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New Residential Investment Corp.
Form 10-Q
August 10, 2015

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 June 30, 2015

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

(State or other jurisdiction of
incorporation or organization)

45-3449660

(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

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

Common stock, \$0.01 par value per share: 230,458,866 shares outstanding as of August 1, 2015.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- reductions in cash flows received from our investments;
- the quality and size of the investment pipeline and our ability to take advantage of investment opportunities at attractive risk-adjusted prices;
- servicer advances may not be recoverable or may take longer to recover than we expect, which could cause us to fail to achieve our targeted return on our investment in servicer advances;
- our ability to deploy capital accretively and the timing of such deployment;
- our counterparty concentration and default risks in Nationstar, Ocwen, 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 MSR, servicer advances, RMBS and consumer loan portfolios;
- the risks that default and recovery rates on our Excess MSR, servicer advances, real estate securities, residential mortgage loans and consumer loans deteriorate compared to our underwriting estimates;
- changes in prepayment rates on the loans underlying certain of our assets, including, but not limited to, our Excess MSR;
- the risk that projected recapture rates on the portfolios underlying our Excess MSR are not achieved;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- the relative spreads between the yield on the assets 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; our ability to maintain our exclusion from registration under the 1940 Act and the fact that maintaining such exclusion imposes limits on our operations; the risks related to HLSS liabilities that we have assumed; whether we will complete the New Merger (as defined herein); and events, conditions or actions that might occur at HLSS or Owcen.

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>.

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, except share data)

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Investments in:		
Excess mortgage servicing rights, at fair value	\$ 1,504,422	\$ 417,733
Excess mortgage servicing rights, equity method investees, at fair value	216,112	330,876
Servicer advances, at fair value	8,182,400	3,270,839
Real estate securities, available-for-sale	1,907,961	2,463,163
Residential mortgage loans, held-for-investment	42,741	47,838
Residential mortgage loans, held-for-sale	523,018	1,126,439
Real estate owned	25,327	61,933
Consumer loans, equity method investees	—	—
Cash and cash equivalents	432,007	212,985
Restricted cash	134,735	29,418
Derivative assets	1,701	32,597
Trade receivable	986,532	—
Deferred tax asset	159,232	—
Other assets	278,610	95,423
	\$ 14,394,798	\$ 8,089,244
Liabilities and Equity		
Liabilities		
Repurchase agreements	\$ 2,404,617	\$ 3,149,090
Notes payable	7,883,061	2,908,763
Trades payable	778,528	2,678
Due to affiliates	9,670	57,424
Dividends payable	89,521	53,745
Deferred tax liability	—	15,114
Accrued expenses and other liabilities	134,319	52,505
	11,299,716	6,239,319
Commitments and Contingencies		
Equity		
Common Stock, \$0.01 par value, 2,000,000,000 shares authorized, 230,438,639 and 141,434,905 issued and outstanding at June 30, 2015 and December 31, 2014, respectively	2,304	1,414
Additional paid-in capital	2,640,608	1,328,587
Retained earnings	203,287	237,769
Accumulated other comprehensive income, net of tax	17,231	28,319
Total New Residential stockholders' equity	2,863,430	1,596,089

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Noncontrolling interests in equity of consolidated subsidiaries	231,652	253,836
Total Equity	3,095,082	1,849,925
	\$ 14,394,798	\$ 8,089,244

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest income	\$ 178,177	\$ 92,656	\$ 262,550	\$ 164,146
Interest expense	81,871	36,512	115,850	75,509
Net Interest Income	96,306	56,144	146,700	88,637
Impairment				
Other-than-temporary impairment (“OTTI”) on securities	649	615	1,720	943
Valuation provision on loans and real estate owned	4,772	293	5,749	457
	5,421	908	7,469	1,400
Net interest income after impairment	90,885	55,236	139,231	87,237
Other Income				
Change in fair value of investments in excess mortgage servicing rights	356	5,502	(1,405)) 12,104
Change in fair value of investments in excess mortgage servicing rights, equity method investees	3,095	12,743	8,016	19,117
Change in fair value of investments in servicer advances	24,562	82,877	16,893	82,877
Earnings from investments in consumer loans, equity method investees	—	21,335	—	37,695
Gain on settlement of investments, net	1,201	52,539	15,968	56,896
Other income (loss), net	8,436	2,893	10,473	4,250
	37,650	177,889	49,945	212,939
Operating Expenses				
General and administrative expenses	21,239	5,397	29,799	7,383
Management fee to affiliate	8,371	4,915	13,497	9,401
Incentive compensation to affiliate	2,391	18,863	6,084	22,201
Loan servicing expense	2,951	347	7,842	436
	34,952	29,522	57,222	39,421
Income Before Income Taxes	93,583	203,603	131,954	260,755
Income tax expense (benefit)	14,306	21,395	10,879	21,682
Net Income	\$ 79,277	\$ 182,208	\$ 121,075	\$ 239,073
Noncontrolling Interests in Income of Consolidated Subsidiaries	\$ 4,158	\$ 58,705	\$ 9,981	\$ 66,798
Net Income Attributable to Common Stockholders	\$ 75,119	\$ 123,503	\$ 111,094	\$ 172,275
Net Income Per Share of Common Stock				
Basic	\$ 0.37	\$ 0.91	\$ 0.65	\$ 1.31
Diluted	\$ 0.37	\$ 0.88	\$ 0.63	\$ 1.28

Weighted Average Number of Shares of Common Stock
Outstanding