

New Residential Investment Corp.
Form 10-Q
May 01, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 001-35777

New Residential Investment Corp.

(Exact name of registrant as specified in its charter)

Delaware

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)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company 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

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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 x

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

Common stock, \$0.01 par value per share: 336,135,391 shares outstanding as of April 27, 2018.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- reductions in the value of, or 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 MSR, Excess MSR, Servicer Advance Investments, RMBS, residential mortgage loans and consumer loan portfolios;
- the risks that default and recovery rates on our MSR, Excess MSR, 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 MSR or Excess MSR;
- the risk that projected recapture rates on the loan pools underlying our MSR or Excess MSR 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 MSR;
- 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;
-

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 MSR and Excess MSR;

- our ability to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and the potentially onerous consequences that any failure to maintain such qualification would have on our business;
- our ability to maintain our exclusion from registration under the Investment Company Act of 1940 (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 Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about New Residential Investment Corp. (the “Company,” “New Residential” or “we,” “our” and “us”) the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements 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 Quarterly Report on Form 10-Q and the Company’s other public filings, which are available without charge through the SEC’s website at <http://www.sec.gov>.

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

NEW RESIDENTIAL INVESTMENT CORP.
FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Investments in:		
Excess mortgage servicing rights, at fair value	\$515,676	\$ 1,173,713
Excess mortgage servicing rights, equity method investees, at fair value	164,886	171,765
Mortgage servicing rights, at fair value	2,129,665	1,735,504
Mortgage servicing rights financing receivables, at fair value	1,886,771	598,728
Servicer advance investments, at fair value ^(A)	955,364	4,027,379
Real estate and other securities, available-for-sale	7,585,323	8,071,140
Residential mortgage loans, held-for-investment	647,960	691,155
Residential mortgage loans, held-for-sale ^(A)	1,441,955	1,725,534
Real estate owned	115,616	128,295
Consumer loans, held-for-investment ^(A)	1,305,793	1,374,263
Consumer loans, equity method investees	46,135	51,412
Cash and cash equivalents ^(A)	233,233	295,798
Restricted cash	179,688	150,252
Servicer advances receivable	3,393,375	675,593
Trades receivable	1,083,558	1,030,850
Other assets	326,943	312,181
	\$22,011,941	\$ 22,213,562
Liabilities and Equity		
Liabilities		
Repurchase agreements	\$7,635,494	\$ 8,662,139
Notes and bonds payable ^(A)	7,031,021	7,084,391
Trades payable	1,116,948	1,169,896
Due to affiliates	20,292	88,961
Dividends payable	168,068	153,681
Deferred tax liability, net	10,162	19,218
Accrued expenses and other liabilities	268,269	239,114
	16,250,254	17,417,400
Commitments and Contingencies		
Equity		
Common Stock, \$0.01 par value, 2,000,000,000 shares authorized, 336,135,391 and 307,361,309 issued and outstanding at March 31, 2018 and December 31, 2017, respectively	3,362	3,074
Additional paid-in capital	4,245,573	3,763,188

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Retained earnings	995,661	559,476
Accumulated other comprehensive income (loss)	419,340	364,467
Total New Residential stockholders' equity	5,663,936	4,690,205
Noncontrolling interests in equity of consolidated subsidiaries	97,751	105,957
Total Equity	5,761,687	4,796,162
	\$22,011,941	\$22,213,562

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NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS, CONTINUED
(dollars in thousands)

New Residential's Condensed Consolidated Balance Sheets include the assets and liabilities of certain consolidated VIEs, the Buyer (Note 6), the RPL Borrowers (Note 8), and the Consumer Loan SPVs (Note 9), which primarily hold investments in Servicer Advance Investments, residential mortgage loans, and consumer loans, respectively, financed with notes and bonds payable. The balance sheets of the Buyer, the RPL Borrowers and the Consumer Loan SPVs are included in Notes 6, 8 and 9, respectively. The creditors of the Buyer, the RPL Borrowers, and the Consumer Loan SPVs do not have recourse to the general credit of New Residential and the assets of the Buyer, the RPL Borrowers, and the Consumer Loan SPVs are not directly available to satisfy New Residential's obligations.

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
Interest income	\$383,573	\$ 292,538
Interest expense	124,387	98,229
Net Interest Income	259,186	194,309
Impairment		
Other-than-temporary impairment (OTTI) on securities	6,670	2,112
Valuation and loss provision (reversal) on loans and real estate owned	19,007	17,910
	25,677	20,022
Net interest income after impairment	233,509	174,287
Servicing revenue, net	217,236	40,602
Other Income		
Change in fair value of investments in excess mortgage servicing rights	(45,691) 821
Change in fair value of investments in excess mortgage servicing rights, equity method investees	523	(244
Change in fair value of investments in mortgage servicing rights financing receivables	271,076	—
Change in fair value of servicer advance investments	(79,476) 2,559
Gain (loss) on settlement of investments, net	103,302	(13,674
Earnings from investments in consumer loans, equity method investees	4,806	—
Other income (loss), net	9,984	6,844
	264,524	(3,694
Operating Expenses		
General and administrative expenses	20,007	11,827
Management fee to affiliate	15,110	13,074
Incentive compensation to affiliate	14,589	12,460
Loan servicing expense	11,514	13,376
Subservicing expense	46,597	17,704
	107,817	68,441
Income Before Income Taxes	607,452	142,754
Income tax expense (benefit)	(6,912) 5,596
Net Income	\$614,364	\$ 137,158
Noncontrolling Interests in Income of Consolidated Subsidiaries	\$10,111	\$ 15,780
Net Income Attributable to Common Stockholders	\$604,253	\$ 121,378
Net Income Per Share of Common Stock		
Basic	\$1.83	\$ 0.42
Diluted	\$1.81	\$ 0.42
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	330,384,856	286,600,324

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Diluted	333,380,436	288,241,188
Dividends Declared per Share of Common Stock	\$0.50	\$ 0.48

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
Comprehensive income (loss), net of tax		
Net income	\$614,364	\$137,158
Other comprehensive income (loss)		
Net unrealized gain (loss) on securities	18,976	31,638
Reclassification of net realized (gain) loss on securities into earnings	35,897	1,119
	54,873	32,757
Total comprehensive income	\$669,237	\$169,915
Comprehensive income attributable to noncontrolling interests	\$10,111	\$15,780
Comprehensive income attributable to common stockholders	\$659,126	\$154,135

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
 FOR THE THREE MONTHS ENDED MARCH 31, 2018
 (dollars in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total New Residential Stockholders' Equity	Noncontrolling Interests in Equity of Consolidated Subsidiaries	Total Equity
	Shares	Amount						
Equity - December 31, 2017	307,361,309	\$ 3,074	\$ 3,763,188	\$ 559,476	\$ 364,467	\$ 4,690,205	\$ 105,957	\$ 4,796,162
Dividends declared	—	—	—	(168,068)	—	(168,068)	—	(168,068)
Capital contributions	—	—	—	—	—	—	—	—
Capital distributions	—	—	—	—	—	—	(18,317)	(18,317)
Issuance of common stock	28,750,000	288	481,965	—	—	482,253	—	482,253
Director share grants	24,082	—	420	—	—	420	—	420
Comprehensive income (loss)								
Net income (loss)	—	—	—	604,253	—	604,253	10,111	614,364
Net unrealized gain (loss) on securities	—	—	—	—	18,976	18,976	—	18,976
Reclassification of net realized (gain) loss on securities into earnings	—	—	—	—	35,897	35,897	—	35,897
Total comprehensive income (loss)						659,126	10,111	669,237
Equity - March 31, 2018	336,135,391	\$ 3,362	\$ 4,245,573	\$ 995,661	\$ 419,340	\$ 5,663,936	\$ 97,751	\$ 5,761,687

See notes to condensed consolidated financial statements.

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

(dollars in thousands)

	Three Months Ended March 31,	
	2018	2017
Cash Flows From Operating Activities		
Net income	\$614,364	\$137,158
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Change in fair value of investments in excess mortgage servicing rights	45,691	(821)
Change in fair value of investments in excess mortgage servicing rights, equity method investees	(523)	244
Change in fair value of investments in mortgage servicing rights financing receivables	(271,076)	—
Change in fair value of servicer advance investments	79,476	(2,559)
(Gain) / loss on settlement of investments (net)	(103,302)	13,674
Earnings from investments in consumer loans, equity method investees	(4,806)	—
Unrealized (gain) / loss on derivative instruments	(2,446)	(4,326)
Unrealized (gain) / loss on other ABS	313	(758)
(Gain) / loss on transfer of loans to REO	(4,170)	(6,634)
(Gain) / loss on transfer of loans to other assets	(55)	(212)
(Gain) / loss on Excess MSRs	(2,905)	(627)
(Gain) / loss on Ocwen common stock	(5,772)	—
Accretion and other amortization	(177,371)	(192,424)
Other-than-temporary impairment	6,670	2,112
Valuation and loss provision on loans and real estate owned	19,007	17,910
Non-cash portions of servicing revenue, net	(74,666)	27,055
Non-cash directors' compensation	420	243
Deferred tax provision	(9,056)	3,418
Changes in:		
Servicer advances receivable	189,207	9,233
Other assets	(19,593)	6,906
Due to affiliates	(68,669)	(24,229)
Accrued expenses and other liabilities	25,590	(33,337)
Other operating cash flows:		
Interest received from excess mortgage servicing rights	9,702	21,413
Interest received from servicer advance investments	9,130	52,124
Interest received from Non-Agency RMBS	45,104	40,801
Interest received from residential mortgage loans, held-for-investment	1,728	3,762
Interest received from PCD consumer loans, held-for-investment	7,190	14,824
Distributions of earnings from excess mortgage servicing rights, equity method investees	4,938	5,805
Distributions of earnings from consumer loan equity method investees	1,449	—
Purchases of residential mortgage loans, held-for-sale	(494,207)	(1,223,734)
Proceeds from sales of purchased residential mortgage loans, held-for-sale	659,559	739,640
Principal repayments from purchased residential mortgage loans, held-for-sale	32,738	14,497
Net cash provided by (used in) operating activities	513,659	(378,842)

Continued on next page.

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

	Three Months Ended March 31,	
	2018	2017
Cash Flows From Investing Activities		
Purchase of servicer advance investments	(853,672)	(3,302,794)
Purchase of MSRs, MSR financing receivables and servicer advances receivable	(371,165)	(1,003,650)
Purchase of Agency RMBS	(1,116,130)	(1,867,168)
Purchase of Non-Agency RMBS	(461,358)	(850,046)
Purchase of residential mortgage loans	(194)	—
Purchase of derivatives	—	—
Purchase of real estate owned and other assets	(4,160)	(9,730)
Purchase of investment in consumer loans, equity method investees	(83,227)	(41,314)
Draws on revolving consumer loans	(8,020)	(12,877)
Payments for settlement of derivatives	(32,487)	(15,732)
Return of investments in excess mortgage servicing rights	16,358	41,566
Return of investments in excess mortgage servicing rights, equity method investees	2,464	2,869
Return of investments in consumer loans, equity method investees	79,248	—
Principal repayments from servicer advance investments	752,663	3,998,693
Principal repayments from Agency RMBS	19,757	18,779
Principal repayments from Non-Agency RMBS	200,077	159,247
Principal repayments from residential mortgage loans	28,337	4,481
Proceeds from sale of residential mortgage loans	780	—
Principal repayments from consumer loans	62,805	110,200
Proceeds from sale of Agency RMBS	1,876,403	1,682,689
Proceeds from sale of Non-Agency RMBS	—	28,339
Proceeds from settlement of derivatives	77,165	24,570
Proceeds from sale of real estate owned	30,598	17,999
Net cash provided by (used in) investing activities	216,242	(1,013,879)

Continued on next page.

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

	Three Months Ended March 31,	
	2018	2017
Cash Flows From Financing Activities		
Repayments of repurchase agreements	(16,316,397)	(8,788,534)
Margin deposits under repurchase agreements and derivatives	(309,178)	(285,881)
Repayments of notes and bonds payable	(2,556,961)	(2,653,967)
Payment of deferred financing fees	(7,109)	(4,494)
Common stock dividends paid	(153,681)	(115,356)
Borrowings under repurchase agreements	15,286,068	9,874,154
Return of margin deposits under repurchase agreements and derivatives	321,626	276,805
Borrowings under notes and bonds payable	2,508,665	2,220,907
Issuance of common stock	482,696	835,465
Costs related to issuance of common stock	(442)	(936)
Noncontrolling interest in equity of consolidated subsidiaries - contributions	—	—
Noncontrolling interest in equity of consolidated subsidiaries - distributions	(18,317)	(24,209)
Purchase of noncontrolling interests in the Buyer	—	—
Net cash provided by (used in) financing activities	(763,030)	1,333,954
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	(33,129)	(58,767)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Period	446,050	453,697
Cash, Cash Equivalents, and Restricted Cash, End of Period	\$412,921	\$394,930
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$124,748	\$94,494
Cash paid during the period for income taxes	335	3
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Dividends declared but not paid	\$168,068	\$147,520
Purchase of Agency and Non-Agency RMBS, settled after quarter end	1,116,948	1,446,276
Sale of investments, primarily Agency RMBS, settled after quarter end	1,083,558	1,857,537
Transfer from residential mortgage loans to real estate owned and other assets	18,228	43,763
Transfer from residential mortgage loans, held-for-investment to residential mortgage loans, held-for-sale	20,842	—
Non-cash distributions from LoanCo	12,613	—
MSR purchase price holdback	174	60,001
Real estate securities retained from loan securitizations	75,950	81,888
Ocwen transaction (Note 5) - excess mortgage servicing rights	638,567	—
Ocwen transaction (Note 5) - servicer advance investments	3,175,891	—
Ocwen transaction (Note 5) - mortgage servicing rights financing receivables	1,017,993	—

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
March 31, 2018
(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

New Residential Investment Corp. (together with its subsidiaries, “New Residential”) is a Delaware corporation that was formed as a limited liability company in September 2011 for the purpose of making real estate related investments and commenced operations on December 8, 2011. On December 20, 2012, New Residential was converted to a corporation. Drive Shack Inc. (“Drive Shack”), formerly Newcastle Investment Corp., was the sole stockholder of New Residential until the spin-off, which was completed on May 15, 2013. Following the spin-off, New Residential is an independent publicly traded real estate investment trust (“REIT”) primarily focused on investing in residential mortgage related assets. New Residential is listed on the New York Stock Exchange (“NYSE”) under the symbol “NRZ.”

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

New Residential has entered into a management agreement (the “Management Agreement”) with FIG LLC (the “Manager”), an affiliate of Fortress Investment Group LLC (“Fortress”), pursuant to which the Manager provides a management team and other professionals who are responsible for implementing New Residential’s business strategy, subject to the supervision of New Residential’s board of directors. For its services, the Manager is entitled to management fees and incentive compensation, both defined in, and in accordance with the terms of, the Management Agreement. The Manager also managed Drive Shack and manages investment funds that indirectly own approximately 40.5% of the outstanding interests in Nationstar Mortgage LLC (“Nationstar”), a leading residential mortgage servicer, and investment funds that own a majority of the outstanding common stock of OneMain Holdings, Inc. (formerly Springleaf Holdings, Inc.) (together with its subsidiaries, “OneMain”), former managing member of the Consumer Loan Companies (Note 9).

As of March 31, 2018, New Residential conducted its business through the following segments: (i) investments in excess mortgage servicing rights (“Excess MSR”), (ii) investments in mortgage servicing rights (“MSR”), (iii) Servicer Advance Investments (including the basic fee component of the related MSR), (iv) investments in real estate securities, (v) investments in residential mortgage loans, (vi) investments in consumer loans and (vii) corporate.

Approximately 0.5 million shares of New Residential’s common stock were held by Fortress, through its affiliates, as of March 31, 2018. In addition, Fortress, through its affiliates, held options relating to approximately 18.1 million shares of New Residential’s common stock as of March 31, 2018.

Interim Financial Statements

The accompanying condensed consolidated financial statements and related notes of New Residential have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of New Residential’s financial position, results of operations and cash flows have been included and

are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with New Residential's consolidated financial statements for the year ended December 31, 2017 and notes thereto included in New Residential's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC"). Capitalized terms used herein, and not otherwise defined, are defined in New Residential's consolidated financial statements for the year ended December 31, 2017.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenues from Contracts with Customers (Topic 606). The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company

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expects to be entitled in exchange for those goods or services. In effect, companies are required to exercise further judgment and make more estimates prospectively. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 was effective for New Residential in the first quarter of 2018. New Residential has evaluated the new guidance and determined that interest income, gains and losses on financial instruments and income from servicing residential mortgage loans are outside the scope of ASC No. 606. For income from servicing residential mortgage loans, New Residential considered that the FASB Transition Resource Group members generally agreed that an entity should look to ASC No. 860, Transfers and Servicing, to determine the appropriate accounting for these fees and ASC No. 606 contains a scope exception for contracts that fall under ASC No. 860. As a result, the adoption of ASU No. 2014-09 did not have a material impact on the condensed consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. The standard: (i) requires that certain equity investments be measured at fair value, and modifies the assessment of impairment for certain other equity investments, (ii) changes certain disclosure requirements related to the fair value of financial instruments measured at amortized cost, (iii) changes certain disclosure requirements related to liabilities measured at fair value, (iv) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and (v) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 was effective for New Residential in the first quarter of 2018. The adoption of ASU No. 2016-01 did not have a material impact on the condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments. The standard requires that a financial asset measured at amortized cost basis be presented at the net amount expected to be collected, net of an allowance for all expected (rather than incurred) credit losses. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The standard also changes the accounting for purchased credit deteriorated assets and available-for-sale securities, which will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. ASU No. 2016-13 is effective for New Residential in the first quarter of 2020. Early adoption is permitted beginning in 2019. An entity should apply ASU No. 2016-13 by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. New Residential is currently evaluating the new guidance to determine the impact it may have on its condensed consolidated financial statements, which at the date of adoption is expected to increase the allowance for credit losses with a resulting negative adjustment to retained earnings.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory. The standard requires recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU No. 2016-16 was effective for New Residential in the first quarter of 2018. The adoption of ASU No. 2016-16 did not have a material impact on the condensed consolidated financial statements.

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

March 31, 2018

(dollars in tables in thousands, except share data)

2. OTHER INCOME, ASSETS AND LIABILITIES

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

	Three Months Ended	
	March 31, 2018	2017
Gain (loss) on sale of real estate securities, net	\$(29,227)	\$993
Gain (loss) on sale of residential mortgage loans, net	(14,651)	2,565
Gain (loss) on settlement of derivatives	37,363	(11,836)
Gain (loss) on liquidated residential mortgage loans	(385)	(2,216)
Gain (loss) on sale of REO	(2,800)	(2,610)
Gains reclassified from change in fair value of investments in excess MSR's and servicer advance investments	113,002	—
Other gains (losses)	—	(570)
	\$103,302	\$(13,674)

Other income (loss), net, is comprised of the following:

Three
 Months
 Ended
 March 31,
 2018 2017