New Residential Investment Corp (NRZ, Buy, $18.00 PT)

September 5, 2019

Initiating at Buy with $18 PT; Recent Selloff is Overly Punitive Does Not Give NRZ Credit for Lower Rate Sensitivity & Recapture Initiatives

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COMPANY DATA	
Closing Price:	$14.10
Price Target:	$18.00
Market Cap ($M):	5,858.04
Shares Out (M):	415.5
Avg Daily Vol - 3 Months (M):	2.46
Dividend/Yield:	$2.00/14.2%

REVISIONS	Previous	Current
Rating	-	Buy
Price Target	-	$18.00
FY19E EPS	-	$2.13
FY20E EPS	-	$2.18
FY19E Rev. (M)	-	$2,277.11

Diluted EPS (Adjusted)			
FY Dec	2018A	2019E	2020E
Q1	0.58	0.53	0.55
Q2	0.58	0.53	0.52
Q3	0.63	0.54	0.54
Q4	0.58	0.54	0.57
Calendar EPS	**2.38**	**2.13**	**2.18**
Calendar P/E	5.9x	6.6x	6.5x

REVENUE ($M)			
FY Dec	2018A	2019E	2020E
Q1	865.33	607.92	617.82
Q2	453.19	405.58	604.95
Q3	563.31	635.50	606.54
Q4	355.75	628.10	614.40
FY	**2,237.58**	**2,277.11**	**2,443.71**

Source: IDC, BTIG Estimates and Company Documents
($ in millions, except per share amount)

WHAT YOU SHOULD KNOW: Initiating coverage of New Residential Investment Corp. (NRZ) with a Buy recommendation and an $18 price target based on 1.1X book value per share of $16.17. With the recent weakness in NRZ's stock price, we believe the market pricing in too large of a discount related to the impact of a lower interest rate environment on the company's mortgage servicing rights (MSRs) assets without giving the company credit for offsets, creating an attractive entry point into NRZ shares. NRZ has shifted the company's asset mix towards RMBS securities and residential mortgage loans that should benefit from lower interest rates and has fully hedged its balance sheet as of 2Q19. Additionally, we believe investors should focus on NRZ's unique portfolio of assets, the buildout of recapture capabilities and ancillary services that should improve the overall return on the MSR portfolio.

- **Unique portfolio of MSRs, Non-Agency RMBS & loans and cleanup call rights –** NZR has one of the largest MSR portfolios with $576B of unpaid principal balances (UPB), with significant exposure to Non-Agency mortgages. ~23% of the portfolio is refinanceable vs. 44% for the overall mortgage market as of 2Q19. NRZ controls the call rights to about $106B or ~34% of the Non-Agency market of which ~$42B is currently callable and benefit in a low interest rate environment.
- **Dividend and Cash Flow –** We believe NRZ has sufficient cash flow to maintain the company's quarterly dividend of $0.50 and will benefit from additional cash flow contribution from call rights and the securitization/sale of originated loans during 2H19. Additionally, it is important to note that FV changes to NRZ's MSR assets have a small impact on near-term cash flow generation. We also highlight the additional cash flow benefits NRZ will likely realize from increased internal servicing, originations and ancillary services over the next few quarters.
- **Ditech acquisition –** We believe NRZ has significant leverage in negotiations with creditors attempting to satisfy the bankruptcy courts concerns about consumer claims. In the original deal, NRZ agreed to purchase the forward assets of Ditech which included $63B of MSR UPB and Ditech's originations platform. A revised plan could be released by the end of the month, in our view.
- **Increasing recapture and capturing a greater share of servicing economics –** NZR began building out a complimentary operating business to capture a greater share of the economics with the buildout of ancillary services: title, closing, appraisal, field services and REO brokerage and auction.
- **Valuation:** Our price target of $18 is based on 1.1X the company's 2Q19 book value per share of $16.17. Our price target equates to an 11.1% yield based on $2.00 of annual dividends. Including the annual dividend, our price target represents a total return of 41.8%.

Investment Thesis

We have a Buy rating and a price target of $18 on shares of New Residential. We believe NRZ shares are mispriced by the matket due to concerns about the impact of low interest rates on the company's MSR assets creating an attractive entry point. At these levels, we belive the market underappreciates the value of the company's assets and the expansion into operating businesses which should have a significant benefit to cash flow generations over time.

Upcoming Catalysts

- 3Q19 earnings.

Base Case Assumptions

- We assume that NRZ's current $0.50 quarterly dividend remains stable over the next few years.
- NRZ is able to maintain MSR UPB stable in FY20 and FY21.
- Interest rates remain stable.

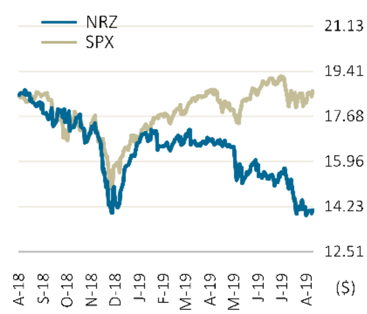
Upside Scenario

- A successful acquisition of Ditech's MSR assets and originations platform.
- Higher interest rates.
- Increased recapture of ancillary services revenue.
- Increased origination volume.

Downside Scenario

- Lower interest rates could have an adverse impact on NRZ's MSR portfolio.
- Credit deterioration and increased default rates could reduce the return on NRZ's assets.
- Lower origination volume.
- Regulatory changes.

Price Performance



Source: IDC

Company Description

New Residential Investment Corp (NRZ) is a real estate investment trust (REIT) that opportunistically invests in assets related to residential real estate. NRZ was formed as a wholly owned subsidiary of Newcastle Investment Corp. (Drive Shack) in 2011 and was spun-off from Drive Shack in May 2013.

The Company

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In 2016, New Residential Mortgage LLC (NRM) became a licensed mortgage servicer. NRM is eligible to hold MSRs in all states and has received approval to hold MSRs on FHA-insured mortgage loans and loans owned by the Government Sponsored Entities (GSEs), Fannie Mae (FNMA, Not Rated) and Freddie Mac (FMCC, Not Rated).

On July 3rd, 2018, NRZ closed the acquisition of Shellpoint Partners LLC, a vertically integrated mortgage platform with mortgage servicing, originations and MSR recapture capabilities. Since NewRez (formerly New Penn Financial, LLC, a subsidiary of Shellpoint) was eligible to hold MSRs associated with loans in Ginnie Mae transactions, NRZ now has the ability to hold MSRs in the NewRez subsidiary going forward.

Servicing and Originations

This segment includes NRZ's investments in Mortgage Servicing Rights (MSRs), Excess Mortgage Servicing Rights (Excess MSRs), Servicer Advances & Servicer Advance Investments and Shellpoint (Mortgage Servicing, Mortgage Originations and Ancillary Services). As of 2Q19, NRZ had $3,042M of equity in the Servicing and Originations segment.

MSRs – NRZ owns $441B UPB of full MSRs as of 2Q19. NRZ is entitled to receive all of the servicing fees and ancillary income associated with Full MSRs. At 2Q19, NRZ engaged 3rd party subservices to perform the servicing responsibilities associated with $329.4B UPB of MSRs for a fee and internally subservices $108.1B of NRZ owned Full MSRs at Shellpoint.

Excess MSRs – NRZ owns $135B of Excess MSR UPB as of 2Q19. NRZ is entitled to receive a pro rata share of the servicing fee related to the MSRs on which the company purchased the right to receive the excess servicing spread. The remaining portion of the MSR fee and the ancillary income is retained by the owner and servicer of the MSR.

Servicer Advances – As part of the responsibilities as the servicer of Full MSRs, NRZ is required to make certain advances on serviced loans. As of 2Q19, NRZ had $3.3B of outstanding servicer advances.

Servicer Advance Investments – NRZ entered into an agreement to purchase all future servicer advances on a pool of residential mortgage loans in exchange for the right to receive the basic fee component of the related MSRs.

Shellpoint – NewRez, a subsidiary of Shellpoint originates mortgage loans. As of 2Q19, Shellpoint subserviced $108.1B of MSR UPB for NRZ representing 24.7% of the company's Full MSR UPB. In addition to the loans subserviced for NRZ, Shellpoint also servicesinvh $51.1B UPB for 3rd parties. The Full MSRs are held as assets on NRZ's balancer sheet whereas the MSRs subserviced for 3rd parties are not assets on the company's balance sheet.

Ancillary Services – NRZ has build out a comprehensive suite of ancillary services which wholly owned Avenue 365, eStreet and Guardian. An investment in Covius (Private) and partnerships with providers of foreclosure auction services, REO brokerage and insurance products.

Real Estate Securities

NRZ invests in Agency and Non-Agency RMBS securities. At 2Q19, NRZ had a Non-Agency RMBS portfolio with a current face amount of $10,051M, a cost basis of $7,539M and a carrying value of $8,189M. The delinquency rates and default rates in the Non-Agency portfolio improved by 13% and 24% respectively since last year. NRZ also owns Agency RMBS securities with a face amount f $3,237M and a carrying value of $3,308M. As of 2Q19, NRZ had $2,114M of equity in the real estate securities segment.

Residential Mortgage Loans

NRZ invests in residential mortgage loans acquired in the market, originated at Shellpoint and through the exercise of call rights. At 2Q19, NRZ had an active residential mortgage loan portfolio with UPB of $6,720M and a carrying value of $5,987M. NRZ occasionally securitizes mortgage loans held in the residential mortgage loan segment. As of 2Q19, NRZ had $1,084M of equity in the residential mortgage loan segment.

Consumer Lending

The consumer lending segment is comprised of two primary investments: the SpringCastle transaction and the Prosper (Private) loan purchase agreement. Both transactions have now come to an end and NRZ is no longer funding or acquiring new loans in the transactions. NRZ had $68M of net equity in the consumer loan segment as of 2Q19.

SpingCastle – In 2013, NRZ acquired an interest in a $3.9B consumer loan portfolio and entered into an agreement to purchase newly originated consumer loans form a third-party during 2016. Since inception, NRZ has realized $509M in profits and a life-to-date IRR of 85% on the transaction.

Prosper – In February 2017, NRZ and 3 other companies formed a 4-member consortium that agreed to purchase up to $5B of consumer loans originated by Prosper. As of 2Q19, 100% of Prosper warrants the consortium was entitled to receive had been earned and, through its warrant ownership, NRZ owns approximately 8% of Prosper (Private) a marketplace lender.

As of 2Q19, the consortium has purchased $3.6B of loans, securitized $3.3B and NRZ has realized a life-to-date IRR of over 20%.

Industry Overview

What is a Mortgage Servicing Right?

A Mortgage Servicing Right or MSR is a contractual agreement to service a mortgage in exchange for a fee, an MSR is created when a mortgage is originated. The responsibilities of the servicer include: collecting and remitting principal and interest payments, collecting, holding and remitting escrow funds such as taxes and insurance. Servicers are also entitled to collect certain other fees. For example: late fees, modification fees, incentive fees, float income on escrow funds and other ancillary fees.

The owner of an MSR may be required to advance principal, interest, taxes and insurance when a borrower is delinquent and has failed to make scheduled payments. And, the servicer is responsible for covering foreclosure and property preservation costs. In most circumstances, the servicer is entitled to reimbursements of advances from the GSE's or when foreclosure proceeds are received. The owner of an MSR has the right to manage the relationship with the borrower, which may include offering refinancing options or loan modifications.

Non-operating companies such as REITs, led by NRZ have increased their exposure to the MSR asset class since the IRS published private letter rulings in 2012 and 2013, clarifying the tax treatment of MSR income streams. Notably, the IRS stated that excess servicing spread income would be treated as interest on obligations secured by mortgages on real property, which would make the earnings tax exempt and eligible to be held in a REIT. New Residential's New Residential is the largest REIT owner of MSRs with $576B of UPB as of 2Q19.

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Servicing fee – is the gross compensation paid to the servicer for performing the servicing responsibilities related to the associated mortgage.

Basic servicing fee – is the reasonable cost to service the associated mortgage plus a profit margin.

Excess servicing spread – is the income derived from an MSR in excess of the basic fee. The owner of an excess MSR is entitled to receive the associated excess servicing spread.

For example, the owner of an MSR on a $200,000 principal balance mortgage loan with a 30 bps servicing fee would receive $50 per month and if we assume the basic servicing fee is 15 bps or $25 per month, the excess servicing spread would be the remaining 15 bps or $25 per month.

Exhibit 1: Hypothetical Base MSR Fee and Excess Servicing Spread Example

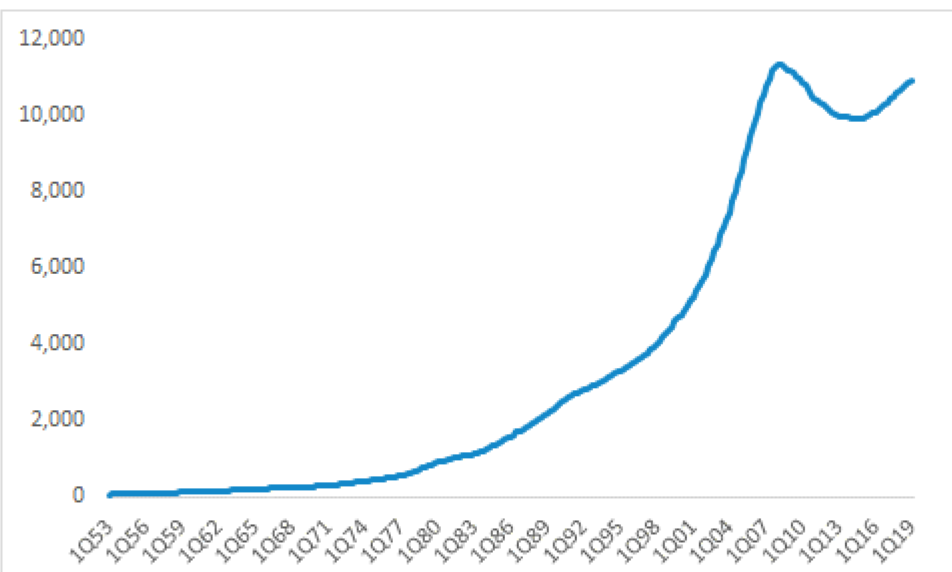
Monthly MSR Fee Example for $200,000 Principal Balance Loan		
MSR fee	30 bps	$50.00
Base MSR fee	15 bps	$25.00
Excess servicing spread	15 bps	$25.00

Source: BTIG Estimates and Company Reports

Mortgage Servicing and Residential Mortgage Market Size

The size of the mortgage servicing market is the total U.S. 1 to 4 family mortgage debt outstanding. The Mortgage Bankers Association (MBA) and the Federal Reserve (FED) both publish quarterly estimates of total mortgage debt outstanding. In 2Q19, the MBA and the FED estimated outstanding mortgage debt was $10,496B and $10,905B respectively.

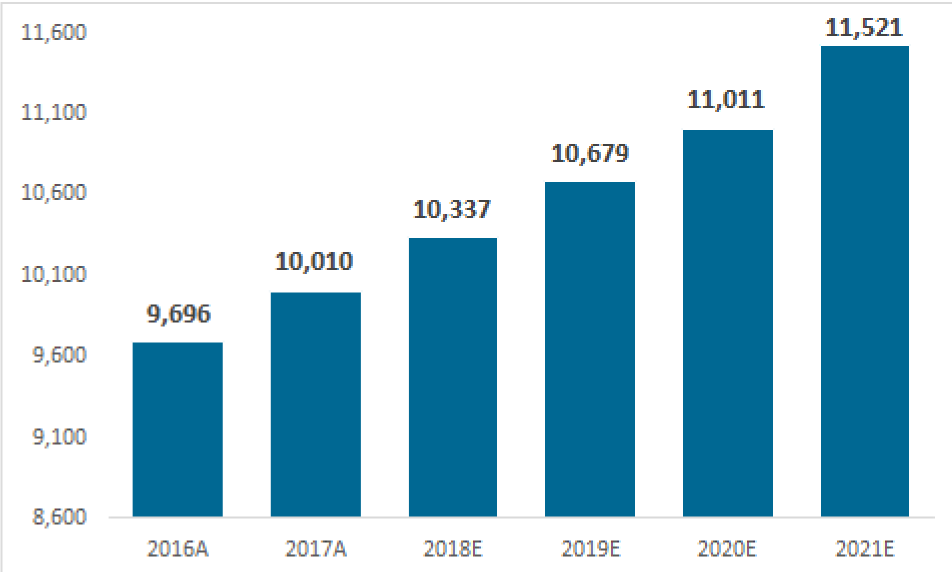
Exhibit 2: Historical Federal Reserve Estimated 1 to 4 Family Mortgage Debt Outstanding ($ in Billions)



Source: BTIG Estimates and Federal Reserve Data

Total mortgage debt outstanding is expected to increase 3.3% in 2019 and by 3.1% 2020 based on MBA forecasts. The increase in mortgage debt outstanding is a proxy for the growth in total mortgage servicing UPB.

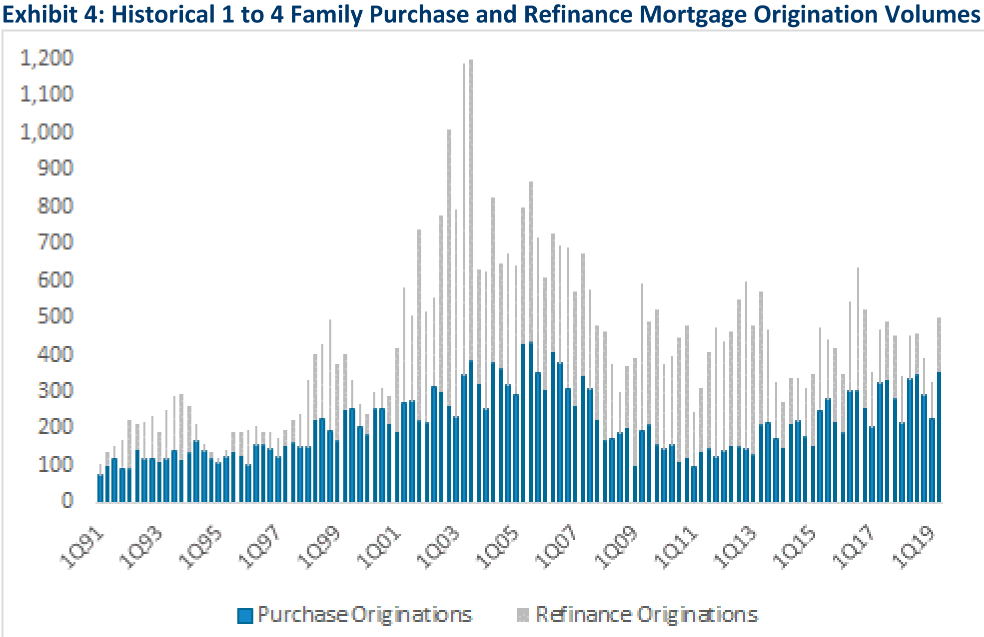
Exhibit 3: Historical and Future Mortgage Bankers Association Estimated 1 to 4 Family Mortgage Debt Outstanding ($ in billions)



Source: Mortgage Bankers Association Data

In a falling interest rate environment, mortgage originations volumes tend to increase, led by higher refinance volumes as homeowners can refinance their mortgages at a lower interest rate and decrease their monthly payments. In this environment, the value of existing MSRs decrease because the likelihood of a borrower refinancing and prepaying their mortgage increases. causing the lifetime cash flows of the MSR decline.

Exhibit 4: Historical 1 to 4 Family Purchase and Refinance Mortgage Origination Volumes ($ in billions)



Source: Mortgage Bankers Association Data

Investment Thesis

A unique and hard to replicate MSR portfolio with lower interest rate sensitivity and the ability to source attractively priced residential mortgage loans.

New Residential owns Full MSRs with an unearned principal balance of $441B and Excess MSRs with UPB of $135B for a total of ~$576B of UPB accounting for approximately 5.4% of total U.S. mortgage balances outstanding at the end of 2Q19.

NRZ's MSR portfolio is somewhat unique because it has a high concentration of MSRs on Non-Agency mortgages and on seasoned mortgages which both less likely to refinance compared to the average mortgage. At 2Q19, the company estimated that 23% of NRZ's MSR UPB was refinanceable based on the interest rate at the time compared to 44% for the broader mortgage market. The lower refinance incentive reduces prepayment speeds, increasing the lifetime cashflow potential and value of MSR assets.

The value of an MSR is measured by estimating the net present value of lifetime cash flows net of servicing costs. The most impactful variable in estimating the value of an MSR is prepayments speeds which are highly correlated with the interest rates. Lower interest rates increase a borrower's incentive to refinance an prepay whereas higher interest rates reduce the incentive to refinance. Since NRZ's portfolio has higher concentration of seasoned and non-agency MSRs, the impact of lower mortgages rates has a relatively lower impact on the company's MSRs.

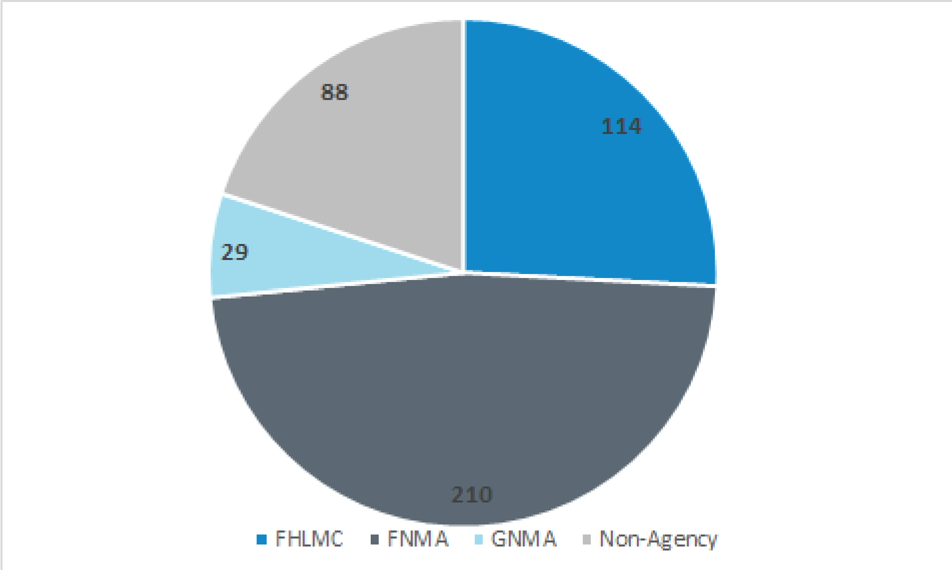
Exhibit 5: NRZ's MSR Portfolio Detail as of 2Q19

	Full MSRs					Excess MSRs					
	FHLMC	FNMA	GNMA	Non-Agency	Full MSR Total	FHLMC	FNMA	GNMA	Non-Agency	Excess MSR Total	Total
UPB ($B)	114	210	29	88	441	38	28	24	45	135	576
WAC	4.4%	4.3%	3.8%	4.6%	4.3%	4.6%	4.7%	4.8%	4.8%	4.7%	4.4%
WALA (months)	50	66	35	160	78	82	100	99	158	118	83
LTV	68%	63%	89%	81%	70%	56%	51%	61%	69%	60%	69%
FICO	752	747	682	648	722	730	716	696	674	701	719
60+ DQ	0.5%	0.9%	3.1%	15.3%	3.9%	1.2%	2.4%	1.1%	10.7%	5.1%	4.0%

Source: BTIG and Company Reports

Full MSRs – As of 2Q19, NRZ had $441B of Full MSR UPB, $88B of which was on Non-Agency loans. Those non-agency loans have a significantly higher 60+ delinquency rate at 15.3% compared to below 1% for Fannie and Freddie and 3.1% for Ginnie. Additionally, the Non-Agency portfolio had a weighted average loan age of 160 months. The additional seasoning and higher delinquency rates reduce the likelihood that those loans will refinance in a lower interest rate environment.

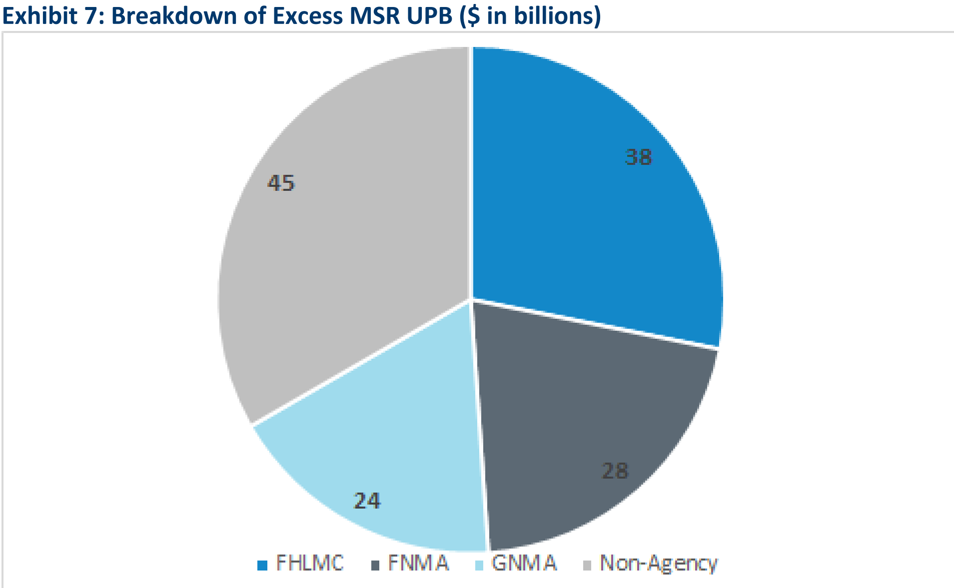
Exhibit 6: Breakdown of Full MSR UPB ($ in billions)



Source: BTIG Estimates and Company Reports

Excess MSRs – As of 2Q19, NRZ had $135B of Excess MSR UPB, $45B of which was on Non-Agency loans. Those non-agency loans have a significantly higher 60+ delinquency rate at 10.7% compared to between 1.1% and 2.4% for Fannie, Freddie and Ginnie loans. Additionally, the Non-Agency portfolio had a weighted average loan age of 158 months.

Exhibit 7: Breakdown of Excess MSR UPB ($ in billions)



Source: BTIG Estimates and Company Reports

Servicer advances – At 2Q19, NRZ had $3.3B of servicer advances outstanding. As delinquency trends have improved, servicer advances as a percent of Full MSR UPB have continued to decline and are likely to continue declining over the next few quarters.

Servicers are usually able to finance around 90% of advance UPB with warehouse lines and only need to contribute around 10% equity to fund advances. Assuming the current low delinquency environment persists, NRZ should benefit from working capital releases that should free up equity capital that can be used to fund additional MSR investments.

Exposure to seasoned MSRs reduces prepayment risks and reduces the interest rate sensitivity of the overall MSR portfolio. As of 2Q19, NZR estimates that 23% of the company's MSR portfolio is refinanceable compared to 44% for the broader market. As of 2Q19, 23.1% of MSR UPB was on Non-Agency mortgages

NZR has entered into preliminary agreements to purchase approximately $100B of MSRs (including ~$63B from Ditech) originally expected to close during 3Q19. Due to the bankruptcy court's recent denial of the Ditech plan of reorganization, we are not including the $63B of UPB in our model. We believe NRZ has the leverage in potential negotiations to resolve the bankruptcy court's concerns related to the plan of reorganization and continue to believe NRZ is likely to acquire Ditech's forward assets and originations platform albeit at a later date.

Recapture agreements and internal originations lower prepayment risk and enhance the value of NRZ's MSR assets.

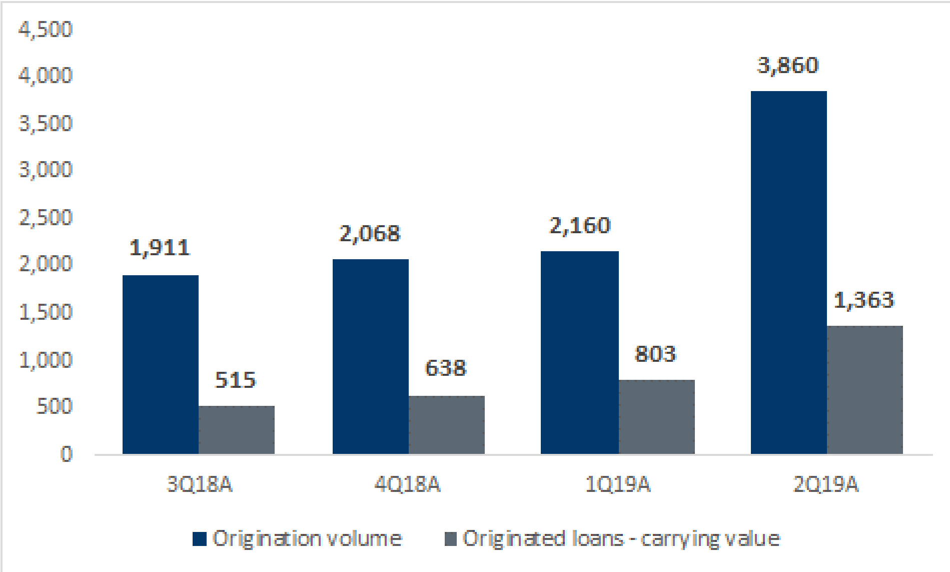
Prior to 2016, New Residential only invested in Excess MSRs and Servicer Advances. In 2016, New Residential Mortgage LLC (NRM) became a licensed mortgage servicer eligible to hold MSRs on Fannie Mae and Freddie Mac mortgages, NRZ began acquiring full MSRs. As a non-operating owner of Full MSRs, NRZ engaged a number of third-party subservicers to perform the servicing responsibilities on the associated MSRs for a fee.

Since subservicers manage the relationship with the borrower, it is common for the MSR owner to enter into recapture agreements. Under these agreements, NRZ is generally entitled to the MSRs or the pro rata interest in any initial or subsequent refinancing performed by the subservicer. As of 2Q19, 100% of NRZ's MSRs and Excess MSRs were covered by agreements with subservicers and servicing partners which reduces the impact and risk of lower interest rates on prepayment speeds.

From an accounting perspective, recaptured MSRs and Excess MSRs reduce the prepayment speed NRZ's MSR assets which extends the duration and amount of lifetime cash flows the company should be able to realize on assets compared to an MSR with no recapture agreement in place.

The acquisition of Shellpoint in 2018 added an operating platform with servicing, originations and a few ancillary services. Originations and recapture capabilities are a source of cheaper, recurring internal MSR creation compared to acquiring MSRs from third parties. Assuming a newly originated MSR costs 125 bps if acquired from a third-party. If a mortgage originator can originate loans at a 50 bps pretax income margin including the capitalization of the associated MSR at 125 bps, the net capital cost of creating the MSR would be 75 bps. On a relative basis an equivalent MSR would cost 40% less if it was originated vs. purchased from a 3rd party. NRZ estimates that NewRez will be able to originate ~$18B in FY19 implying $12B of originations in 2H19.

Exhibit 8: Origination volume and originated loans carrying value ($ in millions)



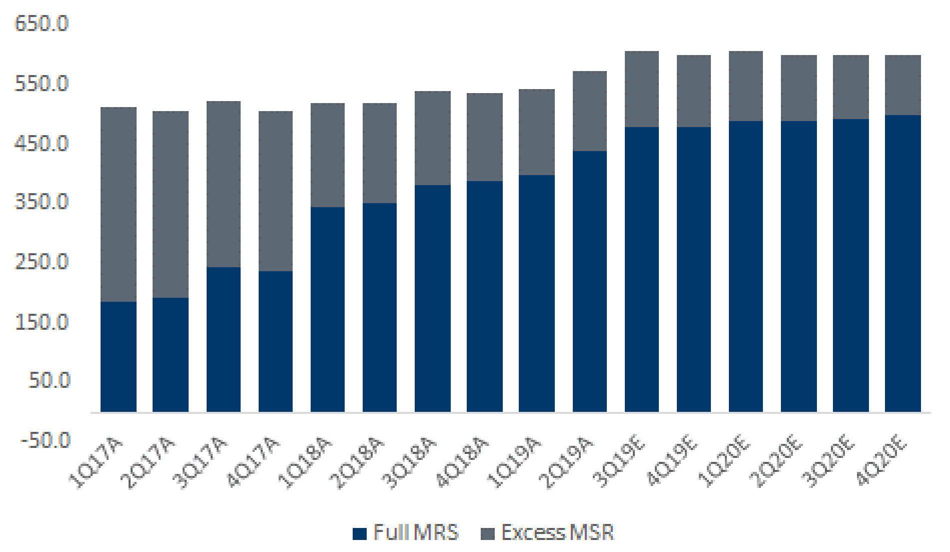
Source: BTIG Estimates and Company Reports

As origination volumes have increased substantially over the past few quarters, so has the balance of originated loans held on NRZ's balance sheet. In each of the last four quarter, loan sales/securitized loans have trailed origination volume. Going forward, we expect the balances of originated loans to stabilize as NRZ sells or securitizes more loans over the next few quarters. This should result in additional gains on securitization of mortgage loans and provide a lift to earnings and cash flow.

Shifting towards owning full MSRs, increasing control over servicing and capturing a larger share of the economics.

In 1Q17, only 36% of total MSR UPB owned by the company was in the form of Full MSRs with the balance in Excess MSRs. Since then, Full MSRs have increased to 76% of UPB and we model continued growth to 83% and 86% at the end of FY20 and FY21 respectively. Not only does NRZ have more control of a Full MSR, the company is also entitled to receive 100% of the servicing fee and associated ancillary revenues compared to Excess MSRs which entitle the owner to receive a strip of the servicing fee.

Exhibit 9: Full MSR and Excess MSR UPB balanced ($ in billions)



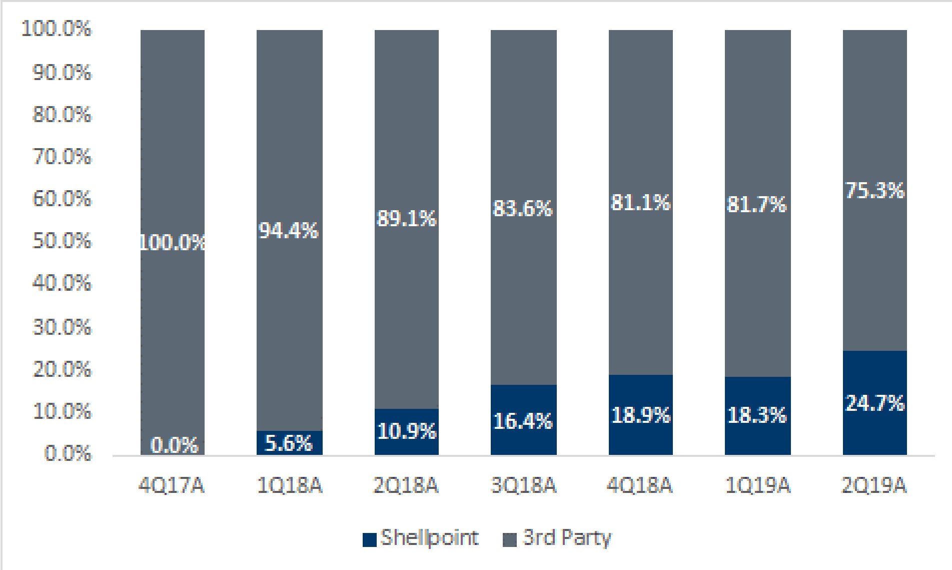
Source: BTIG Estimates and Company Reports

Shellpoint is an underappreciated source of value because it enables NRZ to service MSR's internally, adds a source of internal recapture with originations and allows NRZ to own Ginnie Mae MSRs.

Originations and recapture capabilities are a source of cheaper, recurring internal MSR creation compared to acquiring MSRs from third parties. For example, if we assume a newly originated costs 125 bps if acquired from a third-party. Assuming a mortgage originator can originate loans at a 50 bps pretax income margin including the capitalization of the associated MSR at 125 bps, the net capital cost of creating the MSR would be 75 bps. On a relative basis an equivalent MSR would cost 40% less if it was originated internally vs. purchased from a 3rd party. From a different perspective, in this example the cost to maintain the portfolio flat would be 40% less if the MSRs were created with an internal originations platform compared to purchased in the open market.

As NRZ continues to shift a larger portion of NRM's servicing to Shellpoint, the company has the ability to capture subservicing economics traditionally paid to a 3rd party subservicer, increase control over the asset, retain the gain on sale margin associated with recapture and retain revenues/profits associated with ancillary services. Typically, subservicers are able to realize a profit in the range of 2 to 3 bps on performing loans and specialty servicers can realize higher profitability due to added complexity and the ability to generate higher recoveries for investors.

Exhibit 10: Percent of NRZ Full MSR UPB subserviced by Shellpoint and 3rd party subservicers



Source: BTIG Estimates and Company Reports

In Exhibit 11 below, we present a range of profit recapture/cost saving scenarios assuming NRZ is able to shift between 10% and 100% of the $329.4B of UBP currently subserviced by third-parties to Shellpoint or another internal subservicer. Assuming NRZ could shift 50% of subservicing internally at a 2.5 bps profit margin, it would redirect $41M of annual profits currently paid to third-party subservicers back to NRZ.

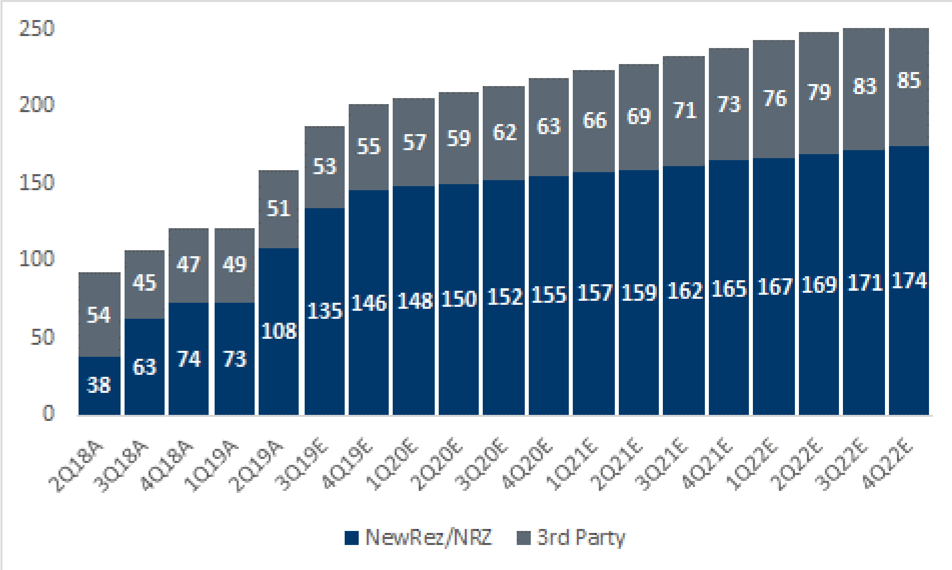
Exhibit 11: Range of annualized cost savings if NRZ is able to shift subservicing to Shellpoint ($ millions)

	1.0 bps	1.5 bps	2.0 bps	2.5 bps	3.0 bps	3.5 bps	4.0 bps	4.5 bps	5.0 bps
10%	$3	$5	$7	$8	$10	$12	$13	$15	$16
20%	$7	$10	$13	$16	$20	$23	$26	$30	$33
30%	$10	$15	$20	$25	$30	$35	$40	$44	$49
40%	$13	$20	$26	$33	$40	$46	$53	$59	$66
50%	$16	$25	$33	$41	$49	$58	$66	$74	$82
60%	$20	$30	$40	$49	$59	$69	$79	$89	$99
70%	$23	$35	$46	$58	$69	$81	$92	$104	$115
80%	$26	$40	$53	$66	$79	$92	$105	$119	$132
90%	$30	$44	$59	$74	$89	$104	$119	$133	$148
100%	$33	$49	$66	$82	$99	$115	$132	$148	$165

Source: BTIG Estimates and Company Reports

Additionally, Shellpoint subservices MSRs for third-parties which creates a source of capital light revenue and profits levering the company's servicing capabilities and diversifying revenue sources. As of 2Q19, Shellpoint subserviced $51.1B of UPB and realized $32.8M in revenue during the period, in the last 12 months, Shellpoint generated $126M in subservicing revenue from third-parties.

Exhibit 12: Shellpoint Servicing/Subservicing for NewRez/NRZ and 3rd Parties ($ in billions)



Source: BTIG Estimates and Company Reports

As of 2Q19, Shellpoint serviced $159B of UPB and management estimated the platform's FY19 servicing capacity was approximately $200B of UPB. In our model we have Shellpoint reaching $199B of servicing UPB in 4Q19, increasing to $218B and $238B in FY20 and FY21 respectively. If Shellpoint is able to add additional servicing capacity in FY20 and beyond, NRZ could shift more UPB onto the platform recapturing the subservicing profits internally.

If NRZ is successful in closing the acquisition of Ditech, we believe it would materially increase the company's internal servicing capacity and would allow NRZ to service more UPB internally capturing the subservicing economics. At 2Q19, Ditech subserviced ~$15.8B of MSR UPB for NRZ.

Building out a comprehensive suite of ancillary services to capture revenues and profits associated with the origination and servicing businesses that had been previously sourced from third-party providers.

In addition to servicing and originations capabilities, New Residential has also expanded into ancillary services as a means of capturing a larger share of the overall servicing revenues and profits associated with the company's MSR assets. As part of the servicing and originations processes, there are a number of additional services that can either be sources from a third-party provider or an internal business.

Examples:

The servicer of a mortgage is required to preserve the property during a foreclosure process. This often involves field services, for example: repairing damage to the home or performing recurring maintenance. During the foreclosure process, the servicer would also hire an REO broker or a provider of foreclosure auction services to assist in the sale of the property.

On the originations side, property appraisals, title and other closing services are almost always required during the origination process. As an originator/servicer, these services can either be sourced from a third-party provider or an internal business that provides these services. In some cases, referral agreements can be a way to capture a portion of the economics by receiving a referral commission.

Over the past few years, NRZ has built out a comprehensive suite of ancillary services by acquiring businesses or entering into partnerships. eStreet and Avenue 365 were both acquired as part of the Shellpoint acquisition.

Exhibit 13: NRZ ancillary services partnerships and investments

Company	Ownership / Partnership	Date	Products and Services
Covius	25%	May-19	Origination Solutions (Credit, Verification, Flood, Title) Servicing and Capital Markets (Document management Loan modification, REO management, auction)
eStreet	100%	Jul-18	Appraisal services
Avenue 365	100%	Jul-18	Title and Closing services
Altisource	Cooperative Brokerage Agreement	Aug-17	REO brokerage services
Auction.com	Workshare Agreement	Apr-19	Foreclosure auction services
Matic	Joint Marketing Program	Jun-19	Voluntary Hazard/Homeowners, Voluntary Flood and Automobile Insurance
Guardian Asset Management	100%	Aug-19	Field Services (Inspections, Property preservation, Repairs, REO management, Hazard claims)

Source: BTIG and Company Reports

Covius – NRZ made a strategic investment in Covius Holdings in May 2019. NRZ will initially own 25% of Covius with the potential to increase its stake to 65% over the next few years. Covius is an equity investment and will operate as an independent business. Covius provides a range of technology enabled origination and servicing solutions.

Guardian Asset Management – NRZ entered into an agreement to acquire 100% of Guardian, a national provider of field services and property management on August 19th, 2019. Guardian provides a range of field services: property inspections, property preservation, repairs, REO property management and hazard claims.

Neither the acquisition price or the revenues/profits of Guardian were disclosed during the announcement. Mr. Cooper Group (COOP, Buy, $21 PT) acquired Assurant Mortgage Solutions (AMS), a provider of field services during 3Q18 and prior to the acquisition, during Nationstar's (now Mr. Cooper) 2Q18 conference call management estimated the potential revenue opportunity by shifting internal field services orders to AMS could be around $100M. In 2Q19, COOP's servicing and subservicing UPB was approximately $497B.

NRZ owns $441B of Full MSR UPB, slightly less than COOP had at the time but NRZ's portfolio has a higher concentration of non-agency loans with higher delinquency and default rates that are likely to result in a foreclosure and trigger the need for field services to be performed.

Field services are a hedge against MSRs because the demand for field service orders falls when the economy is performing well due to lower default and foreclosure rates. Whereas field service orders tend to increase when delinquency and default rates rise. This provides a hedge against higher servicing costs associated with delinquent loans and properties in the process of foreclosure.

With the acquisition of Guardian and the investment in Covius, New Residential has a comprehensive suite of ancillary service businesses and partners covering the majority of the potential sources of ancillary service revenue. We believe this strategy is a positive development for the NRZ servicing platform and will increase the returns of the company's MSR investments over time.

Beyond the ability to recapture the revenues and profits from ancillary services internally, these platforms also provide services for other mortgage servicers that do not have the internal capabilities. Over time, NRZ cold leverage these platforms to source additional ancillary service revenues from other services on MSRs the company does not have an economic interest in.

Call rights are an underappreciated asset with no basis that have the potential to generate significant value over the next few years and offset some of the interest rate impact on the MSR portfolio.

NRZ controls the call rights on approximately $106B of mortgage collateral representing approximately 34% of the non-agency mortgage market. Callable collateral increased to $42.4B in 2Q19 due to improved delinquency trends and lower interest rates. Since inception, NRZ has called 486 deals with $13.2B of UPB.

A call right gives the servicer the right to call the remaining collateral in a securitization once the UBP falls below a pre-determined threshold. Call rights are a differentiated way to acquire mortgage loans at a discount price. Once called, NRZ has historically sold a portion of the called loans into securitizations and retained the bonds issued by those securitizations or holds the loans.

Lower interest rates should continue to improve the economics of call rights driving increased earnings contribution from NRZ's call right portfolio in the near-term. Historically, call rights have contributed about $0.03 to quarterly core earnings and are lumpy based on the timing of called transactions.

Beyond the ability to call assets at accretive prices and realize gains by securitizing the called loans, the call rights are an internal way to source high-return assets. During 2Q19, called loans accounted for 36% of the $3.0B of residential mortgage loans acquired by NRZ. In July 2019, the company issued $389M NRZT 2019-3 collapse securitization.

MSR interest rate sensitivity and offset by Agency & Non-Agency RMBS, Residential Mortgage Loans and increased hedging activity.

	MSRs & Servicer Advances	Residential Securities & Call Rights	Residential Loans	Consumer Loans
Net Equity Investment	$3,042M	$2,114M	$1,084M	$68M
% of Portfolio	45%	32%	16%	1%
Targeted Lifetime Net Yield	MRSs: 12-18% Advances: 15-25%	12-20%	15%+	15%+

Source: BTIG and Company Reports

As interest rates have continued to decline, the value of NRZ's MSR assets have declined due to increased prepayment speed assumptions. On the other side, the value of RMBS securities and residential mortgage loans have appreciated offsetting some of the MSR rate sensitivity. During 2Q19, management noted that NRZ was fully hedged against changes in interest rates because the company believed that the low interest rate environment would persist.

As the value of MSR assets have decreased and NRZ has continued to increase investments in Non-Agency RMBS and Residential loans, the equity of those segments has increase on a dollar basis and as a percentage of total equity. In 1Q19, the equity of the Residential Securities and Residential loans segments accounted for 45% of total equity and increased by 300 bps sequentially to 48% in 2Q19. This shift towards larger investments in mortgage securities decreases NRZ's gross exposure to interest rate changes due to the inverse rate impact on MSRs and mortgage loans.

While there is a cost associated with hedging, we view this as a positive development that should address some of the markets concerns about interest rate sensitivity and the potential impacts of lower interest rates on NRZ's MSR portfolio.

Diversifying sources of equity funding and returning capital through share repurchases.

Equity capital diversification – Over the past few months, NRZ issued the company's first and second two fixed-to-floating preferred stock offerings, $155M of 7.5% Series A preferred stock and $282.5M of 7.125% Series B preferred stock. Combined, the two transactions raised $438M with at a blended dividend yield of just under 7.3%. These transactions provide a new source of equity capital and add additional equity capital diversification.

Pro forma for these capital raises, preferred equity accounts for approximately 6.4% of total equity capital. We believe NRZ has additional room to continue raising preferred equity capital. We note that other public mREITs have up to about 20% of equity in the form of preferred equity.

Given that NRZ shares currently trade at a discount to book value and have a dividend yield of 14.3%, the cost of issuing common shares is too high between the dilutive price and the dividend cost. So long as NRZ shares trade at a discount to book value and the company is able to issue preferred stock, we believe NRZ will favor preferred stock issuances if the company need to raise capital to fund asset or company acquisitions.

The added source of capital also has the benefit of a lower dividend cost that is over 700 bps below the current dividend yield on NRZ common stock. And if NRZ should still have the ability to raise equity capital to fund potential investments even if the company's shares are trading at a discount to book value.

Share repurchases – On August 20th, NRZ's board of directors authorized a $200M share repurchase authorization valid through end of FY20. NRZ management noted that they did not believe the company's share price was reflective of the company's value, highlighting management's confidence in the business and goal of driving shareholder value.

From a capital allocation perspective, using $200M of the preferred equity raised to retire common shares at a discount to book value would have a dual benefit because of the accretive price and the lower dividend cost.

While it is likely not the company's primary strategy, if NRZ spent the current $200M share repurchase authorization at an average price of $14 per share and was able to continue issuing preferred stock with a 7.125% dividend yield to repurchase common shares at $14 until preferred stock accounted for 20% of total equity capital. The result would be a $0.36 or 2.2% increase in book value per share and the lower dividend payout on the preferred stock would free up approximately $0.24 per share of additional annualized dividend capacity assuming the dollar amount spent on dividends remains constant.

Judge's denial of Ditech's chapter 11 plan of reorganization presents an obstacle but does not close the door on a deal. We believe NRZ has leverage in potential negotiations to satisfy concerns highlighted in the ruling.

On June 17, 2019, New Residential entered into a stalking horse Asset Purchase Agreement (APA) to purchase nearly all of the forward assets of Ditech. As of 2Q19, Ditech's had ~$63B UPB of MSRs including $36B of FNMA MSRs, $20B of GNMA MSRs and $6B of MH/PLS MSRs. In addition to the MSR assets, NRZ would have acquired $418M of par balance servicer advances, $44M of mortgages/REO assets and a $2.2B owned recovery portfolio.

In a ruling released on August 28th, 2019, United States Bankruptcy Judge James Garrity, Jr. ruled that the creditors had failed to satisfy sections 1129(a)(1)-(3) of the Bankruptcy Code because the plan would limit consumer creditor's ability to recoup on their claims against the buyers.

A Bloomberg news report noted that during a status conference held on September 4th, 2019, Ditech's lawyer told the court that negotiations to resolve the issues were ongoing with the buyers and that they were negotiating a way to complete the sales of the Ditech businesses by the end of the month.

The denial ruling noted that NRZ went "pencils down" when the Debtors attempted to solicit a bid that includes an assumption of the consumer claim liabilities. From a negotiating strategy perspective, we believe NRZ's decision not to engage in negotiations that would include the assumption of an unquantified potential liability was the best decision at the time.

The Ditech creditors likely have an incentive to continue negotiating a deal with NRZ because a Chapter 7 liquidation would be costly, time consuming and the value they could realize would be unpredictable. The consumer claims would survive a Chapter 7 liquidation which would effectively put the creditors in a similar position had they assumed the liability for the consumer creditor claims as part of the purchase process.

While we can only speculate what a hypothetical structure/outcome may look like, there are a number of options:

- The creditors could assume the consumer claims and set funds aside to satisfy future claims out of the proceeds received from NRZ.
- The creditors and NRZ may agree to an economic share of potential consumer claims.
- NRZ could opt to pay a lower price and assume the consumer credit claims. We do not believe this is the most likely outcome.
- Ditech could enter Chapter 7 and liquidate. NRZ or another entity could purchase the assets during the liquidation process.

We believe NRZ was and continues to be the best suited counterparty to acquire the forward assets of Ditech because of the operating platform and the size of the portfolio. The original deal had a price adjustment mechanism in place to determine the final sale price of the assets based on the interest rate environment. We would expect any future transaction to include a similar or the same pricing mechanism that would protect NRZ by reducing the price of the MSRs to account for the lower interest rate environment. If the transaction is consummated at a later date, it should not have a material impact on the forward returns NRZ can generate on the assets.

Originations are a recurring source of cheaper MSR creation and replenishment – Beyond the MSR assets, NRZ also planned to acquire Ditech's originations platform. We believe the origination platform would have significant value to NRZ because it would provide an additional source of originations and MSR manufacturing. While NewRez's origination volumes have increased materially since the acquisition of Shellpoint, the company is forecasting $18B or origination volume for FY19. This would only replenish a small portion of MSR runoff from the $576B portfolio at that rate. During NRZ's 2Q19 conference call, management noted they believed they could originate between $40B and $50B in FY20 assuming they could close the Ditech deal in the near-term.

In Exhibit 13 below, we present estimated MSR replenishment cost savings for a range of gain on sale margin and volume assumptions. For example, if NRZ is able to originate an additional $20B of volume by acquiring Ditech's originations platform at a 40 bps profit margin, the cost savings of replenishing that $20B in MSR UPB with originations would be $80M per year. Those savings would increase to $100M per year for $20B at a 50 bps margin. For context, $100M in cost savings would free up approximately $0.24 of annual cash flow per share.

While it may take some time to ramp up the combined platform and operate at healthy originations margins, the value of reducing the cost of replenishing the MSR portfolio could be a material source of cost savings NRZ could redeploy into new investments or return to shareholders.

Exhibit 13: MSR replenishment cost savings model (in millions)

	0 bps	10 bps	20 bps	30 bps	40 bps	50 bps	60 bps	70 bps	80 bps
$10B	$0	$10	$20	$30	$40	$50	$60	$70	$80
$12B	$0	$12	$24	$36	$48	$60	$72	$84	$96
$14B	$0	$14	$28	$42	$56	$70	$84	$98	$112
$16B	$0	$16	$32	$48	$64	$80	$96	$112	$128
$18B	$0	$18	$36	$54	$72	$90	$108	$126	$144
$20B	$0	$20	$40	$60	$80	$100	$120	$140	$160
$22B	$0	$22	$44	$66	$88	$110	$132	$154	$176
$24B	$0	$24	$48	$72	$96	$120	$144	$168	$192
$26B	$0	$26	$52	$78	$104	$130	$156	$182	$208
$28B	$0	$28	$56	$84	$112	$140	$168	$196	$224
$30B	$0	$30	$60	$90	$120	$150	$180	$210	$240

Source: BTIG Estimates and Company Reports

Valuation

Our $18 price target is based on 1.1X New Residential's book value per share of $16.17 as of 2Q19. We believe NRZ shares should trade at a premium to book value for a few reasons: the value of cleanup call rights is not reflected in book value and subservicing performed for third-parties is not reflected in book value. Going forward, it is fair to assume that many of the ancillary business owned by NRZ which are likely to see material revenue and profit growth as the company steers orders to internal platforms which will be accretive to earnings and ROE, but not book value. These sources of additional earnings and cash flow provide a lift to NRZ's ROE because they add to net income with minimal book value.

NRZ currently trades at 0.87X 2Q19 book value of $16.17 per share, one of the lowest multiples of BV NRZ have ever traded. At these levels, the market is either implying a hit to book value or a dividend cut which we believe is unlikely at this stage.

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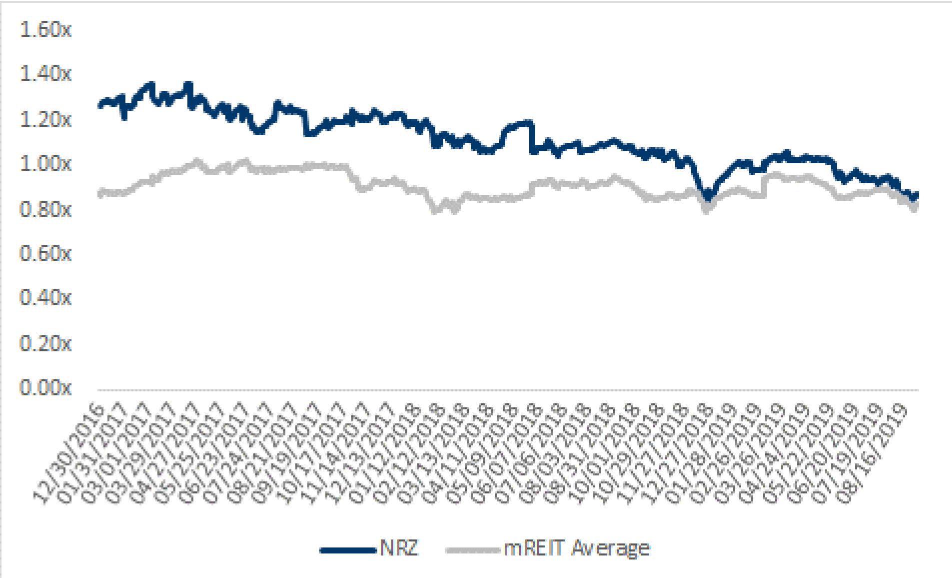
Since the beginning of FY17, NRZ had traded at an average price to book value multiple of 1.11X, compared to the mREIT sector (excluding NRZ) that traded at an average of 0.91X over the same time period. On average, NRZ traded at a 0.20X P/BV premium compared to peers over that time period. Over the past few months, NRZ's premium over industry comps has eroded and stands at 0.04X as of 09/04/2019.

Exhibit 14: NRZ and mREIT peer group average price to book value



Source: BTIG Estimates and FactSet Data

Risks

Interest rate risks – Many of the assets and businesses NRZ owns or operates are interest rate sensitive. MSRs, RMBS, residential mortgage loans, mortgage originations and consumer lending.

Credit risks – NRZ's investments in MSRs, RMBS, Residential Mortgages and Consumer loans may be adversely impacted if consumer credit performance deteriorates.

Execution risks – NRZ has historically been acquisitive and faces risks related to the integration and growth of acquired assets and businesses.

Funding and liquidity risks – NRZ relies on regular access to the capital markets to fund the company's operations and regularly securitizes assets.

Regulatory risks – NRZ's operates in multiple regulated businesses and invests in assets that are regulated my multiple state and federal agencies. NRM and Shellpoint are licensed mortgage servicers eligible to servicer GSE mortgages and a loss of those licenses would have an adverse impact on NRZ's business. Additionally, a potential privatization of Fannie Mae and Freddie Mac could have unknown impacts on mortgage servicers.

The inability to effectively source assets – NRZ's primary assets is the company's investment in MSRs. Since NRZ does not originate/create sufficient MSRs internally, the company relies on purchasing significant amounts of MSRs from third-parties to replenish portfolio runoff and grow MSR balances.

Counterparty risks – NRZ has enters into subservicing agreements with several counterparties and has concentration risk. In some cases, counterparties retain the legal title to the MSR or have significant control over the performance of the MSR asset.

Macroeconomic risks – NRZ would be adversely impacted if the macroeconomic environment deteriorates**.**

Risks related to taxation – NRZ is structured as a REIT and is required to distribute 90% of taxable income. As the company has built out operating businesses and made investments in consumer loans which are help in taxable REIT subsidiaries (TRS).

Management

Michael Nierenberg – Board Chairman, Chief Executive Officer and President – Nierenberg was appointed as NRZ's Chairman of the Board in May 2016, and Chief Executive Officer and President in November 2013. Prior to becoming CEO of NRZ, Nierenberg served as managing director and head of Global Mortgages and Securitized Products at Bank of America Merrill Lynch. Nierenberg joined Bank of America Merrill Lynch in November 2008 from JP Morgan, where he was head of Global Securitized Products and a member of the management committee of the investment bank. Prior to JP Morgan, Nierenberg held a range of senior leadership positions during fourteen years with Bear Stearns. Nierenberg spent seven years at Lehman Brothers prior to joining Bear Stearns.

Nick Santoro – Chief Financial Officer – Santoro is the Chief Financial Officer of New Residential. Prior to becoming the Chief Financial Officer of New Residential, Mr. Santoro was employed by FXCM, Inc. from 2012 to September 2015, and served as Chief Accounting Officer where he was responsible for directing financial reporting, accounting, tax and financial planning activities. From 2005 through 2012, Santoro was employed by the Financial Guaranty Insurance Company, serving as principal financial officer from November 2008.

David Schneider – Chief Accounting Officer – Schneider is the Chief Accounting Officer of New Residential. He has been a Senior Vice President at Fortress since 2014, focused on the financial reporting, internal controls and subservicer oversight. Schneider began his career at Deloitte & Touche LLP where he spent over seven years performing financial statement audits of global investment banks. Prior to joining Fortress, Schneider was a vice president at JPMorgan Chase, where he advised on the structuring of securitizations and MSR transfers. Schneider earned a bachelor's degree in Accounting from Fordham University and is a Certified Public Accountant licensed in the state of New York.

Income Statement

NRZ - Operating Model	Dec-16	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21
$ millions	*2016A*	*2017A*	*1Q18A*	*2Q18A*	*3Q18A*	*4Q18A*	*2018A*	*1Q19A*	*2Q19A*	*3Q19E*	*4Q19E*	*2019E*	*1Q20E*	*2Q20E*	*3Q20E*	*4Q20E*	*2020E*	*1Q21E*	*2Q21E*	*3Q21E*	*4Q21E*	*2021E*
Interest income	1,076.7	1,519.7	383.6	403.8	425.5	451.3	1,664.2	438.9	416.0	433.4	429.4	1,717.8	427.8	425.6	422.9	421.3	1,697.6	419.2	417.7	417.8	418.5	1,673.1
Interest expense	373.4	460.9	124.4	133.9	162.8	185.3	606.4	212.8	228.0	234.0	230.6	905.4	222.7	221.1	220.0	219.1	882.9	218.8	219.2	219.9	220.6	878.6
Net interest income	**703.3**	**1,058.8**	**259.2**	**269.9**	**262.7**	**266.0**	**1,057.8**	**226.0**	**188.0**	**199.4**	**198.9**	**812.3**	**205.1**	**204.6**	**202.9**	**202.2**	**814.8**	**200.4**	**198.5**	**197.8**	**197.9**	**794.5**
Other-than-temporary impairment (OTTI) on securities	10.3	10.3	6.7	12.6	3.9	6.8	30.0	7.5	8.9	8.9	9.0	34.2	9.0	9.0	9.0	9.0	36.0	9.0	9.0	9.0	9.0	36.1
Valuation and loss provision on loans and real estate owned	77.7	75.8	19.0	3.7	5.5	32.5	60.6	5.3	13.5	8.9	8.8	36.4	7.6	6.2	5.1	4.9	23.7	4.1	3.3	2.8	2.6	12.7
Impairments	**88.0**	**86.1**	**25.7**	**16.3**	**9.4**	**39.3**	**90.6**	**12.8**	**22.3**	**17.8**	**17.8**	**70.7**	**16.6**	**15.2**	**14.1**	**13.9**	**59.7**	**13.1**	**12.3**	**11.8**	**11.6**	**48.8**
Net interest income afterimpairment	**615.3**	**972.7**	**233.5**	**253.6**	**253.4**	**226.7**	**967.1**	**213.2**	**165.7**	**181.6**	**181.1**	**741.7**	**188.5**	**189.4**	**188.8**	**188.4**	**755.1**	**187.3**	**186.2**	**186.0**	**186.2**	**745.7**
Servicing revenue	118.2	424.3	217.2	146.2	175.4	-10.2	528.6	165.9	-85.5	155.5	143.7	379.5	161.8	142.4	144.8	170.3	619.4	173.4	152.8	155.3	182.1	663.6
Gain on sale of originated mortgage loans		0.0	0.0	0.0	45.7	43.3	89.0	44.0	49.5	96.0	96.0	285.5	73.6	81.4	81.4	71.3	307.6	73.4	81.1	81.1	73.4	309.0
Total other income	**62.3**	**207.8**	**264.5**	**-96.8**	**-83.3**	**-128.7**	**-44.3**	**-40.8**	**25.6**	**-49.4**	**-41.0**	**-105.7**	**-45.4**	**-44.4**	**-42.6**	**-48.5**	**-180.9**	**-49.0**	**-57.9**	**-57.8**	**-49.2**	**-213.9**
General and administrative expenses	38.6	67.2	20.0	20.6	98.6	92.4	231.6	98.9	118.9	124.2	126.2	468.2	122.0	122.5	122.8	123.8	491.0	123.8	126.0	127.5	128.5	505.9
Management fee to affiliate	41.6	55.6	15.1	15.5	15.5	16.6	62.6	18.0	19.6	19.3	20.4	77.3	20.0	20.0	20.0	20.1	80.1	20.1	20.2	20.2	20.2	80.7
Incentive compensation to affiliate	42.2	81.4	14.6	26.7	23.8	29.7	94.9	13.0	0.0	13.8	13.6	40.3	14.4	13.7	14.0	14.9	57.0	15.2	13.9	14.1	15.6	58.9
Loan servicing expense	44.0	52.3	11.5	11.0	11.1	9.9	43.5	9.6	9.4	6.9	6.9	32.8	6.2	5.6	5.0	4.5	21.2	3.6	2.9	2.3	1.8	10.6
Subservicing expense	7.8	166.1	46.6	46.0	43.1	41.1	176.8	40.9	54.0	51.2	50.8	196.9	47.4	45.6	43.9	43.1	180.1	42.2	41.2	40.1	39.2	162.7
Operating expenses	**174.2**	**422.6**	**107.8**	**119.8**	**192.1**	**189.7**	**609.4**	**180.4**	**201.9**	**215.4**	**217.9**	**815.5**	**210.0**	**207.4**	**205.7**	**206.3**	**829.5**	**205.0**	**204.2**	**204.2**	**205.4**	**818.8**
Income before taxes	**621.6**	**1,182.3**	**607.5**	**183.2**	**199.0**	**-58.6**	**931.1**	**201.9**	**-46.6**	**168.3**	**161.9**	**485.5**	**168.5**	**161.4**	**166.7**	**175.1**	**671.7**	**180.2**	**158.0**	**160.5**	**187.0**	**685.7**
Income tax expense (benefit)	38.9	167.6	-6.9	-2.6	3.6	-67.5	-73.4	46.0	-21.6	5.4	5.1	35.0	5.4	4.5	4.7	6.0	20.6	6.3	5.1	5.2	6.6	23.1
Net income	**582.7**	**1,014.7**	**614.4**	**185.8**	**195.5**	**8.9**	**1,004.5**	**155.9**	**-25.0**	**162.8**	**156.8**	**450.5**	**163.1**	**156.8**	**161.9**	**169.2**	**651.1**	**173.9**	**152.9**	**155.3**	**180.5**	**662.6**
Noncontrolling interests in income of consolidated subsidiaries	78.3	57.1	10.1	11.1	10.9	8.5	40.6	10.3	6.9	7.1	5.6	30.0	4.2	7.7	7.8	1.3	20.9	0.8	0.4	0.1	-0.1	1.1
Net income attributable to common shareholders	**504.5**	**957.5**	**604.3**	**174.8**	**184.6**	**0.3**	**964.0**	**145.6**	**-31.9**	**155.7**	**151.2**	**420.5**	**159.0**	**149.1**	**154.2**	**167.9**	**630.1**	**173.1**	**152.6**	**155.2**	**180.6**	**661.5**
GAAP EPS - Basic	**$2.12**	**$3.17**	**$1.83**	**$0.52**	**$0.54**	**$0.00**	**$2.82**	**$0.37**	**-$0.08**	**$0.38**	**$0.37**	**$1.04**	**$0.40**	**$0.37**	**$0.38**	**$0.42**	**$1.57**	**$0.43**	**$0.38**	**$0.39**	**$0.45**	**$1.65**
GAAP EPS - Diluted	**$2.12**	**$3.15**	**$1.81**	**$0.51**	**$0.54**	**$0.00**	**$2.81**	**$0.37**	**-$0.08**	**$0.38**	**$0.37**	**$1.04**	**$0.40**	**$0.37**	**$0.38**	**$0.42**	**$1.57**	**$0.43**	**$0.38**	**$0.39**	**$0.45**	**$1.65**
Core EPS - Diluted	**$2.14**	**$2.83**	**$0.58**	**$0.58**	**$0.63**	**$0.58**	**$2.38**	**$0.53**	**$0.53**	**$0.54**	**$0.54**	**$2.13**	**$0.55**	**$0.52**	**$0.54**	**$0.57**	**$2.18**	**$0.58**	**$0.53**	**$0.54**	**$0.60**	**$2.25**
Shares outstanding - basic	238.1	302.2	330.4	336.3	340.0	358.3	341.3	388.3	415.5	412.1	405.3	405.3	401.8	401.8	401.8	401.8	401.8	401.8	401.8	401.8	401.8	401.8
Shares outstanding - diluted	238.5	304.4	333.4	339.5	340.9	358.5	343.1	388.6	415.7	412.3	405.5	405.5	402.0	402.0	402.0	402.0	402.0	402.0	402.0	402.0	402.0	402.0
Net income attributable to common stockholders	**504.5**	**957.5**	**604.3**	**174.8**	**184.6**	**0.3**	**964.0**	**145.6**	**-31.9**	**155.7**	**151.2**	**420.5**	**159.0**	**149.1**	**154.2**	**167.9**	**630.1**	**173.1**	**152.6**	**155.2**	**180.6**	**661.5**
Impairments	88.0	86.1	25.7	16.3	9.4	39.3	90.6	12.8	22.3	17.8	17.8	70.7	16.6	15.2	14.1	13.9	59.7	13.1	12.3	11.8	11.6	48.8
Change in fair value of investmnet in excess mortgage servicing rights	7.3	-4.3	45.7	5.3	4.7	2.9	58.7	-4.6	8.5	0.0	0.0	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value of investments in excess mortgage servicing rights, equity met	-16.5	-12.6	-0.5	-1.7	-3.4	-2.7	-8.4	-2.6	3.3	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value of investments in mortgage servicing rights financing receivabl	0.0	-109.6	-319.8	62.3	39.3	-11.1	-229.3	-6.5	15.2	0.0	0.0	8.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value of servicer advance investments	7.8	-84.4	79.5	1.8	5.4	2.8	89.3	-7.9	-1.4	0.0	0.0	-9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in the fair value of investments in residential mortgage loans	0.0	0.0	0.0	0.0	0.0	-73.5	-73.5	-14.6	-95.0	0.0	0.0	-109.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain on consumer loan investment	-9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Gain) loss on settlement of investments	-71.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain (loss) on settlement of investments, net	48.8	-10.3	-103.3	-14.7	11.9	2.2	-103.8	27.3	-29.6	0.0	0.0	-2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unrealized (gain) loss on derivative instruments	-5.8	2.2	-2.4	-1.2	-24.3	141.5	113.6	23.8	36.7	0.0	0.0	60.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unrealized (gain) loss on other ABS	2.3	-2.9	0.3	-5.1	-7.2	1.7	-10.3	-6.7	-7.4	0.0	0.0	-14.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Gain) loss on transfer of loans to REO	-18.4	-22.9	-4.2	-6.3	-6.1	-2.9	-19.5	-5.0	-1.6	0.0	0.0	-6.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Gain) loss on transfer of loans to other assets	-2.9	-0.5	-0.1	0.2	1.5	0.3	2.0	0.5	-0.2	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Gain) loss on Excess MSRs	-2.8	-2.4	-2.9	-1.4	-1.0	4.3	-1.0	-0.3	-0.9	0.0	0.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Gain) loss on Ocwen common stock	0.0	-5.3	-5.8	1.0	0.1	15.5	10.9	-2.8	-1.5	0.0	0.0	-4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (income) loss	9.4	27.7	5.1	2.9	17.8	2.9	28.7	1.6	5.5	0.0	0.0	7.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total other income adjustments	**-52.0**	**-225.4**	**-308.4**	**43.0**	**38.8**	**84.0**	**-142.6**	**2.2**	**-68.4**	**0.0**	**0.0**	**-66.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Other income and impairment attributable to non-controlling interests	-26.3	-30.4	-6.6	-5.9	-4.6	-5.2	-22.2	-2.4	-5.6	-3.6	-2.8	-14.4	-2.1	-3.9	-3.9	-0.6	-10.5	-0.4	-0.2	0.0	0.1	-0.6
Change in fair value of investments in MSRs	-103.7	-155.5	-129.8	-52.6	-44.2	160.9	-65.7	-15.8	229.3	0.0	0.0	213.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Gain) loss on settlement of mortgage loan origination derivative instruments	0.0	0.0	0.0	0.0	2.8	-4.0	-1.2	0.0	29.7	0.0	0.0	29.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain on securitization of originated mortgage loans	0.0	0.0	0.0	0.0	0.0	8.8	8.8	15.8	24.9	23.7	24.0	88.4	20.0	23.5	23.6	20.3	87.4	20.6	22.8	23.0	19.7	86.1
Non-capitalized transaction-related expenses	9.5	21.7	7.1	6.4	5.3	3.2	21.9	6.9	9.3	0.0	0.0	16.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incentive compensation to affiliate	42.2	81.4	14.6	26.7	23.8	29.7	94.9	13.0	0.0	13.8	13.6	40.3	14.4	13.7	14.0	14.9	57.0	15.2	13.9	14.1	15.6	58.9
Deferred taxes	34.8	168.5	-9.1	-1.8	-1.9	-67.4	-80.1	46.3	-21.6	0.0	0.0	24.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest income on residential mortgage loans - HFS	18.4	13.6	4.3	2.6	5.9	0.6	13.4	2.3	23.9	13.6	13.5	53.3	13.4	13.2	13.1	13.1	52.8	13.0	12.8	12.7	12.7	51.2
Limit on RMBS discount accretion related to called deals	-30.2	-28.7	-4.3	-5.9	-2.9	-45.5	-58.6	-19.6	0.0	0.0	0.0	-19.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjust consumer loans to level yield	7.5	-41.3	-5.9	-9.2	-6.8	0.7	-21.2	-4.9	7.8	0.0	0.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excess MRSs - core earnings equity method investees	18.2	13.7	2.6	3.4	4.5	2.7	13.2	2.0	0.1	0.0	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Core earnings	**510.8**	**861.4**	**194.5**	**197.7**	**214.7**	**208.3**	**815.2**	**204.3**	**219.8**	**221.0**	**217.2**	**862.3**	**221.2**	**210.9**	**215.1**	**229.4**	**876.6**	**234.6**	**214.3**	**216.8**	**240.3**	**906.0**
Diluted EPS - Core Earnigns	**$2.14**	**$2.83**	**$0.58**	**$0.58**	**$0.63**	**$0.58**	**$2.38**	**$0.53**	**$0.53**	**$0.54**	**$0.54**	**$2.13**	**$0.55**	**$0.52**	**$0.54**	**$0.57**	**$2.18**	**$0.58**	**$0.53**	**$0.54**	**$0.60**	**$2.25**
Book value per share	12.47	15.26	16.85	16.80	16.87	16.25	16.25	16.42	16.17	16.19	16.24	16.24	16.24	16.25	16.27	16.32	16.32	16.38	16.39	16.41	16.48	16.48
Core ROE	15.9%	19.7%	14.7%	13.7%	14.8%	14.0%	14.4%	12.6%	12.8%	13.1%	13.2%	13.1%	13.6%	12.9%	13.2%	14.0%	13.4%	14.3%	13.0%	13.2%	14.6%	13.8%
Dividend per common share	$1.84	$1.98	$0.50	$0.50	$0.50	$0.50	$2.00	$0.50	$0.50	$0.50	$0.50	$2.00	$0.50	$0.50	$0.50	$0.50	$2.00	$0.50	$0.50	$0.50	$0.50	$2.00
Dividends paid	443	609	168	170	170	185	693	208	208	214	211	840	209	209	209	209	835	209	209	209	209	835

Source: BTIG Estimates and Company Documents

BTIG Covered Companies Mentioned in this Report

NEW RESIDENTIAL INVESTMENT CORP (NRZ, Buy, $18.00 PT; Current Price: $14.10; Analyst: Giuliano.Bologna)
MR. COOPER GROUP INC. (COOP, Buy, $21.00 PT; Current Price: $8.38; Analyst: Giuliano.Bologna)

Appendix: Analyst Certification and Other Important Disclosures

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