New Residential Investment Corp.
Form 10-Q
November 01, 2017

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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

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 x 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 x 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 x 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

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: 307,361,309 shares outstanding as of October 26, 2017.

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;
- 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 Advance Investments and servicer advances receivable;
- 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 previously disclosed 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 loan 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;
- 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 grow the economy, potential tax reform, 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 Investment Company Act of 1940 (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;
- effects of the pending merger of Fortress Investment Group LLC with affiliates of SoftBank Group Corp.; and
- the risk that GSE or other regulatory initiatives or actions may adversely affect returns from investments in MSRs and Excess MSRs.

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)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Investments in:		
Excess mortgage servicing rights, at fair value	$1,178,308	$1,399,455
Excess mortgage servicing rights, equity method investees, at fair value	175,633	194,788
Mortgage servicing rights, at fair value	1,702,749	659,483
Mortgage servicing rights financing receivable, at fair value	607,396	—
Servicer advance investments, at fair value(A)	4,044,802	5,706,593
Real estate securities, available-for-sale	6,714,846	5,073,858
Residential mortgage loans, held-for-investment	702,227	190,761
Residential mortgage loans, held-for-sale(A)	1,426,751	696,665
Real estate owned	107,281	59,591
Consumer loans, held-for-investment(A)	1,467,933	1,799,486
Consumer loans, equity method investees	46,322	—
Cash and cash equivalents(A)	279,760	290,602
Restricted cash	152,047	163,095
Servicer advances receivable	657,255	81,582
Trades receivable	1,785,708	1,687,788
Deferred tax asset, net	32,440	151,284
Other assets	323,375	244,498
	$21,404,833	$18,399,529
Liabilities and Equity		
Liabilities		
Repurchase agreements	$7,848,028	$5,190,631
Notes and bonds payable(A)	7,236,967	7,990,605
Trades payable	1,076,086	1,381,968
Due to affiliates	79,624	47,348
Dividends payable	153,681	115,356
Accrued expenses and other liabilities	331,243	205,444
	16,725,629	14,931,352
Commitments and Contingencies		
Equity		
Common Stock, $0.01 par value, 2,000,000,000 shares authorized, 307,361,309 and 250,773,117 issued and outstanding at September 30, 2017 and December 31, 2016, respectively	3,074	2,507
Additional paid-in capital	3,760,372	2,920,730

Retained earnings	424,854	210,500
Accumulated other comprehensive income (loss)	383,312	126,363
Total New Residential stockholders’ equity	4,571,612	3,260,100
Noncontrolling interests in equity of consolidated subsidiaries	107,592	208,077
Total Equity	4,679,204	3,468,177
	$21,404,833	$18,399,529

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

(A) 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income	$397,722	$282,388	$1,162,212	$749,901
Interest expense	125,278	96,488	338,664	278,401
Net Interest Income	272,444	185,900	823,548	471,500
Impairment				
Other-than-temporary impairment (OTTI) on securities	1,509	1,765	8,736	7,838
Valuation and loss provision on loans and real estate owned	26,700	18,275	65,381	41,845
	28,209	20,040	74,117	49,683
Net interest income after impairment	244,235	165,860	749,431	421,817
Servicing revenue, net	58,014	—	269,467	—
Other Income				
Change in fair value of investments in excess mortgage servicing rights	(14,291)	(17,060)	(32,650)	(24,397)
Change in fair value of investments in excess mortgage servicing rights, equity method investees	2,054	6,261	6,056	8,608
Change in fair value of investments in mortgage servicing rights financing receivable	70,232	—	75,828	—
Change in fair value of servicer advance investments	10,941	21,606	70,469	4,328
Gain on consumer loans investment	—	—	—	9,943
Gain on remeasurement of consumer loans investment	—	—	—	71,250
Gain (loss) on settlement of investments, net	1,553	(11,165)	1,250	(37,682)
Earnings from investments in consumer loans, equity method investees	6,769	—	12,649	—
Other income (loss), net	9,887	27,059	7,696	6,850
	87,145	26,701	141,298	38,900
Operating Expenses				
General and administrative expenses	19,919	8,777	47,788	28,082
Management fee to affiliate	14,187	10,536	41,447	30,552
Incentive compensation to affiliate	19,491	7,075	72,123	13,200
Loan servicing expense	13,690	14,187	40,068	30,037
Subservicing expense	49,773	—	123,435	—
	117,060	40,575	324,861	101,871
Income Before Income Taxes	272,334	151,986	835,335	358,846
Income tax expense (benefit)	32,613	20,900	121,053	18,195
Net Income	$239,721	$131,086	$714,282	$340,651
Noncontrolling interests in Income of Consolidated Subsidiaries	$13,600	$32,178	$45,051	$61,355
Net Income Attributable to Common Stockholders	$226,121	$98,908	$669,231	$279,296

Net Income Per Share of Common Stock

Basic	$0.74	$ 0.41	$2.23	$ 1.19
Diluted	$0.73	$ 0.41	$2.21	$ 1.19
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	307,361,309	240,601,691	300,511,550	233,875,067
Diluted	309,207,345	241,099,381	302,357,147	234,184,611
Dividends Declared per Share of Common Stock	$0.50	$ 0.46	$1.48	$ 1.38

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Comprehensive income (loss), net of tax				
Net income	$239,721	$131,086	$714,282	$340,651
Other comprehensive income (loss)				
Net unrealized gain (loss) on securities	75,845	52,138	277,805	108,679
Reclassification of net realized (gain) loss on securities into earnings	(5,833)	2,444	(20,856)	(7,234)
	70,012	54,582	256,949	101,445
Total comprehensive income	$309,733	$185,668	$971,231	$442,096
Comprehensive income attributable to noncontrolling interests	$13,600	$32,178	$45,051	$61,355
Comprehensive income attributable to common stockholders	$296,133	$153,490	$926,180	$380,741

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
(dollars in thousands)

	Common Stock							
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total New Residential Stockholders' Equity	Noncontrolling Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2016	250,773,117	$2,507	$2,920,730	$210,500	$126,363	$3,260,100	$208,077	$3,468,177
Dividends declared	—	—	—	(454,877)	—	(454,877)	—	(454,877)
Capital contributions	—	—	—	—	—	—	—	—
Capital distributions	—	—	—	—	—	—	(70,493)	(70,493)
Issuance of common stock	56,545,787	566	833,963	—	—	834,529	—	834,529
Purchase of noncontrolling interests in the Buyer	—	—	9,183	—	—	9,183	(75,043)	(65,860)
Other dilution	—	—	(4,202)	—	—	(4,202)	—	(4,202)
Director share grants	42,405	1	698	—	—	699	—	699
Comprehensive income (loss)								
Net income (loss)	—	—	—	669,231	—	669,231	45,051	714,282
Net unrealized gain (loss) on securities	—	—	—	—	277,805	277,805	—	277,805
Reclassification of net realized (gain) loss on securities into earnings	—	—	—	—	(20,856)	(20,856)	—	(20,856)
Total comprehensive income (loss)						926,180	45,051	971,231
Equity - September 30, 2017	307,361,309	$3,074	$3,760,372	$424,854	$383,312	$4,571,612	$107,592	$4,679,204

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2017	2016
Cash Flows From Operating Activities		
Net income	$714,282	$340,651
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	32,650	24,397
Change in fair value of investments in excess mortgage servicing rights, equity method investees	(6,056)	(8,608)
Change in fair value of investments in mortgage servicing rights financing receivable	(75,828)	—
Change in fair value of servicer advance investments	(70,469)	(4,328)
(Gain) / loss on remeasurement of consumer loans investment	—	(71,250)
(Gain) / loss on settlement of investments (net)	(1,250)	37,682
Earnings from investments in consumer loans, equity method investees	(12,649)	—
Unrealized (gain) / loss on derivative instruments	124	15,112
Unrealized (gain) / loss on other ABS	(340)	226
(Gain) / loss on transfer of loans to REO	(16,791)	(14,660)
(Gain) / loss on transfer of loans to other assets	(359)	(3,021)
(Gain) / loss on Excess MSR recapture agreements	(1,948)	(2,188)
(Gain) / loss on Ocwen common stock	(6,987)	—
Accretion and other amortization	(811,922)	(514,522)
Other-than-temporary impairment	8,736	7,838
Valuation and loss provision on loans and real estate owned	65,381	41,845
Non-cash portions of servicing revenue, net	81,986	—
Non-cash directors' compensation	699	300
Deferred tax provision	114,016	12,998
Changes in:		
Servicer advances receivable	(7,774)	—
Other assets	(35,799)	191,939
Due to affiliates	32,276	(5,175)
Accrued expenses and other liabilities	48,442	12,136
Other operating cash flows:		
Interest received from excess mortgage servicing rights	53,067	119,386
Interest received from servicer advance investments	136,431	132,758
Interest received from Non-Agency RMBS	170,931	73,108
Interest received from residential mortgage loans, held-for-investment	5,906	2,815
Interest received from PCD consumer loans, held-for-investment	40,762	34,265
Distributions of earnings from investments in excess mortgage servicing rights, equity method investees	11,054	18,025
Distributions of earnings from investments in consumer loans, equity method investees	4,291	—
Purchases of residential mortgage loans, held-for-sale	(4,146,740)	(788,824)
Proceeds from sales of purchased residential mortgage loans, held-for-sale	2,986,992	802,110
Principal repayments from purchased residential mortgage loans, held-for-sale	69,069	52,805
Net cash provided by (used in) operating activities	(617,817)	507,820

Continued on next page.

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

	Nine Months Ended September 30,	
	2017	2016
Cash Flows From Investing Activities		
Acquisition of investments in excess mortgage servicing rights	—	(2,022)
SpringCastle Transaction, net of cash acquired	—	(49,943)
Restricted cash acquired from SpringCastle Transaction	—	74,603
Purchase of servicer advance investments	(9,328,137)	(11,588,537)
Purchase of MSRs, MSR Financing Receivables and servicer advances receivable	(1,586,063)	—
Purchase of Agency RMBS	(6,352,488)	(4,763,374)
Purchase of Non-Agency RMBS	(2,070,898)	(2,154,890)
Purchase of residential mortgage loans	(585,983)	(319)
Purchase of derivatives	—	(4,457)
Purchase of real estate owned and other assets	(25,667)	(10,936)
Purchase of investment in consumer loans, equity method investees	(344,902)	(92,069)
Draws on revolving consumer loans	(41,930)	(33,137)
Payments for settlement of derivatives	(146,898)	(73,570)
Return of investments in excess mortgage servicing rights	142,626	142,718
Return of investments in excess mortgage servicing rights, equity method investees	14,157	11,900
Return of investments in consumer loans, equity method investees	276,601	—
Principal repayments from servicer advance investments	10,898,739	13,101,409
Principal repayments from Agency RMBS	76,744	67,738
Principal repayments from Non-Agency RMBS	615,657	364,310
Principal repayments from residential mortgage loans	59,673	31,092
Principal repayments from consumer loans	312,132	199,022
Proceeds from sale of Agency RMBS	6,205,573	4,774,116
Proceeds from sale of Non-Agency RMBS	166,460	95,683
Proceeds from settlement of derivatives	81,505	9,642
Proceeds from sale of real estate owned	63,476	51,941
Net cash provided by (used in) investing activities	(1,569,623)	150,920

Continued on next page.

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

	Nine Months Ended September 30,	
	2017	2016
Cash Flows From Financing Activities		
Repayments of repurchase agreements	(34,057,218)	(21,179,260)
Margin deposits under repurchase agreements and derivatives	(820,678)	(274,645)
Repayments of notes and bonds payable	(7,323,512)	(6,786,408)
Payment of deferred financing fees	(5,702)	(19,922)
Common stock dividends paid	(416,552)	(318,060)
Borrowings under repurchase agreements	36,713,743	22,065,713
Return of margin deposits under repurchase agreements and derivatives	815,903	276,634
Borrowings under notes and bonds payable	6,561,390	5,568,875
Issuance of common stock	835,465	279,600
Costs related to issuance of common stock	(936)	(825)
Noncontrolling interest in equity of consolidated subsidiaries - contributions	—	—
Noncontrolling interest in equity of consolidated subsidiaries - distributions	(70,493)	(73,279)
Purchase of noncontrolling interests in the Buyer	(65,860)	—
Net cash provided by (used in) financing activities	2,165,550	(461,577)
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	(21,890)	197,163
Cash, Cash Equivalents, and Restricted Cash, Beginning of Period	453,697	344,638
Cash, Cash Equivalents, and Restricted Cash, End of Period	$431,807	$541,801
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$320,804	$265,114
Cash paid during the period for income taxes	4,956	943
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Dividends declared but not paid	$153,681	$115,356
Purchase of Agency and Non-Agency RMBS, settled after quarter end	1,076,086	1,296,296
Sale of investments, primarily Agency RMBS, settled after quarter end	1,785,708	1,530,726
Transfer from residential mortgage loans to real estate owned and other assets	105,750	218,467
Non-cash distributions from Consumer Loan Companies	—	25
Non-cash distributions from LoanCo	30,337	—
MSR purchase price holdback	79,045	—
Real estate securities retained from loan securitizations	310,579	122,585
Remeasurement of Consumer Loan Companies noncontrolling interest	—	110,438
Transfer of loans from held-for-investment to held-for sale	23,080	316,199
Ocwen transaction (Note 5) - excess mortgage servicing rights	71,982	—
Ocwen transaction (Note 5) - servicer advance investments	481,220	—

See notes to condensed consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2017
(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 manages Drive Shack, investment funds that indirectly own a majority 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 September 30, 2017, New Residential conducted its business through the following segments: (i) investments in excess mortgage servicing rights ("Excess MSRs"), (ii) investments in mortgage servicing rights ("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.

Approximately 2.4 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals as of September 30, 2017. In addition, Fortress, through its affiliates, held options relating to approximately 16.1 million shares of New Residential's common stock as of September 30, 2017.

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, 2016 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, 2016.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

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 expects to be entitled in exchange for those goods or services. In effect, companies will be required to exercise further judgment and make more estimates prospectively. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 is effective for New Residential in the first quarter of 2018. Early adoption is only permitted after December 31, 2016. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in ASU No. 2014-09. New Residential 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, New Residential does not expect the adoption of ASU No. 2014-09 to have a material impact on its 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 is effective for New Residential in the first quarter of 2018. Early adoption is generally not permitted. An entity should apply ASU No. 2016-01 by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. New Residential does not expect the adoption of ASU No. 2016-01 to have a material impact on its 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 August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments. The standard provides guidance on the treatment of certain transactions within the statement of cash flows. ASU No. 2016-15 is effective for New Residential in the first quarter of 2018. Early adoption is permitted. New Residential adopted ASU No. 2016-15 in the third quarter of 2016 and it did not have an impact on its condensed consolidated financial statements.

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 is effective for New Residential in the first quarter of 2018. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements have not been issued. New Residential does not expect the adoption of ASU No. 2016-16 to have a material impact on its condensed consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash. The standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. ASU No. 2016-18 is effective for New Residential in the first quarter of 2018. Early adoption is permitted. New Residential adopted ASU No. 2016-18 in the fourth quarter of 2016 and has included changes in restricted cash in its statements of cash flows for all periods presented.

(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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Gain (loss) on sale of real estate securities, net	$7,342	$(679)	$29,592	$15,072
Gain (loss) on sale of residential mortgage loans, net	9,029	8,537	37,967	9,142
Gain (loss) on settlement of derivatives	(18,756)	(18,925)	(58,326)	(63,699)
Gain (loss) on liquidated residential mortgage loans	(2,152)	(1,331)	(7,996)	(1,603)
Gain (loss) on sale of REO	(1,864)	2,207	(7,176)	5,193
Other gains (losses)	7,954	(974)	7,189	(1,787)
	$1,553	$(11,165)	$1,250	$(37,682)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Unrealized gain (loss) on derivative instruments	$3,560	$21,048	$(124)	$(15,112)
Unrealized gain (loss) on other ABS	189	724	340	(226)
Gain (loss) on transfer of loans to REO	5,179	4,373	16,791	14,660
Gain (loss) on transfer of loans to other assets	66	2,743	359	3,021
Gain on Excess MSR recapture agreements	606	768	1,948	2,188
Gain (loss) on Ocwen common stock	6,987	—	6,987	—
Other income (loss)	(6,700)	(2,597)	(18,605)	2,319
	$9,887	$27,059	$7,696	$6,850

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Other assets and liabilities are comprised of the following:

	Other Assets			Accrued Expenses and Other Liabilities	
	September 30, 2017	December 31, 2016		September 30, 2017	December 31, 2016
Margin receivable, net	$60,310	$55,481	Interest payable	$30,075	$23,108
Other receivables	20,053	16,350	Accounts payable	85,622	31,299
Principal and interest receivable	50,467	52,738	Derivative liabilities (Note 10)	82	3,021
Receivable from government agency	43,313	54,706	Current taxes payable	4,553	2,314
Call rights	327	337	Due to servicers	58,203	77,148
Derivative assets (Note 10)	10,444	6,762	MSR purchase price holdback	139,481	60,436
Servicing fee receivables	60,107	7,405	Other liabilities	13,227	8,118
Ginnie Mae EBO servicer advance receivable, net	10,863	14,829		$331,243	$205,444
Due from servicers	22,014	22,134			
Ocwen common stock, at fair value	20,900	—			
Prepaid expenses	8,083	9,487			
Other assets	16,494	4,269			
	$323,375	$244,498			

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

	Nine Months Ended September 30,	
	2017	2016
Accretion of servicer advance investment and receivable interest income	$451,824	$257,877
Accretion of excess mortgage servicing rights income	75,237	106,848
Accretion of net discount on securities and loans(A)	295,753	164,806
Amortization of deferred financing costs	(9,525)	(13,889)
Amortization of discount on notes and bonds payable	(1,367)	(1,120)
	$811,922	$514,522

(A) Includes accretion of the accretable yield on PCD loans.

3. SEGMENT REPORTING

New Residential conducts its business through the following segments: (i) investments in Excess MSRs, (ii) investments in MSRs, (iii) Servicer Advance Investments, (iv) investments in real estate securities, (v) investments in residential mortgage loans, (vi) investments in consumer loans, and (vii) corporate. The corporate segment consists primarily of (i) general and administrative expenses, (ii) the management fees and incentive compensation related to the Management Agreement and (iii) corporate cash and related interest income. Securities owned by New Residential (Note 7) that are collateralized by servicer advances and consumer loans are included in the Servicer Advances and Consumer Loans segments, respectively. Secured corporate loans effectively collateralized by Excess MSRs are included in the Excess MSRs segment.

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

	Servicing Related Assets			Residential Securities and Loans				
	Excess MSRs	MSRs	Servicer Advances	Real Estate Securities	Residential Mortgage Loans	Consumer Loans	Corporate	Total
Three Months Ended September 30, 2017								
Interest income	$25,691	$31,707	$130,796	$114,181	$31,645	$63,527	$175	$397,722
Interest expense	10,225	15,262	35,931	35,211	15,487	13,162	—	125,278
Net interest income (expense)	15,466	16,445	94,865	78,970	16,158	50,365	175	272,444
Impairment	—	—	—	1,509	14,099	12,601	—	28,209
Servicing revenue, net	—	58,014	—	—	—	—	—	58,014
Other income (loss)	(12,034)	70,047	18,732	(6,035)	2,653	6,796	6,986	87,145
Operating expenses	152	53,634	1,212	351	9,759	10,764	41,188	117,060
Income (Loss) Before Income Taxes	3,280	90,872	112,385	71,075	(5,047)	33,796	(34,027)	272,334
Income tax expense (benefit)	—	11,156	31,097	—	(9,640)	—	—	32,613
Net Income (Loss)	$3,280	$79,716	$81,288	$71,075	$4,593	$33,796	$(34,027)	$239,721
Noncontrolling interests in income (loss) of consolidated subsidiaries	$—	$—	$1,224	$—	$—	$12,376	$—	$13,600
Net income (loss) attributable to common stockholders	$3,280	$79,716	$80,064	$71,075	$4,593	$21,420	$(34,027)	$226,121

	Servicing Related Assets			Residential Securities and Loans				
	Excess MSRs	MSRs	Servicer Advances	Real Estate Securities	Residential Mortgage Loans	Consumer Loans	Corporate	Total
Nine Months Ended September 30, 2017								
Interest income	$75,237	$34,267	$451,808	$321,464	$75,276	$203,631	$529	$1,162,212
Interest expense	29,302	26,849	120,527	85,663	34,655	41,668	—	338,664
Net interest income (expense)	45,935	7,418	331,281	235,801	40,621	161,963	529	823,548
Impairment	—	—	—	8,736	17,342	48,039	—	74,117
Servicing revenue, net	—	269,467	—	—	—	—	—	269,467
Other income (loss)	(25,049)	75,856	75,307	(27,005)	22,491	12,712	6,986	141,298
Operating expenses	350	132,675	2,641	979	24,018	33,746	130,452	324,861
Income (Loss) Before Income Taxes	20,536	220,066	403,947	199,081	21,752	92,890	(122,937)	835,335
Income tax expense (benefit)	—	(789)	128,836	—	(7,164)	170	—	121,053

Net Income (Loss)	$20,536	$220,855	$275,111	$199,081	$28,916	$92,720	$(122,937)	$714,282
Noncontrolling interests in income (loss) of consolidated subsidiaries	$—	$—	$10,372	$—	$—	$34,679	$—	$45,051
Net income (loss) attributable to common stockholders	$20,536	$220,855	$264,739	$199,081	$28,916	$58,041	$(122,937)	$669,231

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	Servicing Related Assets			Residential Securities and Loans				
	Excess MSRs	MSRs	Servicer Advances	Real Estate Securities	Residential Mortgage Loans	Consumer Loans	Corporate	Total
September 30, 2017								
Investments	$1,353,941	$2,310,145	$4,044,802	$6,714,846	$2,236,259	$1,514,255	$—	$18,174,248
Cash and cash equivalents	210	132,361	74,993	3,341	4,747	33,430	30,678	279,760
Restricted cash	12,360	28,839	60,615	—	—	50,233	—	152,047
Other assets	8,757	712,765	44,312	1,840,028	126,767	31,632	34,517	2,798,778
Total assets	$1,375,268	$3,184,110	$4,224,722	$8,558,215	$2,367,773	$1,629,550	$65,195	$21,404,833
Debt	$583,415	$1,672,101	$3,567,862	$6,003,165	$1,830,731	$1,427,721	$—	$15,084,995
Other liabilities	1,042	241,919	23,542	1,092,745	34,542	6,308	240,536	1,640,634
Total liabilities	584,457	1,914,020	3,591,404	7,095,910	1,865,273	1,434,029	240,536	16,725,629
Total equity	790,811	1,270,090	633,318	1,462,305	502,500	195,521	(175,341)	4,679,204
Noncontrolling interests in equity of consolidated subsidiaries	—	—	73,316	—	—	34,276	—	107,592
Total New Residential stockholders' equity	$790,811	$1,270,090	$560,002	$1,462,305	$502,500	$161,245	$(175,341)	$4,571,612
Investments in equity method investees	$175,633	$—	$—	$—	$—	$46,322	$—	$221,955

	Servicing Related Assets		Residential Securities and Loans				
	Excess MSRs	Servicer Advances	Real Estate Securities	Residential Mortgage Loans	Consumer Loans	Corporate	Total
Three Months Ended September 30, 2016							
Interest income	$30,617	$101,359	$58,855	$13,947	$77,231	$379	$282,388
Interest expense	4,002	54,802	13,008	6,153	18,523	—	96,488
Net interest income (expense)	26,615	46,557	45,847	7,794	58,708	379	185,900
Impairment	—	—	1,765	(291)	18,566	—	20,040
Servicing revenue, net	—	—	—	—	—	—	—
Other income (loss)	(10,052)	21,430	1,392	13,931	—	—	26,701
Operating expenses	536	1,029	369	4,251	11,976	22,414	40,575
Income (Loss) Before Income Taxes	16,027	66,958	45,105	17,765	28,166	(22,035)	151,986
Income tax expense (benefit)	—	16,348	—	4,556	—	(4)	20,900

Net Income (Loss)	$16,027	$50,610	$45,105	$13,209	$28,166	$(22,031)	$131,086
Noncontrolling interests in income (loss) of consolidated subsidiaries	$—	$18,853	$—	$—	$13,325	$—	$32,178
Net income (loss) attributable to common stockholders	$16,027	$31,757	$45,105	$13,209	$14,841	$(22,031)	$98,908

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	Servicing Related Assets		Residential Securities and Loans				
	Excess MSRs	Servicer Advances	Real Estate Securities	Residential Mortgage Loans	Consumer Loans	Corporate	Total
Nine Months Ended September 30, 2016							