New Residential Investment Corp.
Form 10-Q
May 15, 2014

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, 2014

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 (Address of principal executive offices)	10105 (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

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: 281,959,669 shares outstanding as of May 8, 2014.

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 advances;
- our ability to deploy capital accretively and the timing of such deployment;
- our counterparty concentration and default risks in Nationstar, Springleaf and other third-parties;
- a lack of liquidity surrounding our investments, which could impede our ability to vary our portfolio in an appropriate manner;
- the impact that risks associated with subprime mortgage loans and consumer loans, as well as deficiencies in servicing and foreclosure practices, may have on the value of our Excess MSRs, servicer advances, RMBS and consumer loan portfolios;
- the risks that default and recovery rates on our Excess MSRs, 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 MSRs;
- the risk that projected recapture rates on the portfolios underlying our 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 we invest in and the cost of financing;

- changes in economic conditions generally and the real estate and bond markets specifically;

- adverse changes in the financing markets we access affecting our ability to finance our investments on attractive terms, or at all;

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

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 provide 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. See "Business – Corporate Governance and Internet Address; Where Readers Can Find Additional Information."

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

NEW RESIDENTIAL INVESTMENT CORP.
FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Investments in:		
Excess mortgage servicing rights, at fair value	$ 341,704	$ 324,151
Excess mortgage servicing rights, equity method investees, at fair value	338,307	352,766
Servicer advances, at fair value	3,457,385	2,665,551
Real estate securities, available-for-sale	2,345,221	1,973,189
Residential mortgage loans, held-for-investment	34,045	33,539
Consumer loans, equity method investees	231,422	215,062
Cash and cash equivalents	140,495	271,994
Restricted cash	34,607	33,338
Derivative assets	45,040	35,926
Other assets	30,608	53,142
	$ 6,998,834	$ 5,958,658
Liabilities and Equity		
Liabilities		
Repurchase agreements	$ 2,143,094	$ 1,620,711
Notes payable	3,234,805	2,488,618
Trades payable	—	246,931
Due to affiliates	7,997	19,169
Dividends payable	44,312	63,297
Accrued expenses and other liabilities	7,977	6,857
	5,438,185	4,445,583
Commitments and Contingencies		

Equity		
Common Stock, $0.01 par value, 2,000,000,000 shares authorized, 253,209,669 and 253,197,974 issued and outstanding at March 31, 2014 and December 31, 2013, respectively	2,532	2,532
Additional paid-in capital	1,156,408	1,157,118
Retained earnings	107,446	102,986
Accumulated other comprehensive income, net of tax	9,928	3,214
Total New Residential stockholders' equity	1,276,314	1,265,850
Noncontrolling interests in equity of consolidated subsidiaries	284,335	247,225
Total Equity	1,560,649	1,513,075
	$ 6,998,834	$ 5,958,658

See notes to consolidated financial statements.

1

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2014	2013
Interest income	$71,490	$16,191
Interest expense	38,997	899
Net Interest Income	32,493	15,292
Impairment		
Other-than-temporary impairment ("OTTI") on securities	328	—
Valuation allowance on loans	164	—
	492	—
Net interest income after impairment	32,001	15,292
Other Income		
Change in fair value of investments in excess mortgage servicing rights	6,602	1,858
Change in fair value of investments in excess mortgage servicing rights, equity method investees	6,374	969
Earnings from investments in consumer loans, equity method investees	16,360	—
Gain on settlement of investments	4,357	—
Other income	1,357	—
	35,050	2,827
Operating Expenses		
General and administrative expenses	2,075	2,719
Management fee allocated by Newcastle	—	2,325
Management fee to affiliate	4,486	—
Incentive compensation to affiliate	3,338	—
	9,899	5,044
Income (Loss) Before Income Taxes	57,152	13,075
Income tax expense	287	—
Net Income (Loss)	$56,865	$13,075
Noncontrolling interests in Income (Loss) of Consolidated Subsidiaries	$8,093	$—
Net Income (Loss) Attributable to Common Stockholders	$48,772	$13,075
Net Income Per Share of Common Stock		
Basic	$0.19	$0.05

Diluted	$0.19	$0.05
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	253,209,019	253,025,645
Diluted	259,839,934	253,025,645
Dividends Declared per Share of Common Stock	$0.175	$—

See notes to consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(dollars in thousands)

	Three Months Ended March 31,	
	2014	2013
Comprehensive income (loss), net of tax		
Net income (loss)	$56,865	$13,075
Other comprehensive income (loss)		
Net unrealized gain (loss) on securities	10,878	16,183
Reclassification of net realized (gain) loss on securities into earnings	(4,164)	—
	6,714	16,183
Total comprehensive income (loss)	$63,579	$29,258
Comprehensive income (loss) attributable to noncontrolling interests	$8,093	$—
Comprehensive income (loss) attributable to common stockholders	$55,486	$29,258

See notes to consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(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, 2013	253,197,974	$2,532	$1,157,118	$102,986	$3,214	$1,265,850	$247,225	$1,513,075
Dividends declared	—	—	—	(44,312)	—	(44,312)	—	(44,312)
Capital contributions	—	—	—	—	—	—	142,024	142,024
Capital distributions	—	—	—	—	—	—	(113,795)	(113,795)
Dilution impact of distributions from consolidated subsidiaries	—	—	(788)	—	—	(788)	788	—
Director share grant	11,695	—	78	—	—	78	—	78
Comprehensive income (loss) (net of tax)								
Net income (loss)	—	—	—	48,772	—	48,772	8,093	56,865
Net unrealized gain (loss) on securities	—	—	—	—	10,878	10,878	—	10,878
Reclassification of net realized (gain) loss on securities into	—	—	—	—	(4,164)	(4,164)	—	(4,164)

earnings								
Total comprehensive income (loss)	—	—	—	—	—	55,486	8,093	63,579
Equity - March 31, 2014	253,209,669	$ 2,532	$ 1,156,408	$ 107,446	$ 9,928	$ 1,276,314	$ 284,335	$ 1,560,649

See notes to consolidated financial statements.

4

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)

	Three Months Ended March 31, 2014	2013
Cash Flows From Operating Activities		
Net income (loss)	$56,865	$13,075
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	(6,602)	(1,858)
Change in fair value of investments in excess mortgage servicing rights, equity method investees	(6,374)	(969)
Distributions of earnings from excess mortgage servicing rights, equity method investees	11,940	1,344
Earnings from consumer loan equity method investees	(16,360)	—
Change in fair value of investments in derivative assets	(1,357)	—
Accretion of discount and other amortization	(42,834)	(4,798)
(Gain) / loss on settlement of investments (net)	(4,357)	—
Other-than-temporary impairment (“OTTI”)	328	—
Valuation allowance on loans	164	—
Non-cash directors’ compensation	78	—
Changes in:		
Restricted cash	(1,269)	—
Other assets	5,531	(366)
Due to affiliates	(11,172)	2,648
Accrued expenses and other liabilities	1,179	2,377
Other operating cash flows:		
Interest received from servicer advance investments	16,304	—
Cash proceeds from investments, in excess of interest income	—	34,436
Net cash proceeds deemed as capital distributions to Newcastle	—	(45,889)
Net cash provided by (used in) operating activities	2,064	—
Cash Flows From Investing Activities		
Acquisition of investments in excess mortgage servicing rights	(19,132)	—
Purchase of servicer advance investments	(2,205,070)	—
Purchase of Agency ARM RMBS	(37,922)	—
Purchase of Non-Agency RMBS	(1,038,721)	—
Purchase of derivative assets	(71,923)	—
Return of investments in excess mortgage servicing rights	8,121	—
Return of investments in excess mortgage servicing rights, equity method investees	8,893	—
Principal repayments from servicing advance investments	1,442,648	—

Principal repayments from Agency ARM RMBS	75,470	—
Principal repayments from Non-Agency RMBS	13,890	—
Principal repayments from non-performing loans	1,900	—
Proceeds from sale of Agency ARM RMBS	162,897	—
Proceeds from sale of Non-Agency RMBS	258,449	—
Net cash provided by (used in) investing activities	(1,400,500)	—

Continued on next page

5

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)

	Three Months Ended March 31, 2014	2013
Cash Flows From Financing Activities		
Repayments of repurchase agreements	(1,080,197)	—
Margin deposits under repurchase agreements	(43,270)	—
Repayments of notes payable	(3,117,213)	—
Payment of deferred financing fees	(5,660)	—
Common stock dividends paid	(63,297)	—
Borrowings under repurchase agreements	1,618,664	—
Return of margin deposits under repurchase agreements	66,899	—
Borrowings under notes payable	3,862,782	—
Capital contributions	—	—
Noncontrolling interest in equity of consolidated subsidiaries - contributions	142,024	—
Noncontrolling interest in equity of consolidated subsidiaries - distributions	(113,795)	
Net cash provided by (used in) financing activities	1,266,937	—
Net Increase (Decrease) in Cash and Cash Equivalents	(131,499)	—
Cash and Cash Equivalents, Beginning of Period	271,994	—
Cash and Cash Equivalents, End of Period	$140,495	$—
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest expense	$35,194	$868
Cash paid during the period for income tax expense	—	—
Supplemental Schedule of Non-Cash Investing and Financing Activities Prior to Date of Cash Contribution by Newcastle		
Cash proceeds from investments, in excess of interest income	$—	$34,436
Acquisition of real estate securities	—	227,293
Acquisition of investments in excess mortgage servicing rights, equity method investees at fair value	—	109,588
Acquisition of residential mortgage loans, held-for-investment	—	35,138
Borrowings under repurchase agreements	—	768,038
Repayments of repurchase agreements	—	3,902

Capital contributions by Newcastle	—	372,019
Contributions in-kind by Newcastle	—	797,811
Capital distributions to Newcastle	—	810,025

Supplemental Schedule of Non-Cash Investing and Financing Activities Subsequent to Date of Cash Contribution by Newcastle

Dividends declared but not paid	$44,312	$—

See notes to consolidated financial statements.

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

1. GENERAL

New Residential Investment Corp. (together with its subsidiaries, "New Residential") is a Delaware corporation that was formed as a limited liability company in September 2011 for the purpose of making real estate related investments and commenced operations on December 8, 2011. On December 20, 2012, New Residential was converted to a corporation. Newcastle Investment Corp. ("Newcastle") was the sole stockholder of New Residential until the spin-off (Note 13), which was completed on May 15, 2013. Newcastle is listed on the New York Stock Exchange ("NYSE") under the symbol "NCT."

Following the spin-off, New Residential is an independent publicly traded real estate investment trust ("REIT") primarily focused on investing in residential mortgage related assets. New Residential is listed on the NYSE under the symbol "NRZ."

New Residential intends to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes for the tax year ended December 31, 2013. As such, New Residential will generally not be subject to U.S. federal corporate income tax on that portion of its net income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements.

New Residential has entered into a management agreement (the "Management Agreement") with FIG LLC (the "Manager"), an affiliate of Fortress Investment Group LLC ("Fortress"), under which the Manager advises New Residential on various aspects of its business and manages its day-to-day operations, subject to the supervision of New Residential's board of directors. For its services, the Manager is entitled to management fees and incentive compensation, both defined in, and in accordance with the terms of, the Management Agreement. The Manager also manages Newcastle and investment funds that own a majority of Nationstar Mortgage LLC ("Nationstar"), a leading residential mortgage servicer, and Springleaf Holdings, Inc. ("Springleaf"), managing member of the Consumer Loan Companies (Note 9).

As of March 31, 2014, New Residential conducted its business through the following segments: (i) investments in Excess MSRs, (ii) investments in servicer advances, (iii) investments in real estate securities, (iv) investments in real estate loans, (v) investments in consumer loans and (vi) corporate.

Approximately 5.3 million shares of New Residential's common stock were held by Fortress, through its affiliates, and its principals as of March 31, 2014. In addition, Fortress, through its affiliates, held options to purchase approximately 15.2 million shares of New Residential's common stock as of March 31, 2014. For recent activities related to Fortress's ownership of New Residential's common stock and options thereon, see Note 18.

The consolidated financial statements for periods prior to May 15, 2013 have been prepared on a spin-off basis from the consolidated financial statements and accounting records of Newcastle and reflect New Residential's historical results of operations, financial position and cash flows, in accordance with U.S. GAAP. As presented in the Consolidated Statements of Cash Flows, New Residential did not have any cash balance during periods prior to April 5, 2013, which is the first date Newcastle contributed cash to New Residential. All of its cash activity occurred in Newcastle's accounts during these periods. The consolidated financial statements for periods prior to May 15, 2013 do not necessarily reflect what New Residential's consolidated results of operations, financial position and cash flows would have been had New Residential operated as an independent company prior to the spin-off.

Certain expenses of Newcastle, comprised primarily of a portion of its management fee, have been allocated to New Residential to the extent they were directly associated with New Residential for periods prior to the spin-off on May 15, 2013. The portion of the management fee allocated to New Residential prior to the spin-off represents the product of the management fee rate payable by Newcastle (1.5%) and New Residential's gross equity, which management believes is a reasonable method for quantifying the expense of the services provided by the employees of the Manager to New Residential. The incremental cost of certain legal, accounting and other expenses related to

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

New Residential's operations prior to May 15, 2013 are reflected in the accompanying consolidated financial statements. New Residential and Newcastle do not share any expenses following the spin-off.

The accompanying 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 footnote 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 consolidated financial statements should be read in conjunction with New Residential's consolidated financial statements for the year ended December 31, 2013 and notes thereto included in New Residential's Annual Report on Form 10-K filed with the Securities and Exchange Commission. Capitalized terms used herein, and not otherwise defined, are defined in New Residential's consolidated financial statements for the year ended December 31, 2013.

Recent Accounting Pronouncements

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, financial statement presentation, revenue recognition, financial instruments, hedging, and contingencies. Some of the proposed changes are significant and could have a material impact on New Residential's reporting. New Residential has not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

2. OTHER INCOME, ASSETS AND LIABILITIES

Other income is comprised of the following:

	Three Months Ended March 31, 2014	2013
Gain (loss) on non-hedge derivative instruments	$1,357	$ —
	$1,357	$ —

Other assets and liabilities are comprised of the following:

	Other Assets			Accrued Expenses and Other Liabilities	
	March 31, 2014	December 31, 2013		March 31, 2014	December 31, 2013
Margin receivable	$16,503	$ 40,132	Interest payable	$5,033	$ 4,010
Interest and other receivables	5,968	7,548	Accounts payable	2,573	2,829
Deferred financing costs	11,201	5,541	Derivative liability	84	18
Accumulated amortization	(4,006)	(768)	Current taxes payable	287	—
Other	942	689		$7,977	$ 6,857
	$30,608	$ 53,142			

8

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

As reflected on the consolidated statements of cash flows, accretion of discount and other amortization is comprised of the following:

	Three Months Ended March 31,	
	2014	2013
Accretion of servicer advance interest income	$45,716	$—
Accretion of net discount on securities and loans	356	4,798
Amortization of deferred financing costs	(3,238)	—
	$42,834	$4,798

3. SEGMENT REPORTING

New Residential conducts its business through the following segments: (i) investments in Excess MSRs, (ii) investments in servicer advances, (iii) investments in real estate securities, (iv) investments in real estate loans, (v) investments in consumer loans, and (vi) corporate. The corporate segment consists primarily of (i) general and administrative expenses, (ii) the allocation of management fees by Newcastle until the spin-off on May 15, 2013, (iii) the management fees and incentive compensation owed to the Manager by New Residential following the spin-off, (iv) corporate cash and related interest income, and (v) the secured corporate loan and related interest expense.

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	Servicer Advances	Real Estate	Real Estate	Consumer Loans	Corporate	Total

			Securities	Loans			
Three Months Ended March 31, 2014							
Interest income	$13,816	$45,716	$11,238	$720	$—	$—	$71,490
Interest expense	1,291	31,956	4,069	198	1,483	—	38,997
Net interest income	12,525	13,760	7,169	522	(1,483)	—	32,493
Impairment	—	—	328	164	—	—	492
Other income	12,976	—	5,042	671	16,360	1	35,050
Operating expenses	65	250	60	90	23	9,411	9,899
Income (Loss) Before Income Taxes	25,436	13,510	11,823	939	14,854	(9,410)	57,152
Income tax expense	—	287	—	—	—	—	287
Net Income (Loss)	$25,436	$13,223	$11,823	$939	$14,854	$(9,410)	$56,865
Noncontrolling interests in income (loss) of consolidated subsidiaries	$—	$8,093	$—	$—	$—	$—	$8,093
Net income (loss) attributable to common stockholders	$25,436	$5,130	$11,823	$939	$14,854	$(9,410)	$48,772

9

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

	Servicing Related Assets		Residential Securities and Loans				
	Excess MSRs	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans	Corporate	Total
March 31, 2014							
Investments	$680,011	$3,457,385	$2,345,221	$34,045	$231,422	$—	$6,748,084
Cash and cash equivalents	3,704	75,408	10,425	127	—	50,831	140,495
Restricted cash	—	34,607	—	—	—	—	34,607
Derivative assets	—	—	769	44,271	—	—	45,040
Other assets	—	7,108	21,853	618	87	942	30,608
Total assets	$683,715	$3,574,508	$2,378,268	$79,061	$231,509	$51,773	$6,998,834
Debt	$—	$3,142,292	$2,000,594	$23,458	$142,500	$69,055	$5,377,899
Other liabilities	110	4,667	1,338	293	244	53,634	60,286
Total liabilities	110	3,146,959	2,001,932	23,751	142,744	122,689	5,438,185
Total equity	683,605	427,549	376,336	55,310	88,765	(70,916)	1,560,649
Noncontrolling interests in equity of consolidated subsidiaries	—	284,335	—	—	—	—	284,335
Total New Residential stockholders' equity	$683,605	$143,214	$376,336	$55,310	$88,765	$(70,916)	$1,276,314
Investments in equity method investees	$338,307	$—	$—	$—	$231,422	$—	$569,729

	Servicing Related Assets		Residential Securities and Loans				
	Excess MSRs	Servicer Advances	Real Estate Securities	Real Estate Loans	Consumer Loans	Corporate	Total
Three Months Ended March 31, 2013							
Interest income	$10,035	$ —	$6,156	$ —	$—	$—	$16,191
Interest expense	—	—	899	—	—	—	899
Net interest income	10,035	—	5,257	—	—	—	15,292

Impairment	—	—	—	—	—	—	—
Other income	2,827	—	—	—	—	—	2,827
Operating expenses	62	—	—	—	1,951	3,031	5,044
Income (Loss) Before Income Taxes	12,800	—	5,257	—	(1,951)	(3,031)	13,075
Income tax expense	—	—	—	—	—	—	—
Net Income (Loss)	$12,800	$ —	$5,257	$ —	$(1,951)	$(3,031)	$13,075
Noncontrolling interests in income (loss) of consolidated subsidiaries	$—	$ —	$—	$ —	$—	$—	$—
Net income (loss) attributable to common stockholders	$12,800	$ —	$5,257	$ —	$(1,951)	$(3,031)	$13,075

4. INVESTMENTS IN EXCESS MORTGAGE SERVICING RIGHTS AT FAIR VALUE

Pool 1. On December 13, 2011, Newcastle announced the completion of the first co-investment between New Residential and Nationstar in Excess MSRs related to mortgage servicing rights acquired by Nationstar. New Residential invested approximately $43.7 million to acquire a 65% interest in the Excess MSRs on a portfolio of government-sponsored enterprise ("GSE") residential mortgage loans ("Pool 1"). Nationstar has co-invested on a pari passu basis with New Residential in 35% of the Excess MSRs and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, the servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New Residential and Nationstar, subject to certain limitations.

Pool 2. On June 5, 2012, Newcastle announced the completion of a co-investment between New Residential and Nationstar in Excess MSRs related to mortgage servicing rights Nationstar acquired from Bank of America. New Residential invested approximately $42.3 million to acquire a 65% interest in the Excess MSRs on a portfolio of residential mortgage loans ("Pool 2"), comprised of loans in GSE pools. Nationstar has co-invested on a pari passu basis with New Residential in 35% of the Excess MSRs and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New Residential and Nationstar, subject to certain limitations.

Pools 3, 4 and 5. On June 29, 2012, Newcastle announced the completion of a co-investment between New Residential and Nationstar in Excess MSRs related to mortgage servicing rights Nationstar acquired from Aurora Bank FSB, a subsidiary of Lehman Brothers Bancorp Inc. New Residential invested approximately $176.5 million to acquire a 65% interest in the Excess MSRs on a portfolio of residential mortgage loans, comprised of approximately 25% conforming loans in Fannie Mae (“Pool 3”) and Freddie Mac (“Pool 4”) GSE pools as well as approximately 75% non-conforming loans in private label securitizations (“Pool 5”). Nationstar had co-invested on a pari passu basis with New Residential in 35% of the Excess MSRs and is the servicer of the loans, performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. In September 2013, New Residential invested an additional $26.6 million to acquire an additional 15% interest in the Excess MSRs related to Pool 5 from Nationstar. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New Residential and Nationstar, subject to certain limitations. In December 2013, New Residential entered into a corporate loan secured by the Excess MSRs related to Pool 5 (Note 11). New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSRs associated with Pool 5. See Note 6 for information on New Residential’s investment in servicer advances with respect to Pool 5.

Pool 11. On May 20, 2013, New Residential entered into an excess spread agreement with Nationstar to purchase a two-thirds interest in the Excess MSRs on a portion of the loans in the pool which are eligible to be refinanced by a specific third party for a period of time for $2.4 million, with Nationstar retaining the remaining one-third interest in the Excess MSRs and all servicing rights. After this period expired, Nationstar acquired the ability to refinance all of the loans in the pool. See Note 5 for information on New Residential’s other agreements with Nationstar with respect to Excess MSRs on Pool 11.

Pool 12. On September 23, 2013, New Residential invested approximately $17.4 million to acquire a 40% interest in the Excess MSRs on a portfolio of residential mortgage loans (“Pool 12”), comprised of loans in private label securitizations. Fortress-managed funds also acquired a 40% interest in the Excess MSRs and the remaining 20%

interest in the Excess MSRs is owned by Nationstar. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations. New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSRs associated with this portfolio. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 12.

Pool 17. On January 17, 2014, New Residential completed an additional closing of Excess MSRs that it agreed to acquire as part of a previously committed transaction between Nationstar and First Tennessee Bank ("Pool 17"). New Residential invested approximately $19.1 million in Pool 17 on loans with an aggregate UPB of approximately $8.1 billion.

New Residential agreed to acquire a one-third interest in Excess MSRs on the portfolio. Fortress-managed funds and Nationstar each agreed to acquire a one-third interest in the Excess MSRs. Nationstar as servicer will perform all servicing and advancing functions, and retain the ancillary income, servicing obligations and liabilities as the servicer of the underlying loans in the portfolio. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations. New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSRs associated with this portfolio. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 17.

Pool 18. In the fourth quarter of 2013, New Residential invested approximately $17.0 million to acquire a 40% interest in the Excess MSRs on a portfolio of residential mortgage loans ("Pool 18") comprised of loans in private

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

label securitizations. Fortress-managed funds also acquired a 40% interest in the Excess MSRs and the remaining 20% interest in the Excess MSR is owned by Nationstar. Nationstar performs all servicing and advancing functions and it retains the ancillary income, servicing obligations and liabilities associated with the portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by New Residential, the Fortress-managed funds and Nationstar, subject to certain limitations. New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSRs associated with this portfolio. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 18.

As described above, New Residential has entered into a "Recapture Agreement" in each of the Excess MSR investments to date, including those Excess MSR investments made through investments in joint ventures (Note 5). Under the Recapture Agreements, New Residential is generally entitled to a pro rata interest in the Excess MSRs on any initial or subsequent refinancing by Nationstar of a loan in the original portfolio. These Recapture Agreements do not apply to New Residential's investments in servicer advances (Note 6).

New Residential elected to record its investments in Excess MSRs at fair value pursuant to the fair value option for financial instruments in order to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors on the Excess MSRs.

The following is a summary of New Residential's direct investments in Excess MSRs:

	March 31, 2014						Three Months Ended March 31, 2014
	Unpaid Principal	Interest in	Amortized Cost	Carrying Value	Weighted Average	Weighted Average	Changes in Fair Value

	Balance ("UPB") of Underlying Mortgages	Excess MSR		Basis (A)	(B)	Yield		Life (Years) (C)	Recorded in Other Income (D)	
MSR Pool 1	$6,626,389	65.0	%	$25,600	$35,442	12.5	%	5.3	$ (114	)
MSR Pool 1 - Recapture Agreement	—	65.0	%	517	6,019	12.5	%	12.1	(209	)
MSR Pool 2	7,689,490	65.0	%	29,395	34,389	12.5	%	5.5	(22	)
MSR Pool 2 - Recapture Agreement	—	65.0	%	696	5,969	12.5	%	12.7	(62	)
MSR Pool 3	7,595,633	65.0	%	24,015	31,830	12.5	%	5.2	(449	)
MSR Pool 3 - Recapture Agreement	—	65.0	%	2,237	6,065	12.5	%	12.3	(81	)
MSR Pool 4	4,940,045	65.0	%	9,581	13,605	12.5	%	4.9	77	
MSR Pool 4 - Recapture Agreement	—	65.0	%	2,144	3,897	12.5	%	12.1	(51	)
MSR Pool 5 (E)	35,823,960	80.0	%	115,186	141,967	12.5	%	5.4	3,691	
MSR Pool 5 - Recapture Agreement	—	80.0	%	9,193	5,735	12.5	%	13.2	163	
MSR Pool 11	444,667	66.7	%	2,059	2,369	12.5	%	6.6	321	
MSR Pool 11 - Recapture Agreement	—	66.7	%	254	280	12.5	%	14.0	45	
MSR Pool 12 (E)	4,998,929	40.0	%	15,519	17,180	12.5	%	4.5	1,601	
MSR Pool 12 - Recapture Agreement	—	40.0	%	467	328	12.5	%	13.0	94	
MSR Pool 17 (E)	8,096,439	33.3	%	18,112	18,471	12.5	%	5.2	359	
MSR Pool 17 - Recapture Agreement	—	33.3	%	1,123	598	12.5	%	13.0	(526	)
MSR Pool 18 (E)	8,463,426	40.0	%	15,157	16,785	12.5	%	4.6	1,624	
MSR Pool 18 - Recapture Agreement	—	40.0	%	1,127	775	12.5	%	12.6	141	
	$84,678,978			$272,382	$341,704	12.5	%	5.8	$ 6,602	

(A) The amortized cost basis of the Recapture Agreements is determined based on the relative fair values of the Recapture Agreements and related Excess MSRs at the time they were acquired.

(B) Carrying Value represents the fair value of the pools or Recapture Agreements, as applicable.

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

(D) The portion of the change in fair value of the Recapture Agreements relating to loans recaptured to date is reflected in the respective pool.

(E) Pool in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2014 (Note 6).

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

The table below summarizes the geographic distribution of the underlying residential mortgage loans of the direct investments in Excess MSRs as of March 31, 2014:

State Concentration	Percentage of UPB	
California	30.6	%
Florida	9.2	%
New York	4.6	%
Washington	4.1	%
Maryland	4.1	%
Texas	3.9	%
Virginia	3.8	%
Arizona	3.7	%
New Jersey	3.3	%
Colorado	3.0	%
Other U.S.	29.7	%
	100.0	%

Geographic concentrations of investments expose New Residential to the risk of economic downturns within the relevant states. Any such downturn in a state where New Residential holds significant investments could affect the underlying borrower's ability to make mortgage payments and therefore could have a meaningful, negative impact on the Excess MSRs.

5. INVESTMENTS IN EXCESS MORTGAGE SERVICING RIGHTS EQUITY METHOD INVESTEES

New Residential entered into investments in joint ventures ("Excess MSR joint ventures") jointly controlled by New Residential and Fortress-managed funds investing in Excess MSRs. New Residential elected to record these investments at fair value pursuant to the fair value option for financial instruments to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors.

Pool 6. On January 4, 2013, New Residential, through a joint venture, co-invested in Excess MSRs on a portfolio of Government National Mortgage Association ("Ginnie Mae") residential mortgage loans ("Pool 6"). Nationstar acquired the related servicing rights from Bank of America in November 2012. New Residential contributed approximately $28.9 million for a 50% interest in a joint venture which acquired an approximately 67% interest in the Excess MSRs on this portfolio. The remaining interests in the joint venture are owned by a Fortress-managed fund and the remaining interest of approximately 33% in the Excess MSRs is owned by Nationstar. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by the joint venture and Nationstar, subject to certain limitations.

Pools 7, 8, 9, 10. On January 6, 2013, New Residential, through joint ventures, agreed to co-invest in Excess MSRs on a portfolio of four pools of residential mortgage loans Nationstar acquired from Bank of America. At the time of acquisition, approximately 53% of the loans in this portfolio were in private label securitizations ("Pool 10") and the remainder were owned, insured or guaranteed by Fannie Mae ("Pool 7"), Freddie Mac ("Pool 8") or Ginnie Mae ("Pool 9"). New Residential committed to invest approximately $340 million for a 50% interest in joint ventures which were expected to acquire an approximately 67% interest in the Excess MSRs on these portfolios. The remaining interests in the joint ventures are owned by Fortress-managed funds and the remaining interest of approximately 33% in the Excess MSRs is owned by Nationstar. In September 2013, New Residential and a Fortress-managed fund each invested an additional $13.9 million into the joint venture invested in Pool 10 to acquire

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

an additional 10% in the Excess MSRs held by the joint venture. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are shared on a pro rata basis by the joint ventures and Nationstar, subject to certain limitations. New Residential, through co-investments made by its subsidiaries, has separately purchased the servicer advances and the basic fee component of the related MSRs associated with Pool 10. See Note 6 for information on New Residential's investment in servicer advances with respect to Pool 10.

Pool 11. On May 20, 2013, New Residential acquired, through a joint venture, an interest in Excess MSRs from Nationstar on a portfolio of Freddie Mac residential mortgage loans ("Pool 11"). New Residential has invested approximately $37.8 million for a 50% interest in a joint venture which acquired an approximately 67% interest in the Excess MSRs on this portfolio. The remaining interests in the joint venture are owned by a Fortress-managed fund and the remaining interest of approximately 33% in the Excess MSR is owned by Nationstar. Nationstar performs all servicing and advancing functions, and it retains the ancillary income, servicing obligations and liabilities associated with this portfolio as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs are included in the portfolio, subject to certain limitations. See Note 4 for information on New Residential's other agreements with respect to Pool 11.

The following tables summarize the investments in Excess MSR joint ventures, accounted for as equity method investees held by New Residential:

	March 31, 2014
Excess MSR assets	$673,718
Other assets	7,152
Debt	—
Other liabilities	(4,256)
Equity	$676,614
New Residential's investment	$338,307

New Residential's ownership	50.0	%

	Three Months Ended March 31,	
	2014	2013
Interest income	$18,493	$5,616
Other income (loss)	(5,705)	(3,154)
Expenses	(40)	(524)
Net income	$12,748	$1,938

The following is a summary of New Residential's Excess MSR investments made through equity method investees:

14

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

	March 31, 2014						
	Unpaid Principal Balance	Investee Interest in Excess MSR	New Residential Interest in Investees	Amortized Cost Basis (A)	Carrying Value (B)	Weighted Average Yield	Weighted Average Life (Years) (C)
MSR Pool 6	$9,628,238	66.7 %	50.0 %	$37,424	$46,261	12.5 %	5.1
MSR Pool 6 - Recapture Agreement	—	66.7 %	50.0 %	6,922	9,165	12.5 %	12.1
MSR Pool 7	30,574,186	66.7 %	50.0 %	97,392	99,290	12.5 %	5.2
MSR Pool 7 - Recapture Agreement	—	66.7 %	50.0 %	14,156	24,498	12.5 %	12.4
MSR Pool 8	13,547,232	66.7 %	50.0 %	55,107	54,406	12.5 %	5.1
MSR Pool 8 - Recapture Agreement	—	66.7 %	50.0 %	5,836	13,050	12.5 %	12.1
MSR Pool 9	29,704,976	66.7 %	50.0 %	100,528	125,876	12.5 %	4.8
MSR Pool 9 - Recapture Agreement	—	66.7 %	50.0 %	32,271	31,743	12.5 %	12.1
MSR Pool 10 (D)	66,582,388	66.7-77.0%	50.0 %	196,933	194,571	12.5 %	5.4
MSR Pool 10 - Recapture Agreement	—	66.7-77.0%	50.0 %	13,658	7,304	12.5 %	13.3
MSR Pool 11	17,322,366	66.7 %	50.0 %	41,804	51,216	12.5 %	5.7
MSR Pool 11 - Recapture Agreement	—	66.7 %	50.0 %	22,849	16,338	12.5 %	11.4
	$167,359,386			$624,880	$673,718	12.5 %	6.3

(A) Represents the amortized cost basis of the equity method investees in which New Residential holds a 50% interest. The amortized cost basis of the Recapture Agreements is determined based on the relative fair values of the Recapture Agreements and related Excess MSRs at the time they were acquired.

(B) Represents the carrying value of the Excess MSRs held in equity method investees, in which New Residential holds a 50% interest. Carrying value represents the fair value of the pools or Recapture Agreements, as applicable.

(C) The weighted average life represents the weighted average expected timing of the receipt of cash flows of each investment.

(D) Pool in which New Residential also invested in related servicer advances, including the basic fee component of the related MSR as of March 31, 2014 (Note 6).

The table below summarizes the geographic distribution of the underlying residential mortgage loans of the Excess MSR investments made through equity method investees at March 31, 2014:

State Concentration	Percentage of UPB	
California	23.5	%
Florida	9.1	%
New York	5.4	%
Texas	4.9	%
Georgia	4.0	%
New Jersey	3.8	%
Illinois	3.5	%
Virginia	3.2	%
Maryland	3.1	%
Washington	2.8	%
Other U.S.	36.7	%
	100.0	%

6. INVESTMENTS IN SERVICER ADVANCES

On December 17, 2013, New Residential and third-party co-investors, through a joint venture entity (Advance Purchaser LLC, the “Buyer”) consolidated by New Residential, agreed to purchase $3.2 billion of outstanding servicer advances on a portfolio of loans, which is a subset of the same portfolio of loans in which New Residential invests in a portion of the Excess MSR (Pools 10, 17 and 18) (Notes 4 and 5), including the basic fee component of the related MSRs. During the three months ended March 31, 2014, the Buyer also agreed to purchase outstanding servicer advances on a portfolio of loans underlying Pools 5 and 12. As of March 31, 2014, New Residential and

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

third-party co-investors had settled $3.4 billion of servicer advances, net of recoveries, financed with $3.1 billion of notes payables outstanding (Note 11). A taxable wholly owned subsidiary of New Residential is the managing member of the Buyer that holds its investments in servicer advances and owned an approximately 33.5% interest in the Buyer as of March 31, 2014. Noncontrolling third-party investors owning the remaining interest in the Buyer have aggregate capital commitments to the Buyer of $390.3 million, which were fully funded as of March 31, 2014. As of March 31, 2014, New Residential had capital commitments to the Buyer of $197.9 million, which were fully funded. The Buyer may call capital up to the commitment amount on unfunded commitments and recall capital to the extent the Buyer makes distributions to the co-investors, including New Residential. Neither the third-party co-investors nor New Residential is obligated to fund amounts in excess of their respective capital commitments, regardless of the capital requirements of the Buyer that holds its investments in servicer advances.

The Buyer has purchased servicer advances from Nationstar, is required to purchase all future servicer advances made with respect to these pools from Nationstar, and receives cash flows from advance recoveries and the basic fee component of the related MSRs, net of compensation paid back to Nationstar in consideration of Nationstar's servicing activities. The compensation paid to Nationstar is approximately 9.2% of the basic fee component of the related MSRs plus a performance fee that represents a portion (up to 100%) of the cash flows in excess of those required for the Buyer to obtain a specified return on its equity.

New Residential elected to record its investments in servicer advances, including the right to the basic fee component of the related MSRs, at fair value pursuant to the fair value option for financial instruments to provide users of the financial statements with better information regarding the effects of market factors.

The following is a summary of the investments in servicer advances, including the right to the basic fee component of the related MSRs, made by the Buyer, which New Residential consolidates:

March 31, 2014	Three Months Ended

	Amortized Cost Basis	Carrying Value (A)	Weighted Average Yield	Weighted Average Life (Years) (B)	March 31, 2014 Change in Fair Value Recorded in Other Income
Servicer advances	$3,457,385	$3,457,385	5.8 %	3.2	—

(A) Carrying value represents the fair value of the investments in servicer advances, including the basic fee component of the related MSRs.
(B) Weighted Average Life represents the weighted average expected timing of the receipt of expected net cash flows for this investment.

The following is additional information regarding the servicer advances, and related financing, of the Buyer, which New Residential consolidates as of March 31, 2014:

	UPB of Underlying Residential Mortgage Loans	Outstanding Servicer Advances	Servicer Advances to UPB of Underlying Residential Mortgage Loans	Carrying Value of Notes Payable	Loan-to-Value		Cost of Funds (B)	
					Gross	Net (A)	Gross	Net
Servicer advances (C)	$79,687,268	$3,430,473	4.3 %	$3,142,292	91.6 %	90.6 %	3.0%	2.2%

(A) Ratio of face amount of borrowings to par amount of servicer advance collateral, net of an interest reserve maintained by the Buyer.
(B) Annualized measure of the cost associated with borrowings. Gross Cost of Funds primarily includes interest expense and facility fees. Net Cost of Funds excludes facility fees.

16

NEW RESIDENTIAL INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2014

(dollars in tables in thousands, except share data)

(C) The following types of advances comprise the investments in servicer advances:

	March 31, 2014
Principal and interest advances	$1,615,067
Escrow advances (taxes and insurance advances)	1,393,014
Foreclosure advances	422,392
Total	$3,430,473

Interest income recognized by New Residential related to its investments in servicer advances for the three months ended March 31, 2014 was comprised of the following:

Interest income, gross of amounts attributable to servicer compensation	$67,138
Amounts attributable to servicer compensation	(21,422)
Interest income from investments in servicer advances	$45,716

7. INVESTMENTS IN REAL ESTATE SECURITIES

During the three months ended March 31, 2014, New Residential acquired $1.4 billion face amount of Non-Agency RMBS for approximately $863.4 million and no new Agency ARM RMBS. New Residential sold Non-Agency RMBS with a face amount of approximately $437.9 million and an amortized cost basis of approximately $244.6 million for approximately $248.5 million, recording a gain on sale of approximately $3.8 million. Furthermore, New Residential sold Agency ARM RMBS with a face amount of $154.2 million and an amortized cost basis of approximately $162.2 million for approximately $162.9 million, recording a gain on sale of approximately $0.7 million.

On March 6, 2014, New Residential and Merrill Lynch, Pierce, Fenner & Smith Incorporated entered into an agreement pursuant to which New Residential agreed to purchase approximately $625 million face amount of

Non-Agency residential mortgage securities for approximately $553 million. The purchased securities represent 75% of the mezzanine and subordinate tranches of a securitization previously sponsored by Springleaf. The securitization, including the purchased securities, is collateralized by residential mortgage loans with a face amount of approximately $0.9 billion.

The following is a summary of New Residential's real estate securities as of March 31, 2014, all of which are classified as available-for-sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired.

			Gross Unrealized			Weighted Average
Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gains	Losses	Carrying Value (A)	