financing receivables, at fair value	598,728	—	—	—	—
Servicer advance investments, at fair value	4,027,379	5,706,593	7,426,794	3,270,839	2,665,551
Real estate and other securities, available-for-sale	8,071,140	5,073,858	2,501,881	2,463,163	1,973,189
Residential mortgage loans, held-for-investment	691,155	190,761	330,178	47,838	33,539
Residential mortgage loans, held-for-sale	1,725,534	696,665	776,681	1,126,439	—
Real estate owned	128,295	59,591	50,574	61,933	—
Consumer loans, held-for-investment	1,374,263	1,799,486	—	—	—
Consumer loans, equity method investees	51,412	—	—	—	215,062
Cash and cash equivalents	295,798	290,602	249,936	212,985	271,994
Total assets	22,213,562	18,399,529	15,192,722	8,089,244	5,958,658
Total debt	15,746,530	13,181,236	11,292,622	6,057,853	4,109,329
Total liabilities	17,417,400	14,931,352	12,206,142	6,239,319	4,445,583
Total New Residential stockholders' equity	4,690,205	3,260,100	2,795,933	1,596,089	1,265,850
Noncontrolling interests in equity of consolidated subsidiaries	105,957	208,077	190,647	253,836	247,225
Total equity	4,796,162	3,468,177	2,986,580	1,849,925	1,513,075
Supplemental Balance Sheet Data					
Common shares outstanding	307,361,309	250,773,117	230,471,202	141,434,905	126,598,987
Book value per share of common stock	$15.26	$13.00	$12.13	$11.28	$10.00
Other Data					
Core earnings[(A)]	$861,381	$510,821	$388,756	$219,261	$129,997

(A) We have four primary variables that impact our operating performance: (i) the current yield earned on our investments, (ii) the interest expense under the debt incurred to finance our investments, (iii) our operating expenses and taxes and (iv) our realized and unrealized gains 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 adjusts the earnings from the consumer loan investment to a level yield basis. Core earnings is used by management to evaluate our 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 generally limited to a potential indicator of future economic performance; (ii) incentive compensation paid to our Manager; (iii) non-capitalized transaction-related expenses; and (iv) deferred taxes, which are not representative of current operations.

Our definition of core earnings includes accretion on held-for-sale loans as if they continued to be held-for-investment. Although we intend to sell such loans, there is no guarantee that such loans will be sold or that they will be sold within any expected timeframe. During the period prior to sale, we continue to receive cash flows from such loans and believe that it is appropriate to record a yield thereon. In addition, our definition of core earnings excludes all deferred taxes, rather than just deferred taxes related to unrealized gains or losses, because we believe deferred taxes are not representative of current operations. Our definition of core earnings also limits accreted interest income on RMBS where we receive par upon the exercise of associated call rights based on the estimated value of the underlying collateral, net of related costs including advances. We created this limit in order to be able to accrete to the

lower of par or the net value of the underlying collateral, in instances where the net value of the underlying collateral is lower than par. We believe this amount represents the amount of accretion we would have expected to earn on such bonds had the call rights not been exercised.

Our investments in consumer loans are accounted for under ASC No. 310-20 and ASC No. 310-30, including certain non-performing consumer loans with revolving privileges that are explicitly excluded from being accounted for under ASC No. 310-30. Under ASC No. 310-20, the recognition of expected losses on these non-performing consumer loans

is delayed in comparison to the level yield methodology under ASC No. 310-30, which recognizes income based on an expected cash flow model reflecting an investment's lifetime expected losses. The purpose of the Core Earnings adjustment to adjust consumer loans to a level yield is to present income recognition across the consumer loan portfolio in the manner in which it is economically earned, avoid potential delays in loss recognition, and align it with our overall portfolio of mortgage-related assets which generally record income on a level yield basis. With respect to consumer loans classified as held-for-sale, the level yield is computed through the expected sale date. With respect to the gains recorded under GAAP in 2014 and 2016 as a result of a refinancing of, and the consolidation of, the Consumer Loan Companies, respectively, we continue to record a level yield on those assets based on their original purchase price.

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 transaction-related expenses, management does not view these costs as part of our core operations, as they are considered by management to be similar to realized losses incurred at acquisition. Non-capitalized transaction-related expenses are generally legal and valuation service costs, as well as other professional service fees, incurred when we acquire certain investments, as well as costs associated with the acquisition and integration of acquired businesses. Non-capitalized transaction-related expenses for the year ended December 31, 2015 include a $9.1 million settlement which we agreed to pay in connection with HSART (Note 11 to our Consolidated Financial Statements). These costs are recorded as "General and administrative expenses" in our Consolidated Statements of Income. "Other (income) loss" set forth below excludes $14.5 million accrued during the year ended December 31, 2015 related to a reimbursement from Ocwen for certain increased costs resulting from further S&P servicer rating downgrades of Ocwen (Note 1 to our Consolidated Financial Statements).

Management believes that the adjustments to compute "core earnings" specified above allow investors and analysts to readily identify and track 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 core performance using the same measure that management uses to operate the business. Management also utilizes core earnings as a measure in its decision-making process relating to improvements to the underlying fundamental operations of our investments, as well as the allocation of resources between those investments, and management also relies on core earnings as an indicator of the results of such decisions. Core earnings excludes certain recurring items, such as gains and losses (including impairment as well as derivative activities) and non-capitalized transaction-related expenses, because they are not considered by management to be part of our core operations for the reasons described herein. As such, core earnings is not intended to reflect all of our activity and should be considered as only one of the factors used by management in assessing our performance, along with GAAP net income which is inclusive of all of our activities.

The primary differences between core earnings and the measure we use to calculate incentive compensation relate to (i) realized gains and losses (including impairments), (ii) non-capitalized transaction-related expenses and (iii) deferred taxes (other than those related to unrealized gains and losses). Each are excluded from core earnings and included in our incentive compensation measure (either immediately or through amortization). In addition, our incentive compensation measure does not include accretion on held-for-sale loans and the timing of recognition of income from consumer loans is different. Unlike core earnings, our incentive compensation measure is intended to reflect all realized results of operations. The Gain on Remeasurement of Consumer Loans Investment was treated as an unrealized gain for the purposes of calculating incentive compensation and was therefore excluded from such calculation.

Core earnings does not represent and should not be considered as a substitute for, or superior to, net income or as a substitute for, or superior to, cash flow from operating activities, each as determined in accordance with U.S. GAAP, and our calculation of this measure may not be comparable to similarly entitled measures reported by other companies. For

a further description of the difference between cash flow provided by operations and net income, see “Management’s Discussion and Analysis of Financial Consolidation and Results of Operations—Liquidity and Capital Resources.” Set forth below is a reconciliation of core earnings to the most directly comparable GAAP financial measure (in thousands):

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Net income attributable to common stockholders	$957,533	$504,453	$268,636	352,877	$265,949
Impairment	86,092	87,980	24,384	11,282	5,454
Other Income adjustments:					
Other Income					
Change in fair value of investments in excess mortgage servicing rights	(4,322)	7,297	(38,643)	(41,615)	(53,332)
Change in fair value of investments in excess mortgage servicing rights, equity method investees	(12,617)	(16,526)	(31,160)	(57,280)	(50,343)
Change in fair value of investments in mortgage servicing rights financing receivables	(109,584)	—	—	—	—
Change in fair value of servicer advance investments	(84,418)	7,768	57,491	(84,217)	—
Gain on consumer loans investment	—	(9,943)	(43,954)	(92,020)	—
Gain on remeasurement of consumer loans investment	—	(71,250)	—	—	—
(Gain) loss on settlement of investments, net	(10,310)	48,800	19,626	(31,297)	(52,657)
Earnings from investments in consumer loans, equity method investees	—	—	—	(53,840)	(82,856)
Unrealized (gain) loss on derivative instruments	2,190	(5,774)	3,538	8,847	(1,820)
Unrealized (gain) loss on other ABS	(2,883)	2,322	(879)	—	—
(Gain) loss on transfer of loans to REO	(22,938)	(18,356)	(2,065)	(17,489)	—
(Gain) loss on transfer of loans to other assets	(488)	(2,938)	690	—	—
Gain on Excess MSR recapture agreements	(2,384)	(2,802)	(2,999)	(1,157)	—
(Gain) loss on Ocwen common stock	(5,346)	—	—	—	—
Fee earned on deal termination	—	—	—	(5,000)	—
Other (income) loss	27,741	9,437	5,529	(20)	—
Total Other Income Adjustments	(225,359)	(51,965)	(32,826)	(375,088)	(241,008)
Other Income and Impairment attributable to non-controlling interests	(30,416)	(26,303)	(22,102)	44,961	—
Change in fair value of investments in mortgage servicing rights	(155,495)	(103,679)	—	—	—
Non-capitalized transaction-related expenses	21,723	9,493	31,002	10,281	5,698
Incentive compensation to affiliate	81,373	42,197	16,017	54,334	16,847
Deferred taxes	168,518	34,846	(6,633)	16,421	—
Interest income on residential mortgage loans, held-for sale	13,623	18,356	22,484	—	—
Limit on RMBS discount accretion related to called deals	(28,652)	(30,233)	(9,129)	—	—
Adjust consumer loans to level yield	(41,250)	7,470	71,070	70,394	53,696
Core earnings of equity method investees:					
Excess mortgage servicing rights	13,691	18,206	25,853	33,799	23,361
Core Earnings	$861,381	$510,821	$388,756	$219,261	$129,997

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

Management's discussion and analysis of financial condition and results of operations is intended to help the reader understand the results of operations and financial condition of New Residential. The following should be read in conjunction with the Consolidated Financial Statements and notes thereto, and with Part I, Item 1A, "Risk Factors."

GENERAL

New Residential is a publicly traded REIT primarily focused on opportunistically investing in, and actively managing, investments related to residential real estate. We primarily target investments in mortgage servicing related assets and related opportunistic investments. We are externally managed by an affiliate of Fortress pursuant to the Management Agreement. Our goal is to drive strong risk-adjusted returns primarily through our investments, and our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets in diverse markets, including non-real estate related assets such as consumer loans. We generally target assets that generate significant current cash flows and/or have the potential for meaningful capital appreciation.

Our portfolio is currently composed of mortgage servicing related assets, Non-Agency RMBS (and associated call rights), residential mortgage loans and other opportunistic investments. Our asset allocation and target assets may change over time, depending on our investment decisions in light of prevailing market conditions. The assets in our portfolio are described in more detail below under "—Our Portfolio."

MARKET CONSIDERATIONS

Developments in the U.S. Housing Market

In response to the changing landscape of the mortgage industry and bank capital requirements, banks have sold MSRs totaling more than $3.5 trillion since 2010. As of the third quarter of 2017, the top 100 mortgage servicers serviced over $8.5 trillion out of the $10.5 trillion one-to-four family mortgage debt outstanding, according to Inside Mortgage Finance. Furthermore, according to Inside Mortgage Finance, approximately 64% was serviced by the top 25 mortgage servicers as of the third quarter of 2017. Given current market dynamics and an overall challenging servicing environment, we may expect additional market consolidation amongst non-bank servicers. In addition, we believe non-bank servicers who are constrained by capital limitations will continue to sell MSRs, Excess MSRs and other servicing assets. As a result, we believe an elevated volume of MSR sales is likely for some period of time. These factors have resulted in increased opportunities for us to acquire interests in MSRs and to provide capital to non-bank servicers. In addition, approximately $1.6 trillion of new loans are expected to be originated in 2018, according to the Mortgage Bankers Association. We believe this creates an opportunity to enter into "flow arrangements," whereby loan originators or servicers agree to sell MSRs or Excess MSRs on newly originated loans on a recurring basis (often monthly or quarterly). While increased competition and market conditions for MSRs have driven prices higher recently, thereby also increasing the value of the MSRs in which we have invested, we believe MSRs continue to offer attractive returns.

There can be no assurance that we will make additional investments in MSRs or Excess MSRs or that any future investment in MSRs or Excess MSRs will generate returns similar to the returns on our original investments in MSRs or Excess MSRs. The timing, size and potential returns of our future investments in MSRs and Excess MSRs may be less attractive than our prior investments in this sector due to a number of factors, most of which are beyond our control. Such factors include, but are not limited to, changes in interest rates and recent increased competition for more recently originated MSRs. In addition, the acquisition of Agency MSRs requires GSE and, in certain cases, other regulatory approval. The process to obtain such approvals is extensive and will extend transaction settlement times when compared to our experience with the acquisition of Excess MSRs. In general, regulatory and GSE approval processes have been more extensive and taken longer than the processes and timelines we experienced in prior

periods, which has increased the amount of time and effort required to complete transactions.

Interest Rates and Prepayment Rates

As further described in “Quantitative and Qualitative Disclosures About Market Risk,” increasing interest rates are generally associated with declining prepayment rates for residential mortgage loans since they increase the cost of borrowing for homeowners. Declining prepayment rates, in turn, would generally be expected to increase the value of our interests in Excess MSRs, MSRs and Servicer Advance Investments, which include the right to a portion of the related MSRs, because the duration of the cash flows we are entitled to receive becomes extended with no reduction in current cash flows. Changes in interest rates will also directly impact our costs of borrowing either immediately (floating rate debt) or upon refinancing (fixed rate debt) and may also be associated with changes in credit spreads and/or the discount rates used in valuing investments. Declining prepayment rates have a negative impact on the value of investments purchased at a significant discount since the recovery of that discount is delayed.

In the fourth quarter of 2017, both current interest rates and expected future interest rates generally increased slightly. For instance, the 10-year treasury yield increased from 2.34% to 2.40%. With respect to our Non-Agency RMBS, which were generally purchased at a significant discount, while market interest rates increased, market credit spreads for these investments decreased, with the net result being an increase in value during the quarter.

The value of our MSRs and Excess MSRs is subject to a variety of factors, as described in "Quantitative and Qualitative Disclosures About Market Risk" and in "Risk Factors." In the fourth quarter of 2017, the fair value of our direct investments in Excess MSRs and our share of the fair value of the Excess MSRs held through equity method investees increased by approximately $39.3 million in the aggregate, primarily as a result of a decrease in the weighted average discount rate of the portfolio to 8.9%. In addition, a decrease in discount rates, as well as contractual changes resulting from the Ocwen Transaction, partially offset by a decrease in interest rates, caused the fair value of our MSRs, including MSR financing receivables, to increase by approximately $91.8 million during the period.

Changes in interest rates did not have a meaningful impact on the net interest spread of our Agency and Non-Agency RMBS portfolios. Our RMBS are primarily floating rate or hybrid (i.e., fixed to floating rate) securities, which we generally finance with floating rate debt, or are economically hedged with respect to interest rates. Therefore, while rising interest rates will generally result in a higher cost of financing, they will also result in a higher coupon payable on the securities. The net interest spread on our Agency RMBS portfolio as of December 31, 2017 was 1.41%, compared to 1.61% as of September 30, 2017. The spread changed primarily as a result of increased funding costs and lower yields from new securities purchased during the fourth quarter of 2017. The net interest spread on our Non-Agency RMBS portfolio as of December 31, 2017 was 2.76%, compared to 3.01% as of September 30, 2017. This spread changed primarily as a result of lower yields from new securities purchased during the fourth quarter of 2017 and increased funding costs.

General U.S. Economy and Unemployment

During the fourth quarter of 2017, the U.S. unemployment rate generally continued to decline and equity market prices increased, signaling a general improvement in the U.S. economy. In our view, an improvement in the economy, as demonstrated through such measures, generally improves the value of housing and the ability of borrowers to make payments on their loans, thereby decreasing delinquencies and defaults on residential mortgage loans, consumer loans and RMBS. This relationship held true as the Case Shiller Home Price Index increased from 184 as of the third quarter of 2016 to 195 as of the third quarter of 2017. In addition, according to CoreLogic, the total number of mortgaged residential properties with negative equity stood at 2.5 million, or 4.9 percent, as of the third quarter of 2017, down from 3.2 million, or 6.3 percent, as of the second quarter of 2017. This trend has helped to support the values of our residential mortgage loans, consumer loans and RMBS.

Credit Spreads

Corporate credit spreads generally continued to tighten during the fourth quarter of 2017, which would generally have a favorable impact on the value of yield driven financial instruments, such as our RMBS and loan portfolios. Corporate credit spreads, while a useful market proxy, are not necessarily indicative or directly correlated to mortgage credit spreads. Collateral performance, market liquidity and other factors related specifically to certain investments within our mortgage securities and loan portfolio coupled with the corporate credit spread tightening during the fourth quarter of 2017 caused the value of the portion of this portfolio that was owned for the entire quarter to increase.

For more information regarding these and other market factors which impact our portfolio, see "Quantitative and Qualitative Disclosures About Market Risk."

Our Manager

On December 27, 2017, SoftBank announced that it completed the SoftBank Merger. In connection with the SoftBank Merger, Fortress will operate within SoftBank as an independent business headquartered in New York. Fortress's senior investment professionals will remain in place, including those individuals who perform services for us.

OUR PORTFOLIO

Our portfolio is currently composed of mortgage servicing related assets, residential securities and loans and other investments, as described in more detail below. The assets in our portfolio are described in more detail below (dollars in thousands), as of December 31, 2017.

	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis		Carrying Value	Weighted Average Life (years)[A]
Investments in:						
Excess MSRs[B]	$267,622,353	$1,145,271	6.1	%	$1,345,478	6.3
MSRs[B] [C]	172,454,150	1,476,330	7.9	%	1,735,504	6.3
Mortgage Servicing Rights Financing Receivables[B] [C]	64,344,893	489,144	2.6	%	598,728	5.8
Servicer Advance Investments[B] [D]	3,581,876	3,924,003	21.0	%	4,027,379	5.1
Agency RMBS[E]	2,065,629	2,105,121	11.3	%	2,096,351	7.5
Non-Agency RMBS[E]	12,757,357	5,599,644	29.9	%	5,974,789	7.7
Residential Mortgage Loans	2,713,686	2,447,953	13.1	%	2,416,689	4.6
Real Estate Owned	N/A	137,668	0.7	%	128,295	N/A
Consumer Loans	1,377,792	1,380,369	7.4	%	1,374,263	3.5
Consumer Loans, Equity Method Investees	178,422	N/A	N/A		51,412	1.4
Total/Weighted Average		$18,705,503	100.0	%	$19,748,888	6.1
Reconciliation to GAAP total assets:						
Cash and restricted cash					446,050	
Servicer advances receivable					675,593	
Trades receivable					1,030,850	
Deferred tax asset, net					—	
Other assets					312,181	
GAAP total assets					$22,213,562	

(A) Weighted average life is based on the timing of expected principal reduction on the asset.
(B) The outstanding face amount of Excess MSRs, MSRs, Mortgage Servicing Rights Financing Receivables, and Servicer Advance Investments is based on 100% of the face amount of the underlying residential mortgage loans and currently outstanding advances, as applicable.
(C) Represents MSRs where our subsidiary, NRM, is the named servicer.
(D) The value of our Servicer Advance Investments also includes the rights to a portion of the related MSR.
(E) Amortized cost basis is net of impairment.

Servicing Related Assets

MSRs and Mortgage Servicing Rights Financing Receivables

As of December 31, 2017, we had $2,334.2 million carrying value of MSRs and mortgage servicing rights financing receivables within our servicer subsidiary, NRM.

NRM has contracted with certain subservicers to perform the related servicing duties on the residential mortgage loans underlying its MSRs. As of December 31, 2017, these subservicers include Nationstar, Ditech, PHH, Ocwen, Flagstar, and Citi, which subservice 41.2%, 29.9%, 20.9%, 6.3%, 1.1%, and 0.6% of the underlying UPB of the related mortgages, respectively (includes both Mortgage Servicing Rights and Mortgage Servicing Rights Financing

Receivables). NRM has entered into agreements with Ditech, Nationstar and PHH whereby NRM is entitled to the MSR on any refinancing by such subservicer of a loan in the related original portfolio.

NRM is, generally, obligated to fund all future servicer advances related to the underlying pools of mortgages on its MSRs and mortgage servicing rights financing receivables. Generally, NRM will advance funds when the borrower fails to meet contractual payments (e.g., principal, interest, property taxes, insurance). NRM will also advance funds to maintain and report foreclosed real estate properties on behalf of investors. Advances are recovered through claims to the related investor and subservicers. Per the servicing agreements, NRM is obligated to make certain advances on mortgages to be in compliance with applicable requirements. In certain instances, the subservicer is required to reimburse NRM for any advances that were deemed nonrecoverable or advances that were not made in accordance with the related servicing contract.

See Note 5 to our Consolidated Financial Statements for further information regarding our investments in mortgage servicing rights financing receivables.

The table below summarizes the terms of our investments in MSRs and mortgage servicing rights financing receivables completed as of December 31, 2017.

	Current UPB (bn)	Weighted Average MSR (bps)	Carrying Value (mm)
Mortgage Servicing Rights			
Agency	$172.4	27 bps	$1,735.5
Non-Agency	0.1	50	—
Mortgage Servicing Rights Financing Receivables			
Agency	49.5	27	476.2
Non-Agency	14.8	34	122.5
Total	$236.8	27 bps	$2,334.2

The following table summarizes the collateral characteristics of the loans underlying our investments in MSRs and mortgage servicing rights financing receivables as of December 31, 2017 (dollars in thousands):

	Collateral Characteristics											
	Current Carrying Amount	Current Principal Balance	Number of Loans	WA FICO Score[A]	WA Coupon	WA Maturity (months)	Average Loan Age (months)	Adjustable Rate Mortgages[B]	Three Month Average CPR[C]	Three Month Average CRR[D]	Three Month Average CDR[E]	Three Month Average Recapture Rate
Mortgage Servicing Rights												
Agency	$1,735,504	$172,392,496	1,233,955	744	4.3 %	257	68	3.3 %	13.3 %	13.0 %	0.4 %	16.3 %
Non-Agency	—	61,654	891	624	7.2 %	194	177	42.8 %	15.8 %	10.4 %	6.0 %	— %
Mortgage Servicing Rights Financing Receivables												
Agency	476,206	49,498,415	364,791	744	4.2 %	246	74	7.5 %	13.5 %	12.9 %	0.6 %	14.3 %
Non-Agency	122,522	14,846,478	107,347	661	5.1 %	267	143	22.5 %	13.6 %	10.5 %	3.4 %	— %
Total	$2,334,232	$236,799,043	1,706,984	739	4.4 %	255	74	5.4 %	13.4 %	12.9 %	0.6 %	14.8 %

Collateral Characteristics

	Delinquency 30 Days[F]	Delinquency 60 Days[F]	Delinquency 90+ Days[F]	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
Mortgage Servicing Rights						
Agency	1.7%	0.5%	0.8%	0.3%	—%	0.3%
Non-Agency	9.2%	3.7%	2.1%	19.3%	—%	1.7%
Mortgage Servicing Rights Financing Receivables						
Agency	1.7%	0.4%	0.5%	0.5%	—%	0.3%
Non-Agency	7.1%	4.4%	8.0%	3.3%	2.0%	3.0%
Total	2.0%	0.7%	1.2%	0.5%	0.2%	0.4%

(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 when loans are refinanced or become delinquent.

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

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

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

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

(F) 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.

The PHH Transaction (Note 5 to our Consolidated Financial Statements) settled in stages during 2017. As of December 31, 2017, MSRs, and related servicer advances receivable, with respect to private-label residential mortgage loans of approximately $6.0 billion in total UPB with a purchase price of approximately $35.5 million had not been settled. On January 16, 2018, pursuant to the Walter Purchase Agreement (Note 5 to our Consolidated Financial Statements), NRM purchased MSRs, and related servicer advances receivable, with respect to certain Freddie Mac residential mortgage loans with a total UPB of $11.5 billion for a purchase price of approximately $101.5 million. Also see Note 18 to our Consolidated Financial Statements for further information regarding our investments in mortgage servicing rights and mortgage servicing rights financing receivables subsequent to December 31, 2017.

Excess MSRs

As of December 31, 2017, we had approximately $1.3 billion estimated carrying value of Excess MSRs (held directly and through joint ventures). As of December 31, 2017, our completed investments represent an effective 32.5% to 100.0% interest in the Excess MSRs (held either directly or through joint ventures) on pools of residential mortgage loans with an aggregate UPB of approximately $267.6 billion. In our capacity as owner of the Excess MSRs, we do not have any servicing duties, liabilities or obligations associated with the servicing of the portfolios underlying any of our Excess MSRs. However, we, in certain cases through co-investments made by our subsidiaries, may separately agree to do so and have separately purchased Servicer Advance Investments, including the right to receive the basic fee component of related MSRs, on the Non-Agency portfolios underlying our Excess MSR investments. See “—Servicer Advance Investments” below.

Nationstar is the servicer of $177.0 billion UPB of the loans underlying our investments in Excess MSRs through December 31, 2017, and our servicers earn a basic fee in exchange for providing all servicing functions. In addition, when Nationstar sells Excess MSRs to us, it generally retains a 20.0% to 35.0% interest in the Excess MSRs and all ancillary income associated with the portfolios.

In December 2014, we agreed to acquire 50% of the Excess MSRs and all of the servicer advances and related basic fee portion of the MSR, and a portion of the call rights related to a portfolio of residential mortgage loans which is serviced by SLS. Fortress-managed funds acquired the other 50% of the Excess MSRs. SLS continues to service the loans in exchange for a servicing fee of 10.75 bps times the UPB of the underlying loans and an incentive fee (the “SLS Incentive Fee”) which is based on the ratio of the outstanding servicer advances to the UPB of the underlying loans.

In April 2015, we acquired Excess MSRs in connection with the HLSS Acquisition (Note 1 to our Consolidated Financial Statements). Ocwen continues to service the underlying loans in exchange for a servicing fee of 12% times the servicing fee collections of the underlying loans, which as of December 31, 2017 is equal to 6.1 bps times the UPB of the underlying loans, and an incentive fee which is reduced by LIBOR plus 2.75% per annum of the amount, if any, of servicer advances outstanding in excess of a defined target. In July 2017, we entered into the Ocwen Transaction as

described in Note 5 to our Consolidated Financial Statements.

Each of our Excess MSR investments serviced by Nationstar and SLS is subject to a recapture agreement with Nationstar. Under such 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 MSRs 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 have a similar recapture agreement with Ocwen; however, this agreement allows for Ocwen to retain the Excess MSR on recaptured loans up to a specified threshold and no payments have been made to us under such arrangement to date.

The tables below summarize the terms of our investments in Excess MSRs completed as of December 31, 2017.

Summary of Direct Excess MSR Investments as of December 31, 2017

	MSR Component[A]					Excess MSR
	Current UPB (bn)	Weighted Average MSR (bps)	Weighted Average Excess MSR (bps)	Interest in Excess MSR (%)		Carrying Value (mm)
Agency						
Original and Recaptured Pools	$63.8	28 bps	21	bps	32.5% - 66.7%	$280.0
Recapture Agreements	—	29	22		32.5% - 66.7%	44.6
	63.8	28	21			324.6
Non-Agency[B]						
Nationstar and SLS Serviced:						
Original and Recaptured Pools	$64.1	34	16		33.3% - 100.0%	$190.7
Recapture Agreements	—	26	20		33.3% - 100.0%	19.8
Ocwen Serviced Pools	89.1	46	14		100.0%	638.6
	153.2	43	15			849.1
Total/Weighted Average	$217.0	39 bps	17	bps		$1,173.7

(A) The MSR is a weighted average as of December 31, 2017, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

(B) We also invested in related Servicer Advance Investments, including the basic fee component of the related MSR (Note 6 to our Consolidated Financial Statements) on $139.5 billion UPB underlying these Excess MSRs.

Summary of Excess MSR Investments Through Equity Method Investees as of December 31, 2017

	MSR Component[A]											
	Current UPB (bn)	Weighted Average MSR (bps)	Weighted Average Excess MSR (bps)	New Residential Interest in Investee (%)		Investee Interest in Excess MSR (%)		New Residential Effective Ownership (%)		Investee Carrying Value (mm)
Agency										
Original and Recaptured Pools	$ 50.5	32 bps	21	bps	50.0 %	66.7 %		33.3 %		$ 271.8
Recapture Agreements	—	32	23		50.0 %	66.7 %		33.3 %		49.4
Total/Weighted Average	$ 50.5	32 bps	21	bps						$ 321.2

(A) The MSR is a weighted average as of December 31, 2017, and the Excess MSR represents the difference between the weighted average MSR and the basic fee (which fee remains constant).

The following table summarizes the collateral characteristics of the loans underlying our direct Excess MSR investments as of December 31, 2017 (dollars in thousands):

Collateral Characteristics											
Current Carrying Amount	Current Principal Balance	Number of Loans	WA FICO Score[A]	WA Coupon	WA Maturity (months)	Average Loan Age	Adjustable Rate Mortgage	Three Month Average	Three Month Average	Three Month Average	Three Month Average

							(months)	%(B)	CPR(C)	CRR(D)	CDR(E)	Recapture Rate
Agency												
Original Pools	$212,755	$51,089,370	346,633	708	4.5 %	275	101	9.1 %	15.2 %	14.2 %	1.2 %	26.2 %
Recaptured Loans	67,278	12,749,911	74,471	721	4.1 %	290	29	0.7 %	10.4 %	10.1 %	0.3 %	29.0 %
Recapture Agreement	44,603	—	—	—	— %	—	—	— %	— %	— %	— %	— %
	$324,636	$63,839,281	421,104	711	4.4 %	278	85	7.5 %	14.3 %	13.4 %	1.0 %	26.6 %
Non-Agency(F)												
Nationstar and SLS Serviced:												
Original Pools	173,818	60,864,831	333,199	670	4.3 %	281	143	38.0 %	15.9 %	12.0 %	4.3 %	13.4 %
Recaptured Loans	16,878	3,281,599	14,508	739	4.0 %	290	20	3.6 %	11.9 %	11.9 %	— %	26.9 %
Recapture Agreement	19,814	—	—	—	— %	—	—	— %	— %	— %	— %	— %
Ocwen Serviced Pools(H)	638,567	89,135,588	621,801	642	4.4 %	314	146	15.6 %	10.6 %	7.2 %	3.6 %	— %
	$849,077	$153,282,018	969,508	651	4.4 %	305	144	24.2 %	12.0 %	8.5 %	3.8 %	4.3 %
Total/Weighted Average(I)	$1,173,713	$217,121,299	1,390,612	664	4.4 %	300	132	19.3 %	12.5 %	9.5 %	3.2 %	9.9 %

	Collateral Characteristics											
	Delinquency 30 Days[G]		Delinquency 60 Days[G]		Delinquency 90+ Days[G]		Loans in Foreclosure		Real Estate Owned		Loans in Bankruptcy	
Agency												
Original Pools	4.3	%	1.7	%	1.8	%	1.1	%	0.3	%	0.2	%
Recaptured Loans	2.0	%	0.7	%	0.8	%	0.2	%	0.1	%	—	%
Recapture Agreement	—	%	—	%	—	%	—	%	—	%	—	%
	3.8	%	1.4	%	1.6	%	0.9	%	0.3	%	0.2	%
Non-Agency[F]												
Nationstar and SLS Serviced:												
Original Pools	10.0	%	3.2	%	3.5	%	7.3	%	1.3	%	2.1	%
Recaptured Loans	1.4	%	0.3	%	0.3	%	0.1	%	—	%	—	%
Recapture Agreement	—	%	—	%	—	%	—	%	—	%	—	%
Ocwen Serviced Pools[H]	8.3	%	5.2	%	7.0	%	7.4	%	2.1	%	1.8	%
	8.7	%	4.6	%	6.0	%	7.3	%	1.8	%	1.9	%
Total/Weighted Average[I]	7.7	%	4.0	%	5.1	%	6.0	%	1.5	%	1.5	%

(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 when loans are refinanced or become delinquent.

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

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

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

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

(F) We also invested in related Servicer Advance Investments, including the basic fee component of the related MSR (Note 6 to our Consolidated Financial Statements) on $139.5 billion UPB underlying these Excess MSRs.

(G) 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.

(H) Collateral characteristics related to approximately $2.1 billion of UPB are as of November 30, 2017.

(I) Weighted averages exclude collateral information for which collateral data was not available as of the report date.

The following table summarizes the collateral characteristics as of December 31, 2017 of the loans underlying Excess MSR investments made through joint ventures accounted for as equity method investees (dollars in thousands). For each of these pools, we own a 50% interest in an entity that invested in a 66.7% interest in the Excess MSRs.

	Collateral Characteristics											
	Current Carrying Amount	Current Principal Balance	New Residential Effective Ownership (%)	Number of Loans	WA FICO Score[A]	WA Coupon	WA Maturity (months)	Average Loan Age (months)	Adjustable Rate Mortgage %[B]	Three Month Average CPR[C]	Three Month Average CRR[D]	Three Month Average CDR[E]	Three Month Average Recapture Rate
Agency													
Original Pools	$160,409	$35,038,897	33.3 %	309,839	691	5.1 %	268	117	9.7 %	17.2 %	15.2 %	2.3 %	29.5 %
Recaptured Loans	111,376	15,462,157	33.3 %	106,118	704	4.1 %	285	35	0.6 %	11.3 %	10.9 %	0.5 %	36.4 %

Recapture Agreement	49,412	—	33.3 %	—	—	— %	—	—	— %	— %	— %	— %	— %	— %	— %	— %
Total/Weighted Average	$321,197	$50,501,054		415,957	695	4.8 %	273	92	6.9 %	15.5 %	14.0 %	1.8 %	31.1 %			

	Collateral Characteristics									
	Delinquency 30 Days[F]		Delinquency 60 Days[F]		Delinquency 90+ Days[F]		Loans in Foreclosure		Real Estate Owned		Loans in Bankruptcy	
Agency												
Original Pools	5.9	%	2.1	%	1.9	%	1.7	%	0.5	%	0.3	%
Recaptured Loans	3.4	%	1.2	%	1.0	%	0.3	%	0.1	%	0.1	%
Recapture Agreement	—	%	—	%	—	%	—	%	—	%	—	%
Total/Weighted Average[G]	5.2	%	1.9	%	1.6	%	1.2	%	0.4	%	0.2	%

(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) Three Month Average CPR, or the constant prepayment rate, represents the annualized rate of the prepayments during the quarter as a percentage of the total principal balance of the pool.

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

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

(F) 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.

(G) Weighted averages exclude collateral information for which collateral data was not available as of the report date.

Servicer Advance Investments

In December 2013, we made our first Servicer Advance Investments, including the basic fee component of the related MSRs, through the Buyer, a joint venture entity capitalized by us and certain third-party co-investors. The Buyer acquired from Nationstar a pool of outstanding servicer advances (including deferred servicing fees) and the basic fee component of the related MSRs on a pool of Non-Agency mortgage loans. In exchange, the Buyer (i) paid the initial purchase price, and (ii) agreed to purchase future servicer advances related to the loans at par. We previously acquired an interest in the Excess MSRs related to these loans. See above "—Our Portfolio—Servicing Related Assets—Excess MSRs."

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 approvals required for a formal change of the named servicer. In exchange for Nationstar's performance of servicing duties, the Buyer pays Nationstar a servicing fee (the "Nationstar Servicing Fee") and, in the event that the aggregate cash flows from the advances and the basic fee generate a 14% return (the "Buyer Targeted Return") on the Buyer's invested equity, a performance fee (the "Nationstar Performance Fee"). Nationstar is majority owned by private equity funds managed by an affiliate of our Manager. For more information about the fee structure, see below.

In December 2014, we acquired Servicer Advance Investments from SLS, as described under "—Excess MSRs" above.

On April 6, 2015, we acquired Servicer Advance Investments in connection with the HLSS Acquisition, as described under "—Excess MSRs" above. In July 2017, we entered into the Ocwen Transaction as described in Note 5 to our Consolidated Financial Statements.

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The following is a summary of our Servicer Advance Investments, including the right to the basic fee component of the related MSRs (dollars in thousands):

	December 31, 2017					
	Amortized Cost Basis	Carrying Value[A]	UPB of Underlying Residential Mortgage Loans	Outstanding Servicer Advances	Servicer Advances to UPB of Underlying Residential Mortgage Loans	
Servicer Advance Investments						
Nationstar and SLS serviced pools	$1,016,344	$1,047,136	$50,363,639	$883,031	1.8	%
Ocwen serviced pools	2,907,659	2,980,243	89,096,733	2,698,845	3.0	%
Total	$3,924,003	$4,027,379	$139,460,372	$3,581,876	2.6	%

(A) Carrying value represents the fair value of the Servicer Advance Investments, including the basic fee component of the related MSRs.

The following is additional information regarding our Servicer Advance Investments, and related financing, as of and for the year ended, December 31, 2017 (dollars in thousands):

			Year Ended December 31, 2017		Loan-to-Value ("LTV")[A]		Cost of Funds[B]	
	Weighted Average Discount Rate	Weighted Average Life (Years)[C]	Change in Fair Value Recorded in Other Income	Face Amount of Notes and Bonds Payable	Gross	Net[D]	Gross	Net
Servicer Advance Investments[E]	6.8 %	5.1	$ 84,418	$3,461,718	93.2%	92.0%	3.3%	3.0%

(A) Based on outstanding servicer advances, excluding purchased but unsettled servicer advances and certain deferred servicing fees ("DSF") which we received financing on. If we were to include these DSF in the servicer advance balance, gross and net LTV as of December 31, 2017 would be 87.4% and 86.3%, respectively. Also excludes retained Non-Agency bonds with a current face amount of $80.0 million from the outstanding servicer advances debt. If we were to sell these bonds, gross and net LTV as of December 31, 2017 would be 95.3% and 94.1%, respectively.

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

(D) Ratio of face amount of borrowings to par amount of servicer advance collateral, net of any general reserve.

(E) The following types of advances are included in Servicer Advance Investments:

	December 31, 2017
Principal and interest advances	$ 909,133
Escrow advances (taxes and insurance advances)	1,636,381
Foreclosure advances	1,036,362
Total	$ 3,581,876

The Buyer

We, through a wholly owned subsidiary, are the managing member of the Buyer. As of December 31, 2017, we owned an approximately 72.8% interest in the Buyer.

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 reduction of its membership percentage.

Servicing Fee

Nationstar, SLS and Ocwen remain the named servicers under the applicable servicing agreements and will continue to perform all servicing duties for the related residential mortgage loans. The Buyer, or the related New Residential subsidiary, as applicable,

has the right, but not the obligation, to become the named servicer with respect to its investments, subject to obtaining consents and ratings agency approvals required for a formal change of the named servicer. In exchange for their services, we pay Nationstar, SLS and Ocwen a monthly servicing fee representing a portion of the amounts from the purchased basic fee.

The Nationstar Servicing Fee is equal to a fixed percentage of the amounts from the purchased basic fee. This percentage was equal to approximately 9.3%, which is equal to (i) 2 bps divided by (ii) the basic fee, which is 21.6 bps, on a weighted average basis as of December 31, 2017. The SLS servicing fee is equal to 10.75 bps, based on the servicing fee collections of the underlying loans. The Ocwen servicing fee is equal to 6.1 bps, based on the servicing fee collections of the underlying loans.

Targeted Return/Incentive Fee

The Buyer Targeted Return and the Nationstar Performance Fee, with respect to Nationstar, are designed to achieve three objectives: (i) provide a reasonable risk-adjusted return to the Buyer based on the expected amount and timing of estimated cash flows from the purchased basic fee and advances, with both upside and downside based on the performance of the investment, (ii) provide Nationstar with a sufficient fee to compensate it for acting as servicer, and (iii) provide Nationstar with an incentive to effectively service the underlying loans. The Buyer Targeted Return implements these objectives by allocating payments in respect of the purchased basic fee between the Buyer and Nationstar. The SLS Incentive Fee functions in the same fashion with respect to the SLS Transaction (Note 6 to our Consolidated Financial Statements). Ocwen also receives a performance-based incentive fee (the “Ocwen Incentive Fee”) based on the ratio of the outstanding servicer advances to the UPB of the underlying loans.

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

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

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

The Nationstar Performance Fee is calculated as follows. Pursuant to a Master Servicing Rights Purchase Agreement and related sale supplements, Nationstar Net Collections is divided into two subsets: the “Retained Amount” and the “Surplus Amount.” If the amount necessary to achieve the Buyer 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 Nationstar Performance Fee. If the amount necessary to achieve the Buyer Targeted Return is greater than the Retained Amount but less than Nationstar Net Collections, then 100% of the excess Surplus Amount is paid to Nationstar as a Nationstar Performance Fee. Nationstar Performance Fee payments were made to Nationstar in the amounts of $37.6 million, $39.0 million and $48.4 million during the years ended December 31, 2017, 2016 and 2015, respectively.

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

The Ocwen Incentive Fee payable in any month is reduced if the advance ratio exceeds a predetermined level for that month. If the advance ratio is exceeded in any month, any performance-based incentive fee payable for such month will be reduced by 1-month LIBOR plus 2.75% (or 275 bps) per annum of the amount of any such excess servicer advances.

A further discussion of the sensitivity of these incentive fees to changes in LIBOR is included below under "Quantitative and Qualitative Disclosures About Market Risk."

Residential Securities and Loans

Real Estate Securities

Agency RMBS

The following table summarizes our Agency RMBS portfolio as of December 31, 2017 (dollars in thousands):

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value[A]	Count	Weighted Average Life (Years)	3-Month CPR	Outstanding Repurchase Agreements
Agency ARM RMBS	$105,777	$115,180	9.2 %	$—	$(4,649)	$110,531	26	3.7	19.8 %	$119,335
Agency Specified Pools	1,097,852	1,131,913	90.8 %	1,176	(3)	1,133,086	72	7.4	0.6 %	8,017
Agency RMBS	$1,203,629	$1,247,093	100.0 %	$1,176	$(4,652)	$1,243,617	98	7.0	2.3 %	$127,352

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

The following table summarizes the reset dates of our Agency ARM RMBS portfolio as of December 31, 2017 (dollars in thousands):

Months to Next Reset[A]	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Weighted Average Coupon	Weighted Average Margin	Periodic Cap 1st Coupon Adjustment[B]	Periodic Cap Subsequent Coupon Adjustment[C]	Lifetime Cap[D]	Months to Reset[E]
1 - 12	26	$105,777	$115,180	100.0 %	$110,531	3.5%	1.7 %	N/A	1.9 %	8.9 %	6

(A) Of these investments, 94.5% reset based on 12-month LIBOR index, 3.3% reset based on one-month LIBOR, and 2.2% reset based on the one-year Treasury Constant Maturity Rate.
(B) Represents the maximum change in the coupon at the end of the fixed rate period. All securities in this category are past the first coupon adjustment.
(C) Represents the maximum change in the coupon at each reset date subsequent to the first coupon adjustment.
(D) Represents the maximum coupon on the underlying security over its life.
(E) Represents recurrent weighted average months to the next interest rate reset.

The following table summarizes the net interest spread of our Agency RMBS portfolio as of December 31, 2017:

Net Interest Spread[A]	
Weighted Average Asset Yield	2.83%
Weighted Average Funding Cost	1.42%
Net Interest Spread	1.41%

(A) The Agency RMBS portfolio consists of 9.2% floating rate securities and 90.8% fixed rate securities (based on amortized cost basis). See table above for details on rate resets of the floating rate securities.

We also hold $862.0 million face amount of Treasury securities with an amortized cost basis of $858.0 million and a carrying value of $852.7 million as of December 31, 2017.

Non-Agency RMBS

The following table summarizes our Non-Agency RMBS portfolio as of December 31, 2017 (dollars in thousands):

Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value[(A)]	Outstanding Repurchase Agreements
Non-Agency RMBS	$12,757,357	$5,599,644	$423,504	$(48,359)	$5,974,789	$4,720,290

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

The following tables summarize the characteristics of our Non-Agency RMBS portfolio and of the collateral underlying our Non-Agency RMBS as of December 31, 2017 (dollars in thousands):

	Non- Agency RMBS Characteristics[A]									
Vintage[B]	Average Minimum Rating[C]	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination[D]	Excess Spread[E]	Weighted Average Life (Years)	Weighted Average Coupon[F]
Pre 2006	CC	393	$1,958,012	$1,415,651	25.4 %	$1,579,898	13.2 %	1.6 %	8.6	2.6 %
2006	CC	120	2,618,417	1,646,999	29.6 %	1,768,446	7.0 %	1.9 %	8.5	1.9 %
2007	CC	89	3,192,167	1,841,903	33.1 %	1,934,340	6.1 %	1.3 %	7.3	2.2 %
2008 and later	BBB-	146	4,959,071	665,311	11.9 %	661,882	8.6 %	— %	5.1	2.8 %
Total/Weighted Average	CCC-	748	$12,727,667	$5,569,864	100.0 %	$5,944,566	8.5 %	1.4 %	7.7	2.3 %

	Collateral Characteristics[A] [G]				
Vintage[B]	Average Loan Age (years)	Collateral Factor[H]	3-Month CPR[I]	Delinquency[J]	Cumulative Losses to Date
Pre 2006	13.0	0.08	10.7 %	12.9 %	12.7 %
2006	11.7	0.14	10.4 %	14.3 %	30.6 %
2007	10.9	0.27	12.2 %	13.8 %	35.0 %
2008 and later	12.2	0.74	12.9 %	4.0 %	2.0 %
Total/Weighted Average	11.8	0.24	11.4 %	12.5 %	24.1 %

(A) Excludes $29.7 million face amount of bonds backed by consumer loans.

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

(C) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. This excludes the ratings of the collateral underlying 204 bonds with a carrying value of $380.5 million which either have never been rated or for which rating information is no longer provided. We had no assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2017.

(D) The percentage of amortized cost basis of securities and residual interests that is subordinate to our investments. This excludes interest-only bonds.

(E) 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, 2017.

(F) Excludes residual bonds, and certain other Non-Agency bonds, with a carrying value of $186.0 million and $0.0 million, respectively, for which no coupon payment is expected.

(G) The weighted average loan size of the underlying collateral is $172.5 thousand.

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

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

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

The following table summarizes the net interest spread of our Non-Agency RMBS portfolio as of December 31, 2017:

Net Interest Spread[A]	
Weighted Average Asset Yield	5.66%
Weighted Average Funding Cost	2.90%

Net Interest Spread	2.76%

(A) The Non-Agency RMBS portfolio consists of 90.5% floating rate securities and 9.5% fixed rate securities (based on amortized cost basis).

Call Rights

We hold a limited right to cleanup call options with respect to certain securitization trusts serviced or master serviced by Nationstar whereby, when the UPB of the underlying residential mortgage loans falls below a pre-determined threshold, we can effectively purchase the underlying residential mortgage loans at par, plus unreimbursed servicer advances, resulting in the repayment of all of the outstanding securitization financing at par, in exchange for a fee of 0.75% of UPB paid to Nationstar at the time of exercise. We similarly hold a limited right to cleanup call options with respect to certain securitization trusts master serviced by SLS for no fee, and also with respect to certain securitization trusts serviced or master serviced by Ocwen subject to a fee of 0.5% of UPB on loans that are current or thirty (30) days or less delinquent, paid to Ocwen at the time of exercise. The aggregate UPB of the underlying residential mortgage loans within these various securitization trusts is approximately $144.9 billion.

We continue to evaluate the call rights we acquired from each of our servicers, and our ability to exercise such rights and realize the benefits therefrom are subject to a number of risks. See “Risk Factors—Risks Related to Our Business—Our ability to exercise our cleanup call rights may be limited or delayed if a third party also possessing such cleanup call rights exercises such rights, if the related securitization trustee refuses to permit the exercise of such rights, or if a related party is subject to bankruptcy proceedings.” The actual UPB of the residential mortgage loans on which we can successfully exercise call rights and realize the benefits therefrom may differ materially from our initial assumptions.

We have exercised our call rights with respect to Non-Agency RMBS trusts and purchased performing and non-performing residential mortgage loans and REO contained in such trusts prior to their termination. In certain cases, we sold portions of the purchased loans through securitizations, and retained bonds issued by such securitizations. In addition, we received par on the securities issued by the called trusts which we owned prior to such trusts’ termination. Refer to Note 8 in our Consolidated Financial Statements for further details on these transactions.

Residential Mortgage Loans

As of December 31, 2017, we had approximately $2.7 billion outstanding face amount of residential mortgage loans. These investments were financed with repurchase agreements with an aggregate face amount of approximately $1.9 billion and notes and bonds payable with an aggregate face amount of approximately $137.2 million. We acquired these loans through open market purchases, as well as through the exercise of call rights.

The following table presents the total residential mortgage loans outstanding by loan type at December 31, 2017 (dollars in thousands).

	Outstanding Face Amount	Carrying Value[A]	Loan Count	Weighted Average Yield	Weighted Average Life (Years)[B]	Floating Rate Loans as a % of Face Amount	LTV Ratio[C]	Weighted Avg. Delinquency[D]	Weighted Average FICO[E]
Performing Loans[H]	$557,381	$507,615	8,876	8.0 %	5.5	22.1 %	76.4 %	8.7 %	649
Purchased Credit Deteriorated Loans[I]	249,254	183,540	2,142	7.2 %	3.1	14.7 %	84.2 %	75.8 %	597
Total Residential Mortgage Loans, held-for-investment	$806,635	$691,155	11,018	7.7 %	4.8	19.8 %	78.8 %	29.4 %	633
Reverse Mortgage Loans[F] [G]	$16,755	$6,870	48	7.5 %	4.5	15.9 %	141.2 %	77.8 %	N/A
Performing Loans[H] [J]	1,044,116	1,071,371	15,464	4.0 %	4.8	10.2 %	53.2 %	7.0 %	654
Non-Performing Loans[I] [J]	846,181	647,293	5,597	5.6 %	4.3	18.7 %	94.4 %	63.3 %	581
	$1,907,052	$1,725,534	21,109	4.8 %	4.6	14.0 %	72.2 %	32.6 %	622

Residential Mortgage Loans,
held- for-sale

(A) Includes residential mortgage loans with a United States federal income tax basis of $2,414.4 million as of December 31, 2017.
(B) The weighted average life is based on the expected timing of the receipt of cash flows.
(C) LTV refers to the ratio comparing the loan's unpaid principal balance to the value of the collateral property.
(D) Represents the percentage of the total principal balance that is 60+ days delinquent.
(E) The weighted average FICO score is based on the weighted average of information updated and provided by the loan servicer on a monthly basis.
(F) Represents a 70% participation interest we hold in a portfolio of reverse mortgage loans. The average loan balance outstanding based on total UPB was $0.5 million at December 31, 2017. Approximately 54.3% of these loans outstanding have reached a termination event. As a result of the termination event, each such loan has matured and the borrower can no longer make draws on these loans.
(G) FICO scores are not used in determining how much a borrower can access via a reverse mortgage loan.

(H) Performing loans are generally placed on nonaccrual status when principal or interest is 120 days or more past due.

(I) Includes loans with evidence of credit deterioration since origination where it is probable that we will not collect all contractually required principal and interest payments. As of December 31, 2017, we have placed all Non-Performing Loans, held-for-sale on nonaccrual status, except as described in (J) below.

(J) Includes $33.7 million and $66.5 million UPB of Ginnie Mae EBO performing and non-performing loans, respectively, on accrual status as contractual cash flows are guaranteed by the FHA.

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

Other

Consumer Loans

On April 1, 2013, we completed, through newly formed limited liability companies (together, the "Consumer Loan Companies"), a co-investment in a portfolio of consumer loans. The portfolio included personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. We acquired 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, OneMain, which is majority-owned by Fortress funds managed by our Manager, acquired 47% and funds managed by Blackstone Tactical Opportunities Advisors LLC acquired 23%. OneMain acted as the managing member of the Consumer Loan Companies. After a servicing transition period, OneMain became the servicer of the loans and provides all servicing and advancing functions for the portfolio. On October 3, 2014, the Consumer Loan Companies refinanced the portfolio with an asset-backed securitization, resulting in proceeds in excess of the refinanced debt which were distributed to the co-investors. This reduced our basis in the consumer loans investment to $0.0 million and resulted in a gain. Subsequent to this refinancing, we discontinued recording our share of the underlying earnings of the Consumer Loan Companies.

On March 31, 2016, we entered into the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements). As a result, we own 53.5% of, and consolidate, the Consumer Loan Companies.

In 2016, we agreed to purchase newly originated consumer loans from a third party ("Consumer Loan Seller"). In the aggregate, as of December 31, 2016, we had purchased $177.4 million UPB of loans for an aggregate purchase price of $176.2 million from Consumer Loan Seller. These loans are not held in the Consumer Loan Companies and have been designated as performing consumer loans, held-for-investment.

The table below summarizes the collateral characteristics of the consumer loans as of December 31, 2017 (dollars in thousands):

	Collateral Characteristics													
	UPB	Personal Unsecured Loans %	Personal Homeowner Loans %	Number of Loans	Weighted Average Original FICO Score[A]	Weighted Average Coupon	Adjustable Rate Loan %	Average Loan Age (months)	Average Life Expected (Years)	Delinquency 30 Days[B]	Delinquency 60 Days[B]	Delinquency 90+ Days[B]	12-Month CRR[C]	12-Month CDR[D]
Consumer loans, held-for-investment	$1,377,792	69.5%	30.5%	174,843	639	17.9%	10.7%	144	3.5	3.1%	1.7%	2.5%	17.4%	6.2%

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

(D) 12-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.

In February 2017, we completed a co-investment, through a newly formed entity, PF LoanCo Funding LLC ("LoanCo"), to purchase up to $5.0 billion worth of newly originated consumer loans from Consumer Loan Seller over a two year term. We, along with three co-investors, each acquired 25% membership interests in LoanCo. For further information, see Note 9 to our Consolidated Financial Statements.

The following is a summary of LoanCo's consumer loan investments:

	Unpaid Principal Balance	Interest in Consumer Loans	Carrying Value	Weighted Average Coupon	Weighted Average Expected Life (Years)[A]	Weighted Average Delinquency[B]
December 31, 2017[C]	$178,422	25.0 %	$178,422	15.1 %	1.4	0.4 %

(A) Represents the weighted average expected timing of the receipt of expected cash flows for this investment.
(B) Represents the percentage of the total unpaid principal balance that is 30+ days delinquent. Delinquency status is the primary credit quality indicator as it provides early warning of borrowers who may be experiencing financial difficulties.
(C) Data as of November 30, 2017 as a result of the one month reporting lag.

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. We believe that the estimates and assumptions utilized in the preparation of the Consolidated Financial Statements are prudent and reasonable. Actual results historically have generally been in line with our estimates and judgments used in applying each of the accounting policies described below, as modified periodically to reflect current market conditions.

Excess MSRs

Upon acquisition, we elected to record each investment 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.

Our Excess MSRs are categorized as Level 3 under the GAAP fair value hierarchy, as described in Note 12 to our Consolidated Financial Statements. The inputs used in the valuation of Excess MSRs include prepayment rate, 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. We validate 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. We review any changes to the valuation methodology to ensure the changes are appropriate.

In order to evaluate the reasonableness of its fair value determinations, we engage an independent valuation firm to separately measure the fair value of our 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. We compare the range included in the opinion to the values generated by our internal models. To date, we have not made any significant valuation adjustments as a result of these fairness opinions.

Investments in Excess MSRs are aggregated into pools as applicable; each pool of Excess MSRs is accounted for in the aggregate. Interest income for Excess MSRs is accreted using an effective yield or "interest" method, based upon the expected income from the Excess MSRs through the expected life of the underlying mortgages. The inputs used in

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

Under the fair value election, the difference between the fair value of Excess MSRs 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 MSRs, and therefore may differ from their effective yields.

MSRs

As an approved owner of MSRs, upon acquisition, we account for our MSRs as servicing assets or servicing liabilities as we have undertaken an obligation to service financial assets. We measure our MSRs at fair value at acquisition and elect to subsequently measure at fair value at each reporting date using the fair value measurement method. The variables and methodology involved in valuing MSRs are similar to those involved in valuing Excess MSRs, with the addition of the estimation of a market level of future costs to service a given portfolio of underlying residential mortgage loans. This cost estimate is primarily based on current market data obtained from servicers and other third parties, which may be adjusted based on our expectations for the future, and requires significant judgement with respect to selecting an appropriate level of estimated future cost from within the range of data obtained and with respect to formulating future expectations. We believe the assumptions we use are within the range that a market participant would use.

For these reasons, as well as the reasons described in “Excess MSRs” above, the determination of the estimated fair value of MSRs 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. In order to evaluate the reasonableness of our fair value determinations, we engage an independent valuation firm to separately measure the fair value of our MSRs, similar to our Excess MSRs.

Servicing Revenue, Net is comprised of the following components: (i) income from the MSRs, less (ii) amortization of the basis of the MSRs, plus or minus (iii) the mark-to-market on the MSRs. Amortization of the basis of the MSRs is based on the remaining UPB of the residential mortgage loans underlying the MSRs relative to their UPB at acquisition.

Mortgage Servicing Rights Financing Receivables

As a result of the length of the initial term of the related subservicing agreements between NRM and PHH, and NRM and Ocwen (Note 5 to our Consolidated Financial Statements), although the MSRs were legally sold, solely for accounting purposes we determined that substantially all of the risks and rewards inherent in owning the MSRs had not been transferred to NRM, and that the purchase agreements would not be treated as sales under GAAP. Therefore, rather than recording investments in MSRs, we recorded investments in mortgage servicing rights financing receivables. Income from these investments is recorded as interest income, and we have elected to measure these investments at fair value, with changes in fair value flowing through Change in fair value of investments in mortgage servicing rights financing receivables in the Consolidated Statements of Income.

Servicer Advance Investments

We account for Servicer Advance Investments, which include the basic fee component of the related MSR, as financial instruments, in instances where our subsidiary, NRM, is not the named servicer.

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

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

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

Our estimations of future cash flows include the combined cash flows of all of the components that comprise the Servicer Advance Investments: existing advances, the requirement to purchase future advances and the right to the basic fee component of the related MSR. The factors that most significantly impact the fair value include (i) the rate at which the servicer advance balance declines, which we estimate is approximately $0.4 billion per year on average over the weighted average life of the investment held as of December 31, 2017, (ii) the duration of outstanding servicer advances, which we estimate is approximately nine months on average

for an advance balance at a given point in time (not taking into account new advances made with respect to the pool), and (iii) the UPB of the underlying loans with respect to which we have the obligation to make advances and own the basic fee component.

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

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

Real Estate Securities (RMBS)

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

We expect that any RMBS we acquire will be categorized under Level 2 or Level 3 of the GAAP hierarchy, depending on the observability of the inputs. Fair value may be based upon broker quotations, counterparty quotations, pricing service quotations or internal pricing models. The significant inputs used in the valuation of our securities include the discount rate, prepayment rates, 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. We validate 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. We review any changes to the valuation methodology to ensure the changes are appropriate.

We must also assess whether unrealized losses on securities, if any, reflect a decline in value that is other-than-temporary and, if so, record an other-than-temporary impairment through earnings. A decline in value is deemed to be other-than-temporary if (i) it is probable that we will be unable to collect all amounts due according to the contractual terms of a security that was not impaired at acquisition (there is an expected credit loss), or (ii) if we have the intent to sell a security in an unrealized loss position or it is more likely than not that we will be required to sell a security in an unrealized loss position prior to its anticipated recovery (if any). For the purposes of performing this analysis, we will assume the anticipated recovery period is until the expected maturity of the applicable security. Also, for securities that represent beneficial interests in securitized financial assets within the scope of Accounting Standards Codification ("ASC") No. 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 No. 310-30, as opposed to ASC No. 325-40. All of our other Non-Agency RMBS, those not acquired with evidence of deteriorated credit quality, fall within the scope of ASC No. 325-40.

Income on these securities is recognized using a level yield methodology based upon a number of cash flow assumptions that are subject to uncertainties and contingencies. Such assumptions include the rate and timing of principal and interest receipts (which may be subject to prepayments and defaults). These assumptions are updated on at least a quarterly basis to reflect changes related to a particular security, actual historical data, and market changes.

These uncertainties and contingencies are difficult to predict and are subject to future events, and economic and market conditions, which may alter the assumptions. For securities acquired at a discount for credit losses, we recognize the excess of all cash flows expected over our investment in the securities as Interest Income on a “loss adjusted yield” basis. The loss-adjusted yield is determined based on an evaluation of the credit status of securities, as described in connection with the analysis of impairment above.

Impairment of Performing Loans

To the extent that they are classified as held-for-investment, we must periodically evaluate each of these loans or loan pools for possible impairment. Impairment is indicated when it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of 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.

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

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

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

Purchased Credit Deteriorated ("PCD") Loans

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

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

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

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

The estimation of future cash flows for PCD loans is subject to significant judgment and uncertainty. Actual cash flows could be materially different than our estimates.

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

Real Estate Owned (REO)

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

Consumer Loans

Prior to the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements), we accounted for our investment in the Consumer Loan Companies pursuant to the equity method of accounting because we could exercise significant influence over the Consumer Loan Companies, but the requirements for consolidation were not met. Our share of earnings and losses in these equity method investees was recorded 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.

Subsequent to the SpringCastle Transaction, we consolidate the Consumer Loan Companies. 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 LoanCo and WarrantCo (Note 9 to our Consolidated Financial Statements) pursuant to the equity method of accounting because we can exercise significant influence over LoanCo and WarrantCo, 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. LoanCo has elected to measure its investment in consumer loans at fair value and WarrantCo has elected to measure its investments in warrants at fair value.

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 our assumptions, as well as judgments regarding significance and the design of entities.

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

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

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

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

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

We have invested in Nationstar serviced Servicer Advance Investments, 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 December 31, 2017, we owned an approximately 72.8% interest in the Buyer, and the third-party investors owned the remaining membership interests. Through our managing member interest, we direct substantially all of the day-to-day activities of the Buyer. The third-party investors do not possess substantive participating rights or the power to direct the day-to-day activities that most directly affect the operations of the Buyer. In addition, no single third-party investor, or group of third-party investors, possesses the substantive ability to remove us as the managing member of the Buyer. We have determined that the Buyer is a voting interest entity. As a result of our managing member interest, which represents a controlling financial interest, we consolidate the Buyer and its wholly owned subsidiaries and reflect membership interests in the Buyer held by third parties as noncontrolling interests.

As a result of the SpringCastle Transaction, we have a 53.5% interest in and are the managing member of the Consumer Loan Companies. The Consumer Loan Companies were formed as joint ventures, designed by the members to share risks and rewards and provide each member with a certain level of participation in the overall management. The Consumer Loan Companies have demonstrated their ability to finance activities without additional subordinated financial support and were organized with substantive voting rights and the holders of the equity investment at risk, as a group, have the characteristics of a controlling financial interest. Therefore, we have determined that the Consumer Loan Companies are voting interest entities. As the holder of 53.5% of the voting equity and managing member, we have determined that we own a controlling financial interest and, as the third party investor does not possess substantive participating rights, we have consolidated the Consumer Loan Companies. We reflect the 46.5% membership interest held by the third party as a noncontrolling interest.

In May 2017, we securitized a pool of reperforming residential mortgage loans through certain subsidiaries (the “RPL Borrowers” - see Note 9 to our Consolidated Financial Statements). As a result of controlling an optional redemption feature in the securitization, although the loans were legally sold, solely for accounting purposes we determined that substantially all of the risks and rewards inherent in owning the loans had not been transferred through the securitization, and that it would not be treated as a sale under GAAP. Furthermore, we have determined that the RPL Borrowers are VIEs and that we are their primary beneficiary, and consolidate them, as a result of controlling the optional redemption feature and owning certain notes issued by the RPL Borrowers.

Income Taxes

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

Recent Accounting Pronouncements

See Note 2 to our Consolidated Financial Statements.

Accounting Impact of Valuation Changes

New Residential's assets fall into three general categories as disclosed in the table below. These categories are:

1) Marked to Market Assets ("MTM Assets"): Assets that are marked to market through the statement of income. Changes in the value of these assets (a) are recorded on the statement of income, as unrealized gains or losses that impact net income, and (b) impact our Total New Residential Stockholders' Equity (net book value).
2) Other Comprehensive Income Assets ("OCI Assets"): Assets that are marked to market through the statement of comprehensive income. Changes in the value of these assets (a) are recorded on the statement of comprehensive income, as unrealized gains or losses, and therefore do not impact net income on the statement of income, and (b) impact our Total New Residential Stockholders' Equity (net book value).
3) Cost Assets: Assets that are not marked to market. Changes in value of these assets do not impact net income on the statement of income nor do they impact our Total New Residential Stockholders' Equity (net book value).

An exception to these descriptions results from changes in value that represent impairment. Any such change (a) is recorded on the statement of income, as impairment that impacts net income, and (b) impacts our Total New Residential Stockholders' Equity (net book value). In the case of residential mortgage loans, held-for-sale, any reductions in value are considered impairment. Impairment on loans and REO is subject to reversal if values subsequently increase; impairment on securities is not subject to reversal.

All of New Residential's liabilities, with the exception of derivatives (which are marked to market through the statement of income), are recorded at their amortized cost basis.

MTM Assets	OCI Assets	Cost Assets
Excess MSRs	Real estate and other securities, available-for-sale	Residential mortgage loans, held-for-investment
Excess MSRs, equity method investees		Residential mortgage loans, held-for-sale
MSRs		Real estate owned (REO)
MSR Financing Receivables		Consumer loans, held-for-investment
Servicer Advance Investments		Consumer loans, equity method investees
Certain assets within Other Assets, primarily derivatives		Servicer advances receivable
		Trades receivable
		Deferred tax asset, net
		Other assets, except as described above

RESULTS OF OPERATIONS

The following tables summarize the changes in our results of operations from year-to-year (dollars in thousands). Our results of operations are not necessarily indicative of our future performance.

Comparison of Results of Operations for the years ended December 31, 2017 and 2016

	Year Ended December 31,		Increase (Decrease)		
	2017	2016	Amount	%	
Interest income	$1,519,679	$1,076,735	$442,944	41.1	%
Interest expense	460,865	373,424	87,441	23.4	%
Net Interest Income	1,058,814	703,311	355,503	50.5	%
Impairment					
Other-than-temporary impairment (OTTI) on securities	10,334	10,264	70	0.7	%
Valuation and loss provision (reversal) on loans and real estate owned	75,758	77,716	(1,958)	(2.5)	%
	86,092	87,980	(1,888)	(2.1)	%
Net interest income after impairment	972,722	615,331	357,391	58.1	%
Servicing revenue, net	424,349	118,169	306,180	259.1	%
Other Income					
Change in fair value of investments in excess mortgage servicing rights	4,322	(7,297)	11,619	(159.2)	%
Change in fair value of investments in excess mortgage servicing rights, equity method investees	12,617	16,526	(3,909)	(23.7)	%
Change in fair value of investments in mortgage servicing rights financing receivables	66,394	—	66,394	100.0	%
Change in fair value of servicer advance investments	84,418	(7,768)	92,186	(1,186.7)	%
Gain on consumer loans investment	—	9,943	(9,943)	(100.0)	%
Gain on remeasurement of consumer loans investment	—	71,250	(71,250)	(100.0)	%
Gain (loss) on settlement of investments, net	10,310	(48,800)	59,110	(121.1)	%
Earnings from investments in consumer loans, equity method investees	25,617	—	25,617	100.0	%
Other income (loss), net	4,108	28,483	(24,375)	(85.6)	%
	207,786	62,337	145,449	233.3	%
Operating Expenses					
General and administrative expenses	67,159	38,570	28,589	74.1	%
Management fee to affiliate	55,634	41,610	14,024	33.7	%
Incentive compensation to affiliate	81,373	42,197	39,176	92.8	%
Loan servicing expense	52,330	44,001	8,329	18.9	%
Subservicing expense	166,081	7,832	158,249	2,020.5	%
	422,577	174,210	248,367	142.6	%
Income (Loss) Before Income Taxes	1,182,280	621,627	560,653	90.2	%
Income tax expense (benefit)	167,628	38,911	128,717	330.8	%
Net Income (Loss)	$1,014,652	$582,716	$431,936	74.1	%
Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries	$57,119	$78,263	$(21,144)	(27.0)	%
Net Income (Loss) Attributable to Common Stockholders	$957,533	$504,453	$453,080	89.8	%

Interest Income

Interest income increased by $442.9 million primarily attributable to incremental interest income of (i) $165.8 million from an increase in the size of Real Estate Securities portfolio and accelerated accretion on Real Estate Securities owned in Non-Agency

RMBS trusts that were terminated upon the execution of calls, (ii) $161.8 million from Servicer Advance Investments, primarily due to a $204.1 million increase from HLSS Servicer Advance Investments driven by retrospective adjustments resulting from a change in cash flow assumptions, partially offset by faster prepayment speeds and a lower forward LIBOR curve as compared to prior projections, (iii) $78.7 million from Mortgage Servicing Rights Financing Receivables due to the PHH and Ocwen Transactions (Note 5 to our Consolidated Financial Statements), (iv) $53.8 million from the Residential Mortgage Loans portfolio due to the acquisition of loans through the execution of calls, and (v) $31.1 million from Consumer Loans acquired as a result of the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements) on March 31, 2016. The increase was partially offset by (vi) a $47.0 million decrease from Excess MSR investments attributable to a step up in prepayment rates relative to the prior year, and (vii) a $1.3 million decrease in interest income related to recoveries from certain GNMA EBO servicer advances.

Interest Expense

Interest expense increased by $87.4 million primarily attributable to increases of (i) $73.7 million of interest expense on repurchase agreements and financings on Real Estate Securities in which we made additional levered investments subsequent to December 31, 2016, (ii) $43.3 million of interest expense on MSRs and related servicer advances financing obtained subsequent to December 31, 2016, (iii) $25.8 million on Residential Mortgage Loans due to an increase in the underlying principal balance of the portfolio levered with repurchase agreements, and (iv) $16.9 million on debt collateralized by Excess MSRs issued subsequent to December 31, 2016. The increase was partially offset by (v) a $70.7 million decrease in interest on financings related to Servicer Advance Investments due to debt extinguishment and refinancing subsequent to December 31, 2016, and (vi) $1.6 million on Consumer Loans due to a decrease in the levered portfolio.

Other than Temporary Impairment (OTTI) on Securities

The other-than-temporary impairment on securities increased by $0.1 million primarily resulting from a decline in fair values on a greater portion of our Non-Agency RMBS, which we purchased with existing credit impairment, below their amortized cost basis as of December 31, 2017.

Valuation and Loss Provision (Reversal) on Loans and Real Estate Owned

The $2.0 million decrease in the valuation and loss provision (reversal) on loans and real estate owned resulted from (i) a $15.1 million decrease in impairment on Residential Mortgage Loans and REO due primarily to improved performance on certain non-performing loans and a reduction in impairment on REOs during the year ended December 31, 2017. The decrease was partially offset by (ii) a $9.3 million increase in consumer loan provision expense on loans recorded as a result of the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements) and certain newly originated consumer loans acquired subsequent to December 31, 2016, and (iii) a $3.8 million increase of reserve related to certain GNMA EBO servicer advances receivable.

Servicing Revenue, Net

The component of servicing revenue, net related to changes in valuation inputs and assumptions related to the following:

	Year Ended December 31,		Increase (Decrease)
	2017	2016	Amount
Changes in interest rates and prepayment rates	$ (38,848)	$ 120,602	$(159,450)
Changes in discount rates	165,496	(1,767)	167,263
Changes in other factors	28,847	(15,156)	44,003
Total	$ 155,495	$ 103,679	$51,816

Servicing revenue, net increased $306.2 million during the year ended December 31, 2017 compared to the year ended December 31, 2016 as a result of MSR acquisitions by our servicer subsidiary, NRM, the majority of which closed subsequent to December 31, 2016 (Note 5 to our Consolidated Financial Statements). $51.8 million of the increase was related to changes in valuation inputs and assumptions, primarily driven by a decrease in discount rates, partially offset by faster prepayment speeds.

Change in Fair Value of Investments in Excess Mortgage Servicing Rights

Changes in the fair value of investments in Excess MSRs related to the following:

	Year Ended December 31,		Increase (Decrease)
	2017	2016	Amount
Changes in interest rates and prepayment rates	$ (41,410)	$ (2,080)	$ (39,330)
Changes in discount rates	41,526	—	41,526
Changes in other factors	4,206	(5,217)	9,423
Total	$ 4,322	$ (7,297)	$ 11,619

The increase in mark-to-market fair value adjustments during the year ended December 31, 2017 consisted primarily of an increase in value on the Excess MSR pools driven by a decrease in average discount rate on the portfolio, offset by an increase in projected prepayment speeds and faster actual prepayment rates throughout the year.

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

Changes in the fair value of investments in Excess MSRs, equity method investees related to the following:

	Year Ended December 31,		Increase (Decrease)
	2017	2016	Amount
Changes in interest rates and prepayment rates	$ (3,420)	$ 2,669	$ (6,089)
Changes in discount rates	4,840	—	4,840
Changes in other factors	11,197	13,857	(2,660)
Total	$ 12,617	$ 16,526	$ (3,909)

The decrease in positive mark-to-market adjustments during the year ended December 31, 2017 were mainly driven by interest income net of expenses recorded at the investee level and other market factors, which totaled $11.2 million during the year ended December 31, 2017, compared to $13.9 million during the year ended December 31, 2016.

Change in Fair Value of Investments in Mortgage Servicing Rights Financing Receivables

The component of changes in the fair value of investments in mortgage servicing rights financing receivables related to changes in valuation inputs and assumptions related to the following:

	Year Ended December 31,		Increase (Decrease)
	2017	2016	Amount
Changes in interest rates and prepayment rates	$ (259)	$ —	$ (259)
Changes in discount rates	115,840	—	115,840
Changes in other factors	(5,997)	—	(5,997)
Total	$ 109,584	$ —	$ 109,584

The change in fair value of investments in mortgage servicing rights financing receivables of $66.4 million during the year ended December 31, 2017 is due to the acquisition of mortgage servicing rights financing receivables as a result of the PHH Transaction and Ocwen Transaction (Note 5 to our Consolidated Financial Statements), which are measured at fair value on a recurring basis. $109.6 million of the increase was related to changes in valuation inputs and assumptions, primarily discount rates, which was offset by $43.2 million of amortization of servicing rights.

Change in Fair Value of Servicer Advance Investments

Changes in the fair value of Servicer Advance Investments related to the following:

	Year Ended December 31,		Increase (Decrease)
	2017	2016	Amount
Changes in interest rates and prepayment rates	$ (16,109)	$ (23,806)	$ 7,697
Changes in discount rates	(128,336)	7,864	(136,200)
Changes in other factors	228,863	8,174	220,689
Total	$ 84,418	$ (7,768)	$ 92,186

The positive mark-to-market adjustments during the year ended December 31, 2017 were mainly driven by a change in valuation assumptions related to the HLSS portfolio. Primarily, we reduced our assumption related to the cost of subservicing in periods subsequent to the expiration of the related contract to reflect the current characteristics of, and market for, this investment. This change in assumption resulted in a positive mark-to-market adjustment of $193.8 million. Changes in valuation inputs and assumptions related to the Ocwen Transaction (Note 5 to our Consolidated Financial Statements) further increased the fair value by $41.5 million. The increase was partially offset by a negative mark-to-market adjustment of $128.3 million driven by a discount rate change related to the HLSS portfolio.

Gain on Consumer Loans Investment

The gain on consumer loans investment decreased $9.9 million during the year ended December 31, 2017 compared to the year ended December 31, 2016. This decrease was due to the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements) on March 31, 2016, triggering a change in accounting to income recognition based on the consolidated assets and liabilities rather than recognition of income based on the distributions in excess of basis for prior periods.

Gain on Remeasurement of Consumer Loans Investment

Gain on remeasurement of consumer loans investment of $71.3 million during the year ended December 31, 2016 represents the remeasurement of New Residential’s previously held equity method investment in the Consumer Loan Companies as a result of obtaining a controlling financial interest through the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements).

Gain (Loss) on Settlement of Investments, Net

Loss on settlement of investments, net increased by $59.1 million, primarily related to (i) $48.1 million change in loss on sale of real estate securities to gain on sale of real estate securities, (ii) increased gain on sale of residential mortgage loans of $27.6 million, (iii) $11.3 million realized gain related to the Ocwen Transaction (Note 5 to our Consolidated Financial Statements), and (iv) decreased loss on extinguishment of debt and writeoff financing fees of $6.0 million. This increase was partially offset by (v) $13.9 million change in gain on sale of REO to loss on sale of REO, (vi) $11.7 million increase in loss on settlement of derivatives, and (vii) $8.4 million increase in loss on liquidated residential mortgage loans, during the year ended December 31, 2017 compared to the year ended December 31, 2016.

Earnings from Investments in Consumer Loans, Equity Method Investees

Earnings from investments in Consumer Loans, Equity Method Investees of $25.6 million during the year ended December 31, 2017 represents earnings generated by our 25% member interest in LoanCo and WarrantCo (Note 9 to our Consolidated Financial Statements).

Other Income (Loss), Net

Other income (loss), net decreased by $24.4 million, primarily attributable to (i) a $16.1 million increase in REO expense and servicer advance expenses, (ii) a $10.4 million decrease in Ocwen downgrade reimbursement income, (iii) a $8.0 million change in unrealized gain on derivative instruments to unrealized loss on derivative instruments, (iv) a $2.4 million decrease in gain on transfers of EBO and reverse mortgage loans to HUD claim receivables, and (v) a $1.4 million increase in reserve on collapse holdback during the year ended December 31, 2017 compared to the year ended December 31, 2016. This decrease was partially offset by (vi) a $5.3 million gain on Ocwen common stock, (vii) a $5.2 million change in unrealized loss on other ABS to unrealized

gain on other ABS, and (viii) an increased gain on transfer of loans to REO of $4.6 million during the year ended December 31, 2017 compared to the year ended December 31, 2016.

General and Administrative Expenses

General and administrative expenses increased by $28.6 million primarily attributable to (i) a $7.1 million increase in expenses related to newly acquired Residential Mortgage Loans, (ii) a $6.8 million increase in deal related expense, (iii) a $5.4 million increase in securitization fees, (iv) a $5.1 million increase in custodian expense and professional fees related to servicing compliance as a result of MSR acquisitions by our servicer subsidiary, NRM, the majority of which closed subsequent to December 31, 2016 (Note 5 to our Consolidated Financial Statements), (v) a $2.4 million increase in professional fees related to legal, and (vi) a $1.1 million increase in trustee fees during the year ended December 31, 2017.

Management Fee to Affiliate

Management fee to affiliate increased by $14.0 million as a result of increases to our gross equity subsequent to December 31, 2016.

Incentive Compensation to Affiliate

Incentive compensation to affiliate increased by $39.2 million due to an increase in our incentive compensation earnings measure resulting from the changes in the income and expense items described above, excluding any unrealized gains or losses from mark-to-market valuation changes on investments and debt during the year ended December 31, 2017 compared to the year ended December 31, 2016.

Loan Servicing Expense

Loan servicing expense increased by $8.3 million primarily attributable to (i) a $6.5 million increase of loan servicing expense on Consumer Loans, held for investment as a result of the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements), and (ii) a $2.1 million increase in servicing expense on the Residential Mortgage Loans, partially offset by (iii) a $0.3 million decrease in servicing expense on Real Estate Securities.

Subservicing Expense

Subservicing expense increased $158.2 million during the year ended December 31, 2017 compared to the year ended December 31, 2016 as a result of transactions that closed subsequent to December 31, 2016 within our servicer subsidiary, NRM (Note 5 to our Consolidated Financial Statements).

Income Tax Expense (Benefit)

Income tax expense (benefit) increased by $128.7 million primarily due to (i) the increase in the net deferred tax expense resulting from changes in assumptions impacting interest income and mark-to-market on Servicer Advance Investments and (ii) taxable income at NRM as a mortgage servicer subsequent to December 31, 2016.

Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries

Noncontrolling interests in income (loss) of consolidated subsidiaries decreased by $21.1 million primarily due to (i) a $28.9 million decrease in other’s interest in the net income of the Buyer as a result of a decrease in ownership from 54.2% to 27.2%, as well as a net decrease in net interest income earned on the Buyer’s levered assets and in the change in fair value of the Buyer’s assets, during the year ended December 31, 2017, which was partially offset by (ii) an

increase of $7.8 million from the consolidation of the Consumer Loan Companies as part of the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements).

Other Comprehensive Income. See "—Accumulated Other Comprehensive Income (Loss)" below.

Comparison of Results of Operations for the years ended December 31, 2016 and 2015

	Year Ended December 31,		Increase (Decrease)	
	2016	2015	Amount	%
Interest income	$1,076,735	$645,072	$431,663	66.9 %
Interest expense	373,424	274,013	99,411	36.3 %
Net Interest Income	703,311	371,059	332,252	89.5 %
Impairment				
Other-than-temporary impairment (OTTI) on securities	10,264	5,788	4,476	77.3 %
Valuation and loss provision (reversal) on loans and real estate owned	77,716	18,596	59,120	317.9 %
	87,980	24,384	63,596	260.8 %
Net interest income after impairment	615,331	346,675	268,656	77.5 %
Servicing revenue, net	118,169	—	118,169	— %
Other Income				
Change in fair value of investments in excess mortgage servicing rights	(7,297)	38,643	(45,940)	(118.9)%
Change in fair value of investments in excess mortgage servicing rights, equity method investees	16,526	31,160	(14,634)	(47.0)%
Change in fair value of servicer advance investments	(7,768)	(57,491)	49,723	(86.5)%
Gain on consumer loans investment	9,943	43,954	(34,011)	(77.4)%
Gain on remeasurement of consumer loans investment	71,250	—	71,250	— %
Gain (loss) on settlement of investments, net	(48,800)	(19,626)	(29,174)	148.6 %
Other income (loss), net	28,483	5,389	23,094	428.5 %
	62,337	42,029	20,308	48.3 %
Operating Expenses				
General and administrative expenses	38,570	61,862	(23,292)	(37.7)%
Management fee to affiliate	41,610	33,475	8,135	24.3 %
Incentive compensation to affiliate	42,197	16,017	26,180	163.5 %
Loan servicing expense	44,001	6,469	37,532	580.2 %
Subservicing expense	7,832	—	7,832	— %
	174,210	117,823	56,387	47.9 %
Income (Loss) Before Income Taxes	621,627	270,881	350,746	129.5 %
Income tax expense (benefit)	38,911	(11,001)	49,912	(453.7)%
Net Income (Loss)	$582,716	$281,882	$300,834	106.7 %
Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries	$78,263	$13,246	$65,017	490.8 %
Net Income (Loss) Attributable to Common Stockholders	$504,453	$268,636	$235,817	87.8 %

Interest Income

Interest income increased by $431.7 million primarily attributable to incremental interest income of (i) $232.7 million mainly from Consumer Loans acquired as a result of the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements) on March 31, 2016, (ii) $15.6 million from Excess MSR investments and $15.2 million from Servicer Advance Investments due to holding Excess MSR and Servicer Advance Investments acquired through the HLSS Acquisition on April 6, 2015 for a full year in 2016. Interest income further increased by (iii) $155.7 million largely due to an increase in the size of Real Estate Securities portfolio and accelerated accretion on Real Estate Securities owned in Non-Agency RMBS trusts that were terminated upon the exercise of call rights, and (iv) $13.1 million from Residential Mortgage Loans due to an increase in the underlying principal balance of the portfolio during the year ended December 31, 2016, specifically the Fannie Mae loan pool acquired in December 2015. The increase was partially offset by a $0.7 million decrease in interest income on Ginnie Mae EBO servicer advances funded by

HLSS and accounted for as a financing transaction due to a decrease in the underlying balance of the portfolio during the year ended December 31, 2016.

Interest Expense

Interest expense increased by $99.4 million primarily attributable to increases of (i) $8.0 million of interest on financings related to servicer advances primarily acquired through the HLSS Acquisition on April 6, 2015, (ii) $52.8 million on the Consumer Loan segment including the securitization notes assumed as a result of the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements) on March 31, 2016, (iii) $31.1 million of interest on repurchase agreements and financings on Real Estate Securities in which we made additional levered investments subsequent to December 31, 2015, (iv) $4.2 million of interest expense on Residential Mortgage Loans due to an increase in the underlying principal balance of the levered portfolio, and (v) $7.5 million of interest on corporate loans secured by Excess MSRs as a result of a higher average outstanding debt balance during the year ended December 31, 2016. The increase was partially offset by a $4.2 million decrease in interest on corporate loans assumed as part of HLSS Acquisition and subsequently repaid in full in 2015.

Other than Temporary Impairment (OTTI) on Securities

The other-than-temporary impairment on securities increased by $4.5 million primarily resulting from a decline in fair values on a greater portion of our Non-Agency RMBS, which we purchased with existing credit impairment, below their amortized cost basis as of December 31, 2016.

Valuation and Loss Provision (Reversal) on Loans and Real Estate Owned

The $59.1 million increase in the valuation provision on residential mortgage loans, held-for-sale and real estate owned resulted from (i) consumer loan provision expense of $53.8 million on loans acquired as a result of the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements) on March 31, 2016 and certain newly originated consumer loans acquired during the second half of 2016 and (ii) an REO impairment increase of $10.2 million due primarily to a decline in home prices. This increase was partially offset by (iii) a decrease of $4.9 million of reserve related to certain GNMO EBO servicer advances receivable during the year ended December 31, 2016.

Servicing Revenue, Net

Servicing revenue, net increased $118.2 million during the year ended December 31, 2016 compared to the year ended December 31, 2015 as a result of MSR acquisitions by our servicer subsidiary, NRM, which closed in the fourth quarter of 2016 (Note 5 in our Consolidated Financial Statements).

Change in Fair Value of Investments in Excess Mortgage Servicing Rights

The change in fair value of investments in excess mortgage servicing rights decreased by $45.9 million during the year ended December 31, 2016 compared to the year ended December 31, 2015. This decrease relates to mark-to-market fair value decreases of $7.3 million during the year ended December 31, 2016, compared to fair value increases of $38.6 million during the year ended December 31, 2015. The mark-to-market fair value adjustments during the year ended December 31, 2016 consisted primarily of a decrease in value on the legacy Excess MSR pools which is driven by lower future projected recapture rates, amortization of the legacy assets, and faster actual prepayment rates throughout the year, offset by slower future projected prepayment rates.

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 decreased by $14.6 million during the year ended December 31, 2016 compared to the year ended December 31, 2015. This decrease relates to mark-to-market fair value increases of $16.5 million during the year ended December 31, 2016,

compared to fair value increases of $31.1 million during the year ended December 31, 2015. The mark-to-market fair value adjustments during the year ended December 31, 2016 consist primarily of slower future projected prepayment rates, offset by faster actual prepayment rates throughout the year. The mark-to-market adjustments during the year ended December 31, 2015 were driven by increased servicing fees and a cumulative positive adjustment resulting from changes to certain modeling assumptions. Additionally, two Excess MSR joint ventures were restructured into directly owned assets during the first quarter of the year ended December 31, 2015.

Change in Fair Value of Servicer Advance Investments

The change in fair value of Servicer Advance Investments decreased $49.7 million during the year ended December 31, 2016 compared to the year ended December 31, 2015. This decrease relates to asset mark-downs of $7.8 million during the year ended December 31, 2016 compared to mark-downs of $57.5 million during the year ended December 31, 2015. The net decrease in fair

value of Servicer Advance Investments for the year ended December 31, 2016 was due to the increases in discount rate assumptions partially offset by a higher forward LIBOR curve as compared to prior projections. The net decrease in fair value of Servicer Advance Investments for the year ended December 31, 2015 was primarily due to a lower performance fee adjustment related to HLSS servicer advances resulting from a lower forward LIBOR curve as compared to prior projections and increases in discount rate assumptions.

Gain on Consumer Loans Investment

The gain on consumer loans investment decreased $34.0 million during the year ended December 31, 2016 compared to the year ended December 31, 2015. This decrease was due to the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements) on March 31, 2016, triggering a change in accounting to income recognition based on the consolidated assets and liabilities rather than recognition of income based on the distributions in excess of basis for prior periods.

Gain on Remeasurement of Consumer Loans Investment

Gain on remeasurement of consumer loans investment of $71.3 million represents the remeasurement of New Residential's previously held equity method investment in the Consumer Loan Companies as a result of obtaining a controlling financial interest through the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements) on March 31, 2016.

Gain (Loss) on Settlement of Investments, Net

Loss on settlement of investments, net increased by $29.2 million, primarily related to (i) decreased gain on sale of residential mortgage loans of $23.0 million, as the first two quarters of 2015 included the sale of the majority of the existing portfolio, (ii) loss on sale of real estate securities of $27.5 million relative to a gain of $13.1 million in 2015, and (iii) increased other losses of $0.9 million driven by interest rate cap unwind and increased loss on extinguishment of debt as a result of servicer advance term note repayment and facility downsize. These amounts were partially offset by (iv) decreased loss on settlement of derivatives of $19.5 million, (v) increased gain on sale of REO of $15.4 million, and (vi) decreased loss on liquidated residential mortgage loans of $0.4 million, during the year ended December 31, 2016 compared to the year ended December 31, 2015.

Other Income (Loss), Net

Other income (loss), net increased by $23.1 million, primarily attributable to (i) a $9.3 million net increase in unrealized gains on interest rate swaps and interest rate caps, and a decrease in unrealized losses on TBAs, (ii) an increased gain on transfer of loans to REO of $16.3 million, and (iii) increased gain on transfer of loans to other assets of $3.6 million, partially offset by (iv) increased unrealized loss on other ABS of $3.2 million, (v) decreased gain on Excess MSR recapture agreements of $0.2 million, and (vi) $2.7 million decrease in other income during the year ended December 31, 2016 compared to the year ended December 31, 2015.

General and Administrative Expenses

General and administrative expenses decreased by $23.3 million primarily attributable to (i) $6.0 million and $1.4 million in retention bonus and severance, and payroll expenses, respectively, related to HLSS employees associated with our acquisition of HLSS on April 6, 2015, (ii) $11.0 million of acquisition-related legal deal expenses due to our acquisition of HLSS, and (iii) $9.1 million related to a settlement agreement with certain HSART Bondholders during the year ended December 31, 2015, partially offset by (iv) $3.0 million legal deal expenses related to the SpringCastle Transaction and transactions that closed in the fourth quarter within our servicer subsidiary, NRM, and (v) $1.7 million of expenses related to technology enhancements during the year ended December 31, 2016.

Management Fee to Affiliate

Management fee to affiliate increased by $8.1 million as a result of increases to our gross equity subsequent to December 31, 2015.

Incentive Compensation to Affiliate

Incentive compensation to affiliate increased by $26.2 million due to an increase in our incentive compensation earnings measure resulting from the changes in the income and expense items described above, excluding any unrealized gains or losses from mark-to-market valuation changes on investments and debt during the year ended December 31, 2016 compared to the year ended December 31, 2015.

Loan Servicing Expense

Loan servicing expense increased by $37.5 million primarily attributable to (i) $34.8 million of loan servicing expense on Consumer Loans, held for investment as a result of the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements) on March 31, 2016, and (ii) a $2.5 million increase in servicing expense on the Residential Mortgage Loans and Real Estate Securities due to a larger average portfolio during the year ended December 31, 2016 compared to the year ended December 31, 2015.

Subservicing Expense

Subservicing expense increased $7.8 million during the year ended December 31, 2016 compared to the year ended December 31, 2015 as a result of transactions that closed in the fourth quarter within our servicer subsidiary, NRM (Note 5 in our Consolidated Financial Statements).

Income Tax Expense (Benefit)

Income tax expense (benefit) increased by $49.9 million, from $11.0 million of income tax benefit for the year ended December 31, 2015 to $38.9 million of income tax expense for the year ended December 31, 2016, relating to certain of our taxable subsidiaries. This change is primarily due to the increase in net income attributable to our taxable subsidiaries by $109.6 million from the year ended December 31, 2015.

Noncontrolling Interests in Income (Loss) of Consolidated Subsidiaries

Noncontrolling interests in income (loss) of consolidated subsidiaries increased by $65.0 million primarily due to (i) $38.1 million from the consolidation of the Consumer Loan Companies as part of the SpringCastle Transaction (Note 9 to our Consolidated Financial Statements) during the year ended December 31, 2016, which are 46.5% owned by third parties, (ii) $21.8 million from a net decrease in the change in fair value of the Buyer’s assets and a decrease in interest expense, partially offset by a net decrease in interest income earned on the Buyer’s levered assets, and (iii) $5.1 million from HLSS shareholders’ interests in the net loss of HLSS Ltd during the year ended December 31, 2015.

LIQUIDITY AND CAPITAL RESOURCES

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

Our primary sources of funds for liquidity generally consist of cash provided by operating activities (primarily income from our investments in Excess MSRs, MSRs, Servicer Advance Investments, RMBS and loans), sales of and repayments from our investments, potential debt financing sources, including securitizations, and the issuance of equity securities, when feasible and appropriate. Our ability to utilize funds generated by the MSRs held in our servicer subsidiary, NRM, is subject to regulatory requirements regarding NRM’s liquidity. As of December 31, 2017, approximately $104.5 million of our cash and cash equivalents was held at NRM, of which $20.0 million was in excess of regulatory liquidity requirements and available for deployment. Our primary uses of funds are the payment of interest, management fees, incentive compensation, servicing and subservicing expenses, outstanding commitments (including margins) and other operating expenses, and the repayment of borrowings and hedge obligations, as well as dividends. Although we have other sources of liquidity, such as sales of and repayments from our investments, potential debt financing sources and the issuance of equity securities, there can be no assurance that we will generate sufficient cash or 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. We have also committed to purchase certain future servicer advances. Currently, we expect that net recoveries of servicer advances will exceed net fundings for the foreseeable future. However, in the event of a significant economic downturn, net fundings could exceed net recoveries, which could have a materially adverse impact on our liquidity and could also result in additional expenses, primarily interest expense on any related financings of incremental advances.

Currently, our primary sources of financing are notes and bonds payable and repurchase agreements, although we have in the past and may in the future also pursue one or more other sources of financing such as securitizations and other secured and unsecured forms of borrowing. As of December 31, 2017, we had outstanding repurchase agreements with an aggregate face amount of approximately $8.7 billion to finance our investments. The financing of our entire RMBS portfolio, which generally has 30 to 90 day terms, is subject to margin calls. Under repurchase agreements, we sell a security to a counterparty and concurrently agree to repurchase the same security at a later date for a higher specified price. The sale price represents financing proceeds and the

difference between the sale and repurchase prices represents interest on the financing. The price at which the security is sold generally represents the market value of the security less a discount or "haircut," which can range broadly, for example from 4%-5% for Agency RMBS, 0%-1% for treasury securities, 10%-60% for Non-Agency RMBS, and 3%-30% for residential mortgage loans. During the term of the repurchase agreement, the counterparty holds the security as collateral. If the agreement is subject to margin calls, the counterparty monitors and calculates what it estimates to be the value of the collateral during the term of the agreement. If this value declines by more than a de minimis threshold, the counterparty could require us to post additional collateral (or "margin") in order to maintain the initial haircut on the collateral. This margin is typically required to be posted in the form of cash and cash equivalents. Furthermore, we may, from time to time, be a party to derivative agreements or financing arrangements that may be subject to margin calls based on the value of such instruments. In addition, $1.6 billion face amount of our MSR and Excess MSR financing is subject to mandatory monthly repayment to the extent that the outstanding balance exceeds the market value (as defined in the related agreement) of the financed asset multiplied by the contractual maximum loan-to-value ratio. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls or related requirements resulting from decreases in value related to a reasonably possible (in our opinion) 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. We continually monitor market conditions for financing opportunities and at any given time may be entering or pursuing one or more of the transactions described above. 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.

With respect to the next 12 months, we expect that our cash on hand combined with our cash flow provided by operations and our ability to roll our repurchase agreements and servicer advance financings 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. Our ability to roll over short-term borrowings is critical to our liquidity outlook. While it is inherently more difficult to forecast beyond the next 12 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 such a shortfall may occur rapidly and with little or no notice, which could limit our ability to address the shortfall on a timely basis and could have a material adverse effect on our business.

Our cash flow provided by operations differs from our net income due to these primary factors: (i) the difference between (a) accretion and amortization and unrealized gains and losses recorded with respect to our investments and (b) cash received therefrom, (ii) unrealized gains and losses on our derivatives, and recorded impairments, if any, (iii) deferred taxes, and (iv) principal cash flows related to held-for-sale loans, which are characterized as operating cash flows under GAAP.

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. Our business strategy is dependent upon our ability to finance certain of our investments at rates that provide a positive net spread.

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

Debt Obligations

The following table presents certain information regarding our debt obligations (dollars in thousands):

	December 31, 2017								
						Collateral			
Debt Obligations/Collateral	Outstanding Face Amount	Carrying Value[A]	Final Stated Maturity[B]	Weighted Average Funding Cost	Weighted Average Life (Years)	Outstanding Face	Amortized Cost Basis	Carrying Value	Weighted Average Life (Years)
Repurchase Agreements[C]									
Agency RMBS[D]	$1,974,164	$1,974,164	Jan-18	1.37%	0.1	$1,951,238	$2,014,038	$1,997,348	3.7
Non-Agency RMBS[E]	4,720,290	4,720,290	Jan-18 to Mar-18	2.90%	0.1	11,899,935	5,467,187	5,839,524	7.7
Residential Mortgage Loans[F]	1,850,515	1,849,004	Feb-18 to Dec-19	3.73%	0.9	2,364,874	2,165,584	2,135,698	4.3
Real Estate Owned[G][H]	118,778	118,681	Feb-18 to Dec-19	3.70%	0.8	N/A	N/A	142,404	N/A
Total Repurchase Agreements	8,663,747	8,662,139		2.74%	0.3				
Notes and Bonds Payable									
Excess MSRs[I]	484,199	483,978	Jun-19 to Jul-22	5.31%	2.8	264,504,619	1,107,042	1,328,008	6.1
MSRs[J]	1,158,085	1,157,179	Feb-18 to Dec-22	5.44%	2.2	221,952,565	1,904,987	2,211,710	6.2
Servicer Advances[K]	4,066,567	4,060,156	Mar-18 to Dec-21	3.26%	2.0	4,255,047	4,596,042	4,699,418	4.5
Residential Mortgage Loans[L]	137,196	137,196	Oct-18 to Apr-20	3.61%	2.3	229,522	179,812	179,812	8.0
Consumer Loans[M]	1,248,050	1,242,756	Dec-21 to Mar-24	3.36%	3.1	1,377,625	1,380,202	1,374,097	3.5
Receivable from government agency[L]	3,126	3,126	Oct-18	3.90%	0.8	N/A	N/A	2,782	N/A
Total Notes and Bonds Payable	7,097,223	7,084,391		3.78%	2.3				
Total/Weighted Average	$15,760,970	$15,746,530		3.21%	1.2				

(A) Net of deferred financing costs.
(B) All debt obligations with a stated maturity through February 13, 2018 were refinanced, extended or repaid.
(C) These repurchase agreements had approximately $16.9 million of associated accrued interest payable as of December 31, 2017.
(D) All of the Agency RMBS repurchase agreements have a fixed rate. Collateral amounts include approximately $1.0 billion of related trade and other receivables and $0.9 billion of treasury securities.
(E) All of the Non-Agency RMBS repurchase agreements have LIBOR-based floating interest rates. This includes repurchase agreements of $160.2 million on retained servicer advance and consumer loan bonds.
(F) All of these repurchase agreements have LIBOR-based floating interest rates.
(G) All of these repurchase agreements have LIBOR-based floating interest rates.

(H) Includes financing collateralized by receivables including claims from FHA on Ginnie Mae EBO loans for which foreclosure has been completed and for which we have made or intend to make a claim on the FHA guarantee.

(I) Includes $204.2 million of corporate loans which bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a margin of 3.75%, and includes $280.0 million of corporate loans which bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a margin of 3.75%. The outstanding face amount of the collateral represents the UPB of the residential mortgage loans underlying the interests in MSRs that secure these notes.

(J) Includes: $290.0 million of MSR notes which bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a margin of 4.25%, $232.9 million of MSR notes which bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a margin of 3.75%, $74.0 million of MSR notes which bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a margin of 3.50%; $487.2 million of MSR notes which bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a margin of 4.00%; and $74.0 million of MSR notes which bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR and (ii) a margin of 3.13%. The outstanding face amount of the collateral represents the UPB of the residential mortgage loans underlying the MSRs and mortgage servicing rights financing receivables that secure these notes.

(K) $3.5 billion face amount of the notes have a fixed rate while the remaining notes bear interest equal to the sum of (i) a floating rate index equal to one-month LIBOR or a cost of funds rate, as applicable, and (ii) a margin ranging from 1.5% to 2.4%. Collateral includes Servicer Advance Investments, as well as servicer advances receivable related to the mortgage servicing rights and mortgage servicing rights financing receivables owned by NRM.

(L) Represents: (i) a $10.3 million note payable to Nationstar that bears interest equal to one-month LIBOR plus 2.88% and (ii) $130.0 million of asset-backed notes held by third parties which bear interest equal to 3.60%.

(M) Includes the SpringCastle debt, which is comprised of the following classes of asset-backed notes held by third parties: $927.0 million UPB of Class A notes with a coupon of 3.05% and a stated maturity date in November 2023; $210.8 million UPB of Class B notes with a coupon of 4.10% and a stated maturity date in March 2024; $18.3 million UPB of Class C-1 notes with a coupon of 5.63% and a stated maturity date in March 2024; $18.3 million UPB of Class C-2 notes with a coupon of 5.63% and a stated maturity date in March 2024. Also includes a $73.6 million face amount note collateralized by newly originated consumer loans which bears interest equal to 4.00%.

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

We have margin exposure on $8.7 billion of repurchase agreements. To the extent that the value of the collateral underlying these repurchase agreements declines, we may be required to post margin, which could significantly impact our liquidity.

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

	Year Ended December 31, 2017				
	Outstanding Balance at December 31, 2017	Average Daily Amount Outstanding[A]	Maximum Amount Outstanding	Weighted Average Daily Interest Rate	
Repurchase Agreements					
Agency RMBS	$1,974,164	$2,074,376	$2,727,309	1.12	%
Non-Agency RMBS	4,720,290	3,886,420	4,738,144	2.67	%
Residential mortgage loans	1,601,593	1,145,357	1,979,070	3.66	%
Real estate owned	116,902	88,428	163,264	3.62	%
Consumer loans	—	—	—	—	%
Notes and Bonds Payable					
Excess MSRs	—	217,114	220,000	5.84	%
MSRs	596,898	484,161	596,898	5.16	%
Servicer advances	1,160,873	365,030	1,244,107	3.00	%
Residential mortgage loans	7,173	7,725	8,819	3.88	%
Real estate owned	3,126	2,758	3,237	3.90	%
Total/Weighted Average	$10,181,019	$8,271,369		2.72	%

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

	Average Daily Amount Outstanding[A] Three Months Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Repurchase Agreements				
Agency RMBS	$1,905,559	$2,531,373	$1,961,597	$1,900,271
Non-Agency RMBS	2,891,179	3,713,734	4,319,758	4,584,859
Residential mortgage loans	785,283	1,020,082	1,170,488	1,596,385
Real estate owned	92,169	83,235	75,870	102,464
Consumer loans	—	—	—	—

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	Average Daily Amount Outstanding[A] Three Months Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Repurchase Agreements				
Agency RMBS	$1,637,506	$1,650,738	$1,636,200	$1,530,739
Non-Agency RMBS	1,369,703	1,959,069	2,259,505	2,653,867
Residential mortgage loans	889,834	672,344	692,282	578,532
Real estate owned	87,270	99,796	102,896	60,494
Consumer loans	34,569	35,609	22,153	30,565

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

For additional information on our debt activities, see Note 11 to our Consolidated Financial Statements.

Repurchase Agreements

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 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.

Servicer Advance Notes Payable (the “Servicer Advance Notes”)

Following their revolving period, principal will be paid on the Servicer Advance Notes to the extent of available funds and in accordance with the priorities of payments set forth in the related transaction documents. The following table sets forth information regarding these revolving periods as of December 31, 2017 (dollars in thousands):

Servicer Advance Note Amount	Revolving Period Ends[A]
$353,383	March 2018
61,072	May 2018
746,418	November 2018
249,141	January 2019
94,442	March 2019
259,846	June 2019
750,000	October 2019
38,565	November 2019
376,246	December 2020
374,207	February 2021
400,000	October 2021
363,247	December 2021
$4,066,567	

(A) On the earlier of this date or 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 Servicer Advance Notes, a rapid amortization of the Servicer Advance Notes or an acceleration of principal repayment, or all of the foregoing.

The early amortization and target amortization events under the Servicer Advance Notes 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 Servicer Advance Notes, failure to satisfy minimum tangible net worth requirements for the applicable servicer, the Buyer or New Residential; (vi) for certain Servicer Advance Notes, failure to satisfy minimum liquidity requirements for the applicable servicer and the Buyer, (vii) for certain Servicer Advance Notes, failure to satisfy leverage tests for the applicable servicer, the Buyer or New Residential; (viii) for certain Servicer Advance Notes, a change of control of the Buyer or New Residential; (ix) for certain Servicer Advance Notes, a change of control of the applicable servicer, (x) for certain Servicer Advance Notes, the failure of the applicable servicer to maintain minimum servicer ratings, (xi) for certain Servicer Advance Notes, certain judgments against the Buyer or certain other subsidiaries of New Residential in excess of certain thresholds; (xii) for certain Servicer Advance Notes, payment default under, or an acceleration of, other debt of the Buyer or certain other subsidiaries of New Residential; (xiii) failure to deliver certain reports; and (xiv) material breaches of any of the transaction documents.

The definitive documents related to the Servicer Advance 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 Servicer Advance Notes also contain customary events of default, including, among others, (i) non-payment of principal, interest or other amounts when due, (ii) insolvency of the applicable servicer, the Buyer, or certain other related subsidiaries of New Residential; (iii) the applicable issuer becoming subject to registration as an “investment company” within the meaning of the 1940 Act; (iv) the applicable servicer or New Residential subsidiary fails to comply with the deposit and remittance requirements set forth in any pooling and servicing agreement or such definitive documents; and (v) the related servicer’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 Servicer Advance 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 Servicer Advance 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 certain of the Servicer Advance 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 Servicer Advance 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 Servicer Advance Notes. This could result in a partial or total loss on our investment.

HLSS Servicer Advance Receivables Trust

On October 1, 2015, an event of default (the “Specified Default”) occurred under the indenture related to certain notes issued by HSART, a wholly-owned subsidiary of ours (Note 11 to our Consolidated Financial Statements). The Specified Default occurred as a result of (and solely as a result of) Ocwen’s master servicer rating downgrade to “Below Average”, announced by S&P on September 29, 2015. After giving effect to such downgrade, Ocwen ceased to be an “Eligible Subservicer” under the indenture causing the “Collateral Test” under the indenture to not be satisfied. The continuing failure of the Collateral Test as of close of business on October 1, 2015 resulted in the occurrence of the

Specified Default. The Specified Default caused $2.5 billion of term notes issued by HSART to become immediately due and payable, without premium or penalty, as of the close of business on October 1, 2015, in accordance with the terms of HSART's indenture.

We had previously secured approximately $4.0 billion of surplus servicer advance financing commitments from HSART's lenders. HSART repaid all $2.5 billion of the term notes on October 2, 2015 in full with the proceeds of draws by HSART on variable funding notes previously issued by HSART. The holders of the variable funding notes issued by HSART previously agreed that the Specified Default would not be deemed an "event of default" under HSART's indenture for purposes of their variable funding notes. After giving effect to the repayment of the term notes issued by HSART, the only outstanding notes issued by HSART are variable funding notes. No other material obligation of HSART arises, increases or accelerates as a result of the transactions described herein.

During the first three quarters of 2015, through their investment manager, certain bondholders (the "HSART Bondholders") alleged that events of default had occurred under HSART and that, as a result, the HSART Bondholders were due additional interest under the related agreements. In February 2015, in response to such allegations, instead of releasing such amounts to our subsidiary that sponsors the HSART transaction entitled thereto, the trustee of HSART began to withhold, monthly, such interest (the "Withheld Funds") so that such amounts were reserved in the event that it was determined that any of the alleged events of default had occurred. On August 28, 2015, the trustee commenced a legal proceeding requesting instruction from the court regarding the alleged defaults and the disposition of the Withheld Funds.

On October 2, 2015, as described above, the notes held by the HSART Bondholders were repaid in full. On October 14, 2015, the court ruled that no event of default had occurred under HSART, authorized the trustee to release the Withheld Funds and dismissed the legal proceeding. As a result of this ruling, $92.7 million was released from restricted cash accounts related to HSART and became available for unrestricted use by us.

On October 13, 2015, we entered into a settlement agreement in connection with which a subsidiary of ours was liable for a $9.1 million payment to certain HSART Bondholders, which was recorded within General and Administrative Expenses; this agreement did not impact other former or existing bondholders of HSART.

Consumer Loans

In October 2016, the Consumer Loan Companies refinanced their outstanding asset-backed notes with a new asset-backed securitization. The issuance consisted of $1.7 billion face amount of asset-backed notes comprised of six classes with maturity dates in November 2023 and March 2024, of which approximately $157.6 million face amount was retained by the Consumer Loan Companies and subsequently distributed to their members including New Residential. New Residential's $79.9 million portion of these bonds is not treated as outstanding debt in consolidation. In connection with the refinancing, the Consumer Loan Companies recorded approximately $4.7 million of loss on extinguishment of debt related to an unamortized discount.

SpringCastle Debt (the "SpringCastle Notes")

Principal will be paid on the SpringCastle Notes to the extent of available funds and in accordance with the priorities of payments set forth in the related securitization transaction documents. Prior to the occurrence of an event of default under such documents, payments of principal on the SpringCastle Notes are made in amounts necessary to maintain the prescribed relationship among the senior and subordinated notes balances relative to the principal balance of the underlying consumer loans, with any excess available funds flowing back to the co-issuers or as the co-issuers may direct. After the occurrence of an event of default, available funds are applied to pay the SpringCastle Notes sequentially in full before any distribution to the co-issuer or as the co-issuers may direct.

The definitive documents related to the SpringCastle Notes contain customary events of default, including, among others, (i) non-payment of principal, interest or other amounts when due, (ii) insolvency of any co-issuer; (iii) any co-issuer becoming subject to registration as an "investment company" within the meaning of the Investment Company Act of 1940; (iv) any co-issuer shall become taxable as an association, taxable mortgage pool or publicly traded partnership taxable as a corporation under the Internal Revenue Code; and (v) breaches of representations, warranties and covenants, subject to certain cure periods. 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 SpringCastle Notes and all other obligations of the co-issuers immediately due and payable. A bankruptcy event of default causes such obligations automatically to become immediately due and payable and the commitments automatically to terminate.

The definitive documents related to the SpringCastle Notes contain customary representations and warranties, as well as covenants. Covenants include, among others, reporting requirements, provision of notices of material events,

maintenance of existence, maintenance of books and records and compliance with laws.

Both the SpringCastle Notes and the underlying consumer loans accrue interest at fixed rates.

NRZ Excess Spread-Collateralized Notes (the "Excess Spread Notes")

Principal will be paid on the Excess Spread Notes in accordance with the priorities of payments set forth in the related transaction documents. The following table sets forth information regarding the note amounts for the Excess Spread Notes as of December 31, 2017 (in thousands):

Transaction	Outstanding Note Amount	Maturity Date
PLS1	$ 280,000	June 2019[(A)]
Agency MSRs Loan	204,199	July 2022[(B)]
	$ 484,199	

(A) The PLS1 Excess Spread Notes may be paid off on any payment date occurring on or after December 2017 upon 180 days written notice from the Borrowers or Noteholders.
(B) The Agency MSRs Loan has a loan repayment date of July 11, 2022.

At closing, the PLS1 Excess Spread Notes had a note amount of $126.2 million, but are subject to increase on any funding date upon 1 business days' notice and if there is sufficient collateral value to support such increase. The related MSR valuation agent may, at its sole discretion, recalculate the market value of the excess servicing fees and generate a market value report. If the collateral value (using the market value from the most recent market value report) multiplied by the advance rate is determined to be less than the note amount, the borrowers will be required to make a principal payment to the extent necessary to cure such imbalance. The borrowers are required to pay the outstanding principal balance of the PLS1 Excess Spread Notes on the maturity date set forth in the table above. Prior to the maturity date, upon the occurrence of an event of default, the PLS1 Excess Spread Notes become immediately due and payable. For the PLS1 Excess Spread Notes, New Residential Investment Corp. guarantees the payment of all amounts payable when due.

At closing, the Agency MSRs Loan, had a loan amount of $213.7 million. Beginning on the first monthly settlement date (August 25, 2017) following the anniversary of the funding date (July 11, 2017), the borrowers are required to pay any unpaid principal in equal parts on each remaining monthly payment date occurring prior to the loan repayment date (July 11, 2022). The lender shall have the right to determine the collateral value at any time in its sole good faith discretion. If, on any determination date, the outstanding aggregate loan amount exceeds the borrowing base, the borrowers shall, on the next monthly settlement date, repay the loan in an amount equal to the borrowing base deficiency. Prior to the loan repayment date, upon the occurrence of an event of default, the Agency MSRs Loan becomes immediately due and payable.

The definitive documents related to the Excess Spread 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, delivery of financial statements, use of proceeds, maintenance of deposit accounts, maintenance of books and records, compliance with laws, compliance with covenants in the transaction/facility documents, and financial covenants. Negative covenants include, among others, impairment on the value of the collateral, limitations on liens on the collateral, limitations on other indebtedness or business activity, and changes in state of organization without notice.

The definitive documents related to the Excess Spread Notes also contain customary events of default, including, among others, (i) non-payment of principal, interest or other amounts when due, (ii) material misrepresentations in the transaction/facility documents, (iii) failure to maintain a first priority security interest in the collateral, (iv) change of control, (v) insolvency, (vi) judgments, (vii) the failure of New Residential to be listed on the NYSE or have a public debt rating by at least one of S&P, Moody's or Fitch, (viii) the failure of the underlying servicer to be an approved servicer under the guidelines of the applicable agency and (ix) the failure of New Residential to maintain its status as a

REIT or failure of certain specified financial tests or a servicer termination event trigger occurs. Upon the occurrence and during the continuance of an event of default under any facility, the noteholders may declare the Excess Spread Notes and all other obligations immediately due and payable and may terminate the commitments.

Maturities

Our debt obligations as of December 31, 2017, as summarized in Note 11 to our Consolidated Financial Statements, had contractual maturities as follows (in thousands):

Year	Nonrecourse[A]	Recourse[B]	Total
2018	$ 1,160,873	$9,020,147	$10,181,020
2019	1,391,994	530,794	1,922,788
2020	506,269	—	506,269
2021	1,211,100	—	1,211,100
2022	74,000	691,385	765,385
2023 and thereafter	1,174,408	—	1,174,408
	$ 5,518,644	$10,242,326	$15,760,970

(A) Includes repurchase agreements and notes and bonds payable of $0.0 million and $5,519.0 million, respectively.

(B) Includes repurchase agreements and notes and bonds payable of $8,664.0 million and $1,578.0 million, respectively.

The weighted average differences between the fair value of the assets and the face amount of available financing for the Agency RMBS repurchase agreements (including amounts related to Trades Receivable and Treasury securities) and Non-Agency RMBS repurchase agreements were 1.2% and 19.2%, respectively, and for Residential Mortgage Loans and Real Estate Owned were 13.4% and 16.6%, respectively, during the year ended December 31, 2017.

Borrowing Capacity

The following table represents our borrowing capacity as of December 31, 2017 (in thousands):

Debt Obligations/ Collateral	Borrowing Capacity	Balance Outstanding	Available Financing
Repurchase Agreements			
Residential mortgage loans and REO	$2,735,000	$ 1,969,293	$765,707
Notes and Bonds Payable			
Excess MSRs	750,000	280,000	470,000
MSRs	775,000	670,898	104,102
Servicer advances[A]	1,910,120	1,585,069	325,051
Consumer loans	150,000	73,646	76,354
	$6,320,120	$ 4,578,906	$1,741,214

(A) Our unused borrowing capacity is available to us if we have additional eligible collateral to pledge and meet other borrowing conditions as set forth in the applicable agreements, including any applicable advance rate. We pay a 0.02% fee on the unused borrowing capacity. Excludes borrowing capacity and outstanding debt for retained Non-Agency bonds collateralized by servicer advances with a current face amount of $93.5 million.

Covenants

Certain of the debt obligations are subject to customary loan covenants and event of default provisions, including event of default provisions triggered by certain specified declines in our equity or failure to maintain a specified tangible net worth, liquidity, or indebtedness to tangible net worth ratio. We were in compliance with all of our debt covenants as of December 31, 2017.

Stockholders' Equity

Common Stock

Our certificate of incorporation authorizes 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.

Approximately 2.4 million shares of our common stock were held by Fortress, through its affiliates, and its principals as of December 31, 2017.

In April 2015, we issued the New Residential Acquisition Common Stock in connection with the HLSS Acquisition (Note 1 to our Consolidated Financial Statements).

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

In June 2015, we issued 27.9 million shares of our common stock in a public offering at a price to the public of $15.88 per share for net proceeds of approximately $442.6 million. One of our executive officers participated in this offering and purchased 9,100 shares at the public offering price. To compensate the Manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the Manager relating to 2.8 million shares of our common stock at the public offering price, which had a fair value of approximately $3.7 million as of the grant date. The assumptions used in valuing the options were: a 2.61% risk-free rate, a 7.81% dividend yield, 23.73% volatility and a 10-year term. In addition, the Manager and its employees exercised an aggregate of 6.7 million options and were issued an aggregate of 3.6 million shares of our common stock in a cashless exercise, which were sold to third parties in a simultaneous secondary offering.

In August 2016, we issued 20.0 million shares of our common stock in a public offering at a price to the public of $14.20 per share for net proceeds of approximately $278.8 million. To compensate the Manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the Manager relating to 2.0 million shares of our common stock at the public offering price, which had a fair value of approximately $2.3 million as of the grant date. The assumptions used in valuing the options were: a 1.45% risk-free rate, a 11.80% dividend yield, 27.57% volatility and a 10-year term.

In February 2017, we issued 56.5 million shares of our common stock in a public offering at a price to the public of $15.00 per share for net proceeds of approximately $834.5 million. One of our executive officers participated in this offering and purchased 18,600 shares at the public offering price. To compensate the Manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the Manager relating to 5.7 million shares of our common stock at the public offering price, which had a fair value of approximately $8.1 million as of the grant date. The assumptions used in valuing the options were: a 2.38% risk-free rate, a 10.82% dividend yield, 28.64% volatility and a P10Y-year term.

In July 2015, a former employee of the Manager exercised 37,500 options with a weighted average exercise price of $7.19 and received 20,227 shares of our common stock. In August 2016, employees of the Manager exercised an aggregate of 1,100,497 options with a weighted average exercise price of $10.59 per share and received 280,111 shares of our common stock.

As of December 31, 2017, our outstanding options had a weighted average exercise price of $14.74. Our outstanding options as of December 31, 2017 were summarized as follows:

Held by the Manager	16,387,480
Issued to the Manager and subsequently transferred to certain of the Manager’s	2,108,708

employees	
Issued to the independent directors	6,000
Total	18,502,188

Accumulated Other Comprehensive Income (Loss)

During the year ended December 31, 2017, our accumulated other comprehensive income (loss) changed due to the following factors (in thousands):

	Total Accumulated Other Comprehensive Income
Accumulated other comprehensive income, December 31, 2016	$ 126,363
Net unrealized gain (loss) on securities	248,412
Reclassification of net realized (gain) loss on securities into earnings	(10,308)
Accumulated other comprehensive income, December 31, 2017	$ 364,467

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, 2017, we recorded unrealized gains on our real estate securities primarily caused by performance, liquidity and other factors related specifically to certain investments, coupled with a net tightening of credit spreads. We recorded OTTI charges of $10.3 million with respect to real estate securities and realized gains of $20.6 million on sales of real estate securities.

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

Common Dividends

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

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

Common Dividends Declared for the Period Ended	Paid/Payable	Amount Per Share
March 31, 2015	April 2015	$ 0.38
June 30, 2015	July 2015	$ 0.45
September 30, 2015	October 2015	$ 0.46

December 31, 2015	January 2016	$ 0.46
March 31, 2016	April 2016	$ 0.46
June 30, 2016	July 2016	$ 0.46
September 30, 2016	October 2016	$ 0.46
December 31, 2016	January 2017	$ 0.46
March 31, 2017	April 2017	$ 0.48
June 30, 2017	July 2017	$ 0.50
September 30, 2017	October 2017	$ 0.50
December 31, 2017	January 2018	$ 0.50

Cash Flow

Operating Activities

2017 vs. 2016

Net cash flows provided by operating activities decreased approximately $1.5 billion for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Operating cash inflows for the year ended December 31, 2017 primarily consisted of proceeds from sales and principal repayments of purchased residential mortgage loans, held-for-sale of $3.6 billion, servicing fees received of $424.2 million, collections on receivables and other assets of $46.0 million, net interest income received of $493.6 million, and distributions of earnings from equity method investees of $19.9 million. Operating cash outflows primarily consisted of purchases of residential mortgage loans, held-for-sale of $5.1 billion, net funding of servicer advances receivable of $30.7 million, incentive compensation and management fees paid to the Manager of $96.8 million, income taxes paid of $5.0 million, subservicing fees paid of $100.8 million and other outflows of approximately $134.8 million that primarily consisted of general and administrative costs and loan servicing fees.

2016 vs. 2015

Net cash flows provided by operating activities increased approximately $254.3 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Operating cash flows for the year ended December 31, 2016 primarily consisted of proceeds from sales and principal repayments of purchased residential mortgage loans, held-for-sale of $1.2 billion, collections on receivables and other assets of $218.1 million, net interest income received of $492.7 million, distributions of earnings from equity method investees of $22.0 million, and distributions from equity method investees in excess of our basis of $9.9 million. Operating cash outflows primarily consisted of purchases of residential mortgage loans, held-for-sale of $1.2 billion, net funding of servicer advances receivable of $2.5 million, incentive compensation and management fees paid to the Manager of $60.6 million, income taxes paid of $1.1 million and other outflows of approximately $92.9 million that primarily consisted of general and administrative costs.

Investing Activities

Cash flows provided by (used in) investing activities were ($1.8 billion), ($182.6 million) and ($233.2 million) for the years ended December 31, 2017, 2016 and 2015, respectively. Investing activities consisted primarily of the acquisition of MSRs, Excess MSRs, real estate securities, and loans, and the funding of servicer advances, net of principal repayments from Servicer Advance Investments, MSRs, Excess MSRs, real estate securities and loans as well as proceeds from the sale of real estate securities, loans and REO, and derivative cash flows.

Financing Activities

Cash flows provided by (used in) financing activities were approximately $2.7 billion, ($269.2 million) and $28.9 million during the years ended December 31, 2017, 2016 and 2015, respectively. Financing activities consisted primarily of borrowings net of repayments under debt obligations, equity offerings, capital contributions net of distributions from noncontrolling interests in the equity of consolidated subsidiaries, and payment of dividends.

INTEREST RATE, CREDIT AND SPREAD RISK

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

OFF-BALANCE SHEET ARRANGEMENTS

We have material off-balance sheet arrangements related to our non-consolidated securitizations of residential mortgage loans treated as sales in which we retained certain interests. We believe that these off-balance sheet structures presented the most efficient and least expensive form of financing for these assets at the time they were entered, and represented the most common market-accepted method for financing such assets. Our exposure to credit losses related to these non-recourse, off-balance sheet financings is limited to $467.0 million. As of December 31, 2017, there was $4,837.3 million in total outstanding unpaid principal balance of residential mortgage loans underlying such securitization trusts that represent off-balance sheet financings.

As described in Note 9 to our Consolidated Financial Statements, we have a co-investment in a portfolio of consumer loans held through an entity ("LoanCo") which we account for under the equity method. LoanCo had outstanding debt of $117.9 million as of November 30, 2017. We have not guaranteed this debt.

We did not have any other off-balance sheet arrangements as of December 31, 2017. 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 entities described above. 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, 2017, we had the following material contractual obligations (payments in thousands):

Contract	Terms
Debt Obligations	
Repurchase Agreements	Described under Note 11 to our Consolidated Financial Statements.
Notes and Bonds Payable	Described under Note 11 to our Consolidated Financial Statements.
Other Contractual Obligations	
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.
Interest Rate Swaps	Described under Note 10 to our Consolidated Financial Statements.

	Fixed and Determinable Payments Due by Period	
Contract	2018	