

Altisource Residential Corp
Form 10-Q
April 29, 2014

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014

OR

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

COMMISSION FILE NUMBER: 001-35657

Altisource Residential Corporation
(Exact name of registrant as specified in its charter)
MARYLAND 46-0633510
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

c/o Altisource Asset Management Corporation
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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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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 April 25, 2014, 57,115,023 shares of our common stock were outstanding.

Altisource Residential Corporation

March 31, 2014

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References in this report to "we," "our," "us," or the "Company" refer to Altisource Residential Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to "AAMC" refer to Altisource Asset Management 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 these 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;
- our ability to make distributions to our stockholders;
- the impact of changes to the supply of, value of and the returns on sub-performing and non-performing loans;
- our ability to convert loans to rental properties generating attractive returns;
- our ability to predict our costs;
- our ability to effectively compete with our competitors;
- our ability to apply the proceeds from financing activities to target assets in a timely manner;
- changes in interest rates and the market value of the collateral underlying our sub-performing and non-performing loan portfolios or acquired properties;
- our ability to obtain and access financing arrangements on favorable terms, or at all;
- our ability to retain our exclusive engagement of AAMC;
- the failure of Altisource to effectively perform its obligations under various agreements with us;
- the failure of Ocwen to effectively perform its servicing obligations under the Ocwen servicing agreement;
- our failure to qualify or maintain qualification as a REIT;
- our failure to maintain our exemption from registration under the Investment Company Act;
- the impact of adverse real estate, mortgage or housing markets;
- the impact of adverse legislative or regulatory tax changes; and
- general economic and market conditions.

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 "Item 1A. Risk factors" in our annual report on Form 10-K for the year ended December 31, 2013.

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Part I

Item 1. Financial statements (unaudited)

Certain information contained herein is presented as of April 25, 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 Residential Corporation

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	March 31, 2014	December 31, 2013
Assets:		
Real estate assets, net:		
Land	\$1,367	\$478
Rental residential properties, net	6,488	3,092
Real estate owned	121,895	32,332
	129,750	35,902
Real estate assets held for sale	4,224	1,186
Mortgage loans	1,766,142	1,207,163
Cash and cash equivalents	48,022	115,988
Restricted cash	7,334	5,878
Accounts receivable	681	1,428
Related party receivables	10,444	9,260
Investment in affiliate	18,000	18,000
Deferred leasing and financing costs, net	1,808	2,293
Prepaid expenses and other assets	353	1,542
Total assets	\$1,986,758	\$1,398,640
Liabilities:		
Repurchase agreements	\$699,950	\$602,382
Accounts payable and accrued liabilities	5,835	4,952
Related party payables	12,540	5,879
Total liabilities	718,325	613,213
Commitments and contingencies (Note 6)		
Equity:		
Common stock, \$.01 par value, 200,000,000 authorized shares; 57,114,763 and 42,286,669 shares issued and outstanding, at March 31, 2014 and December 31, 2013, respectively	571	423
Additional paid-in capital	1,226,927	758,584
Retained earnings	40,935	26,420
Total equity	1,268,433	785,427
Total liabilities and equity	\$1,986,758	\$1,398,640

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2014	Three months ended March 31, 2013	
Rental revenues and net gain on investments:			
Rental revenues	\$ 69	\$—	
Net unrealized gain on mortgage loans	65,130	1,128	
Net realized gain on mortgage loans	9,321	387	
Total rental revenues and net gain on investments	74,520	1,515	
Expenses:			
Residential property operating expenses	1,050	—	
Real estate depreciation and amortization	48	—	
Mortgage loan servicing costs	11,437	392	
Interest expense	5,708	42	
Related party general and administrative	12,632	987	
General and administrative	1,392	1,078	
Total expenses	32,267	2,499	
Other income	108	—	
Income before income taxes	42,361	(984)
Income tax expense	448	—	
Net income (loss)	\$41,913	\$(984)
Earnings (loss) per share of common stock – basic:			
Earnings (loss) per basic share	\$0.78	\$(0.13)
Weighted average common stock outstanding – basic	53,436,108	7,810,708	
Earnings (loss) per share of common stock – diluted:			
Earnings (loss) per diluted share	\$0.77	\$(0.13)
Weighted average common stock outstanding – diluted	54,086,959	7,810,708	
Dividends declared per common share	\$0.48	\$—	

See accompanying notes to consolidated financial statements.

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Altisource Residential Corporation
Consolidated Statements of Stockholders' Equity
(In thousands, except share amounts)
(Unaudited)

	Common stock				
	Number of shares	Amount	Additional paid-in capital	Retained earnings	Total equity
December 31, 2013	42,286,669	\$423	\$758,584	\$26,420	\$785,427
Issuance of common stock, including stock option exercises	14,828,094	148	483,358	—	483,506
Cost of issuance of common stock	—	—	(15,071)	—	(15,071)
Dividends on common stock	—	—	—	(27,398)	(27,398)
Share-based compensation	—	—	56	—	56
Net income (loss)	—	—	—	41,913	41,913
March 31, 2014	57,114,763	\$571	\$1,226,927	\$40,935	\$1,268,433
	Common stock				
	Number of shares	Amount	Additional paid-in capital	Accumulated deficit	Total equity
December 31, 2012	7,810,708	\$78	\$99,922	\$(89)	\$99,911
Net loss	—	—	—	(984)	(984)
March 31, 2013	7,810,708	\$78	\$99,922	\$(1,073)	\$98,927

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Operating activities:		
Net income (loss)	\$41,913	(984)
Adjustments to reconcile net income to net cash used in operating activities:		
Net unrealized gain on mortgage loans	(65,130)	(1,128)
Net realized gain on mortgage loans	(9,321)	(387)
Net realized gain on real estate	(55)	—
Real estate depreciation, amortization and other non-cash charges	403	—
Share-based compensation	56	—
Amortization of deferred financing costs	608	30
Changes in operating assets and liabilities:		
Accounts receivable	747	—
Related party receivables	63	231
Prepaid expenses and other assets	(145)	(186)
Accounts payable and accrued liabilities	633	475
Related party payables	6,661	585
Net cash used in operating activities	(23,567)	(1,364)
Investing activities:		
Investment in mortgage loans	(611,357)	(88,257)
Investment in real estate	—	(278)
Investment in renovations	(447)	—
Real estate tax advances to borrowers	(6,259)	—
Mortgage loan dispositions	32,775	88
Mortgage loan payments	3,129	—
Disposition of real estate	734	—
Change in restricted cash	(1,456)	—
Net cash used in investing activities	(582,881)	(88,447)
Financing activities:		
Issuance of common stock, including stock option exercises	487,041	—
Cost of issuance of common stock	(15,071)	(73)
Dividends on common stock	(27,398)	—
Payment of tax withholdings on exercise of stock options	(3,535)	—
Proceeds from repurchase agreement	127,664	12,926
Repayments of repurchase agreement	(30,096)	—
Payment of deferred financing costs	(123)	(1,100)
Net cash provided by financing activities	538,482	11,753
Net increase/(decrease) in cash and cash equivalents	(67,966)	(78,058)
Cash and cash equivalents as of beginning of the period	115,988	100,005
Cash and cash equivalents as of end of the period	\$48,022	\$21,947
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$4,736	\$12

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Transfer of mortgage loans to real estate owned	\$96,528	\$156
Changes in accrued equity issuance costs	\$183	\$370
Changes in receivables from mortgage loan dispositions, payments and real estate tax advances to borrowers, net	\$1,247	\$1,858

See accompanying notes to consolidated financial statements.

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Altisource Residential Corporation
Notes to Consolidated Financial Statements
March 31, 2014
(Unaudited)

1. Organization and basis of presentation

Altisource Residential Corporation is a Maryland REIT formed in 2012. We are focused on acquiring, owning and managing single-family rental properties throughout the United States. We acquire our rental properties primarily through the acquisition of sub-performing and non-performing mortgage loan portfolios, which is a differentiated approach that we believe strategically positions us to take advantage of market opportunities better than market participants that are solely focused on real estate-owned (“REO”) acquisitions. We conduct substantially all of our activities through our wholly owned subsidiary Altisource Residential, L.P.

Our principal objective is to generate attractive risk-adjusted returns for our stockholders over the long term through dividends and capital appreciation. We believe that the events affecting the housing and mortgage market in recent years have created a significant rental demand for single-family properties. These events have also created a large supply of distressed mortgage loans for sale in the market. We believe we have an opportunity to acquire single-family properties through the acquisition of sub-performing and non-performing loan portfolios at attractive valuations. We expect our integrated approach of acquiring sub-performing and non-performing residential mortgage loans and converting them to rental properties will enable us to compete more effectively for attractive investment opportunities.

On December 21, 2012, which we refer to as the “separation date,” we separated from Altisource Portfolio Solutions S.A.

(“Altisource”) and became a stand-alone publicly traded company through the contribution to us by Altisource of \$100.0 million of equity capital and the distribution of our shares of common stock to the stockholders of Altisource. On the separation date, we entered into long-term service agreements with Ocwen Financial Corporation (“Ocwen”), a leading residential mortgage loan servicer, and with Altisource, a leading provider of real estate and mortgage portfolio management, asset recovery and customer relationship management services. We believe that our access to Ocwen’s servicing expertise and multifaceted resolution methodologies helps us maximize the value of our loan portfolios and provides us with a competitive advantage over other companies with a similar focus. We also believe that our relationship with Altisource and access to its nationwide vendor network enables us to competitively bid on large sub-performing or non-performing residential mortgage loan portfolios with assets dispersed throughout the United States.

We are managed by Altisource Asset Management Corporation (“AAMC”). We rely on AAMC for administering our business and performing certain of our corporate governance functions. AAMC also provides portfolio management services in connection with our acquisition and management of sub-performing and non-performing loans and REO properties. AAMC was formed on March 15, 2012 as a wholly owned subsidiary of Altisource and was spun off from Altisource into a stand-alone publicly traded company concurrently with our separation from Altisource.

On the separation date, we entered into long-term service agreements with Ocwen, a leading mortgage loan servicer, and Altisource, a leading provider of real estate and mortgage portfolio management, asset recovery and customer relationship management services.

Since December 21, 2012, we have completed three public equity offerings with aggregate net proceeds of approximately \$1.1 billion. On May 1, 2013, we completed a public offering of 17,250,000 shares of common stock at \$18.75 per share and received net proceeds of approximately \$309.5 million. On October 1, 2013, we completed our

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, we completed our 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.

On March 22, 2013, September 12, 2013 and September 23, 2013, we entered into three separate repurchase agreements to finance the acquisition and ownership of residential mortgage loans and REO properties. In December 2013, we increased the maximum aggregate funding available under our repurchase agreements by an additional \$325.0 million. The maximum aggregate funding available to us under these repurchase agreements as of March 31, 2013 was \$750.0 million, subject to certain sublimits, eligibility requirements and conditions precedent to each funding. On April 21, 2014, we increased the aggregate maximum borrowing capacity under the repurchase agreement dated as of March 22, 2013 from \$100.0 million to \$200.0 million, subject to certain sublimits. The maturity date of the repurchase agreement was also extended to April 20, 2015 subject to an additional one-year extension at the option of the lender. The repurchase agreement dated September 12, 2013, as

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amended, has an aggregate funding capacity of \$250.0 million and matures on March 11, 2016 and includes a provision that, beginning in the nineteenth month, we will not be able to finance mortgage loans in excess of amounts outstanding under the facility at the end of the eighteenth month. The repurchase agreement dated September 23, 2013, as amended, has an aggregate funding capacity of \$400.0 million and matures on March 23, 2015. All obligations under the repurchase agreements are fully guaranteed by us. As of March 31, 2014, an aggregate of \$700.0 million was outstanding under our repurchase agreements.

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 (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. 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.

Recently issued accounting standards

In January 2014, ASU 2014-04, Troubled Debt Restructurings by Creditors, was issued. 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.

2. Mortgage loans

Acquisitions

During the three months ended March 31, 2014, we completed the acquisition of the following portfolios of non-performing residential mortgage loans:

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- On January 2, 2014, a portfolio of first lien residential mortgage loans, substantially all of which were non-performing, having aggregate market value of underlying properties of \$94 million.
- On January 28, 2014, a portfolio of first lien residential mortgage loans, substantially all of which were non-performing, having aggregate market value of underlying properties of \$7 million.
- On January 31, 2014, a portfolio of first lien residential mortgage loans, substantially all of which were non-performing, having aggregate market value of underlying properties of \$792 million.
- On February 28, 2014, a portfolio of first lien residential mortgage loans, substantially all of which were non-performing, having aggregate market value of underlying properties of \$8 million

During the three months ended March 31, 2013, we completed the acquisition of the following portfolios of non-performing residential mortgage loans:

- On February 14, 2013, a portfolio of first lien residential mortgage loans, substantially all of which were non-performing, having aggregate market value of underlying properties of \$94 million.
- On March 21, 2013, a portfolio of first lien residential mortgage loans, substantially all of which were non-performing, having aggregate market value underlying properties of \$39 million.

Throughout this quarterly report, all unpaid principal balance and market value amounts for the portfolios we have 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.

During the three months ended March 31, 2014 and 2013, we expensed \$0.5 million and \$0.4 million, respectively, for due diligence costs related to these and other transactions.

Transfer of mortgage loans to real estate owned

During the three months ended March 31, 2014 and 2013, we transferred 637 mortgage loans and one mortgage loan, respectively, at an aggregate fair value based on broker price opinions ("BPOs") of \$96.5 million and \$0.2 million, respectively, to real estate owned. Such transfers occur when title to the real estate has been received by us.

Dispositions

During the three months ended March 31, 2014 and 2013, we disposed of 116 and 10 mortgage loans, respectively, primarily through short sales and foreclosure sales. In connection with these dispositions, we generated \$9.3 million and \$0.4 million, respectively, of net realized gains on mortgage loans.

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3. Real estate assets, net

Acquisitions

During the three months ended March 31, 2014, we did not acquire any REO properties as part of our portfolio acquisitions. During the three months ended March 31, 2013, we acquired six residential properties. These REO properties were acquired as part of the loan portfolio acquisitions described in Note 2. The aggregate purchase price attributable to these acquired REO properties was \$0.3 million.

Real estate held for use

As of March 31, 2014, we had 852 REO properties held for use. Of these properties, 35 had been rented, 17 were being listed for rent and 48 were in various stages of renovation. With respect to the remaining 752 REO properties, we will make a final determination whether each property meets our rental profile after (a) applicable state redemption periods have expired, (b) the foreclosure sale has been ratified, (c) we have recorded the deed for the property, (d) utilities have been activated and (e) we have secured access for interior inspection. A majority of the REO properties are subject to state regulations which require us to await the expiration of a redemption period before a foreclosure can be finalized and title transferred to us. We include these redemption periods in our portfolio pricing which generally reduces the price we pay for the mortgage loans. Once the redemption period expires, we immediately proceed to record the new deed, take possession of the property, activate utilities, and start the inspection process in order to make our final determination. As of March 31, 2013, we had seven REO properties held for use, all of which were in the process of our determining whether these properties would meet our rental profile. If a REO property meets our 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 our rental profile, we list the property for sale, in many instances after renovations are made to optimize the sale proceeds.

Real estate held for sale

As of March 31, 2014, we classified 44 REO properties having an aggregate carrying value of \$4.2 million as real estate held for sale as they do not meet our residential rental property investment criteria. As of March 31, 2013, we had no real estate 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 months ended March 31, 2014, we disposed of two residential properties. We did not dispose of any residential properties during the three months ended March 31, 2013.

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4. Fair value of financial instruments

The following table sets forth the financial assets and liabilities that we measure at fair value by level within the fair value hierarchy as of March 31, 2014 and December 31, 2013 (\$ in thousands):

	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
March 31, 2014			
Recurring basis (assets)			
Mortgage loans	\$—	\$—	\$1,766,142
Nonrecurring basis (assets)			
Real estate assets held for sale			\$4,928
Transfer of mortgage loans to real estate owned	\$—	\$—	\$96,528
Not recognized on consolidated balance sheets at fair value (liabilities)			
Repurchase agreements at fair value	\$—	\$699,950	\$—
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	\$—

We have not transferred any assets from one level to another level during the three months ended March 31, 2014 or December 31, 2013.

The carrying values of our cash and cash equivalents, restricted cash, related party receivables, accounts payable and accrued liabilities, related party payables and investment in NewSource are equal to or approximate fair value. The fair value of mortgage loans is estimated using our asset manager's proprietary pricing model. The fair value of transfers of mortgage loans to real estate owned is estimated using BPOs. The fair value of the repurchase agreements is estimated using the income approach based on credit spreads available to us currently in the market for similar floating rate debt.

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Mortgage loans		
Beginning balance at December 31	\$1,207,163	\$—
Investment in mortgage loans	612,508	88,257
Net unrealized gain on mortgage loans	65,130	1,128
Net realized gain on mortgage loans	9,321	387
Mortgage loan dispositions and payments	(39,458)	(1,946)
Real estate tax advances to borrowers	8,006	—
Transfer of mortgage loans to real estate owned	(96,528)	(156)
Ending balance at March 31	\$1,766,142	\$87,670

Net unrealized gain on mortgage loans held	\$38,197	\$1,128
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The following table sets forth the fair value of our mortgage loans, the related unpaid principal balance and market value of underlying properties by delinquency status as of March 31, 2014 and December 31, 2013 (\$ in thousands):

	Number of loans	Carrying value	Unpaid principal balance	Market value of underlying properties
March 31, 2014				
Current	329	\$44,280	\$86,860	\$76,452
30	25	2,838	5,238	4,995
60	20	2,446	4,046	4,068
90	2,120	326,308	566,858	483,245
Foreclosure	9,015	1,390,270	2,386,927	1,945,606
Mortgage loans	11,509	\$1,766,142	\$3,049,929	\$2,514,366
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

The significant unobservable inputs used in the fair value measurement of our 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 our mortgage loans as of March 31, 2014 and December 31, 2013:

Input	March 31, 2014	December 31, 2013
Discount rate	15.0%	15.0%
Annual change in home pricing index	-0.3% to 7.6%	-0.3% to 7.6%
Loan resolution probabilities — modification	0% to 22.3%	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 - \$6,343,000	\$3,000 - \$3,550,000

5. Repurchase agreements

Our 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 our portfolio. We have effective control of the assets associated with these agreements and therefore have concluded these are financing arrangements.

As of March 31, 2014, the weighted average annualized interest rate on borrowings under our repurchase agreements was 3.08%, excluding amortization of deferred financing costs. The following table sets forth data with respect to our repurchase agreements as of March 31, 2014 and December 31, 2013 (\$ in thousands):

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	Maximum borrowing capacity	Book value of collateral	Amount outstanding
March 31, 2014			
Repurchase agreement due April 21, 2014 ⁽¹⁾	\$ 100,000	\$ 158,576	\$ 76,800
Repurchase agreement due March 23, 2015	400,000	678,779	400,000
Repurchase agreement due March 11, 2016	250,000	396,916	223,150
	\$ 750,000	\$ 1,234,271	\$ 699,950
December 31, 2013			
Repurchase agreement due April 21, 2014 ⁽¹⁾	\$ 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⁾ This repurchase agreement was amended to increase the maximum borrowing capacity and extend the term to April 20, 2015. See Note 12 - Subsequent events.

Under the terms of each repurchase agreement, as collateral for the funds drawn thereunder, subject to certain conditions, our operating partnership will sell to the applicable lender equity interests in the Delaware statutory trust subsidiary that owns the applicable underlying mortgage assets on our behalf, or the trust will sell directly such underlying mortgage assets. In the event the lender determines the value of the collateral has decreased, it has the right to initiate a margin call and require us, 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 we finance 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, our applicable subsidiary 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. We do not collateralize any of its repurchase facilities with cash.

The repurchase agreements require us to maintain various financial and other covenants, including maintaining positive earnings, a minimum adjusted tangible net worth, a maximum ratio of indebtedness to adjusted tangible net worth and specified levels of unrestricted cash as well as restrictions on net losses in excess of specified amounts. In addition, the repurchase agreements contain customary events of default. We are restricted by the terms of our repurchase agreements from paying dividends greater than our REIT taxable income in a calendar year.

We are currently in compliance with the covenants and other requirements with respect to the repurchase agreements. We monitor our 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.

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 March 31, 2014	Three months ended March 31, 2013	Counter-party	Consolidated Statements of Operations location
Residential property operating expenses	\$ 1,050	\$—	Altisource	Residential property operating expenses
Mortgage loan servicing costs	10,490	392	Ocwen	Mortgage loan servicing costs
Due diligence and unsuccessful deal costs	111	183	Altisource	Related party general and administrative expenses
Expense reimbursements	1,469	895	AAMC	Related party general and administrative expenses
Management incentive fee	10,911	—	AAMC	Related party general and administrative expenses

During the three months ended March 31, 2013, we acquired a portfolio from 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.

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8. Share-based payments

On December 21, 2012, as part of the separation, we issued stock options under the 2012 Conversion Option Plan and 2012 Special Conversion Option Plan to holders of Altisource stock options to purchase shares of our common stock in a ratio of one share of our common stock to every three shares of Altisource common stock. The options were granted as part of our separation to employees of Altisource and/or Ocwen solely to give effect to the exchange ratio in the separation, and we do not include share-based compensation expense related to these options in our consolidated statements of operations because they are not related to our incentive compensation.

Our directors each receive annual grants of restricted stock equal to