Altisource Asset Management Corp
Form 10-Q
May 07, 2015

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

OR

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

COMMISSION FILE NUMBER: 000-54809

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

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

36C Strand Street
Christiansted, United States Virgin Islands 00820
(Address of principal executive office)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

As of April 30, 2015, 2,228,823 shares of our common stock were outstanding (excluding 266,429 shares held as treasury stock).

Altisource Asset Management Corporation
March 31, 2015
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References in this report to "we," "our," "us," or the "Company" refer to Altisource Asset Management Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to “Residential” refer to Altisource Residential Corporation, unless otherwise indicated. References in this report to “Altisource” refer to Altisource Portfolio Solutions S.A. and its consolidated subsidiaries, unless otherwise indicated. References in this report to “Ocwen” refer to Ocwen Financial Corporation and its consolidated subsidiaries, unless otherwise indicated.

Special note on forward-looking statements

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

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

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

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

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Part I

Item 1. Financial statements (unaudited)

Certain information contained herein is presented as of April 30, 2015, which we have concluded is the latest practicable date for financial information prior to the filing of this quarterly report.

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

	March 31, 2015	December 31, 2014
Assets:		
Real estate held for use:		
Land (from consolidated VIE)	$21,267	$14,424
Rental residential properties (net of accumulated depreciation of $2,046 and $1,062, respectively - from consolidated VIE)	86,206	60,908
Real estate owned (from consolidated VIE)	456,479	457,045
Total real estate held for use, net	563,952	532,377
Real estate assets held for sale (from consolidated VIE)	150,807	92,230
Mortgage loans at fair value (from consolidated VIE)	1,853,495	1,959,044
Mortgage loans held for sale (from consolidated VIE)	12,485	12,535
Cash and cash equivalents (including from consolidated VIE $53,246 and $66,166, respectively)	98,386	116,782
Restricted cash (from consolidated VIE)	14,766	13,282
Accounts receivable (including from consolidated VIE $10,398 and $10,313, respectively)	10,399	11,068
Related party receivables (from consolidated VIE)	22,530	17,491
Deferred leasing and financing costs, net (from consolidated VIE)	5,384	4,251
Prepaid expenses and other assets (including from consolidated VIE $672 and $373, respectively)	2,261	1,638
Total assets	$2,734,465	$2,760,698
Liabilities:		
Repurchase agreements (from consolidated VIE)	$929,287	$1,015,000
Other secured borrowings (from consolidated VIE)	364,849	324,082
Accounts payable and accrued liabilities (including from consolidated VIE $42,686 and $11,678, respectively)	48,314	16,726
Related party payables (including from consolidated VIE $5,782 and $4,879, respectively)	9,092	6,169
Total liabilities	1,351,542	1,361,977
Commitments and contingencies (Note 6)		
Redeemable preferred stock:		
Preferred stock, $0.01 par value, 250,000 shares issued and outstanding as of March 31, 2015 and December 31, 2014; redemption value $250,000	248,979	248,927
Equity:		
Common stock, $.01 par value, 5,000,000 authorized shares; 2,470,783 and 2,206,652 shares issued and outstanding, respectively as of March 31, 2015 and 2,452,101 and 2,188,136 shares issued and outstanding, respectively, as of December 31, 2014	25	25
Additional paid-in capital	15,048	14,152
Retained earnings	61,009	54,174
Treasury stock, at cost, 264,131 shares as of March 31, 2015 and 263,965 shares as of December 31, 2014	(245,519)	(245,468)
Total stockholders' equity	(169,437)	(177,117)

Noncontrolling interest in consolidated affiliate	1,303,381	1,326,911
Total equity	1,133,944	1,149,794
Total liabilities and equity	$2,734,465	$2,760,698

See accompanying notes to Consolidated Financial Statements.

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

	Three months ended March 31, 2015	Three months ended March 31, 2014
Revenues:		
Rental revenues	$1,400	$69
Net unrealized gain on mortgage loans	61,134	65,130
Net realized gain on mortgage loans	15,382	9,321
Net realized gain on re-performing mortgage loans	151	—
Net realized gain on real estate	10,608	—
Interest income	240	108
Total revenues	88,915	74,628
Expenses:		
Residential property operating expenses	12,459	1,050
Real estate depreciation and amortization	998	48
Real estate selling costs and impairment	14,691	354
Mortgage loan servicing costs	18,266	11,437
Interest expense	11,483	5,708
General and administrative	10,790	5,601
Related party general and administrative	773	923
Total expenses	69,460	25,121
Income before income taxes	19,455	49,507
Income tax expense	143	766
Net income	19,312	48,741
Net income attributable to noncontrolling interest in consolidated affiliate	(12,424)	(41,913)
Net income attributable to common stockholders	$6,888	$6,828
Earnings per share of common stock – basic:		
Earnings per basic share	$3.10	$2.88
Weighted average common stock outstanding – basic	2,203,699	2,367,202
Earnings per share of common stock – diluted:		
Earnings per diluted share	$2.50	$2.39
Weighted average common stock outstanding – diluted	2,757,206	2,856,079

See accompanying notes to consolidated financial statements.

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

	Common stock						
	Number of shares	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Noncontrolling interest in consolidated affiliate	Total equity
December 31, 2014	2,452,101	$25	$14,152	$54,174	$(245,468)	$1,326,911	$1,149,794
Issuance of common stock, including option exercises	18,682	—	7	—	—	—	7
Treasury shares repurchased	—	—	—	—	(51)	—	(51)
Capital contribution from noncontrolling interest	—	—	—	—	—	27	27
Distribution from noncontrolling interest	—	—	—	—	—	(36,038)	(36,038)
Amortization of preferred stock issuance costs	—	—	—	(53)	—	—	(53)
Share-based compensation	—	—	889	—	—	57	946
Net income	—	—	—	6,888	—	12,424	19,312
March 31, 2015	2,470,783	$25	$15,048	$61,009	$(245,519)	$1,303,381	$1,133,944

	Common stock						
	Number of shares	Amount	Additional paid-in capital	Retained earnings (accumulated deficit)	Treasury stock	Noncontrolling interest in consolidated affiliate	Total equity
December 31, 2013	2,354,774	$24	$12,855	$(5,339)	$—	$785,427	$792,967
Issuance of common stock, including option exercises	41,429	—	18	—	—	—	18
Treasury shares repurchased					(44,565)		(44,565)
Capital contribution from noncontrolling interest	—	—	—	—	—	468,491	468,491
Distribution from noncontrolling interest						(27,398)	(27,398)
	—	—	3,316	—	—	—	3,316

Share-based compensation							
Net income	—	—	—	6,828	—	41,913	48,741
March 31, 2014	2,396,203	$24	$16,189	$1,489	$(44,565)	$1,268,433	$1,241,570

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2015	Three months ended March 31, 2014
Operating activities:		
Net income	$19,312	$48,741
Adjustments to reconcile net income to net cash used in operating activities:		
Net unrealized gain on mortgage loans	(61,134)	(65,130)
Net realized gain on mortgage loans	(15,382)	(9,321)
Net realized gain on sale of re-performing mortgage loans	(151)	—
Net realized gain on sale of real estate	(10,608)	(55)
Real estate depreciation and amortization	998	48
Real estate selling costs and impairment	14,691	355
Accretion of interest on re-performing mortgage loans	(232)	—
Share-based compensation	946	3,316
Amortization of deferred financing costs	531	608
Changes in operating assets and liabilities:		
Accounts receivable	1,750	502
Related party receivables	(2,535)	(53)
Prepaid expenses and other assets	(623)	(530)
Accounts payable and accrued liabilities	1,613	1,118
Related party payables	2,923	871
Net cash used in operating activities	(47,901)	(19,530)
Investing activities:		
Investment in mortgage loans	—	(611,357)
Investment in renovations	(5,534)	(447)
Real estate tax advances	(6,556)	(6,259)
Mortgage loan dispositions	56,337	32,775
Mortgage loan payments	5,816	3,129
Disposition of real estate	32,139	734
Change in restricted cash	(1,484)	(1,456)
Net cash provided by (used in) investing activities	80,718	(582,881)
Financing activities:		
Proceeds from issuance of preferred stock	—	250,000
Cost of issuance of preferred stock	—	(1,114)
Issuance of common stock, including stock option exercises	411	2,732
Repurchase of common stock	(51)	(44,565)
Payment of tax withholdings on exercise of stock options	(404)	(2,714)
Capital contribution from noncontrolling interest	27	468,491
Distribution to noncontrolling interest	(4,576)	(27,398)
Proceeds from issuance of other secured debt	50,690	—
Repayments of secured notes	(9,256)	—
Proceeds from repurchase agreement	33,877	127,664
Repayments of repurchase agreement	(119,590)	(30,096)
Payment of deferred financing costs	(2,341)	(123)
Net cash (used in) provided by financing activities	(51,213)	742,877
Net (decrease) increase in cash and cash equivalents	(18,396)	140,466
Cash and cash equivalents as of beginning of the period	116,782	140,000

Cash and cash equivalents as of end of the period	$98,386	$280,466

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

	Three months ended March 31, 2015	Three months ended March 31, 2014
Supplemental disclosure of cash flow information		
Cash paid for interest	$10,429	$4,736
Transfer of mortgage loans to real estate owned	136,182	96,528
Transfer of real estate owned to mortgage loans	1,356	—
Change in accrued capital expenditures	(1,430)	—
Change in accrued equity issuance costs	—	183
Changes in receivables from mortgage loan dispositions, payments and real estate tax advances, net	2,848	1,247
Changes in receivables from real estate owned dispositions	630	—

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Notes to Consolidated Financial Statements
March 31, 2015
(Unaudited)

1. Organization and basis of presentation

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

Residential is currently our primary source of revenue and will drive our results. On March 31, 2015, we entered into a new asset management agreement with Residential (the “AMA”) with an effective date of April 1, 2015. Prior to the AMA, we were party to an asset management agreement with Residential (the “Original AMA”) pursuant to which we received incentive fees, which we refer to as our “incentive management fees,” that gave us a share of Residential’s cash flow available for distribution to its stockholders as well as reimbursement for certain overhead and operating expenses. Although the new AMA provides for a new fee structure in which we are entitled to a base management fee, an incentive management fee and a conversion fee for properties that become rental properties during each quarter, our operating results are highly dependent on Residential's ability to achieve positive operating results. For additional details on the new AMA, please see “Note 7. Related Party Transactions.”

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

Additionally, we provide management services to NewSource Reinsurance Company Ltd., which we refer to as “NewSource,” a title insurance and reinsurance company in Bermuda. In October 2013, we invested $2.0 million in 100% of the common stock of NewSource and Residential invested $18.0 million in the non-voting preferred stock of NewSource. On December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority (“BMA”). Because we own 100% of voting common stock of NewSource and there are no substantive kick-out rights granted to other equity owners, we consolidate NewSource in our consolidated financial statements. NewSource commenced reinsurance activities during the second quarter of 2014. In December 2014, NewSource determined that the economics of the initial business did not warrant the continuation of its initial reinsurance quota share agreement with an unrelated third party. NewSource therefore transferred all of the risk of claims and future losses underwritten to an unrelated third party.

Since Residential commenced operations, it has completed three public equity offerings with aggregate net proceeds of approximately $1.1 billion. Residential also entered into three separate repurchase agreements to finance the acquisition and ownership of residential mortgage loans and REO properties. The maximum aggregate funding available under these repurchase agreements at December 31, 2014 was $1.2 billion. Following the amendments described below, the maximum aggregate funding available to Residential under these repurchase agreements as of March 31, 2015 was $970.5 million, subject to certain sublimits, eligibility requirements and conditions precedent to each funding. As of March 31, 2015, an aggregate of $929.3 million was outstanding under Residential's repurchase agreements. All obligations of Residential’s subsidiaries under the repurchase agreements are fully guaranteed by Residential.

Each of Residential's repurchase agreements is described below:

- Credit Suisse (“CS”) is the lender on the repurchase agreement entered into on March 22, 2013 (the “CS repurchase agreement”) with an initial aggregate maximum borrowing capacity of $100.0 million. During 2014 the CS repurchase agreement was amended on several occasions, ultimately increasing the aggregate maximum borrowing capacity to $225.0 million on December 31, 2014 with a maturity date of April 20, 2015, subject to an additional one-year extension with the approval of the lender. On April 20, 2015, Residential entered into an amended and restated repurchase agreement with CS that increased the aggregate borrowing capacity from $225.0 million to $275.0 million,

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increased the REO sublimit under the facility and extended the maturity date to April 18, 2016. Please see "Note 12. Subsequent Events" for additional information.

Deutsche Bank ("DB") is the lender on the repurchase agreement entered into on September 12, 2013 (the "DB repurchase agreement"). The DB repurchase agreement was amended on December 18, 2013, has an aggregate funding capacity of $250.0 million and matures on March 11, 2016. The DB repurchase agreement includes a provision that, beginning in April 2015, Residential will not be able to finance mortgage loans in excess of amounts outstanding under the facility at the end of March 2015. Therefore, Residential's aggregate funding capacity under the DB repurchase agreement was reduced to $219.7 million in April 2015, which was the amount outstanding under the facility at the time.

Wells Fargo ("Wells") is the lender on the repurchase agreement entered into on September 23, 2013 (the "Wells repurchase agreement") with an initial aggregate maximum borrowing capacity of $200.0 million. Throughout 2013 and 2014 the Wells repurchase agreement was amended several times increasing the aggregate maximum borrowing capacity to a high of $1.0 billion, and on December 31, 2014 was reduced to $750.0 million, subject to certain sublimits, to reflect the securitization of a significant portion of Residential's non-performing loans that previously had been financed under the Wells repurchase agreement. The maturity date of the Wells repurchase agreement was March 23, 2015. However, on February 20, 2015, Residential exercised its option to extend the termination date of this facility to March 23, 2016 without any additional funding, thereby reducing Residential's aggregate funding capacity under the Wells repurchase agreement to $525.8 million which was the amount outstanding under the facility on the extension date. Residential is in discussions with Wells to further extend the repurchase agreement with an ability to obtain additional funding. No assurance can be provided that Residential will be able to renew this facility on reasonable terms, on a timely basis or at all. In the event Residential cannot extend the agreement with an ability to obtain additional funding, the advance rate will be reduced by 10% after the first 90 days of the extension term and Residential will not be entitled to draw additional funds under the facility.

On November 25, 2014, Residential completed a securitization transaction in which ARLP Securitization Trust, Series 2014-2 ("ARLP 2014-2") issued $270.8 million in Class A Notes (the "Class A Notes") with a weighted coupon of approximately 3.85% and $234.0 million in Class M Notes (the "Class M Notes"). Residential initially retained $95.8 million of the Class A Notes and all of the Class M Notes in its taxable REIT subsidiary ("TRS"). On February 9, 2015, Residential sold $50.7 million of the retained Class A Notes to an unrelated third party. No interest will be paid on any Class M Notes while any Class A Notes remain outstanding. The Class A Notes and the Class M Notes are secured solely by the non-performing mortgage loans and REO properties of ARLP 2014-2 and not by any of Residential's other assets. The assets of ARLP 2014-2 are the only source of repayment and interest on the Class A Notes and the Class M Notes. The Class A Notes and the Class M Notes mature on January 26, 2054, and Residential does not guaranty any of the obligations of ARLP 2014-2 under the terms of the Indenture governing the notes or otherwise. As of March 31, 2015, the book value of the underlying securitized assets held by ARLP 2014-2 was $332.5 million.

On September 25, 2014, Residential completed a securitization transaction in which ARLP Securitization Trust, Series 2014-1 ("ARLP 2014-1") issued $150.0 million in Class A Notes (the "Class A Notes") with a weighted coupon of approximately 3.47% and $32.0 million in Class M Notes (the "Class M Notes") with a weighted coupon of 4.25%. The Class A Notes and the Class M Notes are secured solely by the non-performing mortgage loans and REO properties of ARLP 2014-1 and not by any of Residential's other assets. The assets of ARLP 2014-1 are the only source of repayment and interest on the Class A Notes and the Class M Notes. The Class A Notes and the Class M Notes mature on September 25, 2044, and Residential does not guaranty any of the obligations of ARLP 2014-1 under the terms of the Indenture governing the notes or otherwise. As of March 31, 2015, the book value of the underlying securitized assets held by ARLP 2014-1 was $213.8 million.

Residential retained all of the Class M Notes issued by ARLP 2014-1 in its TRS. On September 30, 2014, pursuant to a master repurchase agreement, the TRS sold $15.0 million of the Class M Notes to NewSource Reinsurance Company Ltd, ("NewSource"), an entity in which Residential owns 100% of the outstanding preferred stock and in which we own 100% of the outstanding common stock, for a purchase price of $15.0 million. The master repurchase agreement initially required the TRS to repurchase the Class M Notes from NewSource at a 5.0% yield on December 28, 2014, with the parties having the option to extend the master repurchase agreement for additional 89-day periods. In no event can the master repurchase agreement be extended beyond September 29, 2015. The agreement is currently due to expire on June 25, 2015.

On March 18, 2014, we closed a private placement for the issuance and sale of 250,000 shares of our Series A Convertible Preferred Stock to Luxor Capital Group, LP, a New York based investment manager, and other institutional investors for proceeds of $250.0 million. In connection with the foregoing, the Company's Board of Directors has approved a share

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repurchase program that authorizes us to repurchase up to $300.0 million of our common stock. We used substantially all of the proceeds from this transaction to repurchase shares of our common stock and for other corporate purposes. We have an aggregate of $59.4 million remaining for repurchases under our Board-approved repurchase plan.

Basis of presentation and use of estimates

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

The unaudited consolidated financial statements and accompanying unaudited consolidated financial information, in our opinion, contain all adjustments that are of a normal recurring nature and necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. The interim results are not necessarily indicative of results for a full year. We have omitted certain notes and other information from the interim consolidated financial statements presented in this Quarterly Report as permitted by SEC rules and regulations. These consolidated financial statements should be read in conjunction with our 2014 annual report on Form 10-K.

Preferred stock

During the first quarter of 2014, we issued $250.0 million of convertible preferred stock. All of the outstanding shares of preferred stock are redeemable by us in March 2020, the sixth anniversary of the date of issuance, and every five years thereafter. On these same redemption dates, each holder of preferred stock may cause us to redeem all the shares of preferred stock held by such holder at a redemption price equal to $1,000 per share. Accordingly, we classify these shares as mezzanine equity, outside of permanent stockholders' equity.

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

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

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

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

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

Treasury Stock

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

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Recently issued accounting standards

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2015-03, Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs are presented on the balance sheet as a deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The standard requires retrospective application and represents a change in accounting principle. The standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We do not expect the impact of adopting this standard to have a material impact on our financial position, results of operations, or cash flows.
In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis. ASU 2015-02 makes targeted amendments to the current consolidation guidance that change the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance addresses concerns that current accounting might require a reporting entity to consolidate another legal entity in situations in which the reporting entity’s contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity’s voting rights, or the reporting entity is not exposed to a majority of the legal entity’s economic benefits or obligations. The standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early application is permitted. We are evaluating the impact of ASU 2015-02 on our consolidated financial statements, which could result in the deconsolidation of Residential's financial information in our consolidated financial statements.

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

2. Mortgage loans

Acquisitions of non-performing residential mortgage loans

During the first quarter of 2015, Residential did not acquire any portfolios of residential mortgage loans. During the three months ended March 31, 2014, Residential acquired an aggregate of 4,207 residential mortgage loans, substantially all of which were non-performing, having an aggregate UPB of approximately $1.1 billion and an aggregate market value of underlying properties of $901 million. The aggregate purchase price for these acquisitions was approximately $611 million.

During the three months ended March 31, 2015, Residential expensed $0.1 million for due diligence costs related to a potential purchase of a portfolio that was not ultimately acquired. During the three months ended March 31, 2014, Residential recognized $0.5 million for due diligence costs related to transactions in both general and administrative expense and related party general and administrative expense.

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

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

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Transfer of mortgage loans to real estate owned

During the three months ended March 31, 2015 and 2014, Residential transferred 724 and 636 mortgage loans, respectively, to REO at an aggregate fair value based on BPOs, of $134.8 million and $96.5 million respectively. Such transfers occur when the foreclosure sale is complete. In connection with these transfers to REO, Residential recorded $18.4 million and $23.6 million, respectively, in net unrealized gains on mortgage loans. At March 31, 2015 Residential had 7,021 loans with a carrying value of $1.4 billion that were in the foreclosure process compared to 7,841 loans with a carrying value of $1.5 billion at March 31, 2014.

Dispositions

During the three months ended March 31, 2015 and 2014, Residential disposed of 150 and 116 mortgage loans, respectively, primarily through short sales, refinancing and foreclosure sales. In connection with these dispositions, Residential recorded $15.4 million and $9.3 million, respectively, of net realized gains on mortgage loans.

Acquisition of re-performing residential mortgage loans

On June 27, 2014, Residential acquired 879 re-performing mortgage loans with an aggregate market value of underlying properties of $271.1 million for an aggregate purchase price of $144.6 million. Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. These 879 re-performing residential mortgage loans were determined to have common risk characteristics and have been accounted for as a single loan pool. During October 2014, Residential sold an aggregate of 934 re-performing loans to an unrelated third party for an aggregate purchase price of $164 million. The sale included 770 loans from the re-performing mortgage loans purchased in June 2014, and 164 loans that had transitioned to re-performing status from prior non-performing loan acquisitions.

Under ASC 310-30, Residential estimates cash flows expected to be collected, adjusted for expected prepayments and defaults expected to be incurred over the life of the loan pool. Residential determines the excess of the loan pool's contractually required principal and interest payments over the expected cash flows as an amount that should not be accreted, the nonaccretable yield. The difference between expected cash flows and the present value of the expected cash flows is referred to as the accretable yield, which represents the amount that is expected to be recorded as interest income over the remaining life of the loan pool. For the three months ended March 31, 2015, Residential recognized no provision for loan loss and no adjustments to the amount of the accretable yield. For the three months ended March 31, 2015, Residential accreted $0.2 million into interest income with respect to these re-performing loans. As of March 31, 2015, these re-performing loans, having a UPB of $17.5 million and a carrying value of $12.5 million, were held for sale.

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

	Three months ended March 31, 2015	
	Accretable Yield	Carrying Amount of Loans
Balance at the beginning of the period	$7,640	$12,535
Additions	—	37
Payments and other reductions, net	(201)	(319)
Accretion	(232)	232
Balance at the end of the period	$7,207	$12,485

3. Real estate assets, net

Real estate held for use

As of March 31, 2015, Residential had 3,464 REO properties held for use. Of these properties, 587 had been rented, 151 were being listed for rent and 116 were in varying stages of renovation. With respect to the remaining 2,610 REO properties, we will make a final determination whether each property meets Residential’s rental profile after (a) applicable state redemption periods have expired, (b) the foreclosure sale has been ratified (c) Residential has recorded the deed for the property, (d) utilities have been activated and (e) Residential has secured access for interior inspection. A majority of the REO properties are subject to

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state regulations which require Residential to await the expiration of a redemption period before a foreclosure can be finalized. Residential includes these redemption periods in its portfolio pricing which generally reduces the price Residential pays for the mortgage loans. Once the redemption period expires, Residential immediately proceeds to record the new deed, take possession of the property, activate utilities, and start the inspection process in order to make its final determination. As of December 31, 2014, Residential had 3,349 REO properties held for use. Of these properties, 336 had been rented, 197 were being listed for rent and 254 were in various stages of renovation. With respect to the remaining 2,562 REO properties, we were in the process of determining whether these properties would meet Residential's rental profile. As of March 31, 2014, Residential 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 were in the process of determining whether these properties would meet Residential's rental profile. If a REO property meets Residential's rental profile, we determine the extent of renovations that are needed to generate an optimal rent and maintain consistency of renovation specifications for future branding. If we determine that the REO property will not meet Residential's rental profile, we list the property for sale, in certain instances after renovations are made to optimize the sale proceeds.

Real estate held for sale

As of March 31, 2015, Residential classified 966 properties having an aggregate carrying value of $150.8 million as real estate held for sale as they do not meet its residential rental property investment criteria. As of December 31, 2014, Residential had 611 REO properties having an aggregate carrying value of $92.2 million held for sale, and as of March 31, 2014, Residential had 44 REO properties having an aggregate carrying value of $4.2 million held for sale. None of these REO properties have any operations; therefore, we are not presenting discontinued operations related to these properties.

Residential records residential properties held for sale at the lower of either the carrying amount of REO or its estimated fair value less estimated selling costs. If the carrying amount exceeds the estimated fair value, as adjusted, Residential records impairment equal to the amount of such excess. If an increase in fair value is noted at a subsequent measurement date, a gain is recognized to the extent of any previous impairment recognized. As of March 31, 2015 Residential had $9.0 million of impairment on the 966 REO properties having a fair value of $168.9 million. As of December 31, 2014 Residential had $4.9 million of impairment on the 611 REO properties having a fair value of $96.0 million. There was no impairment on the 44 REO properties held at March 31, 2014.

Dispositions

During the three months ended March 31, 2015, Residential disposed of 254 residential properties and recorded $10.6 million of net realized gains on real estate. During the three months ended March 31, 2014, Residential disposed of two residential properties. There were no significant gain or losses on the dispositions in 2014.

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4. Fair value of financial instruments

The following table sets forth the fair value of financial assets and liabilities by level within the fair value hierarchy as of March 31, 2015 and December 31, 2014 ($ in thousands):

	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
March 31, 2015			
Recurring basis (assets)			
Mortgage loans	$—	$—	$1,853,495
Nonrecurring basis (assets)			
Real estate assets held for sale	$—	$—	$168,942
Transfer of real estate owned to mortgage loans	$—	$—	$1,356
Transfer of mortgage loans to real estate owned	$—	$—	$136,182
Not recognized on consolidated balance sheets at fair value (assets)			
Mortgage loans held for sale	$—	$—	$12,485
Not recognized on consolidated balance sheets at fair value (liabilities)			
Repurchase agreements at fair value	$—	$929,287	$—
Other secured borrowings	$—	$362,429	$—