Altisource Asset Management Corp
Form 10-Q
November 05, 2014

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, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 000-54809

Altisource Asset Management Corporation
(Exact name of registrant as specified in its charter)

| UNITED STATES VIRGIN ISLANDS | 66-0783125 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

402 Strand Street
Frederiksted, United States Virgin Islands 00840-3531
(Address of principal executive office)

(340) 692-1055
(Registrant's telephone number, including area code)

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 o

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 Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 o | Accelerated Filer x |
|---|---|
| Non-Accelerated Filer o (Do not check if a smaller reporting company) | Smaller Reporting Company o |

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

As of October 31, 2014, 2,189,875 shares of our common stock were outstanding (excluding 260,965 shares held as treasury stock).

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Altisource Asset Management Corporation
September 30, 2014
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References in this report to "we," "our," "us," or the "Company" refer to Altisource Asset Management Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to “Residential” refer to Altisource Residential Corporation, unless otherwise indicated. References in this report to “Altisource” refer to Altisource Portfolio Solutions S.A. and its consolidated subsidiaries, unless otherwise indicated. References in this report to “Ocwen” refer to Ocwen Financial Corporation and its consolidated subsidiaries, unless otherwise indicated.

Special note on forward-looking statements

Our disclosure and analysis in this quarterly report on Form 10-Q contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to as the “Securities Act,” and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the “Exchange Act.” In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of thes and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

The forward-looking statements contained in this quarterly report reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. Factors that may materially affect such forward-looking statements include, but are not limited to:

- our ability to implement our business strategy and the business strategy of Residential;
- our ability to retain and maintain our strategic relationships with related parties;
- the ability of Residential to generate cash available for distribution to its stockholders under our management;
- our ability to effectively compete with our competitors;
- Residential's ability to complete future or pending transactions;
- our ability to retain Residential as a client;
- the failure of Altisource and Ocwen to effectively perform their obligations under their agreements with us and Residential;
- general economic and market conditions; and
- governmental regulations, taxes and policies.

While forward-looking statements reflect our good faith beliefs, assumptions and expectations, they are not guarantees of future performance. Such forward-looking statements speak only as of their respective dates, and we assume no obligation to update them to reflect changes in underlying assumptions or factors, new information or otherwise. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, please see the risk factors set forth in our annual report on Form 10-K for the year ended December 31, 2013 and in our quarterly reports on Form 10-Q for the first and second quarters of 2014

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Part I

Item 1. Financial statements (unaudited)

Certain information contained herein is presented as of October 31, 2014, which we have concluded is the latest practicable date for financial information prior to the filing of this quarterly report.

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Altisource Asset Management Corporation
Consolidated Balance Sheets
(In thousands, except share and per share amounts)
(Unaudited)

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Assets: | | |
| Real estate held for use: | | |
| Land (from consolidated VIE) | $9,865 | $478 |
| Rental residential properties (net of accumulated depreciation of $484 and $24, respectively - from consolidated VIE) | 38,470 | 3,092 |
| Real estate owned (from consolidated VIE) | 370,733 | 32,332 |
| Total real estate held for use, net | 419,068 | 35,902 |
| Real estate assets held for sale (from consolidated VIE) | 40,985 | 1,186 |
| Mortgage loans (from consolidated VIE) | 2,071,505 | 1,207,163 |
| Mortgage loans held for sale (from consolidated VIE) | 143,197 | — |
| Cash and cash equivalents (including from consolidated VIE $76,027 and $115,988, respectively) | 91,824 | 140,000 |
| Restricted cash | 12,033 | 5,878 |
| Accounts receivable (including from consolidated VIE $871 and $1,428, respectively) | 1,493 | 1,428 |
| Related party receivables (from consolidated VIE) | 19,254 | 9,260 |
| Deferred leasing and financing costs, net (from consolidated VIE) | 3,688 | 2,293 |
| Prepaid expenses and other assets (including from consolidated VIE $5,304 and $1,542, respectively) | 6,847 | 1,994 |
| Total assets | $2,809,894 | $1,405,104 |
| Liabilities: | | |
| Repurchase agreements (from consolidated VIE) | $1,258,329 | $602,382 |
| Other secured borrowings | 150,000 | — |
| Accounts payable and accrued liabilities (including from consolidated VIE $14,577 and $4,952, respectively) | 16,146 | 6,872 |
| Related party payables (including from consolidated VIE $6,489 and $1,409, respectively) | 6,907 | 2,883 |
| Total liabilities | 1,431,382 | 612,137 |
| Commitments and contingencies (Note 6) | | |
| Redeemable preferred stock: | | |
| Preferred stock, $0.01 par value, 250,000 shares issued and outstanding as of September 30, 2014 and none issued or outstanding as of December 31, 2013; redemption value $250,000 | 248,875 | — |
| Equity: | | |
| Common stock, $.01 par value, 5,000,000 authorized shares; 2,450,840 and 2,200,330 shares issued and outstanding, respectively as of September 30, 2014 and 2,354,774 shares issued and outstanding as of December 31, 2013 | 25 | 24 |
| Additional paid-in capital | 17,246 | 12,855 |
| Retained earnings (accumulated deficit) | 32,303 | (5,339) |
| Treasury stock, at cost, 250,510 shares as of September 30, 2014 and none as of December 31, 2013 | (236,751) | — |
| Total stockholders' equity | (187,177) | 7,540 |

| | | |
|---|---|---|
| Noncontrolling interest in consolidated affiliate | 1,316,814 | 785,427 |
| Total equity | 1,129,637 | 792,967 |
| Total liabilities and equity | $2,809,894 | $1,405,104 |

See accompanying notes to Consolidated Financial Statements.

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Altisource Asset Management Corporation
Consolidated Statements of Operations
(In thousands, except share and per share amounts)
(Unaudited)

| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 |
|---|---|---|---|---|
| Revenues: | | | | |
| Rental revenues | $469 | $6 | $719 | $6 |
| Net unrealized gain on mortgage loans | 88,726 | 17,670 | 258,898 | 25,963 |
| Net realized gain on mortgage loans | 13,727 | 1,909 | 33,867 | 4,015 |
| Net realized gain on re-performing mortgage loans | 302 | — | 302 | — |
| Net realized gain on real estate | 3,310 | — | 4,544 | — |
| Interest income | 2,568 | 156 | 2,757 | 368 |
| Total revenues | 109,102 | 19,741 | 301,087 | 30,352 |
| Expenses: | | | | |
| Residential property operating expenses | 9,247 | 191 | 13,550 | 275 |
| Real estate depreciation and amortization | 313 | 4 | 464 | 4 |
| Real estate selling costs and impairment | 5,542 | 210 | 8,775 | 210 |
| Mortgage loan servicing costs | 21,226 | 2,154 | 49,588 | 3,788 |
| Interest expense | 11,699 | 467 | 24,352 | 1,163 |
| General and administrative | 5,435 | 4,895 | 15,578 | 10,798 |
| Related party general and administrative | 999 | 681 | 4,597 | 1,052 |
| Total expenses | 54,461 | 8,602 | 116,904 | 17,290 |
| Other income (expense) | 1,586 | 13 | 2,372 | (6) |
| Income before income taxes | 56,227 | 11,152 | 186,555 | 13,056 |
| Income tax expense | 853 | — | 1,428 | — |
| Net income | 55,374 | 11,152 | 185,127 | 13,056 |
| Net income attributable to noncontrolling interest in consolidated affiliate | (37,676) | (13,709) | (147,371) | (17,952) |
| Net income (loss) attributable to common stockholders | $17,698 | $(2,557) | $37,756 | $(4,896) |
| Earnings (loss) per share of common stock – basic: | | | | |
| Earnings (loss) per basic share | $7.91 | $(1.09) | $16.51 | $(2.09) |
| Weighted average common stock outstanding – basic | 2,238,225 | 2,348,040 | 2,286,451 | 2,344,923 |
| Earnings (loss) per share of common stock – diluted: | | | | |

| | | | | |
|---|---|---|---|---|
| Earnings (loss) per diluted share | $6.25 | $(1.09) | $13.23 | $(2.09) |
| Weighted average common stock outstanding – diluted | 2,831,617 | 2,348,040 | 2,853,751 | 2,344,923 |

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Consolidated Statements of Equity
(In thousands, except share amounts)
(Unaudited)

| | Common stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Additional paid-in capital | Retained earnings (accumulated deficit) | Treasury stock | Noncontrolling interest in consolidated affiliate | Total equity |
| December 31, 2013 | 2,354,774 | $24 | $12,855 | $(5,339) | $— | $785,427 | $792,967 |
| Issuance of common stock, including option exercises | 96,066 | 1 | 44 | — | — | — | 45 |
| Treasury shares repurchased | — | — | — | — | (236,751) | — | (236,751) |
| Capital contribution from noncontrolling interest | — | — | — | — | — | 468,416 | 468,416 |
| Distribution from noncontrolling interest | — | — | — | — | — | (84,570) | (84,570) |
| Amortization of preferred stock issuance costs | — | — | — | (114) | — | — | (114) |
| Share-based compensation | — | — | 4,347 | — | — | 170 | 4,517 |
| Net income | — | — | — | 37,756 | — | 147,371 | 185,127 |
| September 30, 2014 | 2,450,840 | $25 | $17,246 | $32,303 | $(236,751) | $1,316,814 | $1,129,637 |

| | Common stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Additional paid-in capital | Accumulated deficit | Treasury stock | Noncontrolling interest in consolidated affiliate | Total equity |
| December 31, 2012 | 2,343,213 | $23 | $4,993 | $(46) | $— | $99,911 | $104,881 |
| Issuance of common stock, including option exercises | 7,333 | 1 | 12 | — | — | — | 13 |
| Capital contribution from noncontrolling interest | — | — | — | — | — | 309,700 | 309,700 |
| Distribution from noncontrolling interest | | | | | | (2,509) | (2,509) |
| Share-based compensation | — | — | 3,434 | — | — | — | 3,434 |
| Net income (loss) | — | — | — | (4,896) | — | 17,952 | 13,056 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| September 30, 2013 | 2,350,546 | $24 | $8,439 | $(4,942) | $— | $425,054 | $428,575 |

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Consolidated Statements of Cash Flows
(In thousands) (Unaudited)

| | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 |
|---|---|---|
| Operating activities: | | |
| Net income | $185,127 | $13,056 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Net unrealized gain on mortgage loans | (258,898) | (25,963) |
| Net realized gain on mortgage loans | (33,867) | (4,015) |
| Net realized gain on sale of re-performing mortgage loans | (302) | — |
| Net realized gain on sale of real estate | (4,544) | — |
| Real estate depreciation, amortization and other non-cash charges | 9,239 | 4 |
| Accretion of interest on re-performing mortgage loans | (2,475) | — |
| Share-based compensation | 4,517 | 3,434 |
| Amortization of deferred financing costs | 2,127 | 630 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,137) | — |
| Related party receivables | 6,421 | (166) |
| Prepaid expenses and other assets | (6,315) | (363) |
| Accounts payable and accrued liabilities | 1,786 | 2,063 |
| Related party payables | 4,024 | 251 |
| Net cash used in operating activities | (94,297) | (11,069) |
| Investing activities: | | |
| Investment in mortgage loans | (1,241,083) | (642,645) |
| Investment in real estate | (27,463) | (6,198) |
| Investment in renovations | (5,957) | (145) |
| Real estate tax advances | (20,244) | (547) |
| Mortgage loan dispositions | 122,023 | 13,783 |
| Mortgage loan payments | 14,903 | 2,659 |
| Disposition of real estate | 11,771 | — |
| Change in restricted cash | (6,155) | (3,092) |
| Net cash used in investing activities | (1,152,205) | (636,185) |
| Financing activities: | | |
| Proceeds from issuance of preferred stock | 250,000 | — |
| Cost of issuance of preferred stock | (1,125) | — |
| Issuance of common stock, including stock option exercises | 12,186 | 666 |
| Repurchase of common stock | (236,751) | — |
| Payment of tax withholdings on exercise of stock options | (12,141) | (653) |
| Cost of issuance of common stock | — | — |
| Capital contribution from noncontrolling interest | 468,416 | 310,250 |
| Distribution to noncontrolling interest | (84,570) | (2,509) |
| Proceeds from issuance of notes | 150,000 | — |
| Proceeds from repurchase agreement | 952,264 | 418,099 |
| Repayments of repurchase agreement | (296,317) | (79,299) |
| Payment of deferred financing costs | (3,636) | (2,254) |
| Net cash provided by financing activities | 1,198,326 | 644,300 |
| Net decrease in cash and cash equivalents | (48,176) | (2,954) |
| Cash and cash equivalents as of beginning of the period | 140,000 | 105,014 |

| | | |
|---|---|---|
| Cash and cash equivalents as of end of the period | $91,824 | $102,060 |
| | | |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | $20,212 | $377 |
| Transfer of mortgage loans to real estate owned | 410,913 | 10,598 |
| Transfer of real estate owned to mortgage loans | 5,367 | — |
| Change in accrued capital expenditures | 7,712 | — |
| Change in accrued equity issuance costs | — | 1,242 |
| Changes in receivables from mortgage loan dispositions, payments and real estate tax advances, net | 13,081 | 5,745 |
| Changes in receivables from real estate owned dispositions | 3,097 | — |

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See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Notes to Consolidated Financial Statements
September 30, 2014
(Unaudited)

1. Organization and basis of presentation

We were incorporated in the United States Virgin Islands on March 15, 2012, which we refer to as “inception.” Subsequent to our separation from Altisource Portfolio Solutions S.A. ("Altisource") on December 21, 2012, we immediately commenced operations. In October 2013, we applied for and were granted registration by the SEC as a registered investment adviser under section 203(c) of the Investment Advisers Act of 1940. Our primary business is to provide asset management and certain corporate governance services to Altisource Residential Corporation, which we refer to as “Residential” under a 15-year asset management agreement beginning December 21, 2012, which we refer to as the “Residential asset management agreement.” Residential is a Maryland corporation that acquires and manages single-family rental properties by acquiring sub-performing and non-performing mortgages throughout the United States.

Residential is currently our primary source of revenue and will drive our results. The Residential asset management agreement entitles us to incentive fees, which we refer to as our “incentive management fees,” that gives us a share of Residential’s cash flow available for distribution to its stockholders as well as reimbursement for certain overhead and operating expenses. Accordingly, our operating results are highly dependent on Residential's ability to achieve positive operating results.

We have concluded that Residential is a variable interest entity (“VIE”) because Residential’s equity holders lack the ability through voting rights to make decisions about Residential’s activities that have a significant effect on the success of Residential. We have also concluded that we are the primary beneficiary of Residential because under the Residential asset management agreement we have the power to direct the activities of Residential that most significantly impact Residential’s economic performance including establishing Residential’s investment and business strategy. As a result, we consolidate Residential in our consolidated financial statements.

Additionally, we provide management services to NewSource Reinsurance Company Ltd., which we refer to as “NewSource,” a title insurance and reinsurance company in Bermuda. In October 2013, we invested $2.0 million in 100% of the common stock of NewSource and Residential invested $18.0 million in the non-voting preferred stock of NewSource. On December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority (“BMA”). Because we own 100% of voting common stock of NewSource and there are no substantive kick-out rights granted to other equity owners, we consolidate NewSource in our consolidated financial statements.

Since Residential commenced operations, it has completed three public equity offerings with aggregate net proceeds of approximately $1.1 billion. On March 22, 2013, September 12, 2013 and September 23, 2013, Residential entered into three separate repurchase agreements to finance the acquisition and ownership of residential mortgage loans and REO properties. The maximum aggregate funding available under these repurchase agreements initially was $425.0 million. Residential subsequently increased the aggregate funding capacity under each repurchase agreement as follows:

- For the repurchase agreement entered into on March 22, 2013, Residential amended it on April 21, 2014 to initially increase the aggregate maximum borrowing capacity from $100.0 million to $200.0 million. The maturity date of the repurchase agreement was also extended to April 20, 2015, subject to an additional one-year extension with the approval of the lender. On June 11, 2014, Residential further amended this repurchase agreement to increase the aggregate maximum borrowing capacity from $200.0 million to $375.0 million, subject to certain sublimits, for the

period from June 11, 2014 through October 11, 2014, and on October 3, 2014, Residential extended the increase through December 10, 2014. The aggregate borrowing capacity under the repurchase agreement will revert to $200.0 million after December 10, 2014.

The repurchase agreement dated September 12, 2013, as amended on December 18, 2013, has an aggregate funding capacity of $250.0 million and matures on March 11, 2016. This agreement includes a provision that, beginning in the nineteenth month, Residential will not be able to finance mortgage loans in excess of amounts outstanding under the facility at the end of the eighteenth month.

For the repurchase agreement dated September 23, 2013, Residential amended it on December 23, 2013 to initially increase the aggregate maximum borrowing capacity from $200.0 million to $400.0 million. On June 25, 2014, Residential further amended this repurchase agreement to increase the aggregate maximum borrowing capacity from

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$400.0 million to $1.0 billion, subject to certain sublimits. The maturity date of the repurchase agreement is March 23, 2015. Residential has the option to extend this agreement for an additional year with no additional funding.

Following these increases, the maximum aggregate funding available to Residential under these repurchase agreements as of September 30, 2014 was $1.7 billion, subject to certain sublimits, eligibility requirements and conditions precedent to each funding. As of September 30, 2014, an aggregate of $1.3 billion was outstanding under Residential's repurchase agreements. All obligations under the repurchase agreements are fully guaranteed by Residential.

On September 25, 2014, Residential completed a securitization transaction in which ARLP Securitization Trust, Series 2014-1 (“ARLP 2014-1”) issued $150.0 million in Class A Notes (the “Class A Notes”) with a weighted yield of approximately 3.5% and $32.0 million in Class M Notes (the “Class M Notes”) with a weighted yield of 4.25%. The Class A Notes and the Class M Notes are secured solely by the non-performing mortgage loans of ARLP 2014-1 and not by any of Residential's other assets. The assets of ARLP 2014-1 are the only source of repayment and interest on the Class A Notes and the Class M Notes. The Class A Notes and the Class M Notes mature on September 25, 2044, and Residential does not guaranty any of the obligations of ARLP 2014-1 under the terms of the Indenture governing the notes or otherwise. As of September 30, 2014, the book value of the underlying securitized assets held by ARLP 2014-1 was $211.3 million.

Residential retained all of the Class M Notes in its taxable REIT subsidiary (“TRS”). On September 30, 2014, pursuant to a master repurchase agreement, the TRS sold $15.0 million of the Class M Notes to NewSource Reinsurance Company Ltd, ("NewSource"), an entity in which Residential owns 100% of the outstanding preferred stock and in which we own 100% of the outstanding common stock, for a purchase price of $15.0 million. The master repurchase agreement requires the TRS to repurchase the Class M Notes from NewSource at a 5.0% yield on December 28, 2014, subject to the parties’ option to extend the master repurchase agreement for an additional 89 day period. In no event can the master repurchase agreement be extended beyond September 29, 2015.

On March 18, 2014, we closed a private placement for the issuance and sale of 250,000 shares of our Series A Convertible Preferred Stock to Luxor Capital Group, LP, a New York based investment manager, and other institutional investors for proceeds of $250.0 million. We used substantially all of the proceeds from this transaction to repurchase shares of our common stock and for other corporate purposes. In the future we may use excess cash generated from operations to repurchase shares of our common stock when trading at attractive prices. Such stock repurchases may be made in the open market, block trades or privately-negotiated transactions. In connection with the foregoing, the Company's Board of Directors has approved a share repurchase program that authorizes us to repurchase up to $300.0 million of our common stock.

We ceased to be a development stage enterprise in the second quarter of 2013.

Basis of presentation and use of estimates

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States which we refer to as “U.S. GAAP.” All wholly owned subsidiaries are included and all intercompany accounts and transactions have been eliminated. The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

The unaudited consolidated financial statements and accompanying unaudited consolidated financial information, in our opinion, contain all adjustments that are of a normal recurring nature and necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. The interim results are not necessarily indicative of results for a full year. We have omitted certain notes and other information from the interim consolidated financial statements presented in this Quarterly Report as permitted by SEC rules and regulations. These consolidated financial statements should be read in conjunction with our 2013 annual report on Form 10-K.

Preferred stock

During the first quarter of 2014, we issued $250.0 million of convertible preferred stock. All of the outstanding shares of preferred stock are redeemable by us in March 2020, the sixth anniversary of the date of issuance, and every five years thereafter. On these same redemption dates, each holder of preferred stock may cause us to redeem all the shares of preferred

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stock held by such holder at a redemption price equal to $1,000 per share. Accordingly, we classify these shares as mezzanine equity, outside of permanent stockholders' equity.

The holders of shares of Series A Preferred Stock will not be entitled to receive dividends with respect to the Series A Preferred Stock. The shares of Series A Preferred Stock are convertible into shares of our common stock at a conversion price of $1,250 per share, subject to certain anti-dilution adjustments.

Upon a change of control or upon a liquidation, dissolution or winding up of the Company, holders of the Series A Preferred Stock will be entitled to receive an amount in cash per Series A Preferred Stock equal to the greater of:

(i) $1,000 plus the aggregate amount of cash dividends paid on the number of shares of Common Stock into which such share of Series A Preferred Stock was convertible on each ex-dividend date for such dividends; and
(ii) the number of shares of Common Stock into which the Series A Preferred Stock is then convertible multiplied by the then current market price of the Common Stock.

The Series A Preferred Stock confers no voting rights to holders, except with respect to matters that materially and adversely affect the voting powers, rights or preferences of the Series A Preferred Stock or as otherwise required by applicable law.

With respect to the distribution of assets upon the liquidation, dissolution or winding up of the Company, the Series A Preferred Stock ranks senior to our common stock and on parity with all other classes of preferred stock that may be issued by us in the future.

Treasury Stock

We account for repurchased common stock under the cost method and include such treasury stock as a component of total shareholders’ equity. We have repurchased shares of our common stock (i) under our Board approval to repurchase up to $300.0 million in shares of our common stock and (ii) upon our withholding of shares of our common stock to satisfy tax withholding obligations in connection with the vesting of our restricted stock.

Loans held for sale

Loans held for sale, which consist of re-performing residential mortgage loans acquired from others, are recorded at the lower of cost or fair value. Residential does not originate loans. During the third quarter 2014, Residential decided to sell these re-performing loans and as such they were reclassified as loans held for sale from loans held for investment. See Note 12 - "Subsequent events" for information on our dispositions of re-performing loans subsequent to September 30, 2014.

Recently issued accounting standards

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-04, Troubled Debt Restructurings by Creditors. It provides that a repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amended guidance may be applied using either a prospective transition

method or a modified retrospective transition method and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted. We do not expect this amendment to have a significant effect on our financial position or results of operations since our accounting policies and disclosures are currently consistent with the requirements set forth in the amendment.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 may be applied using either a full retrospective or a modified retrospective approach and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is not permitted. We do not expect this amendment to have a significant effect on our financial position or results of operations since our accounting policies and disclosures are currently consistent with the requirements set forth in the amendment.

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2. Mortgage loans

During the nine months ended September 30, 2014, Residential acquired an aggregate of 8,155 mortgage loans and REO properties, consisting of the following:

Acquisitions of non-performing residential mortgage loans

During the nine months ended September 30, 2014, Residential acquired an aggregate of 7,086 residential mortgage loans, substantially all of which were non-performing, and 190 REO properties having an aggregate UPB of approximately $1.9 billion and an aggregate market value of underlying properties of $1.7 billion. The aggregate purchase price for these acquisitions was $1.1 billion. During the quarter ended September 30, 2014, Residential agreed to acquire an aggregate of 246 residential mortgage loans, substantially all of which are non-performing, with an aggregate market value of underlying properties of $29.7 million. There can be no assurance that Residential will complete this pending transaction in whole or in part on a timely basis or at all.

Acquisition of re-performing residential mortgage loans

On June 27, 2014, Residential acquired 879 re-performing mortgage loans with an aggregate market value of underlying properties of $271.1 million for an aggregate purchase price of $144.6 million. Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. These 879 re-performing residential mortgage loans were determined to have common risk characteristics and have been accounted for as a single loan pool. Under ASC 310-30, Residential estimates cash flows expected to be collected, adjusted for expected prepayments and defaults expected to be incurred over the life of the loan pool. Residential determines the excess of the loan pool's contractually required principal and interest payments over the expected cash flows as an amount that should not be accreted, the nonaccretable yield. The difference between expected cash flows and the present value of the expected cash flows is referred to as the accretable yield, which represents the amount that is expected to be recorded as interest income over the remaining life of the loan pool. For the three and nine months ended September 30, 2014, Residential recognized no provision for loan loss and no adjustments to the amount of the accretable yield. For the three and nine months ended September 30, 2014, Residential accreted $2.5 million into interest income with respect to these re-performing loans. As of September 30, 2014, these re-performing loans, having a UPB of $204.3 million and a carrying value of $143.2 million, were held for sale. During October 2014, Residential sold an aggregate of 934 re-performing loans to an unrelated third party for an aggregate purchase price of $164 million. See Note 12 - "Subsequent events" for information on our dispositions of re-performing loans subsequent to September 30, 2014.

The following tables present information regarding the estimates of the contractually required payments and the cash flows expected to be collected as of the date of the acquisition and changes in the balance of the accretable yield ($ in thousands):

| | |
|---|---|
| Contractually required principal and interest | $325,000 |
| Non-accretable yield | (96,263) |
| Expected cash flows to be collected | 228,737 |
| Accretable yield | (84,728) |
| Fair value at the date of acquisition | $144,009 |

| Accretable Yield | Three months ended September 30, 2014 |
|---|---|
| Balance at the beginning of the period | $84,728 |

| | |
|---|---|
| Accretion | (2,475) |
| Balance at the end of the period | $82,253 |

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Since the commencement of its operations, Residential has engaged in the acquisition of the following portfolios of non-performing and re-performing residential mortgage loans:

| Portfolios Residential Agreed to Acquire | | | Acquisitions Completed in 2014 | | Acquisitions Completed in 2013 | |
|---|---|---|---|---|---|---|
| Date of agreement in principle | Number of loans | Fair value of underlying property (in millions) | Date acquisition closed | Number of loans acquired | Fair value of underlying property (in millions) | Number of loans acquired | Fair value of underlying property (in millions) |
| January 23, 2013 | 460 | $94.2 | February 14, 2013 | | | 460 | $94.2 |
| February 12, 2013 | 244 | 40.1 | March 21, 2013 | | | 230 | 38.7 |
| February 14, 2013 | 762 | 128.9 | April 5, 2013 | | | 720 | 122.1 |
| June 25, 2013 | 321 | 73.9 | August 26, 2013 | | | 292 | 67.3 |
| June 27, 2013 | 2,377 | 296.1 | August 6, 2013 | | | 1,562 | 185.2 |
| | | | September 19, 2013 | | | 416 | 56.0 |
| August 12, 2013 | 2,966 | 790.2 | September 30, 2013 | | | 1,547 | 403.6 |
| | | | October 21, 2013 | | | 1,100 | 298.0 |
| November 12, 2013 | 993 | 137.3 | January 2, 2014 | 650 | $93.6 | | |
| November 22, 2013 | 6,540 | 1,542.1 | December 24, 2013 | | | 2,204 | 530.1 |
| | | | January 31, 2014 | 3,421 | 791.7 | | |
| December 19, 2013 | 164 | 18.3 | January 28, 2014 | 66 | 7.0 | | |
| | | | February 28, 2014 | 70 | 8.2 | | |
| March 11, 2014[1] | 915 | 180.0 | May 1, 2014[2] | 664 | 126.6 | | |
| May 2, 2014 | 78 | 8.7 | July 10, 2014 | 46 | 5.0 | | |
| June 4, 2014 | 3,191 | 891.6 | June 27, 2014 | 1,116 | 375.3 | | |
| | | | July 31, 2014 | 1,243 | 315.7 | | |
| June 4, 2014[3] | 1,105 | 331.6 | June 27, 2014[3] | 879 | 271.1 | | |
| September 15, 2014 | 246 | 29.7 | pending[4] | | | | |
| Totals | 20,362 | $4,562.7 | Totals | 8,155 | $1,994.2 | 8,531 | $1,795.2 |

(1) The remaining portion of this acquisition, consisting of 159 mortgage loans and REO properties, closed in October 2014.

(2) Includes 190 REOs.

(3) This acquisition consisted of a portfolio of re-performing loans.

(4) This acquisition is expected to close in the fourth quarter of 2014.

During the three and nine months ended September 30, 2014, Residential recognized a nominal amount and $2.9 million, respectively, for due diligence costs related to these and other transactions in both general and administrative expense and related party general and administrative expense. During the three and nine months ended September 30, 2013, Residential expensed $0.9 million and $1.3 million, respectively, for due diligence costs.

Generally, we expect that Residential's mortgage loan portfolio may grow at an uneven pace, as opportunities to acquire distressed residential mortgage loans may be irregularly timed and may involve large portfolios of loans, and the timing and extent of Residential's success in acquiring such loans cannot be predicted. In addition, for any given portfolio of loans that Residential agrees to acquire, it typically acquires fewer loans than originally expected, as certain loans may be resolved prior to the closing date or may fail to meet Residential's diligence standards. The number of unacquired loans typically constitutes a relatively small portion of a particular portfolio. In some cases, the number of loans Residential does not acquire could be significant. In any case where Residential does not acquire the full portfolio, appropriate adjustments are made to the applicable purchase price.

Throughout this quarterly report, all unpaid principal balance and market value amounts for the portfolios Residential has acquired are provided as of “cut-off date” for each transaction unless otherwise indicated. The “cut-off date” for each acquisition is a date shortly before the closing used to identify the final loans being purchased and the related unpaid principal balance, market value of underlying properties and other characteristics of the loans.

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Transfer of mortgage loans to real estate owned

During the three months ended September 30, 2014 and 2013, Residential transferred 1,113 and 43 mortgage loans, respectively, to REO at an aggregate fair value based on broker price opinions ("BPOs"), of $189.9 million and $6.2 million respectively. Such transfers occur when the foreclosure sale is complete. In connection with these transfers to REO, Residential recorded $38.4 million and $1.8 million, respectively, in net unrealized gains on mortgage loans.

During the nine months ended September 30, 2014 and 2013, Residential transferred 2,657 and 77 mortgage loans, respectively, to REO at an aggregate fair value based on BPOs, of $410.9 million and $10.6 million respectively. In connection with these transfers to REO, Residential recorded $90.5 million and $3.0 million, respectively, in net unrealized gains on mortgage loans.

Dispositions

During the three months ended September 30, 2014 and 2013, Residential disposed of 165 and 54 mortgage loans, respectively, primarily through short sales, refinancing and foreclosure sales. In connection with these dispositions, Residential recorded $13.7 million and $1.9 million, respectively, of net realized gains on mortgage loans.

During the nine months ended September 30, 2014 and 2013, Residential disposed of 416 and 92 mortgage loans, respectively, primarily through short sales, refinancing and foreclosure sales. In connection with these dispositions, Residential recorded $33.9 million and $4.0 million, respectively, of net realized gains on mortgage loans. During October 2014, Residential sold 934 re-performing loans to an unrelated third party. The sale included 770 loans from the re-performing mortgage loans held for sale, purchased in the second quarter of 2014, and 164 loans that have transitioned to re-performing status from prior non-performing loan acquisitions that have a clean pay history of at least six months. See Note 12 - "Subsequent events" for information on our dispositions of re-performing loans subsequent to September 30, 2014.

3. Real estate assets, net

Acquisitions

During the nine months ended September 30, 2014, Residential acquired 190 REO properties as part of their portfolio acquisitions. Residential acquired no REO properties during the three months ended September 30, 2014. During the three and nine months ended September 30, 2013, Residential acquired 34 and 40 REO properties, respectively. The aggregate purchase price attributable to these acquired REO properties was $27.5 million for the nine months ended September 30, 2014 and was $5.9 million and $6.2 million, respectively, for the three and nine months ended September 30, 2013.

Real estate held for use

As of September 30, 2014, Residential had 2,660 REO properties held for use. Of these properties, 216 had been rented, 90 were being listed for rent and 270 were in varying stages of renovation. With respect to the remaining 2,084 REO properties, we will make a final determination whether each property meets Residential’s rental profile after (a) applicable state redemption periods have expired, (b) the foreclosure sale has been ratified (c) Residential has recorded the deed for the property, (d) utilities have been activated and (e) Residential has secured access for interior inspection. A majority of the REO properties are subject to state regulations which require Residential to await the expiration of a redemption period before a foreclosure can be finalized. Residential includes these redemption periods in its portfolio pricing which generally reduces the price Residential pays for the mortgage loans. Once the redemption period expires, Residential immediately proceeds to record the new deed, take possession of the property, activate

utilities, and start the inspection process in order to make its final determination. As of December 31, 2013, Residential had 246 REO properties held for use. Of these properties, 14 had been rented, 11 were being listed for rent and 18 were in various stages of renovation. With respect to the remaining 203 REO properties, we were in the process of determining whether these properties would meet Residential's rental profile. As of September 30, 2013, Residential had 100 REO properties held for use. Of these properties, five had been rented, six were being listed for rent and three were in various stages of renovation. With respect to the remaining 86 REO properties, we were in the process of determining whether these properties would meet Residential's rental profile. If a REO property meets Residential's rental profile, we determine the extent of renovations that are needed to generate an optimal rent and maintain consistency of renovation specifications for future branding. If we determine that the REO property will not meet Residential's rental profile, we list the property for sale, in certain instances after renovations are made to optimize the sale proceeds.

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Real estate held for sale

As of September 30, 2014, Residential classified 324 properties having an aggregate carrying value of $41.0 million as real estate held for sale as they do not meet its residential rental property investment criteria. As of December 31, 2013, Residential had 16 REO properties having an aggregate carrying value of $1.2 million held for sale, and as of September 30, 2013, Residential had 14 REO properties having an aggregate carrying value of $1.1 million held for sale. None of these REO properties have any operations; therefore, we are not presenting discontinued operations related to these properties.

Dispositions

During the three and nine months ended September 30, 2014, Residential disposed of 78 and 102 residential properties, respectively. Residential did not dispose of any residential properties during the nine months ended September 30, 2013. In connection with the dispositions for the three and nine months ended September 30, 2014, we recorded $3.3 million and $4.5 million, respectively, of net realized gains on real estate.

4. Fair value of financial instruments

The following table sets forth the fair value of financial assets and liabilities by level within the fair value hierarchy as of September 30, 2014 and December 31, 2013 ($ in thousands):

| | Level 1<br>Quoted prices in active markets | Level 2<br>Observable inputs other than Level 1 prices | Level 3<br>Unobservable inputs |
|---|---|---|---|
| September 30, 2014 | | | |
| Recurring basis (assets) | | | |
| Mortgage loans | $— | $— | $2,071,505 |
| Nonrecurring basis (assets) | | | |
| Real estate assets held for sale | $— | $— | $44,187 |
| Transfer of real estate owned to mortgage loans | $— | $— | $5,367 |
| Transfer of mortgage loans to real estate owned | $— | $— | $410,913 |
| Not recognized on consolidated balance sheets at fair value (assets) | | | |
| Mortgage loans held for sale | $— | $— | $143,197 |
| Not recognized on consolidated balance sheets at fair value (liabilities) | | | |
| Repurchase agreements at fair value | $— | $1,258,329 | $— |
| Other secured borrowings | $— | $150,000 | $— |
| | | | |
| December 31, 2013 | | | |
| Recurring basis (assets) | | | |
| Mortgage loans | $— | $— | $1,207,163 |
| Nonrecurring basis (assets) | | | |
| Real estate assets held for sale | $— | $— | $1,520 |
| Transfer of mortgage loans to real estate owned | $— | $— | $31,014 |
| Not recognized on consolidated balance sheets at fair value (liabilities) | | | |
| Repurchase agreements at fair value | $— | $602,382 | $— |

Residential has not transferred any assets from one level to another level during the nine months ended September 30, 2014. Additionally there were no transfers between levels for the year ended December 31, 2013.

The carrying values of Residential's and our cash and cash equivalents, restricted cash, related party receivables, accounts payable and accrued liabilities, related party payables, preferred stock, and investment in NewSource are equal to or approximate fair value. The fair value of mortgage loans is estimated using our proprietary pricing model. The fair value of transfers of mortgage loans to real estate owned is estimated using BPOs. The fair value of re-performing mortgage loans held

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for sale is estimated using the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The fair value of the repurchase agreements is estimated using the income approach based on credit spreads available currently in the market for similar floating rate debt. The fair value of other secured borrowings is estimated using observable market data.

The following table sets forth the changes in Residential's level 3 assets that are measured at fair value on a recurring basis ($ in thousands):

| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 |
|---|---|---|---|---|
| Mortgage loans | | | | |
| Beginning balance | $2,024,028 | $163,520 | $1,207,163 | $— |
| Investment in mortgage loans | 184,590 | 475,998 | 1,097,601 | 644,163 |
| Net unrealized gain on mortgage loans | 88,726 | 17,670 | 258,898 | 25,963 |
| Net realized gain on mortgage loans | 13,727 | 1,909 | 33,867 | 4,015 |
| Mortgage loan dispositions and payments | (60,062) | (11,882) | (143,834) | (22,527) |
| Real estate tax advances to borrowers | 6,397 | 887 | 19,119 | 887 |
| Reclassification of realized gains on real estate sold from unrealized gains | 3,322 | — | 4,237 | — |
| Transfer of real estate owned to mortgage loans | 719 | — | 5,367 | — |
| Transfer of mortgage loans to real estate owned | (189,942) | (6,199) | (410,913) | (10,598) |
| Ending balance at September 30 | $2,071,505 | $641,903 | $2,071,505 | $641,903 |
| Net unrealized gain on mortgage loans held at the end of the period | $55,558 | $17,670 | $164,378 | $25,963 |

The following table sets forth the fair value of Residential's mortgage loans, the related unpaid principal balance and market value of underlying properties by delinquency status as of September 30, 2014 and December 31, 2013 ($ in thousands):

| | Number of loans | Carrying Value | Unpaid principal balance | Market value of underlying properties |
|---|---|---|---|---|
| September 30, 2014 | | | | |
| Current | 685 | $96,445 | $161,438 | $168,946 |
| 30 | 98 | 10,080 | 17,485 | 19,072 |
| 60 | 46 | 6,593 | 9,560 | 10,208 |
| 90 | 2,608 | 410,583 | 663,560 | 629,706 |
| Foreclosure | 8,653 | 1,547,804 | 2,362,326 | 2,086,407 |
| Mortgage loans | 12,090 | $2,071,505 | $3,214,369 | $2,914,339 |
| December 31, 2013 | | | | |

| | | | | |
|---|---|---|---|---|
| Current | 238 | $31,649 | $60,051 | $52,506 |
| 30 | 26 | 2,087 | 4,492 | 3,763 |
| 60 | 23 | 3,376 | 5,683 | 4,738 |
| 90 | 1,555 | 245,024 | 419,836 | 355,451 |
| Foreclosure | 6,212 | 925,027 | 1,609,546 | 1,310,439 |
| Mortgage Loans | 8,054 | $1,207,163 | $2,099,608 | $1,726,897 |

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The following table sets forth the carrying value of Residential's re-performing mortgage loans held for sale, the related unpaid principal balance and market value of underlying properties by delinquency status as of September 30, 2014.

| | Number of loans | Carrying value | Unpaid principal balance | Market value of underlying properties |
|---|---|---|---|---|
| September 30, 2014 | | | | |
| Current | 818 | $136,814 | $194,861 | $257,491 |
| 30 | 23 | 2,587 | 3,867 | 4,114 |
| 60 | 7 | 1,062 | 1,552 | 1,703 |
| 90 | 24 | 2,734 | 4,066 | 4,436 |
| Mortgage loans held for sale | 872 | $143,197 | $204,346 | $267,744 |

The significant unobservable inputs used in the fair value measurement of Residential's mortgage loans are discount rates, forecasts of future home prices, alternate loan resolution probabilities, resolution timelines and the value of underlying properties. Significant changes in any of these inputs in isolation could result in a significant change to the fair value measurement. A decline in the discount rate in isolation would increase the fair value. A decrease in the housing pricing index in isolation would decrease the fair value. Individual loan characteristics such as location and value of underlying collateral affect the loan resolution probabilities and timelines. An increase in the loan resolution timeline in isolation would decrease the fair value. A decrease in the value of underlying properties in isolation would decrease the fair value. The following table sets forth quantitative information about the significant unobservable inputs used to measure the fair value of Residential's mortgage loans as of September 30, 2014 and December 31, 2013:

| Input | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Equity discount rate | 15.0% | 15.0% |
| Debt to asset ratio | 65.0% | 55.0% |
| Cost of funds | 3.5% over 1 month LIBOR | 3.5% over 1 month LIBOR |
| Annual change in home pricing index | -0.2% to 7.6% | -0.3% to 7.6% |
| Loan resolution probabilities — modification | 0% to 44.7% | 0% to 22.3% |
| Loan resolution probabilities — rental | 0% to 100.0% | 0% to 100.0% |
| Loan resolution probabilities — liquidation | 0% to 100.0% | 0% to 100.0% |
| Loan resolution timelines (in years) | 0.1 to 5.3 | 0.1 - 5.8 |
| Value of underlying properties | $3,000 - $6,450,000 | $3,000 - $3,550,000 |

5. Borrowings

Repurchase Agreements

Residential's operating partnership and certain of its Delaware Statutory Trust subsidiaries, as applicable, have entered into master repurchase agreements with major financial institutions. The purpose of these repurchase agreements is to finance the acquisition and ownership of mortgage loans and REO properties in its portfolio. Residential has effective control of the assets associated with these agreements and therefore it has concluded these are financing arrangements. As of September 30, 2014, the weighted average annualized interest rate on borrowing under Residential's repurchase agreements was 3.05%, excluding amortization of deferred financing costs. The following table sets forth data with respect to Residential's repurchase agreements as of September 30, 2014 and December 31, 2013 ($ in thousands):

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| | Maximum borrowing capacity | Book value of collateral | Amount outstanding |
|---|---|---|---|
| September 30, 2014 | | | |
| Repurchase agreement due April 20, 2015 (1) | $375,000 | $655,739 | $374,982 |
| Repurchase agreement due March 23, 2015 | 1,030,000 | 1,076,441 | 669,452 |
| Repurchase agreement due March 11, 2016 | 250,000 | 414,889 | 213,894 |
| | $1,655,000 | $2,147,069 | $1,258,328 |
| December 31, 2013 | | | |
| Repurchase agreement due April 21, 2014 | $100,000 | $166,350 | $85,364 |
| Repurchase agreement due March 23, 2015 | 400,000 | 634,234 | 398,602 |
| Repurchase agreement due March 11, 2016 | 250,000 | 205,328 | 118,416 |
| | $750,000 | $1,005,912 | $602,382 |

(1) The aggregate borrowing capacity under the repurchase agreement reverts to $200.0 million after December 10, 2014.

Under the terms of each repurchase agreements, as collateral for the funds Residential draws thereunder, subject to certain conditions, Residential's operating partnership will sell to the applicable lender equity interests in its Delaware statutory trust subsidiaries that owns the applicable underlying assets on its behalf, or the trust will directly sell such underlying mortgage assets. In the event the lender determines the value of the collateral has decreased, the lender has the right to initiate a margin call and require Residential, or the applicable trust subsidiary, to post additional collateral or to repay a portion of the outstanding borrowings. The price paid by the lender for each mortgage asset Residential finances under the repurchase agreements is based on a percentage of the market value of the mortgage asset and may depend on its delinquency status. With respect to funds drawn under the repurchase agreements, Residential's operating partnership is required to pay the lender interest based on LIBOR or at the lender's cost of funds plus a spread calculated based on the type of applicable mortgage assets collateralizing the funding, as well as certain other customary fees, administrative costs and expenses to maintain and administer the repurchase agreements. Residential does not collateralize any of its repurchase facilities with cash.

The repurchase agreements require Residential to maintain various financial and other covenants, including maintaining a minimum adjusted tangible net worth, a maximum ratio of indebtedness to adjusted tangible net worth and specified levels of unrestricted cash. In addition, the repurchase agreements contain customary events of default. Residential is restricted by the terms of its repurchase agreements from paying dividends greater than its REIT taxable income in a calendar year.

Residential is currently in compliance with the covenants and other requirements with respect to its repurchase agreements. We monitor Residential's banking partners' ability to perform under the repurchase agreements and have concluded there is currently no reason to doubt that they will continue to perform under the repurchase agreements as contractually obligated.

Other Secured Debt

On September 25, 2014, Residential completed a securitization transaction in which ARLP 2014-1 issued $150.0 million in Class A Notes with a weighted yield of approximately 3.5% and $32.0 million in Class M Notes with a weighted yield of 4.25%. The Class A Notes and the Class M Notes are secured solely by the non-performing mortgage loans of ARLP 2014-1 and not by any of Residential's other assets. The assets of ARLP 2014-1 are the only source of repayment and interest on the Class A Notes and the Class M Notes. The Class A Notes and the Class M Notes mature on September 25, 2044, and Residential does not guaranty any of the obligations of ARLP 2014-1 under the terms of the Indenture governing the notes or otherwise. As of September 30, 2014, the book value of the

underlying securitized assets held by ARLP 2014-1 was $211.3 million.

Residential retained all of the Class M Notes in its TRS. On September 30, 2014, pursuant to a master repurchase agreement, the TRS sold $15.0 million of the Class M Notes to NewSource for a purchase price of $15.0 million. The master repurchase agreement requires the TRS to repurchase the Class M Notes from NewSource at a 5.0% yield on December 28, 2014, with the parties having the option to extend the master repurchase agreement for an additional 89 day period. In no event can the master repurchase agreement be extended beyond September 29, 2015.

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The following table sets forth data with respect to these notes as of September 30, 2014 ($ in thousands):

| | Interest Rate | September 30, 2014 |
|---|---|---|
| ARLP Securitization Trust, Series 2014-1 | | |
| ARLP 2014-1 Class A Notes due September 25, 2044[1] | 3.4747% | $150,000 |
| ARLP 2014-1 Class M Notes due September 25, 2044[2] | 4.25% | 32,000 |
| ARNS, Inc. | | |
| Securities sold under agreement to repurchase due December 28, 2014 | 5.00% | 15,000 |
| Elimination of intercompany debt | | (47,000) |
| Total | | $150,000 |

(1) The expected redemption date for the Class A Notes is September 25, 2017.
(2) The expected redemption date for the Class M Notes is September 25, 2018.

6. Commitments and Contingencies

Litigation, claims and assessments

We are not currently the subject of any material legal or regulatory proceedings, and no material legal or regulatory proceedings have been threatened against us.

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7. Related party transactions

Our Consolidated Statements of Operations included the following significant related party transactions ($ in thousands):

| | Three months ended September 30, 2014 | Nine months ended September 30, 2014 | Counter-party | Consolidated Statements of Operations location |
|---|---|---|---|---|
| 2014 | | | | |
| Residential property operating expenses | $7,038 | $11,238 | Ocwen/Altisource | Residential property operating expenses |
| Mortgage loan servicing costs | 22,173 | 47,605 | Ocwen | Mortgage loan servicing costs |
| Due diligence and unsuccessful deal costs | 4 | 1,770 | Altisource | Related party general and administrative expenses |
| Office and occupancy costs | 91 | 234 | Ocwen/Altisource | Related party general and administrative expenses |
| Salaries and benefits | 485 | 1,614 | Ocwen/Altisource | Related party general and administrative expenses |
| Expense reimbursements | 1,801 | 5,580 | Residential/NewSource | Net loss (income) attributable to noncontrolling interest in consolidated affiliate |
| Management incentive fee | 19,503 | 44,129 | Residential | Net loss (income) attributable to noncontrolling interest in consolidated affiliate |
| | Three months ended September 30, 2013 | Nine months ended September 30, 2013 | Counter-party | Consolidated Statements of Operations location |
| 2013 | | | | |
| Residential property operating expenses | $138 | $246 | Ocwen/Altisource | Residential property operating expenses |
| Mortgage loan servicing costs | 2,134 | 3,335 | Ocwen | Mortgage loan servicing costs |
| Due diligence and unsuccessful deal costs | 651 | 1,004 | Altisource | Related party general and administrative expenses |
| Office and occupancy costs | 74 | 153 | Ocwen | Related party general and administrative expenses |
| Expense reimbursements | 1,307 | 3,371 | Residential/NewSource | Net loss (income) attributable to noncontrolling interest in consolidated affiliate |
| Management incentive fee | 51 | 51 | Residential | Net loss (income) attributable to noncontrolling interest in consolidated affiliate |

On September 30, 2014, pursuant to a master repurchase agreement, Residential's TRS sold $15.0 million of the Class M Notes to NewSource for a purchase price of $15.0 million. The master repurchase agreement requires the TRS to repurchase the Class M Notes from NewSource at a 5.0% yield on December 28, 2014, with the parties having the option to extend the master repurchase agreement for an additional 89 day period. In no event can the master repurchase agreement be extended beyond September 29, 2015.

During the nine months ended September 30, 2013, Residential acquired a portfolio from Ocwen Financial Corporation ("Ocwen") of non-performing first lien residential mortgage loans having aggregate market value of underlying properties of $94 million. The aggregate purchase price for this portfolio was $64 million.

8. Share-based payments

During the nine months ended September 30, 2014 and 2013, we granted 8,765 and 32,197 shares, respectively, of market-based restricted stock to certain members of executive management under our 2012 Equity Incentive Plan with a weighted average grant date fair value per share of $791.27 and $63.98, respectively.

Our directors each receive annual grants of restricted stock equal to $45,000 based on the market value of our common stock at the time of the annual stockholders meeting. This restricted stock vests and is issued after a one-year service period subject to each director attending at least 75% of the Board and committee meetings. No dividends are paid on the shares until the award is issued. During the nine months ended September 30, 2014 and 2013, we granted 205 and 1,470 shares of stock, respectively,

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pursuant to our 2013 Director Equity Plan with a weighted average grant date fair value per share of $1,090.26 and $205.27, respectively.

We recorded $1.6 million and $4.3 million of compensation expense related to these grants for the three and nine months ended September 30, 2014, respectively, and recorded $2.1 million and $3.4 million for the three and nine months ended September 30, 2013, respectively. As of September 30, 2014 and 2013, we had an aggregate $19.6 million and $15.0 million, respectively, of total unrecognized share-based compensation cost to be recognized over a weighted average remaining estimated term of 2.83 years and 3.25 years, respectively.

9. Income taxes

We are domiciled in the United States Virgin Islands ("USVI") and under current USVI law are obligated to pay taxes in the United States Virgin Islands on income and/or capital gains. We applied for tax benefits from the United States Virgin Islands Economic Development Commission and received our certificate of benefits, effective as of February 1, 2013. Under the certificate of benefits, so long as we comply with the provisions of the certificate, we will receive a 90% exemption on our USVI sourced income taxes until 2043. NewSource is considered a controlled foreign corporation ("CFC") to AAMC. CFC Subpart F income generated is taxed currently in the USVI and does not receive the reduced tax rate under the certificate of benefits.

As of September 30, 2014 and 2013, neither Residential nor we accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense or penalty recognized during the nine months ended September 30, 2014 and 2013. Residential recorded nominal state and local tax expense on income and property for the three and nine months ended September 30, 2014. Our subsidiaries and we remain subject to tax examination for the period from inception to December 31, 2013.

10. Earnings per share

The following table sets forth the components of diluted earnings per share (in thousands, except share and per share amounts):

| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 |
|---|---|---|---|---|
| Numerator | | | | |
| Net income (loss) attributable to common stockholders | $17,698 | $(2,557) | $37,756 | $(4,896) |
| Denominator | | | | |
| Weighted average common stock outstanding – basic | 2,238,225 | 2,348,040 | 2,286,451 | 2,344,923 |
| Stock options using treasury method | 244,543 | — | 256,203 | — |
| Restricted stock | 148,849 | — | 167,393 | — |
| Preferred shares if converted | 200,000 | — | 143,704 | — |
| Weighted average common stock outstanding – diluted | 2,831,617 | 2,348,040 | 2,853,751 | 2,344,923 |
| Earnings (loss) per basic share | $7.91 | $(1.09) | $16.51 | $(2.09) |
| Earnings (loss) per diluted share | $6.25 | $(1.09) | $13.23 | $(2.09) |

Because we incurred a net loss attributable to common stockholders for the three and nine months ended September 30, 2013, basic and diluted earnings per share are equivalent for the period. For the three and nine months ended September 30, 2013, there were 284,597 and 288,245 stock options, respectively, and 224,944 units of restricted stock excluded from the calculation of diluted earnings per share because inclusion would have been anti-dilutive.

11. Segment information

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Our primary business is to provide asset management and certain corporate governance services to Residential. Residential's primary business is the acquisition and ownership of single-family rental assets. Residential's primary sourcing strategy is to acquire these assets by purchasing sub-performing and non-performing mortgage loans. As a result, we operate in a single segment focused on the management of Residential's resolution of sub-performing and non-performing mortgages with the intent to modify as many loans as possible to keep borrowers in their homes or own the collateral which is suitable as long-term rental properties.

12. Subsequent events

Sale of Re-performing Mortgage Loans

In October 2014, Residential sold an aggregate of 934 re-performing loans for an aggregate purchase price of $164 million. Of the 934 loans sold in this transaction, 770 were from the re-performing loan pool Residential purchased in the second quarter of 2014 and 164 were from prior NPL acquisitions that had transitioned to re-performing status and had a clean pay history of at least six months. The gain on purchase price for the 770 loans Residential purchased in the second quarter of 2014 was 2%, and the gain on purchase price for the remaining 164 re-performing loans was 28%. Following such payment, the total outstanding borrowings under Residential's repurchase agreements was reduced from $1.3 billion to $1.1 billion.

Completed Portfolio Acquisition

On October 24, 2014, Residential acquired a portfolio of 159 first lien residential mortgage loans, substantially all of which were non-performing, and REO properties, having an aggregate UPB of $42.8 million and an aggregate market value of properties of $31.6 million for an aggregate purchase price of $21.0 million. This transaction represented the second closing of the portfolio of 915 non-performing mortgage loans and REO properties that Residential had agreed to purchase in the second quarter of 2014.

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Item 2. Management's discussion and analysis of financial condition and results of operations

Overview

Our primary business is to provide asset management and certain corporate governance services to Residential and NewSource. In October 2013, we applied for and were granted registration by the SEC as a registered investment adviser under section 203(c) of the Investment Advisers Act of 1940.

We have a capital light operating strategy. Residential is currently our primary source of revenue and will drive our results. The asset management agreement with Residential entitles us to “incentive management fees,” that give us a share of Residential’s cash flow available for distribution to its stockholders, as well as reimbursement for certain overhead and operating expenses. Accordingly, our operating results are highly dependent on Residential's ability to achieve positive operating results.

On March 18, 2014, we closed a private placement for the issuance and sale of 250,000 shares of our Series A Convertible Preferred Stock, to Luxor Capital Group, LP, a New York based investment manager, and other institutional investors for proceeds of $250.0 million. We used substantially all of the proceeds from this transaction to repurchase shares of our common stock and for other corporate purposes. In the future we may use excess cash generated from operations to repurchase shares of our common stock when trading at attractive prices. Such stock repurchases may be made in the open market, block trades or privately-negotiated transactions. In connection with the foregoing, the Company's Board of Directors has approved a share repurchase program that authorizes us to repurchase up to $300.0 million in shares of our common stock.

We have concluded that Residential is a variable interest entity because Residential’s equity holders lack the ability through voting rights to make decisions about Residential’s activities that have a significant effect on the success of Residential. We have also concluded that we are the primary beneficiary of Residential’s financial condition and results of operations because under the Residential asset management agreement we have the power to direct the activities of Residential that most significantly impact Residential’s economic performance including establishing Residential’s investment and business strategy. As a result, we consolidate Residential’s financial results in our consolidated financial statements.

Additionally, we provide management services to NewSource. On December 2, 2013, NewSource became registered as a licensed reinsurer with the BMA. Because we own 100% of voting common stock of NewSource and there are no substantive kick-out rights granted to other equity owners, we consolidate NewSource in our consolidated financial statements.

Since Residential has commenced operations, we have advised Residential and conducted portfolio analysis and the bidding process to facilitate the acquisition and growth of Residential’s portfolio of residential mortgage loans as follows:

During the nine months ended September 30, 2014, Residential completed the acquisition of an aggregate of 7,086 residential mortgage loans, substantially all of which were non-performing, and 190 REO properties having an aggregate unpaid principal balance (“UPB”) of approximately $1.9 billion and an aggregate market value of underlying properties of $1.7 billion. The aggregate purchase price for these acquisitions was $1.1 billion. During the quarter ended September 30, 2014, Residential agreed to acquire an aggregate of 246 residential mortgage loans, substantially all of which are non-performing, with an aggregate market value of underlying properties of $29.7 million. There can be no assurance that Residential will complete this transaction in whole or in part on a timely basis or at all.

On June 27, 2014, Residential acquired 879 re-performing mortgage loans with an aggregate market value of underlying properties of $271.1 million for an aggregate purchase price of $144.6 million. During October 2014, Residential sold 770 of these re-performing mortgage loans. See Note 12 - "Subsequent events" for information on our dispositions of re-performing loans subsequent to September 30, 2014.

In 2013, Residential acquired portfolios consisting of an aggregate of 8,491 residential mortgage loans and 40 REO properties, substantially all of which were non-performing, having an aggregate UPB of approximately $2.2 billion and an aggregate market value of underlying properties of $1.8 billion. The aggregate purchase price for these portfolios was $1.2 billion.

During 2013 and the nine months ended September 30, 2014, Residential modified an aggregate of 451 mortgage loans, converted an aggregate of 2,860 mortgage loans into REO properties and disposed of an aggregate of 627 mortgage loans through short sale, refinancing or other liquidation events.

Following the above-referenced transactions, as of September 30, 2014, Residential's portfolio consisted of 12,090 residential mortgage loans, substantially all of which were non-performing, having an aggregate UPB of approximately $3.2 billion and an

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aggregate market value of underlying properties of $2.9 billion. Residential also owned 2,984 REO properties with an aggregate carrying value of $460.1 million, of which 2,660 were held for use and 324 were held for sale. Of the 2,660 REO properties held for use, 216 REO properties had been rented and were occupied by tenants, 90 were being listed for rent and 270 were in varying stages of renovation. With respect to the remaining 2,084 REO properties held for use, Residential will make a final determination whether each property meets its rental profile after (a) applicable state redemption periods have expired, (b) the foreclosure sale has been ratified, (c) Residential has recorded the deed for the property, (d) utilities have been activated and (e) Residential has secured access for interior inspection. Residential also owned 872 re-performing mortgage loans held for sale having an aggregate UPB of approximately $204.3 million and an aggregate market value of underlying properties of approximately $267.7 million as of September 30, 2014.

To date, Residential has acquired its non-performing and re-performing mortgage loans through direct acquisitions from institutions such as banks, HUD and private equity funds.

NewSource has generated approximately $2.0 million of title reinsurance premiums for the nine months ended September 30, 2014. We expect to further expand the geographic scope of NewSource’s title reinsurance activities in the coming quarters in seeking to grow NewSource’s business opportunities.

Observations on Current Market Opportunities

We believe there is currently a significant market opportunity to acquire single-family rental properties through the distressed loan channel and expect the supply of non-performing loans, sub-performing loans, properties in foreclosure and REO to remain steady over the next several years as banks and other mortgage lenders seek to dispose of their distressed inventories. We continue to see substantial volumes of distressed residential mortgage loan portfolios offered for sale by banks, HUD and private equity funds, among others. We believe that the distressed loan channel gives Residential a cost advantage over other acquisition channels such as foreclosure auctions and REO acquisitions, involves less competition and positions Residential to be selected as the buyer of diverse portfolios of such loans since Residential is not geographically constrained. Residential’s preferred resolution methodology is to modify the sub-performing and non-performing loans. We believe modification followed by refinancing generates near-term cash flows, provides the highest possible economic outcome for Residential and is a socially responsible business strategy because it keeps more families in their homes.

Metrics Affecting Our Consolidated Results

As described above, our operating results depend heavily on Residential’s operating results. Residential’s results are affected by various factors, some of which are beyond our control, including the following:

Revenues

Residential’s revenues primarily consist of the following:

i. Net realized gain on mortgage loans. Residential records net realized gains, including the reclassification of previously accumulated net unrealized gains, upon the liquidation of a loan which may consist of short sale, third party sale of the underlying property, refinancing or full debt pay-off of the loan. We expect the timeline to liquidate loans will vary significantly by loan, which could result in fluctuations in revenue recognition and operating performance from period to period. Additionally, the proceeds from loan liquidations may vary significantly depending on the resolution methodology. Residential generally expects to collect proceeds of loan liquidations in cash and, thereafter, have no continuing involvement with the asset.

ii.

Net unrealized gains from the conversion of loans to REO. Upon conversion of loans to REO, Residential marks the properties to the most recent market value (less estimated selling costs in the case of REO properties held for sale). The difference between the carrying value of the asset at the time of conversion and the most recent market value, based on BPOs, is recorded in Residential's statement of operations as net unrealized gain on mortgage loans. We expect the timeline to convert acquired loans into REO will vary significantly by loan, which could result in fluctuations in Residential's revenue recognition and its operating performance from period to period. The factors that may affect the timelines to foreclose upon a residential mortgage loan include, without limitation, state foreclosure timelines and deferrals associated therewith; unauthorized parties occupying the property; federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures and continued declines in real estate values and/or sustained high levels of unemployment that increase

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the number of foreclosures and which place additional pressure and/or delays on the already overburdened judicial and administrative proceedings.

iii. Net unrealized gains from the change in fair value of loans. After Residential's sub-performing and non-performing mortgage loans are acquired, the fair value of each loan is adjusted in each subsequent reporting period as the loan proceeds to a particular resolution (i.e., modification, or conversion to real estate owned). As a loan approaches resolution, the resolution timeline for that loan decreases and costs embedded in the discounted cash flow model for loan servicing, foreclosure costs and property insurance are incurred and removed from future expenses. The shorter resolution timelines and reduced future expenses each increase the fair value of the loan. The increase in the value of the loan is recognized in net unrealized gain on mortgage loans in our consolidated statements of operations. The exact nature of resolution will be dependent on a number of factors that are beyond our control, including borrower willingness to pay, property value, availability of refinancing, interest rates, conditions in the financial markets, the regulatory environment and other factors.

As a greater number of Residential’s REO properties are renovated and deemed suitable for rental, we expect a greater portion of its revenues will be rental revenues. We believe the key variables that will affect Residential’s rental revenues over the long term will be average occupancy and rental rates. We anticipate that a majority of Residential’s leases of single-family rental properties to tenants will be for a term of two years or less. As these leases permit the residents to leave at the end of the lease term without penalty, we anticipate Residential’s rental revenues will be affected by declines in market rents more quickly than if its leases were for longer terms. Short-term leases may result in high turnover, which involves expenses such as renovation costs and leasing expenses, or reduced rental revenues.

Although Residential seeks to lease the majority of REO properties it acquires on foreclosure, it may also sell the properties that do not meet its rental investment criteria. The real estate market and home prices will determine proceeds from any sale of real estate. In addition, while we seek to track real estate price trends and estimate the effects of those trends on the valuations of Residential’s portfolios of residential mortgage loans, future real estate values are subject to influences beyond our control.

Expenses

Residential’s expenses primarily consist of loan servicing fees and advances, rental property operating expenses, depreciation and amortization, general and administrative expenses, expense reimbursement, incentive management fees and interest expense. From time to time, expenses also may include impairments of assets. Mortgage loan servicing costs are primarily for servicing fees, foreclosure fee and advances of residential property insurance and HOA dues. Rental property operating expenses are expenses associated with Residential’s ownership and operation of rental properties including expenses such as Altisource’s inspection, property preservation and renovation fees, property management fees, utility expenses on vacant properties, turnover costs, property taxes, insurance and HOA dues. Depreciation and amortization is a non-cash expense associated with the ownership of real estate and generally remains relatively consistent each year in relation to Residential’s asset levels since it depreciate its properties on a straight-line basis over a fixed life. Interest expense consists of the costs to borrow money in connection with Residential’s debt financing of its portfolios. General and administrative expenses consist of the costs related to the general operation and overall administration of Residential's and our business. Expense reimbursement consists primarily of our employee salaries in direct correlation to the services they provide on Residential’s behalf and other personnel costs and corporate overhead. We are not reimbursed by Residential for certain general and administrative expenses pertaining to stock-based compensation and our expenditures that are not for the benefit of Residential. The incentive management fees consist of compensation due to us, based on the amount of cash available for distribution to Residential’s stockholders for each period. The expense reimbursement and incentive management fee are eliminated in consolidation but increase our net income by reducing the amount of net income attributable to noncontrolling interest.

Other factors affecting our consolidated results

We expect Residential's results of operations to be affected by various additional factors, many of which are beyond our control, including the following:

Acquisitions

Residential's operating results will depend on our ability to source sub-performing and non-performing loans, as well as other residential mortgage loans and REO property assets. We believe that there is currently a large supply of sub-performing and non-performing mortgage loans available to Residential for acquisition. We believe the available supply provides for a steady acquisition pipeline of assets since we plan on targeting just a small percentage of the population.

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Generally, we expect that Residential's mortgage loan portfolio may grow at an uneven pace, as opportunities to acquire distressed residential mortgage loans may be irregularly timed and may at times involve large portfolios of loans, and the timing and extent of Residential's success in acquiring such loans cannot be predicted. In addition, for any given portfolio of loans that we agree to acquire, we typically acquire fewer loans than originally expected, as certain loans may be resolved prior to the closing date or may fail to meet our diligence standards. The number of unacquired loans typically constitutes a relatively small portion of a particular portfolio. In some cases, the number of loans we do not acquire could be significant. In any case where we do not acquire the full portfolio, appropriate adjustments are made to the applicable purchase price.

Financing

Our ability to grow Residential's business is dependent on the availability of adequate financing including additional equity financing, debt financing or both in order to meet Residential's objectives. We intend to leverage Residential's investments with debt, the level of which may vary based upon the particular characteristics of its portfolio and on market conditions. To the extent available at the relevant time, Residential's financing sources may include bank credit facilities, warehouse lines of credit, structured financing arrangements and repurchase agreements, among others. We may also seek to raise additional capital for Residential through public or private offerings of debt or equity securities, depending upon market conditions. To qualify as a REIT under the Code, Residential will need to distribute at least 90% of its taxable income each year to its stockholders. This distribution requirement limits its ability to retain earnings and thereby replenish or increase capital to support its activities.

Residential's taxable income is triggered primarily by material changes in the economic status of loans, such as a sale of the loan, modification of the loan from a non-performing status to a performing status or conversion of the loan to REO. We expect Residential to convert its taxable gains on REO dispositions and loan modifications within a short period of time to cash gains, which can be used to fund the distribution requirements from the corresponding taxable gains. Distribution requirements from the taxable gains on Residential's remaining loans that it expects to convert to rental properties can be funded through a higher advance rate on the increased value when a property becomes rented.

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Resolution Activities

| | First quarter 2013 | Second quarter 2013 | Third quarter 2013 | Nine months ended September 30, 2013 | First quarter 2014 | Second quarter 2014 | Third quarter 2014 | Nine months ended September 30, 2014 |
|---|---|---|---|---|---|---|---|---|
| Mortgage Loans [1] | | | | | | | | |
| Beginning balance | — | 673 | 1,332 | — | 8,054 | 11,509 | 12,070 | 8,054 |
| Acquisitions | 684 | 720 | 3,783 | 5,187 | 4,207 | 1,590 | 1,289 | 7,086 |
| Dispositions | (10) | (28) | (54) | (92) | (116) | (135) | (165) | (416) |
| Mortgage loan conversions to REO | (1) | (33) | (43) | (77) | (637) | (907) | (1,113) | (2,657) |
| Reversions to mortgage loans [2] | — | — | 2 | 2 | 1 | 13 | 9 | 23 |
| Ending balance | 673 | 1,332 | 5,020 | 5,020 | 11,509 | 12,070 | 12,090 | 12,090 |
| | | | | | | | | |
| Modifications | — | 18 | 29 | 47 | 81 | 90 | 179 | 350 |
| Loan reinstatements | 4 | 10 | 6 | 20 | 19 | 30 | 64 | 113 |
| | | | | | | | | |
| Real Estate Owned | | | | | | | | |
| Beginning balance | — | 7 | 40 | — | 262 | 896 | 1,958 | 262 |
| Acquisitions | 6 | — | 34 | 40 | — | 190 | — | 190 |
| Dispositions | — | — | (1) | (1) | (2) | (22) | (78) | (102) |
| Mortgage loan conversions to REO | 1 | 33 | 43 | 77 | 637 | 907 | 1,113 | 2,657 |
| Reversions to mortgage loans | — | — | (2) | (2) | (1) | (13) | (9) | (23) |
| Ending balance | 7 | 40 | 114 | 114 | 896 | 1,958 | 2,984 | 2,984 |
| | | | | | | | | |
| Leased | — | 1 | 5 | 5 | 35 | 102 | 216 | 216 |
| Renovations complete | — | — | 6 | 6 | 17 | 40 | 90 | 90 |
| Renovations in process | — | 5 | 3 | 3 | 48 | 140 | 270 | 270 |
| Evaluating strategy/held for sale | 7 | 34 | 100 | 100 | 796 | 1,676 | 2,408 | 2,408 |
| | 7 | 40 | 114 | 114 | 896 | 1,958 | 2,984 | 2,984 |

(1) Excludes mortgage loans held for sale.
(2) Subsequent to the foreclosure sale, we may be notified that the foreclosure sale was invalidated for certain reasons.

In addition, as of September 30, 2014, 197 of Residential's mortgage loans were on trial modification plans, compared to 291 mortgage loans on trial modification plans as of June 30, 2014.

Portfolio size

The size of Residential’s investment portfolio will also be a key revenue driver. Generally, as the size of Residential’s investment portfolio grows, the amount of revenue it expects to generate will increase. A growing investment portfolio, however, will drive increased expenses including possibly higher servicing fees to Ocwen, property management fees to Altisource and fees payable to AAMC. Residential may also incur additional interest expense if it incurs debt to finance the purchase of its assets.

Existing Portfolio

We advised Residential and conducted portfolio analysis and the bidding process to facilitate the acquisition and growth of Residential’s portfolio of residential mortgage loans as follows:

In 2013, Residential acquired portfolios consisting of an aggregate of 8,491 residential mortgage loans and 40 REO properties, substantially all of which were non-performing, having an aggregate UPB of approximately $2.2 billion and an aggregate market value of underlying properties of $1.8 billion. The aggregate purchase price for these portfolios was $1.2 billion.

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During the nine months ended September 30, 2014, Residential completed the acquisition of an aggregate of 7,086 residential mortgage loans, substantially all of which were non-performing, and 190 REO properties having an aggregate unpaid principal balance ("UPB") of approximately $1.9 billion and an aggregate market value of underlying properties of $1.7 billion. The aggregate purchase price for these acquisitions was $1.1 billion. During the quarter ended September 30, 2014, Residential agreed to acquire an aggregate of 246 residential mortgage loans, substantially all of which are non-performing, with an aggregate market value of underlying properties of $29.7 million.

During the nine months ended September 30, 2014 and the year ended December 31, 2013, Residential completed the acquisition of the following portfolios of non-performing residential mortgage loans.

| | Portfolios Acquired | | |
|---|---|---|---|
| Date acquired | Number of loans acquired | Fair value of underlying property (in millions) | UPB |
| Twelve months ended December 31, 2013 | 8,531 | $1,795.2 | $2,219.3 |
| January 2, 2014 | 650 | $93.6 | 120.8 |
| January 28, 2014 | 66 | 7.0 | 7.3 |
| January 31, 2014 | 3,421 | 791.7 | 987.8 |
| February 28, 2014 | 70 | 8.2 | 8.0 |
| May 1, 2014 | 664 | 126.6 | 153.0 |
| June 27, 2014 | 1,116 | 375.3 | 328.2 |
| July 10, 2014 | 46 | 5.0 | 6.9 |
| July 31, 2014 | 1,243 | 315.7 | 260.3 |
| Totals | 15,807 | (1) $3,518.3 | $4,091.6 |

(1) Includes 40 REOs purchased in 2013 and 190 REOs purchased in May 2014. Excludes the portfolio of 879 re-performing loans acquired in June 2014.

Throughout this quarterly report, all unpaid principal balance and market value amounts for the portfolios Residential has acquired are provided as of the applicable "cut-off" date for each transaction unless otherwise indicated. We refer to the assets underlying Residential's completed acquisitions of nonperforming loans through September 30, 2014 as Residential's "Existing Portfolio." As defined in this quarterly report, Residential's "Existing Portfolio" does not include the 872 re-performing mortgage loans having an aggregate UPB of approximately $204.3 million and an aggregate market value of underlying properties of approximately $267.7 million as of September 30, 2014, which are considered "Mortgage loans held for sale."

Residential's sub-performing and non-performing mortgage loans become REO properties when it has obtained legal title to the property upon completion of the foreclosure. Additionally, some of the portfolios Residential purchases may, from time to time, contain a small number of residential mortgage loans that have already been converted to REO.

As of September 30, 2014, Residential had 2,984 REO properties, consisting of 2,660 REO properties held for use and 324 held for sale. Of the 2,660 REO properties held for use, 216 properties had been rented and were occupied by tenants, 90 were being listed for rent and 270 were in varying stages of renovation. With respect to the remaining 2,084 REO properties held for use, Residential will make a final determination whether each property meets its rental profile after (a) applicable state redemption periods have expired, (b) the foreclosure sale has been ratified, (c) Residential has recorded the deed for the property, (d) utilities have been activated and (e) Residential has secured access for interior inspection. A majority of the REO properties are subject to state regulations which require Residential to await the expiration of a redemption period before a foreclosure can be finalized. Residential includes

these redemption periods in its pricing which generally reduces the price Residential pays for the mortgage loans. Once the redemption period expires, Residential immediately proceeds to record the new deed, take possession of the property, activate utilities, and start the inspection process in order to make its final determination. If an REO property meets Residential's rental investment criteria, Residential determines the extent of renovations that are needed to generate an optimal rent and maintain consistency of renovation specifications for future branding. If it is determined that the REO property will not meet Residential's rental investment criteria, the property is listed for sale, in some instances after renovations are made to optimize the sale proceeds. As of September 30, 2013, Residential had 100 REO properties held for use. Of these properties, five had been rented, six were being listed for rent and three were in various stages of renovation. With respect to the remaining 86 REO properties at September 30, 2013, Residential was in the process of determining whether these properties would meet its rental profile. Additionally, 14 REO properties owned as of September 30, 2013 were held for sale.

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The following table sets forth a summary of Residential's REO properties as of September 30, 2014 ($ in thousands):

| State / District | Number of properties | Carrying value (1) | Weighted average age (2) |
|---|---|---|---|
| Alabama | 21 | $3,737 | 20 |
| Alaska | 1 | 185 | 28 |
| Arizona | 55 | 8,799 | 22 |
| Arkansas | 27 | 2,785 | 28 |
| California | 324 | 96,700 | 34 |
| Colorado | 21 | 3,932 | 30 |
| Connecticut | 14 | 2,547 | 48 |
| Delaware | 9 | 1,711 | 24 |
| District of Columbia | 1 | 244 | 103 |
| Florida | 509 | 77,710 | 23 |
| Georgia | 133 | 15,815 | 21 |
| Hawaii | 2 | 339 | 20 |
| Idaho | 5 | 508 | 31 |
| Illinois | 286 | 41,967 | 43 |
| Indiana | 134 | 14,287 | 34 |
| Iowa | 5 | 319 | 61 |
| Kansas | 26 | 2,277 | 44 |
| Kentucky | 42 | 5,043 | 32 |
| Louisiana | 19 | 1,991 | 28 |
| Maine | 8 | 1,207 | 120 |
| Maryland | 47 | 8,523 | 32 |
| Massachusetts | 27 | 5,458 | 84 |
| Michigan | 81 | 10,033 | 44 |
| Minnesota | 52 | 8,275 | 38 |
| Mississippi | 5 | 465 | 31 |
| Missouri | 63 | 5,895 | 43 |
| Montana | 2 | 255 | 35 |
| Nebraska | 4 | 937 | 33 |
| Nevada | 18 | 2,910 | 19 |
| New Hampshire | 7 | 1,085 | 34 |
| New Jersey | 38 | 6,629 | 64 |
| New Mexico | 28 | 3,232 | 24 |
| New York | 28 | 4,604 | 67 |
| North Carolina | 242 | 29,552 | 18 |
| Ohio | 112 | 11,879 | 45 |
| Oklahoma | 20 | 2,199 | 27 |
| Oregon | 5 | 868 | 37 |
| Pennsylvania | 125 | 16,431 | 51 |
| Rhode Island | 35 | 4,533 | 68 |
| South Carolina | 58 | 6,482 | 21 |
| South Dakota | 2 | 295 | 52 |
| Tennessee | 67 | 8,451 | 24 |
| Texas | 58 | 7,127 | 24 |
| Utah | 37 | 5,876 | 32 |
| Vermont | 3 | 561 | 140 |

| | | | |
|---|---|---|---|
| Virginia | 25 | 6,023 | 32 |
| Washington | 15 | 3,106 | 36 |
| West Virginia | 3 | 660 | 26 |
| Wisconsin | 134 | 15,331 | 49 |
| Wyoming | 1 | $275 | 21 |
| Total | 2,984 | $460,053 | 34 |

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(1) The carrying value of an asset is based on historical cost which generally consists of the market value at the time of foreclosure sale plus renovation costs, net of any accumulated depreciation.
(2) Weighted average age is based on the age weighted by carrying value for each state.

The remainder of Residential's Existing Portfolio consists of a diversified pool of sub-performing and non-performing residential mortgage loans with the underlying properties located across the United States. The aggregate purchase price of Residential's Existing Portfolio for acquisitions completed through September 30, 2014 was 67% of the aggregate market value, as determined by the most recent BPO provided by the applicable seller for each property in the respective portfolio as of its cut-off date. We cannot assure you that the BPOs accurately reflected the actual market value of the related property at the purported time or accurately reflect such market value today.

As of September 30, 2014 the aggregate carrying value of Residential's Existing Portfolio was $2.1 billion. The carrying value of an asset is based on our fair value model. The significant unobservable inputs used in the fair value measurement of Residential's mortgage loans are discount rates, forecasts of future home prices, alternate resolution probabilities and timelines. Significant changes in any of these inputs in isolation could result in a significant change to the fair value measurement. For a more complete description of the fair value measurements and the factors that may significantly affect the carrying value of Residential's assets, please see Note 4 to our consolidated financial statements.

The table below provides a summary of the sub-performing and non-performing residential mortgage loans in Residential's Existing Portfolio based on the respective UPB and respective market values of underlying properties as of September 30, 2014 ($ in thousands):

| Location | Loan count | UPB | Market value of underlying properties (1) | Weighted average market LTV (2) | |
|---|---|---|---|---|---|
| Alabama | 62 | $8,899 | $7,776 | 176.3 | % |
| Alaska | 3 | 672 | 1,108 | 62.3 | % |
| Arizona | 209 | 54,554 | 47,899 | 125.8 | % |
| Arkansas | 74 | 6,448 | 6,900 | 116.3 | % |
| California | 1605 | 734,017 | 743,737 | 111.9 | % |
| Colorado | 68 | 19,395 | 19,098 | 109.0 | % |
| Connecticut | 150 | 45,389 | 41,551 | 141.9 | % |
| Delaware | 58 | 11,297 | 9,769 | 129.9 | % |
| Dist. of Columbia | 67 | 17,687 | 20,089 | 110.6 | % |
| Florida | 2306 | 553,973 | 441,677 | 147.6 | % |
| Georgia | 306 | 55,424 | 46,915 | 142.7 | % |
| Hawaii | 55 | 29,067 | 29,402 | 107.4 | % |
| Idaho | 37 | 8,434 | 7,861 | 128.1 | % |
| Illinois | 457 | 111,801 | 85,165 | 199.4 | % |
| Indiana | 280 | 34,620 | 33,120 | 122.5 | % |
| Iowa | 27 | 2,348 | 2,479 | 105.5 | % |
| Kansas | 27 | 2,807 | 3,172 | 115.6 | % |
| Kentucky | 62 | 7,301 | 6,572 | 122.3 | % |
| Louisiana | 31 | 5,093 | 5,342 | 110.7 | % |
| Maine | 38 | 6,808 | 6,419 | 119.9 | % |
| Maryland | 664 | 178,918 | 145,040 | 146.7 | % |

| | | | | | |
|---|---|---|---|---|---|
| Massachusetts | 292 | 79,317 | 78,266 | 118.5 | % |
| Michigan | 109 | 15,693 | 14,233 | 182.2 | % |
| Minnesota | 64 | 14,119 | 12,529 | 129.7 | % |
| Mississippi | 31 | 3,673 | 3,378 | 128.1 | % |
| Missouri | 98 | 10,182 | 8,582 | 166.7 | % |
| Montana | 6 | 1,337 | 1,436 | 101.2 | % |

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| | | | | | |
|---|---|---|---|---|---|
| Nebraska | 8 | 812 | 717 | 117.4 | % |
| Nevada | 239 | 74,476 | 57,634 | 148.0 | % |
| New Hampshire | 20 | 4,623 | 4,705 | 108.6 | % |
| New Jersey | 1079 | 323,214 | 254,047 | 158.7 | % |
| New Mexico | 127 | 18,406 | 18,494 | 109.5 | % |
| New York | 749 | 255,877 | 257,824 | 130.4 | % |
| North Carolina | 269 | 38,092 | 34,614 | 125.1 | % |
| North Dakota | 1 | 123 | 140 | 87.9 | % |
| Ohio | 135 | 20,032 | 17,396 | 146.5 | % |
| Oklahoma | 34 | 4,160 | 4,376 | 135.6 | % |
| Oregon | 107 | 30,803 | 28,386 | 116.8 | % |
| Pennsylvania | 337 | 59,848 | 50,357 | 139.7 | % |
| Puerto Rico | 2 | 219 | 293 | 76.3 | % |
| Rhode Island | 71 | 16,656 | 8,879 | 212.4 | % |
| South Carolina | 247 | 45,917 | 38,860 | 131.1 | % |
| South Dakota | 4 | 534 | 448 | 132.1 | % |
| Tennessee | 96 | 14,062 | 13,994 | 120.6 | % |
| Texas | 531 | 63,032 | 80,242 | 91.0 | % |
| Utah | 97 | 21,418 | 21,739 | 105.2 | % |
| Vermont | 11 | 1,826 | 1,780 | 122.9 | % |
| Virginia | 161 | 52,261 | 50,685 | 115.8 | % |
| Washington | 493 | 136,302 | 130,094 | 117.9 | % |
| West Virginia | 8 | 949 | 830 | 131.9 | % |
| Wisconsin | 78 | 11,454 | 8,290 | 173.3 | % |
| Total mortgage loans | 12,090 | $3,214,369 | $2,914,339 | 134.3 | % |

(1) Market value is based on the most recent BPO provided to Residential by the applicable seller for each property in the respective portfolio as of its cut-off date or an updated BPO received since the acquisition was completed. Although we performed diligence on a representative sample of the properties to confirm the accuracy of the BPOs provided by the sellers, we cannot assure you that the BPOs set forth in this table accurately reflected the actual market value of the related property at the purported time or accurately reflect such market value today.

(2) Weighted average loan to value (LTV) is based on the loan to value weighted by unpaid principal balance for each state.

Summary Management Reporting Information

In addition to evaluating our consolidated financial performance, we also evaluate the operations of AAMC on a stand-alone basis because our financial statements consolidate the results of Residential and NewSource under U.S. GAAP. We also look at our stand-alone results because the effect of amounts received from Residential and NewSource are still recognized in net income attributable to our stockholders through the adjustment for earnings attributable to our noncontrolling interest in Residential.

In evaluating our operating performance and managing our business, we consider the incentive management fees and reimbursement of expenses paid to us by Residential under our asset management agreement as well as our stand-alone operating expenses. We maintain our internal management reporting on this basis. The following table presents our consolidating balance sheet and statement of operations which are reconciled to U.S. GAAP.

The following tables include non-GAAP performance measures that we believe are useful to assist investors in gaining an understanding of the trends and operating results for our business. This information should be considered in addition to, and not as a substitute for our financial results determined in accordance with U.S. GAAP.

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Altisource Asset Management Corporation
Consolidating Statement of Operations
Three months ended September 30, 2014
(In thousands, unaudited)

| | Residential (GAAP) | NewSource Stand-alone (Non-GAAP) | AAMC Stand-alone (Non-GAAP) | Consolidating Entries | AAMC Consolidated (GAAP) |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Rental revenues | $469 | $— | $— | $— | $469 |
| Net unrealized gain on mortgage loans | 88,726 | — | — | — | 88,726 |
| Net realized gain on mortgage loans | 13,727 | — | — | — | 13,727 |
| Net realized gain on re-performing mortgage loans | 302 | — | — | — | 302 |
| Net realized gain on real estate | 3,310 | — | — | — | 3,310 |
| Interest income | 2,568 | — | — | — | 2,568 |
| Incentive management fee | — | — | 19,503 | (19,503) | — |
| Expense reimbursements | — | — | 1,801 | (1,801) | — |
| Total revenues | 109,102 | — | 21,304 | (21,304) | 109,102 |
| Expenses: | | | | | |
| Residential property operating expenses | 9,247 | — | — | — | 9,247 |
| Real estate depreciation and amortization | 313 | — | — | — | 313 |
| Real estate selling costs and impairment | 5,542 | — | — | — | 5,542 |
| Mortgage loan servicing costs | 21,226 | — | — | — | 21,226 |
| Interest expense | 11,699 | — | — | — | 11,699 |
| General and administrative | 1,819 | 286 | 3,330 | — | 5,435 |
| Related party general and administrative | 21,530 | 210 | 563 | (21,304) | 999 |
| Total expenses | 71,376 | 496 | 3,893 | (21,304) | 54,461 |
| Other income | — | 1,586 | — | — | 1,586 |
| Income before income taxes | 37,726 | 1,090 | 17,411 | — | 56,227 |
| Income tax expense | 50 | — | 803 | — | 853 |
| Net income | 37,676 | 1,090 | 16,608 | — | 55,374 |
| Net income attributable to noncontrolling interest in consolidated affiliate | — | — | — | (37,676) | (37,676) |
| Net income attributable to common stockholders | $37,676 | $1,090 | $16,608 | $(37,676) | $17,698 |

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Altisource Asset Management Corporation
Consolidating Statement of Operations
Nine months ended September 30, 2014
(In thousands, unaudited)

| | Residential (GAAP) | NewSource Stand-alone (Non-GAAP) | AAMC Stand-alone (Non-GAAP) | Consolidating Entries | AAMC Consolidated (GAAP) |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Rental revenues | $719 | $— | $— | $— | $719 |
| Net unrealized gain on mortgage loans | 258,898 | — | — | — | 258,898 |
| Net realized gain on mortgage loans | 33,867 | — | — | — | 33,867 |
| Net realized gain on re-performing mortgage loans | 302 | — | — | — | 302 |
| Net realized gain on real estate | 4,544 | — | — | — | 4,544 |
| Interest income | 2,757 | — | — | — | 2,757 |
| Incentive management fee | — | — | 44,129 | (44,129) | — |
| Expense reimbursements | — | — | 5,580 | (5,580) | — |
| Total revenues | 301,087 | — | 49,709 | (49,709) | 301,087 |
| Expenses: | | | | | |
| Residential property operating expenses | 13,550 | — | — | — | 13,550 |
| Real estate depreciation and amortization | 464 | — | — | — | 464 |
| Real estate selling costs and impairment | 8,775 | — | — | — | 8,775 |
| Mortgage loan servicing costs | 49,588 | — | — | — | 49,588 |
| Interest expense | 24,352 | — | — | — | 24,352 |
| General and administrative | 5,665 | 381 | 9,532 | — | 15,578 |
| Related party general and administrative | 51,629 | 731 | 1,946 | (49,709) | 4,597 |
| Total expenses | 154,023 | 1,112 | 11,478 | (49,709) | 116,904 |
| Other income | 383 | 1,985 | 4 | — | 2,372 |
| Income (loss) before income taxes | 147,447 | 873 | 38,235 | — | 186,555 |
| Income tax expense | 76 | — | 1,352 | — | 1,428 |
| Net income (loss) | 147,371 | 873 | 36,883 | — | 185,127 |
| Net income attributable to noncontrolling interest in consolidated affiliate | — | — | — | (147,371) | (147,371) |
| Net income (loss) attributable to common stockholders | $147,371 | $873 | $36,883 | $(147,371) | $37,756 |

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Altisource Asset Management Corporation
Consolidating Statement of Operations
Three months ended September 30, 2013
(In thousands, unaudited)

| | Residential (GAAP) | AAMC Stand-alone (Non-GAAP) | Consolidating Entries | AAMC Consolidated (GAAP) |
|---|---|---|---|---|
| Revenues: | | | | |
| Rental revenues | $6 | $— | $— | $6 |
| Net unrealized gain on mortgage loans | 17,670 | — | — | 17,670 |
| Net realized gain on mortgage loans | 1,909 | — | — | 1,909 |
| Interest income | 156 | — | — | 156 |
| Incentive management fee | — | 51 | (51) | — |
| Expense reimbursements | — | 1,307 | (1,307) | — |
| Total revenues | 19,741 | 1,358 | (1,358) | 19,741 |
| Expenses: | | | | |
| Residential property operating expenses | 191 | — | — | 191 |
| Real estate depreciation and amortization | 4 | — | — | 4 |
| Real estate selling costs and impairment | 210 | — | — | 210 |
| Mortgage loan servicing costs | 2,154 | — | — | 2,154 |
| Interest expense | 467 | — | — | 467 |
| General and administrative | 980 | 3,915 | — | 4,895 |
| Related party general and administrative | 2,039 | — | (1,358) | 681 |
| Total expenses | 6,045 | 3,915 | (1,358) | 8,602 |
| Other income | 13 | — | — | 13 |
| Net income (loss) | 13,709 | (2,557) | — | 11,152 |
| Net income attributable to noncontrolling interest in consolidated affiliate | — | — | (13,709) | (13,709) |
| Net income (loss) attributable to common stockholders | $13,709 | $(2,557) | $(13,709) | $(2,557) |

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Altisource Asset Management Corporation
Consolidating Statement of Operations
Nine months ended September 30, 2013
(In thousands, unaudited)

| | Residential (GAAP) | AAMC Stand-alone (Non-GAAP) | Consolidating Entries | AAMC Consolidated (GAAP) |
|---|---|---|---|---|
| Revenues: | | | | |
| Rental revenues | $6 | $— | $— | $6 |
| Net unrealized gain on mortgage loans | 25,963 | — | — | 25,963 |
| Net realized gain on mortgage loans | 4,015 | — | — | 4,015 |
| Interest income | 368 | — | — | 368 |
| Incentive management fee | — | 51 | (51) | — |
| Expense reimbursements | — | 3,371 | (3,371) | — |
| Total revenues | 30,352 | 3,422 | (3,422) | 30,352 |
| Expenses: | | | | |
| Residential property operating expenses | 275 | — | — | 275 |
| Real estate depreciation and amortization | 4 | — | — | 4 |
| Real estate selling costs and impairment | 210 | — | — | 210 |
| Mortgage loan servicing costs | 3,788 | — | — | 3,788 |
| Interest expense | 1,163 | — | — | 1,163 |
| General and administrative | 2,480 | 8,318 | — | 10,798 |
| Related party general and administrative | 4,474 | — | (3,422) | 1,052 |
| Total expenses | 12,394 | 8,318 | (3,422) | 17,290 |
| Other expense | (6) | | | (6) |
| Net income (loss) | 17,952 | (4,896) | — | 13,056 |
| Net income attributable to noncontrolling interest in consolidated affiliate | — | — | (17,952) | (17,952) |
| Net income (loss) attributable to common stockholders | $17,952 | $(4,896) | $(17,952) | $(4,896) |

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Altisource Asset Management Corporation
Consolidating Balance Sheet
September 30, 2014
(In thousands, unaudited)

| | Residential (GAAP) | NewSource stand-alone (non-GAAP) | AAMC Stand-alone (Non-GAAP) | Consolidating Entries | AAMC Consolidated (GAAP) |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Real estate held for use: | | | | | |
| Land | $9,865 | $— | $— | $— | $9,865 |
| Rental residential properties, net | 38,470 | — | — | — | 38,470 |
| Real estate owned | 370,733 | — | — | — | 370,733 |
| Total real estate held for use, net | 419,068 | — | — | — | 419,068 |
| Real estate assets held for sale | 40,985 | — | — | — | 40,985 |
| Mortgage loans | 2,071,505 | — | — | — | 2,071,505 |
| Mortgage loans held for sale | 143,197 | — | — | — | 143,197 |
| Cash and cash equivalents | 76,027 | 5,899 | 9,898 | — | 91,824 |
| Restricted cash | 12,033 | — | — | — | 12,033 |
| Accounts receivable | 874 | 612 | 7 | — | 1,493 |
| Related party receivables | 19,254 | 15,000 | 49,338 | (64,338) | 19,254 |
| Investment in affiliate | 18,000 | — | 2,000 | (20,000) | — |
| Deferred leasing and financing costs, net | 3,688 | — | — | — | 3,688 |
| Prepaid expenses and other assets | 5,305 | 36 | 1,506 | — | 6,847 |
| Total assets | $2,809,936 | $21,547 | $62,749 | $(84,338) | $2,809,894 |
| Liabilities: | | | | | |
| Repurchase agreements | $1,258,329 | $— | $— | $— | $1,258,329 |
| Other secured borrowings | 165,000 | — | — | (15,000) | 150,000 |
| Accounts payable and accrued liabilities | 14,577 | 21 | 1,548 | — | 16,146 |
| Related party payables | 55,216 | 731 | 298 | (49,338) | 6,907 |
| Total liabilities | 1,493,122 | 752 | 1,846 | (64,338) | 1,431,382 |
| Commitments and contingencies | — | — | — | — | — |
| Preferred stock | — | — | 248,875 | — | 248,875 |
| Equity: | | | | | |
| Common stock | 572 | — | 25 | (572) | 25 |
| Additional paid-in capital | 1,227,021 | 20,000 | 17,246 | (1,247,021) | 17,246 |
| Retained earnings/(accumulated deficit) | 89,221 | 795 | 31,508 | (89,221) | 32,303 |
| Treasury stock | — | — | (236,751) | — | (236,751) |
| Total stockholders' equity | 1,316,814 | 20,795 | (187,972) | (1,336,814) | (187,177) |
| Noncontrolling interest in consolidated affiliate | — | — | — | 1,316,814 | 1,316,814 |
| Total equity | 1,316,814 | 20,795 | (187,972) | (20,000) | 1,129,637 |
| Total liabilities and equity | $2,809,936 | $21,547 | $62,749 | $(84,338) | $2,809,894 |

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Altisource Asset Management Corporation
Consolidating Balance Sheet
December 31, 2013
(In thousands, unaudited)

| | Residential (GAAP) | NewSource stand-alone (non-GAAP) | AAMC Stand-alone (Non-GAAP) | Consolidating Entries | AAMC Consolidated (GAAP) |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Real estate held for use: | | | | | |
| Land | $478 | $— | $— | $— | $478 |
| Rental residential properties, net | 3,092 | — | — | — | 3,092 |
| Real estate owned | 32,332 | — | — | — | 32,332 |
| Total real estate held for use, net | 35,902 | — | — | — | 35,902 |
| Real estate assets held for sale | 1,186 | — | — | — | 1,186 |
| Mortgage loans | 1,207,163 | — | — | — | 1,207,163 |
| Cash and cash equivalents | 115,988 | 19,923 | 4,089 | — | 140,000 |
| Restricted cash | 5,878 | — | — | — | 5,878 |
| Accounts receivable | 1,428 | — | — | — | 1,428 |
| Related party receivables | 9,260 | — | 4,486 | (4,486) | 9,260 |
| Investment in affiliate | 18,000 | — | 2,000 | (20,000) | — |
| Deferred leasing and financing costs, net | 2,293 | — | — | — | 2,293 |
| Prepaid expenses and other assets | 1,542 | — | 452 | — | 1,994 |
| Total assets | $1,398,640 | $19,923 | $11,027 | $(24,486) | $1,405,104 |
| Liabilities: | | | | | |
| Repurchase agreement | $602,382 | $— | $— | $— | $602,382 |
| Accounts payable and accrued liabilities | 4,952 | — | 1,920 | — | 6,872 |
| Related party payables | 5,879 | — | 1,490 | (4,486) | 2,883 |
| Total liabilities | 613,213 | — | 3,410 | (4,486) | 612,137 |
| Commitments and contingencies | — | — | — | — | — |
| Equity: | | | | | |
| Common stock | 423 | — | 24 | (423) | 24 |
| Additional paid-in capital | 758,584 | 20,000 | 12,855 | (778,584) | 12,855 |
| Retained earnings (accumulated deficit) | 26,420 | (77) | (5,262) | (26,420) | (5,339) |
| Total stockholders' equity | 785,427 | 19,923 | 7,617 | (805,427) | 7,540 |
| Noncontrolling interest in consolidated affiliate | — | — | — | 785,427 | 785,427 |
| Total equity | 785,427 | 19,923 | 7,617 | (20,000) | 792,967 |
| Total liabilities and equity | $1,398,640 | $19,923 | $11,027 | $(24,486) | $1,405,104 |

Primary driver of our stand-alone operating results

As described above under “— Factors affecting our consolidated results,” our incentive management fees will be directly linked to the results of Residential which we expect will be affected by various factors including, but not limited to, the number and performance of Residential's mortgage loan acquisitions, its ability to use financing to grow its business, its ability to convert mortgage loans into residential rental properties, its operating expenses, the success of its loan resolution methodologies and the size of its portfolio. The extent to which we are successful in managing these factors for Residential will affect our ability to generate incentive management fees, which is our sole source of income other than the reimbursement of our expenses pursuant to the Residential asset management agreement. As

Residential generates taxable income, our incentive management fees will provide us with a share of Residential's cash available for distribution to its stockholders. If there is a decline in the cash distributable by Residential to its stockholders in any period, or if Residential is unable to make distributions to its stockholders in any period, the amount of our incentive management fees would be adversely affected.

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Results of operations

The following sets forth discussion of our results of operations for the three and nine months ended September 30, 2014 and 2013. Because the results of Residential are consolidated into our financial statements, the results of operations disclosures set forth below include the results of Residential. We eliminate all intercompany amounts in our consolidated financial statements, including the expense reimbursement and incentive management fees, if any, paid or owed to us by Residential. However, the effect of such amounts received from Residential is still recognized in net income attributable to our stockholders through the adjustment for earnings attributable to noncontrolling interest.

Three and nine months ended September 30, 2014 versus three and nine months ended September 30, 2013

Rental revenues

Residential's rental revenues increased to $0.5 million and $0.7 million for the three and nine months ended September 30, 2014, respectively. The number of leased properties increased to 216 leased properties at September 30, 2014 from five at September 30, 2013. Residential had nominal rental revenues for the three and nine months ended September 30, 2013. We expect Residential to generate increasing rental revenues for the remainder of 2014 upon renovating, listing and renting additional residential rental properties. Residential's rental revenues will be dependent primarily on occupancy levels and rental rates for its residential rental properties. Because Residential's lease terms generally are expected to be two or fewer years, Residential's occupancy levels and rental rates will be highly dependent on localized residential rental markets and Residential's renters' desire to remain in its properties.

Net unrealized gain on mortgage loans

Residential's net unrealized gains on mortgage loans increased to $88.7 million for the three months ended September 30, 2014 from $17.7 million for the three months ended September 30, 2013. Additionally, Residential's net unrealized gains on mortgage loans increased to $258.9 million for the nine months ended September 30, 2014 from $26.0 million for the nine months ended September 30, 2013. These increases were primarily related to an increase in the number of loans for which unrealized gains were estimated. The net unrealized gains for the three and nine months ended September 30, 2014 and 2013 can be broken down into the following two components:

- First, Residential recognized unrealized gains driven by a material change in loan status of $38.4 million and $90.5 million for the three and nine months ended September 30, 2014, respectively, compared to $1.8 million and $3.0 million for the three and nine months ended September 30, 2013, respectively. During the three and nine months ended September 30, 2014, Residential converted 1,113 and 2,657 mortgage loans to REO status, respectively. During the three and nine months ended September 30, 2013, Residential converted 43 and 77 mortgage loans to REO status, respectively. Upon conversion of these mortgage loans to REO, Residential marked these properties to the most recent market value, less estimated selling costs in the case of REO held for sale; and

- Second, Residential recognized $50.3 million and $168.4 million in unrealized gains for the three and nine months ended September 30, 2014, respectively, from the net increase in the fair value of loans during the period. During the three and nine months ended September 30, 2013, Residential recognized $15.9 million and $23.0 million, respectively, in unrealized gains from the net increase in the fair value of loans during the period. Adjustments to the fair value of loans after acquisition represent, among other factors, a reduction in the time remaining to complete the foreclosure process due to the passage of time since acquisition and a reduction in future foreclosure expenses to the extent Residential has already incurred them. The reduction in time remaining to complete the foreclosure is driven by the completion of activities in the foreclosure process after Residential acquired the loans. This reduction in timeline results in reduced carrying costs and reduced future expenses for the loans, each of which increases the fair value of

the loans. The increase in the value of the loans is recognized in net unrealized gain on mortgage loans in our consolidated statements of operations.

Through Residential's acquisitions, the number of sub-performing and non-performing loans in its Existing Portfolio has grown from 8,054 loans at December 31, 2013 to 12,090 loans at September 30, 2014. The fair value of mortgage loans is based on a number of factors which are difficult to predict and may be subject to adverse changes in value depending on the financial condition of borrowers, as well as geographic, economic, market and other conditions. Therefore, Residential may experience unrealized losses on its mortgage loans in the future.

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Net realized gain on mortgage loans

Residential's net realized gains on mortgage loans increased to $13.7 million for the three months ended September 30, 2014 from $1.9 million for the three months ended September 30, 2013. Residential disposed of 165 mortgage loans in the three months ended September 30, 2014 and 54 mortgage loans in the three months ended September 30, 2013, primarily from short sales and foreclosure sales.

Residential's net realized gains on mortgage loans increased to $33.9 million for the nine months ended September 30, 2014 from $4.0 million for the nine months ended September 30, 2013. Residential disposed of 416 mortgage loans in the nine months ended September 30, 2014 and 92 mortgage loans in the nine months ended September 30, 2013, primarily from short sales and foreclosure sales.

Net realized gain on real estate

Net realized gains on real estate were $3.3 million and $4.5 million for the three and nine months ended September 30, 2014, during which Residential disposed of 78 and 102 residential residential properties, respectively. Residential did not dispose of any residential properties during the nine months ended September 30, 2013.

Interest income

Interest income increased to $2.6 million and $2.8 million for the three and nine months ended September 30, 2014, respectively, as Residential accreted $2.5 million into interest income with respect to its re-performing loans. Interest income was $0.2 million and $0.4 million for the three and nine months ended September 30, 2013.

Insurance premiums

NewSource’s net written reinsurance premiums for the three and nine months ended September 30, 2014 are $1.6 million and $1.9 million, respectively. NewSource commenced its reinsurance activities during the second quarter of 2014 and we expect to expand the geographic scope of NewSource’s title reinsurance activities in the coming quarters in seeking to grow NewSource’s business opportunities.

Residential property operating expenses

Residential incurred $9.2 million and $13.6 million of residential property operating expenses for the three and nine months ended September 30, 2014, respectively, compared to $0.2 million and $0.3 million for the three and nine months ended September 30, 2013, respectively. Residential expects to incur increasing residential property operating expenses in the remainder of 2014 upon converting its mortgage loans to, and owning, residential properties. Residential's residential property operating expenses will be dependent primarily on residential property taxes and insurance, property management fees and repair and maintenance expenditures.

Real estate depreciation and amortization

Residential incurred $0.3 million and $0.5 million of real estate depreciation and amortization for the three and nine months ended September 30, 2014, respectively, compared to a nominal amount of real estate depreciation and amortization for both the three and nine months ended September 30, 2013. We expect Residential to incur increasing real estate depreciation and amortization in 2014 upon converting its mortgage loans to, and owning, residential rental properties. Real estate depreciation and amortization are non-cash expenditures which generally are not expected to be indicative of the market value or condition of Residential's residential rental properties.

Real estate selling costs and impairment

Real estate selling costs and impairment, including estimated selling costs of REO held for sale and impairment, were $5.5 million and $8.8 million for the three and nine months ended September 30, 2014, respectively, compared to $0.2 million for both the three and nine months ended September 30, 2013. Residential records residential properties held for sale at the lower of the carrying amount or estimated fair value. Fair value of assets held for sale is equal to the estimated or contracted sales price with a potential buyer less costs to sell. The amount by which the carrying amount exceeds the estimated fair value is an impairment loss.

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Mortgage loan servicing costs

Residential incurred $21.2 million of mortgage loan servicing costs primarily for servicing fees, foreclosure fees and advances of residential property insurance and HOA dues for the three months ended September 30, 2014 compared to $2.2 million for the three months ended September 30, 2013. For the nine months ended September 30, 2014, Residential incurred $49.6 million of mortgage loan servicing costs compared to $3.8 million for the nine months ended September 30, 2013. Residential incurs mortgage loan servicing and foreclosure costs as Ocwen and other interim servicers service Residential's loans and pay for advances relating to property insurance and HOA dues that are made to protect its investment in mortgage loans. Residential's loan servicing costs could be higher in a given period if the number of non-performing mortgage loans increases.

Interest expense

Residential incurred $11.7 million and $24.4 million of interest expense for the three and nine months ended September 30, 2014, respectively, related to borrowings under its repurchase agreements (including amortization of deferred financing costs) compared to $0.5 million and $1.2 million for the three and nine months ended September 30, 2013, respectively. The interest rate under Residential's repurchase agreements is subject to change based on changes in the relevant index. Market interest rates are currently at historically low levels, and any increase in market interest rates will cause Residential's contractual interest expense to increase. We also expect Residential's interest expense to increase as its debt increases to fund and/or leverage its ownership of existing and additional portfolios.

General and administrative expenses

General and administrative expenses increased to $5.4 million for the three months ended September 30, 2014 from $4.9 million for the three months ended September 30, 2013, primarily due to an increase in salaries and benefits attributable to the hiring of additional personnel to provide services on behalf of Residential, and higher professional fees and acquisition costs related to acquisitions of mortgage loan portfolios. These activities also resulted in an increase in general and administrative expenses for the nine months ended September 30, 2014 to $15.6 million from $10.8 million for the nine months ended September 30, 2013.

Related party general and administrative expenses

Residential and we incurred $1.0 million and $4.6 million of related party general and administrative expenses for the three and nine months ended September 30, 2014, respectively, compared to $0.7 million and $1.1 million for the three and nine months ended September 30, 2013, respectively. Related party general and administrative expenses primarily consist of personnel costs attributable to services provided on behalf of our business and due diligence costs related to the acquisition of loan portfolios.

Net income attributable to noncontrolling interest in consolidated affiliate

For the three months ended September 30, 2014 and 2013, we recognized $37.7 million and $13.7 million, respectively, of net income attributable to noncontrolling interest in consolidated affiliate which is equivalent to Residential's net income because although we consolidate Residential, we have no ownership in Residential. For the nine months ended September 30, 2014 and 2013, we recognized $147.4 million and $18.0 million, respectively, of net income attributable to noncontrolling interest in consolidated affiliate.

Incentive management fees and expense reimbursements

We recorded management incentive fees of $19.5 million and $44.1 million for the three and nine months ended September 30, 2014, respectively, in connection with the cash available for distribution from Residential. Management incentive fees of $51,000 were received from Residential for the three and nine months ended September 30, 2013. The incentive management fees have been eliminated under U.S. GAAP in consolidation. We recorded $1.8 million and $1.3 million of expense reimbursements from Residential and NewSource that also have been eliminated in consolidation for the three months ended September 30, 2014 and 2013, respectively. For the nine months ended September 30, 2014 and 2013, we recognized $5.6 million and $3.4 million of expense reimbursements, respectively. We are not reimbursed by Residential for certain general and administrative expenses pertaining to stock-based compensation and our expenditures that are not for the benefit of Residential.

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Liquidity and capital resources

As of September 30, 2014, we had stand-alone cash and cash equivalents of $9.9 million compared to $4.1 million as of December 31, 2013. We believe this cash is sufficient to fund our operations since we are generating incentive management fees as a result of Residential paying cash dividends to its stockholders. Our only stand-alone cash expenditures to date are leasehold improvements and general and administrative expenses, including unreimbursed salaries and professional expenses.

On a consolidated basis, our cash and cash equivalents as of September 30, 2014 was $91.8 million, of which approximately $76.0 million was attributable to Residential. Residential's liquidity reflects its ability to meet its current obligations (including its operating expenses and, when applicable, retirement of, and margin calls relating to, its financing arrangements) and make distributions to its stockholders. Residential is required to distribute at least 90% of its taxable income each year (subject to certain adjustments) to its stockholders to qualify as a REIT under the Internal Revenue Code. This distribution requirement limits Residential's ability to retain earnings and thereby replenish or increase capital to support its activities. Our consolidated cash and cash equivalents as of September 30, 2014 also include $5.9 million attributable to NewSource, representing the cash invested by Residential and us into NewSource in October 2013.

Residential was initially funded with $100.0 million from Altisource in connection with its separation on December 21, 2012. Since its separation, its primary sources of liquidity have been proceeds from equity offerings, borrowings under its repurchase agreements and securitization financings, interest payments it receives from its portfolio of assets, cash generated from loan liquidations and cash generated from its rental portfolio. Based on Residential's current borrowing capacity and leverage ratio, we believe that these sources of liquidity will be sufficient to enable it to meet anticipated short-term (one year) liquidity requirements, including paying expenses on its existing loan portfolio, funding distributions to its stockholders, paying fees to us under the asset management agreement and general corporate expenses.

We expect Residential's existing business strategy will require additional debt and/or equity financing. We continue to explore a variety of financing sources to support Residential's growth, including, but not limited to, debt financing through bank warehouse lines of credit, additional and/or amended repurchase agreements, term financing, securitization transactions and additional debt or equity offerings. However, there can be no assurance as to how much additional financing capacity such efforts will produce, what form the financing will take or that such efforts will be successful. If we are unable to renew, replace or expand Residential's sources of financing, its business, financial condition, liquidity and results of operations may be materially and adversely affected.

The equity offerings, repurchase facilities and securitization financings conducted by Residential to date are described below:

Equity Offerings

We have facilitated Residential's completion of three public equity offerings with aggregate net proceeds of approximately $1.1 billion. On May 1, 2013, Residential completed a public offering of 17,250,000 shares of its common stock at $18.75 per share and received net proceeds of approximately $309.5 million. On October 1, 2013, Residential completed its second public offering of 17,187,000 shares of common stock at $21.00 per share and received net proceeds of $349.4 million. On January 22, 2014, Residential completed its third public offering of 14,200,000 shares of common stock at $34.00 per share and received net proceeds of approximately $467.6 million.

Repurchase Facilities

On March 22, 2013, September 12, 2013 and September 23, 2013, Residential entered into three separate repurchase agreements to finance the acquisition and ownership of residential mortgage loans and REO properties. The maximum aggregate funding available under these repurchase agreements initially was $425.0 million. Residential subsequently increased the aggregate funding capacity under each repurchase agreement as follows:

- For the repurchase agreement entered into on March 22, 2013, Residential amended it on April 21, 2014 to initially increase the aggregate maximum borrowing capacity from $100.0 million to $200.0 million. The maturity date of the repurchase agreement was also extended to April 20, 2015, subject to an additional one-year extension with the approval of the lender. On June 11, 2014, Residential further amended this repurchase agreement to increase the aggregate maximum borrowing capacity from $200.0 million to $375.0 million, subject to certain sublimits, for the period from June 11, 2014 through October 11, 2014, and on October 3, 2014, Residential extended the increase through December 10, 2014. The aggregate borrowing capacity under the repurchase agreement will revert to $200.0 million after December 10, 2014.

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- The repurchase agreement dated September 12, 2013, as amended on December 18, 2013, has an aggregate funding capacity of $250.0 million and matures on March 11, 2016. This agreement includes a provision that, beginning in the nineteenth month, Residential will not be able to finance mortgage loans in excess of amounts outstanding under the facility at the end of the eighteenth month.

- For the repurchase agreement dated September 23, 2013, Residential amended it on December 23, 2013 to initially increase the aggregate maximum borrowing capacity from $200.0 million to $400.0 million. On June 25, 2014, Residential further amended this repurchase agreement to increase the aggregate maximum borrowing capacity from $400.0 million to $1.0 billion, subject to certain sublimits. The maturity date of the repurchase agreement is March 23, 2015. Residential has the option to extend this agreement for an additional year with no additional funding.

Following these increases, the maximum aggregate funding available to Residential under these repurchase agreements as of September 30, 2014 was $1.7 billion, subject to certain sublimits, eligibility requirements and conditions precedent to each funding. As of September 30, 2014, an aggregate of $1.3 billion was outstanding under Residential's repurchase agreements. All obligations under the repurchase agreements are fully guaranteed by Residential. In October 2014, Residential sold a portfolio of 934 re-performing mortgage loans to an unrelated third party for aggregate proceeds of $164.0 million. Residential used a portion of the proceeds from this transaction to pay down its repurchase facilities. Following such payment, the total outstanding borrowings under Residential's repurchase agreements were reduced from $1.3 billion to $1.1 billion.

Under the terms of each repurchase agreement, as collateral for the funds Residential draws thereunder, subject to certain conditions, Residential’s operating partnership will sell to the applicable lender equity interests in the Delaware statutory trust subsidiary that owns the applicable underlying mortgage assets on Residential’s behalf, or the trust will directly sell such underlying mortgage assets. In the event the lender determines the value of the collateral has decreased, the lender has the right to initiate a margin call and require Residential to post additional collateral or to repay a portion of the outstanding borrowings. The price paid by the lender for each underlying mortgage asset Residential finances under the applicable repurchase agreement is subject to agreement between the lender and Residential and is based on a percentage of the market value of the underlying mortgage asset and depends on its delinquency status. Residential’s cost of borrowing under the repurchase agreements generally corresponds to LIBOR, or the lender interest at the lender’s cost of funds plus a margin. Residential is also required to pay certain other customary fees, administrative costs and expenses to maintain and administer the repurchase agreements.

The repurchase agreements require Residential to maintain various financial and other covenants, including maintaining a minimum adjusted tangible net worth, a maximum ratio of indebtedness to adjusted tangible net worth and specified levels of unrestricted cash. In addition, the repurchase agreements contain customary events of default.

Residential is currently in compliance with the covenants and other requirements with respect to its repurchase agreements. We monitor Residential’s banking partners’ ability to perform under the repurchase agreements and have concluded there is currently no reason to doubt that they will continue to perform under the repurchase agreements as contractually obligated.

The following table sets forth data with respect to Residential's repurchase agreements as of and for the three months ended September 30, 2014, September 30, 2013 and December 31, 2013 ($ in thousands):

| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Three months ended December 31, 2013 |
|---|---|---|---|
| Balance at end of period | $1,258,328 | $338,800 | $602,382 |
| | 1,413,357 | 338,800 | 602,382 |

| | | | |
|---|---|---|---|
| Maximum month-end balance outstanding during the period | | | |
| Weighted average quarterly balance | 1,357,220 | 18,875 | 364,665 |

Residential’s repurchase agreements provide for the lenders to finance the its portfolio at advance rates (or purchase prices) ranging from 40% to 75% of the “asset value” of the mortgage loans and REO properties. Under the repurchase agreements, the “asset value” generally is an amount that is based on the market value of the mortgage loan or REO property. We believe these are typical market terms which are designed to provide protection for the lender to collateralize its advances to Residential in the event the collateral declines in value. Under each of the repurchase agreements, if the carrying value of the collateral declines beyond certain limits, Residential would have to either (a) provide additional collateral or (b) repurchase certain assets under the agreement to maintain the applicable advance rate.

The increase in amounts outstanding under Residential's repurchase agreements from December 31, 2013 to September 30, 2014 relate primarily to funds Residential drew down under its repurchase facilities in January 2014, April 2014, June 2014,

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and July 2014 to complete its acquisitions of portfolios of mortgage loans and REO properties, net of amounts paid down with the proceeds from the issuance of the Class A Notes. Residential's overall advance rate under the repurchase agreements declined slightly from 59.9% at December 31, 2013 to 58.6% at September 30, 2014, although the aggregate dollar amount of funding increased. Residential does not collateralize any of its repurchase facilities with cash.

Securitizations

On September 25, 2014, Residential completed a securitization transaction in which ARLP 2014-1 issued $150.0 million in Class A Notes and $32.0 million in Class M Notes. The Class A Notes and the Class M Notes are secured solely by the non-performing mortgage loans of ARLP 2014-1 and not by any of Residential's other assets. The assets of ARLP 2014-1 are the only source of repayment and interest on the Class A Notes and the Class M Notes. The Class A Notes and the Class M Notes mature on September 25, 2044, and Residential does not guaranty any of the obligations of ARLP 2014-1 under the terms of the Indenture governing the notes or otherwise. As of September 30, 2014, the book value of the underlying securitized assets held by ARLP 2014-1 was $211.3 million.

Residential retained all of the Class M Notes in its TRS. On September 30, 2014, pursuant to a master repurchase agreement, the TRS sold $15.0 million of the Class M Notes to NewSource for a purchase price of $15.0 million. The master repurchase agreement requires the TRS to repurchase the Class M Notes from NewSource at a 5.0% yield on December 28, 2014, with the parties having the option to extend the master repurchase agreement for an additional 89 day period. In no event can the master repurchase agreement be extended beyond September 29, 2015.

Treasury shares

At September 30, 2014, a total of $231.9 million in shares of our common stock have been repurchased under the authorization by our Board of Directors to repurchase up to $300.0 million in shares of our common stock. Repurchased shares are held as treasury stock and are available for general corporate purposes.

Cash flows

We report and analyze our cash flows based on operating activities, investing activities and financing activities. The following table sets forth the changes in cash flows ($ in thousands):

| | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 | Change |
|---|---|---|---|
| Net cash used in operating activities | $(94,297) | $(11,069) | $(83,228) |
| Net cash used in investing activities | (1,152,205) | (636,185) | (516,020) |
| Net cash provided by financing activities | 1,198,326 | 644,300 | 554,026 |
| Total cash flows | $(48,176) | $(2,954) | $(45,222) |

The change in net cash used in operating activities for the nine months ended September 30, 2014 and 2013 by Residential and us consisted primarily of gains on mortgage loans offset by related party mortgage loan servicing costs including servicing fees, foreclosure fees and advances of residential property insurance and HOA dues on delinquent loans, interest expense, professional fees, acquisition costs and salaries and benefits.

The change in net cash used in investing activities for the nine months ended September 30, 2014 consisted primarily of Residential's investments in non-performing and re-performing loan portfolios, partly offset by proceeds from the disposition of loans. The change in net cash used in investing activities for the nine months ended September 30, 2013 consisted primarily of Residential's investments in non-performing loan portfolios. During periods in which Residential purchases a significant number of mortgage loans and conducts substantial renovations of residential real

estate, its cash used in investing activities is generally expected to exceed cash provided by investing activities.

The change in net cash provided by financing activities for the nine months ended September 30, 2014 included proceeds of $250.0 million from the issuance of our preferred stock and payments for share repurchases of $231.9 million under our share repurchase program. In addition, the change in net cash provided by financing activities for the nine months ended September 30, 2014 included Residential's net proceeds from the issuance of common stock, payment of dividends and net borrowings under repurchase agreements and other secured borrowings. The change in net cash provided by financing activities for the nine months ended September 30, 2013 consisted primarily of Residential's net proceeds from the issuance of common stock and net borrowings under repurchase agreements. Net cash related to financing activities will generally consist of the incurrence by

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Residential of debt, repayment of debt previously incurred by Residential, payment of dividends by Residential and the issuance of common stock by Residential.

Off-balance sheet arrangements

Residential and we have no off-balance sheet arrangements as of September 30, 2014.

Recent accounting pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-04, Troubled Debt Restructurings by Creditors. It provides that a repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amended guidance may be applied using either a prospective transition method or a modified retrospective transition method and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted. We do not expect this amendment to have a significant effect on our financial position or results of operations since our accounting policies and disclosures are currently consistent with the requirements set forth in the amendment.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 may be applied using either a full retrospective or a modified retrospective approach and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is not permitted. We do not expect this amendment to have a significant effect on our financial position or results of operations since our accounting policies and disclosures are currently consistent with the requirements set forth in the amendment.

Critical accounting judgments

Accounting standards require information in financial statements about the risks and uncertainties inherent in significant estimates, and the application of generally accepted accounting principles involves the exercise of varying degrees of judgment. Certain amounts included in or affecting our financial statements and related disclosures must be estimated requiring us to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time our consolidated financial statements are prepared. These estimates and assumptions affect the amounts we report for our assets and liabilities and our revenues and expenses during the reporting period and our disclosure of contingent assets and liabilities at the date of our consolidated financial statements. Actual results may differ significantly from our estimates and any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

We consider our critical accounting judgments to be those used in the determination of the reported amounts and disclosure related to the following:

Consolidations

The consolidated financial statements include wholly owned subsidiaries and would include those subsidiaries in which we own a majority voting interest with the ability to control operations of the subsidiaries and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interests. Additionally, we consolidate partnerships, joint ventures and limited liability companies when we control the major operating and financial policies of the entity through majority ownership, in our capacity as general partner or managing member or by contract. Lastly, we consolidate those entities deemed to be variable interest entities in which we are determined to be the primary beneficiary.

While the results of operations of consolidated entities are included in net income in our consolidated financial statements, net income attributable to common stockholders does not include the portion attributable to noncontrolling interests. Additionally, noncontrolling interest in consolidated affiliate is recorded in our consolidated balance sheets and our consolidated statements of equity within the equity section but separate from our equity.

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Income taxes

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statements' carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to our judgment, we reduce a deferred tax asset by a valuation allowance if it is “more likely than not” that some or the entire deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and we recognize tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

We believe that we have operated Residential in a manner in which Residential has complied and will continue to operate Residential in a manner that will comply with the provisions of the federal income tax code applicable to REITs beginning for the year ended December 31, 2013. Residential elected REIT status upon filing of its 2013 income tax return. Accordingly, we believe that Residential will not be subject to federal income tax beginning in the year ended December 31, 2013 on that portion of Residential’s REIT taxable income that is distributed to its stockholders as long as certain asset, income and share ownership tests are met. If Residential fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its REIT taxable income at regular corporate income tax rates. If after electing to be taxed as a REIT, Residential subsequently fails to qualify as a REIT in any taxable year, it generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the IRS grants us relief under certain statutory provisions. Such an event could materially adversely affect Residential’s net income and net cash available for distribution to stockholders. Its taxable REIT subsidiaries would also be subject to federal and state income taxes.

Mortgage loans

Upon the acquisition of sub-performing and non-performing mortgage loans, Residential records the assets at fair value which is the purchase price it paid for the loans on the acquisition date. The sub-performing and non-performing mortgage loans are subsequently accounted for at fair value under the fair value option election with unrealized gains and losses recorded in current period earnings. We have concluded that accounting for these sub-performing and non-performing mortgage loans at fair value timely reflect the results of Residential’s investment performance.

We determine the purchase price for Residential’s sub-performing and non-performing mortgage loans at the time of acquisition by using a discounted cash flow valuation model and considering alternate loan resolution probabilities including modification, liquidation or conversion to rental property. Observable inputs to the model include current interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates, forecast of future home prices, alternate loan resolution probabilities, resolution timelines and the value of underlying properties.

After sub-performing and non-performing mortgage loans are acquired, the fair value of each loan is adjusted in each subsequent reporting period as the loan proceeds to a particular resolution (i.e., modification, or conversion to real estate owned). As a loan approaches resolution, the resolution timeline for that loan decreases and costs embedded in the discounted cash flow model for loan servicing, foreclosure costs and property insurance are incurred and removed from future expenses. The shorter resolution timelines and reduced future expenses each increase the fair value of the loan. The increase in the value of the loan is recognized in net unrealized gain on mortgage loans in Residential’s, and therefore, our consolidated statements of operations.

Residential also recognizes unrealized gains and losses in the fair value of the sub-performing and non-performing loans in each reporting period when its mortgage loans are transferred to real estate owned. The transfer to real estate owned occurs when Residential has obtained legal title to the property upon completion of the foreclosure. The fair value of these assets at the time of transfer to real estate owned is estimated using BPOs. BPOs are subject to judgments of a particular broker formed by visiting a property, assessing general home values in an area, reviewing comparable listings and reviewing comparable completed sales. These judgments may vary among brokers and may fluctuate over time based on housing market activities and the influx of additional comparable listings and sales. Our results could be materially and adversely affected if the judgments used by a broker prove to be incorrect or inaccurate.

Our capital markets group determines the fair value of sub-performing and non-performing mortgage loans monthly and has developed procedures and controls governing the valuation process relating to these assets. The capital markets group reports to

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our Investment Committee, a committee of our Chief Executive Officer and our Chairman that oversees and approves the valuations. The capital markets group also monitors the valuation model for performance against actual results which is reported to the Investment Committee and used to continuously improve the model.

Loans held for sale

Loans held for sale, which consist of re-performing residential mortgage loans acquired from others, are recorded at the lower of cost or fair value. Residential does not originate loans. During the third quarter 2014, Residential decided to sell these re-performing loans and as such they were reclassified as loans held for sale from loans held for investment. See Note 12 - "Subsequent events" for information on our dispositions of re-performing loans subsequent to September 30, 2014.

Acquired distressed re-performing residential mortgage loans that have evidence of deteriorated credit quality at the time of acquisition are accounted for in accordance with the provisions of ASC Topic 310-30, Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality. Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Under ASC Topic 310-30, Residential estimates cash flows expected to be collected, adjusted for expected prepayments and defaults. At each balance sheet date, Residential evaluates the pool of loans to determine whether the present value derived using the effective interest rate has decreased and, if so, recognizes a provision for loan loss. For any significant increases in cash flows expected to be collected, Residential adjusts the amount of accretable yield recognized on a prospective basis over the pool’s remaining life.

Real estate impairment

With respect to Residential’s rental properties classified as held for use, we perform an impairment analysis using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. These cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. Residential generally estimates the fair value of assets held for use by using BPOs. In some instances, appraisal information may be available and is used in addition to BPOs.

Residential properties, net

Upon the acquisition of real estate, generally through the completion of foreclosure, Residential records the residential property at fair value as of the acquisition date as a component of real estate owned based on information obtained from a BPO, a full appraisal or the price given in a current contract of sale of the property. After a short evaluation period, Residential performs property renovations to maximize the value of the property for its rental strategy. Such expenditures are part of Residential’s initial investment in a property and, therefore, are classified as investing activities in our consolidated statement of cash flows. Subsequently, the residential property, including any renovations that improve or extend the life of the asset, is accounted for at cost. The cost basis is depreciated using the straight-line method over an estimated useful life of three to 27.5 years based on the nature of the components. Interest and other carrying costs incurred during the renovation period are capitalized until the property is ready for its intended use. Expenditures for ordinary maintenance and repairs are charged to expense as incurred.

Expenditures directly related to successful leasing efforts such as lease commissions are included in deferred leasing and financing costs, net and are stated at amortized cost. Such expenditures are part of Residential's operations and, therefore, are classified as operating activities in our consolidated statement of cash flows. Capitalized leasing costs are amortized on a straight-line basis over the lease term of the respective leases which generally are from one to two years.

Residential properties are classified either as held for use or held for sale. Residential properties are classified as real estate and related assets held for sale when sale of the assets has been formally approved and is expected to occur in the next twelve months. We record residential properties held for sale at the lower of the carrying amount or estimated fair value. Fair value of assets held for sale is equal to the estimated or contracted sales price with a potential buyer less costs to sell. The impairment loss is the amount by which the carrying amount exceeds the estimated fair value.

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Rental revenues

Minimum contractual rents from leases are recognized on a straight-line basis over the terms of the leases in rental revenues. Therefore, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue commences when the customer takes control of the leased premises. Deferred rents receivable, net represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Contingent rental revenue is accrued when the contingency is removed. Termination fee income is recognized when the customer has vacated the rental property, the amount of the fee is determinable and collectability is reasonably assured.

Rents receivable, net and deferred rents receivable, net are reduced by an allowance for amounts that become uncollectible. We regularly evaluate the adequacy of Residential’s allowance for doubtful accounts. The evaluation takes into consideration the aging of accounts receivable, our analysis of customers’ personal profile and review of past due account balances. Rents receivable, net and deferred rents receivable, net are written-off when Residential has deemed that the amounts are uncollectible.

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Item 3. Quantitative and qualitative disclosures about market risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The primary market risks that Residential is currently exposed to are real estate risk and interest rate risk. A substantial portion of Residential's investments are, and we expect will continue to be, comprised of non-performing loans and single-family rental properties. The primary driver of the value of both these asset classes is the fair value of the underlying real estate.

Real Estate Risk

Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to: national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values could cause Residential to suffer losses which would result in fewer or no incentive management fees being earned by us.

Interest Rate Risk

Residential will be exposed to interest rate risk from its (a) acquisition and ownership of residential mortgage loans and (b) debt financing activities. Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond Residential's control. Changes in interest rates may affect the fair value of the residential mortgage loans and real estate underlying Residential's portfolios as well as its financing interest rate expense.

We currently do not intend to hedge the risk associated with the residential mortgage loans and real estate underlying Residential's portfolios. However, although we have not yet done so, we may undertake risk mitigation activities with respect to Residential's debt financing interest rate obligations. We expect that Residential's debt financing will at times be based on a floating rate of interest calculated on a fixed spread over the relevant index, as determined by the particular financing arrangement. A significantly rising interest rate environment could have an adverse effect on the cost of Residential's financing. To mitigate this risk, we may use derivative financial instruments such as interest rate swaps and interest rate options in an effort to reduce the variability of earnings caused by changes in the interest rates Residential pays on its debt.

These derivative transactions will be entered into solely for risk management purposes, not for investment purposes. When undertaken, these derivative instruments likely will expose Residential to certain risks such as price and interest rate fluctuations, timing risk, volatility risk, credit risk, counterparty risk and changes in the liquidity of markets. Therefore, although we expect to transact in these derivative instruments purely for risk management, they may not adequately protect Residential from fluctuations in its financing interest rate obligations.

Residential currently borrows funds at variable rates using secured financings. At September 30, 2014, Residential had $1.3 billion of variable rate debt outstanding not protected by interest rate hedge contracts. The estimated aggregate fair market value of this debt was $1.3 billion. If the weighted average interest rate on this variable rate debt had been 100 basis points higher or lower, the annual interest expense would increase or decrease by $12.6 million, respectively.

Item 4. Controls and procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based on such evaluation, such officers have concluded that our disclosure controls and procedures as of the end of the period covered by this quarterly report were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II

Item 1. Legal proceedings

We are not currently the subject of any material legal or regulatory proceedings, and no material legal or regulatory proceedings have been threatened against us.

Item 1A. Risk factors

There have been no material changes in our risk factors since December 31, 2013. For information regarding our risk factors, you should carefully consider the risk factors discussed in "Item 1A. Risk factors" in our annual report on Form 10-K for the year ended December 31, 2013 filed on February 20, 2014.

Item 2. Unregistered sales of equity securities and use of proceeds

Issuer Purchases of Equity Securities

The Board of Directors has authorized total repurchases of $300.0 million of common stock. At September 30, 2014, we have remaining approximately $68.1 million authorized by our Board of Directors for share repurchases. Repurchased shares will be held as treasury stock and will be available for general corporate purposes. Below is a summary of our stock repurchases for the quarter ending September 30, 2014 (dollars in thousands).

| | (a) Total number of shares purchased [2] | (b) Average price paid per share [2] | (c) Total number of shares purchased as part of publicly announced plans or programs | (d) Maximum dollar value of shares that may yet be purchased under plans or programs[1] |
|---|---|---|---|---|
| July 2014 | — | $— | — | $106,066 |
| August 2014 | 8,884 | 597.88 | 198,917 | 100,755 |
| September 2014 | 45,581 | 716.90 | 244,498 | 68,077 |
| As of period ended September 30, 2014 | 54,465 | 697.49 | 244,498 | 68,077 |

(1) Since Board approval of repurchases is based on dollar amount, we cannot estimate the number of shares yet to be purchased.

(2) The number of shares above excludes shares of common stock tendered to satisfy the tax withholding on equity awards as part of our equity incentive plan. For the three and nine months ended September 30, 2014, 1,847 and 6,012 shares were reacquired at a weighted average per share price of $589.27 and $803.04, respectively, pursuant to our equity incentive plan.

Item 4. Mine safety disclosures

Not applicable.

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Item 6. Exhibits

Exhibits

| Exhibit Number | Description |
|---|---|
| 2.1 | Separation Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and Altisource Portfolio Solutions S.A. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the Commission on December 28, 2012). |
| 3.1 | Amended and Restated Articles of Incorporation of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form 10 filed with the Commission on December 5, 2012). |
| 3.2 | First Amended and Restated Bylaws of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10 filed with the Commission on December 5, 2012). |
| 3.3 | Certificate of Designations establishing the Company’s Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant’s Current Report on Form 8-K filed with the Commission on March 19, 2014). |
| 31.1* | Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act |
| 31.2* | Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act |
| 32.1* | Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act |
| 32.2* | Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | XBRL Extension Labels Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |

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* Filed herewith.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | | |
|---|---|---|
| | | Altisource Asset Management Corporation |
| Date: November 4, 2014 | By: /s/ | Robin N. Lowe |
| | | Robin N. Lowe |
| | | Chief Financial Officer |