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New Residential Investment Corp.
Form 10-Q
May 05, 2016

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, 2016

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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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: 230,471,202 shares outstanding as of April 28, 2016.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

- our ability to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and the potentially onerous consequences that any failure to maintain such qualification would have on our business;
- our ability to maintain our exclusion from registration under the 1940 Act and the fact that maintaining such exclusion imposes limits on our operations;
- the risks related to 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
- events, conditions or actions that might occur at Ocwen.

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

INDEX

	PAGE
Part I. Financial Information	
<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets as of March 31, 2016 (Unaudited) and December 31, 2015</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income (Unaudited) for the three months ended March 31, 2016 and 2015</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three months ended March 31, 2016 and 2015</u>	<u>3</u>
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity (Unaudited) for the three months ended March 31, 2016</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2016 and 2015</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Note 1. Organization and Basis of Presentation</u>	<u>8</u>
<u>Note 2. Other Income, Assets and Liabilities</u>	<u>12</u>
<u>Note 3. Segment Reporting</u>	<u>13</u>
<u>Note 4. Investments in Excess Mortgage Servicing Rights</u>	<u>15</u>
<u>Note 5. Investments in Excess Mortgage Servicing Rights, Equity Method Investees</u>	<u>17</u>
<u>Note 6. Investments in Servicer Advances</u>	<u>19</u>
<u>Note 7. Investments in Real Estate Securities</u>	<u>22</u>
<u>Note 8. Investments in Residential Mortgage Loans</u>	<u>26</u>
<u>Note 9. Investments in Consumer Loans</u>	<u>30</u>
<u>Note 10. Derivatives</u>	<u>32</u>
<u>Note 11. Debt Obligations</u>	<u>34</u>
<u>Note 12. Fair Value of Financial Instruments</u>	<u>37</u>

<u>Note 13. Equity and Earnings Per Share</u>	<u>42</u>
<u>Note 14. Commitments and Contingencies</u>	<u>44</u>
<u>Note 15. Transactions with Affiliates and Affiliated Entities</u>	<u>46</u>
<u>Note 16. Reclassification from Accumulated Other Comprehensive Income into Net Income</u>	<u>48</u>
<u>Note 17. Income Taxes</u>	<u>48</u>
<u>Note 18. Subsequent Events</u>	<u>49</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>50</u>
<u>General</u>	<u>50</u>
<u>Market Considerations</u>	<u>50</u>
<u>Our Portfolio</u>	<u>52</u>
<u>Application of Critical Accounting Policies</u>	<u>63</u>
<u>Recent Accounting Pronouncements</u>	<u>70</u>

<u>Results of Operations</u>	<u>71</u>
<u>Liquidity and Capital Resources</u>	<u>74</u>
<u>Interest Rate, Credit and Spread Risk</u>	<u>80</u>
<u>Off-Balance Sheet Arrangements</u>	<u>80</u>
<u>Contractual Obligations</u>	<u>80</u>
<u>Inflation</u>	<u>80</u>
<u>Core Earnings</u>	<u>81</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>82</u>
<u>Item 4. Controls and Procedures</u>	<u>85</u>
Part II. Other Information	
<u>Item 1. Legal Proceedings</u>	<u>87</u>
<u>Item 1A. Risk Factors</u>	<u>88</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>130</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>130</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>130</u>
<u>Item 5. Other Information</u>	<u>130</u>
<u>Item 6. Exhibits</u>	<u>131</u>
<u>Signatures</u>	<u>136</u>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Investments in:		
Excess mortgage servicing rights, at fair value	\$ 1,547,004	\$ 1,581,517
Excess mortgage servicing rights, equity method investees, at fair value	209,901	217,221
Servicer advances, at fair value ^(A)	7,001,004	7,426,794
Real estate securities, available-for-sale	3,441,790	2,501,881
Residential mortgage loans, held-for-investment	324,734	330,178
Residential mortgage loans, held-for-sale	633,160	776,681
Real estate owned	56,402	50,574
Consumer loans, held-for-investment ^(A)	1,970,565	—
Cash and cash equivalents ^(A)	258,622	249,936
Restricted cash	170,364	94,702
Trades receivable	1,509,016	1,538,481
Deferred tax asset, net	196,189	185,311
Other assets	253,026	239,446
	\$ 17,571,777	\$ 15,192,722
Liabilities and Equity		
Liabilities		
Repurchase agreements	\$ 3,973,512	\$ 4,043,054
Notes and bonds payable ^(A)	8,870,851	7,249,568
Trades payable	1,431,003	725,672
Due to affiliates	5,847	23,785
Dividends payable	106,017	106,017
Accrued expenses and other liabilities	105,551	58,046
	14,492,781	12,206,142
Commitments and Contingencies		
Equity		
Common Stock, \$0.01 par value, 2,000,000,000 shares authorized, 230,471,202 and 230,471,202 issued and outstanding at March 31, 2016 and December 31, 2015, respectively	2,304	2,304
Additional paid-in capital	2,640,893	2,640,893
Retained earnings	154,519	148,800
Accumulated other comprehensive income (loss)	(12,912)) 3,936
Total New Residential stockholders' equity	2,784,804	2,795,933
Noncontrolling interests in equity of consolidated subsidiaries	294,192	190,647

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Total Equity	3,078,996	2,986,580
	\$17,571,777	\$ 15,192,722

(A) New Residential's Condensed Consolidated Balance Sheets include the assets and liabilities of certain consolidated VIEs, the Buyer (Note 6) and the Consumer Loan SPVs (Note 9), which primarily hold investments in servicer advances and consumer loans, respectively, financed with notes and bonds payable. The Buyer's balance sheet is included in Note 6 and the Consumer Loan SPVs' balance sheet is included in Note 9. The creditors of the Buyer and the Consumer Loan SPVs do not have recourse to the general credit of New Residential and the assets of the Buyer and the Consumer Loan SPVs are not directly available to satisfy New Residential's obligations.

See notes to condensed consolidated financial statements.

1

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

	Three Months Ended March 31,	
	2016	2015
Interest income	\$ 190,036	\$ 84,373
Interest expense	81,228	33,979
Net Interest Income	108,808	50,394
Impairment		
Other-than-temporary impairment (OTTI) on securities	3,254	1,071
Valuation and loss provision on loans and real estate owned	6,745	977
	9,999	2,048
Net interest income after impairment	98,809	48,346
Other Income		
Change in fair value of investments in excess mortgage servicing rights	7,926	(1,761)
Change in fair value of investments in excess mortgage servicing rights, equity method investees	3,022	4,921
Change in fair value of investments in servicer advances	(31,224)	(7,669)
Gain on consumer loans investment	9,943	10,447
Gain on remeasurement of consumer loans investment	71,250	—
Gain (loss) on settlement of investments, net	(14,500)	14,767
Other income (loss), net	(14,495)	(8,410)
	31,922	12,295
Operating Expenses		
General and administrative expenses	12,081	8,560
Management fee to affiliate	10,008	5,126
Incentive compensation to affiliate	1,196	3,693
Loan servicing expense	1,731	4,891
	25,016	22,270
Income Before Income Taxes	105,715	38,371
Income tax expense (benefit)	(10,223)	(3,427)
Net Income	\$ 115,938	\$ 41,798
Noncontrolling Interests in Income of Consolidated Subsidiaries	\$ 4,202	\$ 5,823
Net Income Attributable to Common Stockholders	\$ 111,736	\$ 35,975
Net Income Per Share of Common Stock		
Basic	\$ 0.48	\$ 0.25
Diluted	\$ 0.48	\$ 0.25
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	230,471,202	241,434,905
Diluted	230,538,712	244,911,309

Dividends Declared per Share of Common Stock	\$0.46	\$ 0.38
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See notes to condensed consolidated financial statements.

2

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

	Three Months Ended March 31,	
	2016	2015
Comprehensive income (loss), net of tax		
Net income	\$ 115,938	\$ 41,798
Other comprehensive income (loss)		
Net unrealized gain (loss) on securities	(19,969)	15,132
Reclassification of net realized (gain) loss on securities into earnings	3,121	(23,626)
	(16,848)	(8,494)
Total comprehensive income	\$ 99,090	\$ 33,304
Comprehensive income attributable to noncontrolling interests	\$ 4,202	\$ 5,823
Comprehensive income attributable to common stockholders	\$ 94,888	\$ 27,481

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, 2016

(dollars in thousands, except share data)

	Common Stock				Accumulated	Total New	Noncontrolling	
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Residential Stockholders' Equity	Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2015	230,471,202	\$ 2,304	\$ 2,640,893	\$ 148,800	\$ 3,936	\$ 2,795,933	\$ 190,647	\$ 2,986,580
Dividends declared	—	—	—	(106,017)	—	(106,017)	—	(106,017)
SpringCastle Transaction (Note 1)	—	—	—	—	—	—	—	—