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

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): May 14, 2012 (May 10, 2012)

Newcastle Investment Corp.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation)

001-31458 (Commission File Number)	**81-0559116** (IRS Employer Identification No.)
1345 Avenue of the Americas, 46th Floor New York, New York (Address of principal executive offices)	**10105** (Zip Code)

Registrant's telephone number, including area code (212) 798-6100

N/A
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operation and Financial Condition.

On May 10, 2012, Newcastle Investment Corp. (the "Company") issued a press release announcing the Company's results for its fiscal quarter ended March 31, 2012 and conducted a conference call to review such results. A copy of each of the Company's press release and the transcript of the conference call is attached to this Current Report on Form 8-K (the "Current Report") as Exhibit 99.1 and Exhibit 99.2, respectively, and is incorporated herein solely for purposes of this Item 2.02 disclosure.

This Current Report, including the exhibits attached hereto, is being furnished and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Exchange Act, unless expressly set forth as being incorporated by reference into such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number	Description
99.1	Press release, dated May 10, 2012, issued by Newcastle Investment Corp.
99.2	Transcript of conference call on May 10, 2012

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NEWCASTLE INVESTMENT CORP.
(Registrant)

/s/ Brian C. Sigman
Brian C. Sigman
Chief Financial Officer

Date: May 14, 2012

EXHIBIT INDEX

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NEWCASTLE INVESTMENT CORP.

Contact:

Investor Relations
212-479-3195

Newcastle Announces First Quarter 2012 Results

FIRST QUARTER 2012 HIGHLIGHTS

- Core Earnings of $0.33 per diluted share
- GAAP income of $0.68 per diluted share
- Cash Available for Distribution of $20 million
- Declared Common Dividend of $0.20 per share, or $21 million
- Current Unrestricted Cash to Invest of $51 million

FIRST QUARTER 2012 FINANCIAL RESULTS

New York, NY, May 10, 2012 – Newcastle Investment Corp. (NYSE: NCT) reported that in the first quarter of 2012, income available for common stockholders (“GAAP income”) was $72 million, or $0.68 per diluted share, compared to $108 million, or $1.73 per diluted share, in the first quarter of 2011.

GAAP income of $72 million consisted of the following:

Core Earnings:

- $35 million, or $0.33 per diluted share, which is equal to net interest income less expenses, net of preferred dividends

Other Income/Loss:

- $30 million of other income related to a $5 million net gain on the settlement of investments, a $21 million gain on the extinguishment of CDO debt, and a $4 million non-cash mark-to-market gain primarily related to interest rate derivatives in the CDOs
- $7 million of non-cash mark-to-market net gain on loans held for sale and impairment recorded on investments

During the first quarter of 2012, the Company generated $20 million of Cash Available for Distribution (“CAD”), compared to $18 million in the fourth quarter of 2011.

On March 14, 2012, the Board of Directors declared a quarterly dividend of $0.20 per common share, or $21 million, for the first quarter of 2012. The Board of Directors also declared dividends of $0.609375, $0.503125 and $0.523438 per share on the 9.75% Series B, 8.05% Series C and 8.375% Series D preferred stock, respectively, for the period beginning February 1, 2012 and ending April 30, 2012.

In the first quarter of 2012, GAAP book value increased by $1.25 per share. As of March 31, 2012, GAAP book value was $2.49 per share, compared to $1.24 per share as of December 31, 2011.

The following table summarizes the Company's operating results ($ in millions, except per share data):

	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
Summary Operating Results:			
GAAP income	$ 72	$ 19	$ 108
GAAP income, per diluted share	*$ 0.68*	*$ 0.18*	*$ 1.73*
Non-GAAP Results:			
Core earnings	$ 35	$ 32	$ 26
Core earnings, per diluted share	*$ 0.33*	*$ 0.30*	*$ 0.41*
Cash Available for Distribution	$ 20	$ 18	$ 15

For a reconciliation of income available for common stockholders to core earnings and net cash flow provided by operating activities to cash available for distribution, please refer to the tables following the presentation of GAAP results.

ADDITIONAL INFORMATION

For additional information that management believes to be useful for investors, please refer to the "Quarterly Supplement – First Quarter 2012" presentation posted to the Investor Relations section of Newcastle's website, www.newcastleinv.com.

For consolidated investment portfolio information, please refer to the Company's Annual Report on Form 10-K or Quarterly Report on Form 10-Qwhich are also available on the Company's website (www.newcastleinv.com)

FIRST QUARTER 2012 INVESTMENT ACTIVITY

$179 million of unrestricted cash invested or committed to invest:

On March 6, 2012, the Company announced that it had signed definitive agreements to acquire its second investment in Excess Mortgage Servicing Rights ("Excess MSRs") from Nationstar Mortgage LLC ("Nationstar") in connection with their acquisition of mortgage servicing assets from Aurora Bank. Newcastle expects to invest approximately $170 million to acquire an approximately 65% interest in the Excess MSRs. Nationstar will be the servicer of the loans and will invest alongside Newcastle by acquiring the remaining approximately 35% interest in the Excess MSRs. The unpaid principal balance of the total portfolio is expected to be approximately $63 billion at closing and be comprised of approximately 75% non-conforming loans in private label securitizations and approximately 25% conforming loans in GSE pools. The investment is expected to close at the end of May and is subject to regulatory and third-party approvals. The Company expects the investment to generate an 18% return and $341 million of total cash flow, or 2.0x its initial investment over an average life of 5.6 years.

Newcastle invested $9 million to repurchase $30 million face amount of a Newcastle CDO X Class A-3 bond at a price of 30.5% of par, with an expected return of 18% and an average life of 9.8 years.

$60 million of restricted CDO cash invested:

Newcastle invested $60 million to purchase $70 million face amount of assets at an average price of 86.6% of par, with an expected average yield of 10% and an average life of 5.2 years, including the following:

- Invested $15 million to purchase $22 million face amount of a CMBS and a ABS at an average price of 68.3% of par, with an expected average yield of 9%, an average life of 7.3 years, and an average rating of BBB.
- Invested $45 million to purchase $48 million face amount of three commercial real estate loans at an average price of 94.7% of par, with an expected average yield of 10%, an average loan-to-value ratio of 53%, and an expected average life of 4.3 years.

CASH AND RECOURSE FINANCING

As of May 8, 2012, the Company's cash and recourse financings, excluding junior subordinated notes, were as set forth below:

- Unrestricted Cash – The Company had $221 million of unrestricted cash, of which $170 million is committed to purchase the Aurora Excess MSR, leaving $51 million of unrestricted cash to invest.
- Restricted CDO Cash - The Company had $80 million of restricted cash available for reinvestment within its consolidated CDOs, of which $25 million is committed and expected to settle within the next 10 days.
- Recourse Financing – The Company had $224 million related to the financing of FNMA and FHLMC securities and $2 million related to the financing of senior Newcastle CDO bonds it repurchased.

I. REAL ESTATE DEBT PORTFOLIO

As of March 31, 2012, the Company's real estate debt portfolio consisted of $3.8 billion of diversified assets financed with $2.8 billion of primarily match funded, non-recourse debt. Assets included 357 commercial, residential and corporate real estate securities and loan investments with an average investment size of $10 million, and 9,721 mortgage loans backed by residential real estate.

During the first quarter of 2012, the portfolio generated total cash flow of $35 million of which $27 million contributed to CAD. During the quarter, the weighted average carrying value of the March 31, 2012 portfolio changed from a price of 76.8 to 79.5, an increase of 3.5% or $101 million.

Newcastle CDO financings

As of March 31, 2012, Newcastle's five CDOs were comprised of $3.3 billion face amount of collateral (value of 79.2% of par) financed with $2.4 billion of debt. During the first quarter of 2012, the CDOs generated $24.5 million of total cash flow which included:

- $20.0 million of CDO cash receipts consisting of $15.4 million of excess interest, $3.1 million of interest on retained and repurchased CDO debt, and $1.5 million of senior collateral management fees
- $4.5 million of principal repayments on repurchased CDO debt, of which $1.7 million contributed to CAD

The following table summarizes the cash receipts in the first quarter of 2012 from the Company's consolidated CDO financings and the results of their related coverage tests ($ in thousands):

	Primary Collateral Type	Cash Receipts (1)	Interest Coverage % Excess (Deficiency) April 30, 2012 (2)	Over-Collateralization Excess (Deficiency) (2)(3) April 30, 2012 %	April 30, 2012 $	March 31, 2012 %	March 31, 2012 $	December 31, 2011 %	December 31, 2011 $
CDO IV	Securities	$ 416	42.8%	-2.1%	(4,070)	-2.1%	(4,070)	-2.3%	(4,622)
CDO VI	Securities	138	-203.1%	-63.3%	(177,751)	-63.2%	(177,539)	-60.7%	(174,289)
CDO VIII	Loans	6,215	387.6%	8.8%	55,821	8.3%	53,094	8.6%	55,614
CDO IX	Loans	7,046	439.5%	14.9%	96,061	18.9%	121,772	13.0%	84,174
CDO X	Securities	6,221	332.8%	7.1%	81,190	8.2%	93,725	8.4%	96,025
Total		**$ 20,036**							

(1) Cash receipts exclude principal repayments from repurchased bonds. Cash receipts for the quarter ended March 31, 2012 may not be indicative of cash receipts for subsequent periods. See Forward-Looking Statements below for risks and uncertainties that could cause cash receipts for subsequent periods to differ materially from these amounts.

(2) Represents the excess or deficiency under the applicable interest coverage or over-collateralization test to the first threshold at which cash flow would be redirected. The Company generally does not receive material interest cash flow from a CDO until a deficiency is corrected. The information regarding coverage tests is based on data from the most recent remittance date on or before April 30, 2012, March 31, 2012 or December 31, 2011, as applicable. The CDO IV test is conducted only on a quarterly basis (December, March, June and September).

(3) As of the April 2012 remittance, the face amount of assets on negative watch for possible downgrade by at least one rating agency (Moody's, S&P, or Fitch) for CDOs VIII, IX, and CDO X were $30 million, $7 million, and $88 million, respectively.

Other Real Estate Related Investments

As of March 31, 2012, other real estate related investments were comprised of $579 million face amount of assets (value of 85.6% of par) financed with $418 million of debt. During the first quarter of 2012, these investments generated $10.3 million of total cash flow which included:

- $5.3 million consisting of excess interest, interest on retained debt, and senior collateral management fees
- $5.0 million of principal repayments from a commercial real estate loan

II. EXCESS MSRs

As of March 31, 2012, Newcastle's Excess MSRs portfolio consisted of one investment with a carrying value of $42.6 million, representing a 65% interest in an Excess MSR on an unpaid principal balance of $9.4 billion. During the quarter, this investment generated $4.5 million of total cash flow, of which $2.0 million contributed to CAD.

In the first five months of the investment, the Company received $7.4 million of total cash flow, or 17% of the initial $44 million investment.

- Actual life-to-date IRR of 23%, compared to an initial expected IRR of 20%
- Constant prepayment rate was 12.9% in April compared to an initial projection of 30%
- Recapture rate was 36% in April compared to an initial projection of 35%

INVESTMENT PORTFOLIO

The following table describes the investment portfolio as of March 31, 2012 ($ in millions):

	Face Amount $	Basis Amount $ (5)	% of Total Basis	Carrying Value Amount $	Number of Investments	Credit (6)	Weighted Average Life (years) (7)
I. Real Estate Related Investments							
Commercial Assets							
CMBS	$ 1,502	$ 1,125	38.3%	$ 1,187	196	BB+	4.0
Mezzanine Loans	584	462	15.7%	462	16	73%	2.4
B-Notes	187	163	5.5%	163	6	60%	2.9
Whole Loans	30	30	1.0%	30	3	48%	1.7
CDO Securities (1)	87	68	2.3%	65	3	BB+	3.3
Other Investments (2)	25	25	0.9%	25	1	—	—
Total Commercial Assets	2,415	1,873	63.7%	1,932			3.4
Residential Assets							
MH and Residential Loans	367	318	10.8%	318	9,721	704	6.5
Subprime Securities	255	127	4.3%	132	63	B	7.0
Real Estate ABS	52	38	1.3%	37	13	B+	8.2
	674	483	16.4%	487			6.8
FNMA/FHLMC Securities	227	238	8.1%	240	32	AAA	4.6
Total Residential Assets	901	721	24.5%	727			6.3
Corporate Assets							
REIT Debt	120	119	4.1%	123	18	BB+	2.4
Corporate Bank Loans	296	184	6.3%	184	6	CC	2.9
Total Corporate Assets	416	303	10.4%	307			2.8
Total Real Estate Related Investments (3)	**3,732**	**2,897**	**98.6%**	**2,966**			**4.0**
II. Excess MSR Investments							
Portfolio 1	43	41	1.4%	43	1	—	6.0
Total Portfolio/Weighted Average (4)	**$ 3,775**	**$ 2,938**	**100.0%**	**$ 3,009**			**4.0**

(1) Represents non-consolidated CDO securities, excluding ten securities with a zero value that had an aggregate face amount of $117 million.
(2) Relates to an equity investment in a REO property.
(3) Total Real Estate Related Investments excludes $98 million of CDO cash available for reinvestment.
(4) Excludes operating real estate held for sale of $8 million and loans subject to call option with a face amount of $406 million.
(5) Net of impairment.
(6) Credit represents the weighted average of minimum ratings for rated assets, the Loan to Value ratio (based on the appraised value at the time of purchase or refinancing) for non-rated commercial assets, or the FICO score for non-rated residential assets and an implied and assumed AAA rating for FNMA/FHLMC securities. Ratings provided herein were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time.
(7) Weighted average life is based on the timing of expected principal reduction on the asset.

CONFERENCE CALL

Newcastle’s management will conduct a live conference call on 8:30 A.M. Eastern Time to review the financial results for the first quarter 2012. A copy of the earnings press release is posted to the Investor Relations section of Newcastle’s website, www.newcastleinv.com.

All interested parties are welcome to participate on the live call. The conference call may be accessed by dialing 1-888-243-2046 (from within the U.S.) or 1-706-679-1533 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference “Newcastle First Quarter 2012 Earnings Call.”

A simultaneous webcast of the conference call will be available to the public on a listen-only basis at http://www.newcastleinv.com. Please allow extra time prior to the call to visit the site and download the necessary software required to listen to the internet broadcast.

A telephonic replay of the conference call will also be available until 11:59 P.M. Eastern Time on Thursday, May 17, 2012 by dialing 1-855-859-2056 (from within the U.S.) or 1-404-537-3406 (from outside of the U.S.); please reference access code “78203390”.

ABOUT NEWCASTLE

The Company invests in real estate debt and other real estate related assets, including excess mortgage servicing rights. The Company is organized and conducts its operations to qualify as a real estate investment trust (REIT) for federal income tax purposes. The Company is managed by an affiliate of Fortress Investment Group LLC, a global investment management firm. For more information regarding the Company or to be added to our e-mail distribution list, please visit http://www.newcastleinv.com.

FORWARD-LOOKING STATEMENTS

Certain items in this press release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, the expected average life of an investment, the expected returns, or expected yield on an investment, statements relating to our liquidity, future losses and impairment charges, our ability to acquire assets with attractive returns and the delinquent and loss rates on our subprime portfolios. These statements are based on management’s current expectations and beliefs and are subject to a number of trends and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements, many of which are beyond our control. Newcastle can give no assurance that its expectations will be attained. Factors that could cause actual results to differ materially from Newcastle’s expectations include, but are not limited to, the risk that market conditions cause downgrades of a significant number of our securities or the recording of additional impairment charges or reductions in shareholders’ equity; the risk that we can find additional suitably priced investments; the risk that investments made or committed to be made cannot be financed on the basis and for the term at which we expect; the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested; actual recapture rates with respect to any Excess MSR investment; and the relative spreads between the yield on the assets we invest in and the cost and availability of debt and equity financing. Accordingly, you should not place undue reliance on any forward-looking statements contained in this press release. For a discussion of some of the risks and important factors that could affect such forward-looking statements, see the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operation” in the Company’s Annual Report on Form 10-K or Quarterly Report on Form 10-Q, which is available on the Company’s website (www.newcastleinv.com). In addition, new risks and uncertainties emerge from time to time, and it is not possible for the Company to predict or assess the impact of every factor that may cause its actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this press release. Newcastle expressly disclaims any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company’s expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

CAUTIONARY NOTE REGARDING EXPECTED RETURNS AND EXPECTED YIELDS PRESENTED IN THIS PRESS RELEASE

Expected returns and expected yields are estimates of the annualized effective rate of return that we presently expect to be earned over the expected average life of an investment (i.e., IRR), after giving effect, in the case of returns, to existing leverage, and calculated on a weighted average basis. Expected returns and expected yields reflect our estimates of an investment's coupon, amortization of premium or discount, and costs and fees, and they contemplate our assumptions regarding prepayments, defaults and loan losses, among other things. In the case of Excess MSRs, these assumptions include the recapture rate. Income recognized by the Company in future periods may be significantly less than the income that would have been recognized if an expected return or expected yield were actually realized, and the estimates we use to calculate expected returns and expected yields could differ materially from actual results.

Statements about expected returns and expected yields in this press release are forward-looking statements. You should carefully read the cautionary statement above under the caption "Forward-looking Statements," which directly applies to our discussion of expected returns and expected yields.

Newcastle Investment Corp.
Consolidated Statements of Operations (Unaudited)
(dollars in thousands, except share data)

	Three Months Ended March 31 2012	Three Months Ended March 31 2011
Interest income	$ 74,899	$ 72,203
Interest expense	30,165	38,165
Net interest income	44,734	34,038
Impairment (Reversal)		
Valuation allowance (reversal) on loans	(9,031)	(41,307)
Other-than-temporary impairment on securities	5,883	3,112
Portion of other-than-temporary impairment on securities recognized in other comprehensive income (loss), net of reversal of other comprehensive loss into net income (loss)	(3,932)	989
	(7,080)	(37,206)
Net interest income after impairment	51,814	71,244
Other Income (Loss)		
Gain (loss) on settlement of investments, net	4,823	34,092
Gain on extinguishment of debt	20,743	11,042
Other income (loss), net	4,186	335
	29,752	45,469
Expenses		
Loan and security servicing expense	1,098	1,060
General and administrative expense	2,285	1,601
Management fee to affiliate	4,976	4,189
	8,359	6,850
Income from continuing operations	73,207	109,863
Income (loss) from discontinued operations	264	(190)
Net Income	73,471	109,673
Preferred dividends	(1,395)	(1,395)
Income Available for Common Stockholders	$ 72,076	$ 108,278
Income Per Share of Common Stock		
Basic	$ 0.68	$ 1.73
Diluted	$ 0.68	$ 1.73
Income from continuing operations per share of common stock, after preferred dividends		
Basic	$ 0.68	$ 1.73
Diluted	$ 0.68	$ 1.73
Income (loss) from discontinued operations per share of common stock		
Basic	$ —	$ —
Diluted	$ —	$ —
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	105,181,009	62,602,184
Diluted	105,670,102	62,611,070
Dividends Declared per Share of Common Stock	$ 0.20	$ —

Newcastle Investment Corp.
Consolidated Balance Sheets
(dollars in thousands)

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Non-Recourse VIE Financing Structures		
Real estate securities, available for sale	$ 1,536,251	$ 1,479,214
Real estate related loans, held for sale, net	838,818	807,214
Residential mortgage loans, held for investment, net	321,347	331,236
Subprime mortgage loans subject to call option	404,979	404,723
Operating real estate, held for sale	7,739	7,741
Other investments	18,883	18,883
Restricted cash	107,875	105,040
Derivative assets	1,832	1,954
Receivables and other assets	22,147	23,319
	3,259,871	3,179,324
Recourse Financing Structures and Unlevered Assets		
Real estate securities, available for sale	248,638	252,530
Real estate related loans, held for sale, net	—	6,366
Residential mortgage loans, held for sale, net	2,775	2,687
Investments in excess mortgage servicing rights at fair value	42,587	43,971
Other investments	6,024	6,024
Cash and cash equivalents	156,425	157,356
Receivables and other assets	3,226	3,541
	459,675	472,475
	$ 3,719,546	$ 3,651,799
Liabilities and Stockholders' Equity (Deficit)		
Liabilities		
Non-Recourse VIE Financing Structures		
CDO bonds payable	$ 2,365,537	$ 2,403,605
Other bonds and notes payable	190,091	200,377
Repurchase agreements	5,644	6,546
Financing of subprime mortgage loans subject to call option	404,979	404,723
Derivative liabilities	108,774	119,320
Accrued expenses and other liabilities	15,723	16,112
	3,090,748	3,150,683
Recourse Financing Structures and Other Liabilities		
Repurchase agreements	228,080	233,194
Junior subordinated notes payable	51,247	51,248
Dividends payable	21,966	16,707
Due to affiliates	1,659	1,659
Accrued expenses and other liabilities	2,824	6,219
	305,776	309,027
	3,396,524	3,459,710
Stockholders' Equity (Deficit)		
Preferred stock, $0.01 par value, 100,000,000 shares authorized,1,347,321 shares of 9.75% Series B Cumulative Redeemable Preferred Stock 496,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, and620,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, issued and outstanding as of March 31, 2012 and December 31, 2011	61,583	61,583
Common stock, $0.01 par value, 500,000,000 shares authorized, 105,181,009 shares issued and outstanding at March 31, 2012 and December 31, 2011	1,052	1,052
Additional paid-in capital	1,275,792	1,275,792
Accumulated deficit	(1,022,212)	(1,073,252)
Accumulated other comprehensive income (loss)	6,807	(73,086)
	323,022	192,089
	$ 3,719,546	$ 3,651,799

Newcastle Investment Corp.
Consolidated Statements of Cash Flows (Unaudited)
(dollars in thousands)

	Three Months Ended March 31 2012	2011
Cash flows From Operating Activities		
Net income	73,471	109,673
Adjustment to reconcile net income to net cash provided by (used in) operating activities (inclusive of amounts related to discontinued operations):		
Depreciation and amortization	87	46
Accretion of discount and other amortization	(12,213)	(10,771)
Interest income in CDOs redirected for reinvestment or CDO bond pay down	(1,230)	(3,724)
Interest income on investments accrued to principal balance	(5,293)	(4,535)
Interest expense on debt accrued to principal balance	109	410
Deferred interest received	—	1,027
Valuation allowance (reversal) on loans	(9,031)	(41,307)
Other-than-temporary impairment on securities	1,951	4,101
Impairment on real estate held-for-sale	—	433
Change in fair value on investments in excess mortgage servicing rights	(1,216)	—
Gain on settlement of investments (net) and real estate held-for-sale	(4,823)	(33,158)
Unrealized loss on non-hedge derivatives and hedge ineffectiveness	(2,087)	201
Gain on extinguishment of debt	(20,743)	(11,042)
Change in:		
Restricted cash	286	109
Receivables and other assets	555	(40)
Due to affiliates	—	(68)
Accrued expenses and other liabilities	(559)	(61)
Net cash provided by (used in) operating activities	19,264	11,294
Cash Flows From Investing Activities		
Principal repayments from repurchased CDO debt	4,497	9,726
Principal repayments from CDO securities	198	—
Return of investment in excess mortgage servicing rights	2,425	—
Principal repayments from loans and non-CDO securities	22,894	37,605
Purchase of real estate securities	(4,340)	(89,601)
Acquisition of investments in excess mortgage servicing rights	(3,072)	—
Acquisition of servicing rights	—	(2,082)
Net cash provided by (used in) investing activities	22,602	(44,352)
Cash flows From Financing Activities		
Repurchases of CDO bonds payable	(9,159)	(1,083)
Repayments of other bonds payable	(10,450)	(10,460)
Borrowings under repurchase agreements	4,117	79,978
Repayments of repurchase agreements	(10,133)	(2,907)
Issuance of common stock	—	98,843
Costs related to issuance of common stock	—	(58)
Common Stock dividends paid	(15,777)	—
Preferred Stock dividends paid	(1,395)	(4,185)
Net cash provided by (used in) financing activities	(42,797)	160,128
Net Increase (Decrease) in Cash and Cash Equivalents	(931)	127,070
Cash and Cash Equivalents, Beginning of Period	157,356	33,524
Cash and Cash Equivalents, End of Period	$156,425	$160,594
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest expense	$ 20,726	$ 28,759
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Common stock dividends declared but not paid	$ 21,036	$ —
Preferred stock dividends declared but not paid	$ 930	$ 930

Newcastle Investment Corp.
Reconciliation of Core Earnings
(dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Income available for common stockholders	$ 72,076	$ 108,278
Add (Deduct):		
Impairment (reversal)	(7,080)	(37,206)
Other income	(29,752)	(45,469)
Loss (Income) from discontinued operations	(264)	(190)
	$ 34,980	$ 25,413

Core Earnings

- *Core earnings is used by management to gauge the current performance of Newcastle without taking into account gains and losses, which, although they represent a part of our recurring operations, are subject to significant variability and are only a potential indicator of future economic performance. Management views this measure as Newcastle's "core" current earnings, while gains and losses (including impairment) are simply a potential indicator of future earnings. Management believes that this measure provides investors with useful information regarding Newcastle's "core" current earnings, and it enables investors to evaluate Newcastle's current performance using the same measure that management uses to operate the business. Core earnings does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net income as an indicator of our operating performance or as an alternative to cash flow as a measure of our liquidity and is not necessarily indicative of cash available to fund cash needs. Our calculation of core earnings may be different from the calculation used by other companies and, therefore, comparability may be limited.*

Newcastle Investment Corp.
Reconciliation of Cash Available for Distribution
(dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Reconciliation of Cash Available for Distribution:		
Net cash provided by operating activities	19,264	11,294
Principal repayments from CDOs bought at a discount[1)]	4,695	9,726
Less: Return of capital included above[(2)]	(3,005)	(4,595)
Subtotal	1,690	5,131
Preferred dividends[(3)]	(1,395)	(1,395)
Cash Available for Distribution	**$ 19,559**	**$ 15,030**
Other data from the Consolidated Statements of Cash Flows:		
Net cash provided by (used in) investing activities	$ 22,602	$ (44,352)
Net cash provided by (used in) financing activities	(42,797)	160,128
Net increase (decrease) in cash and cash equivalents	(931)	127,070

(1) Excludes principal repayments on assets purchased at par or assets where the principal received is required to pay down Newcastle's debt (assets held in our CDO's, MH loans and Agency Securities).
(2) Represents the portion of principal repayments from repurchased CDO debt and from CDO securities computed based on the ratio of Newcastle's purchase price of such debt or securities to the aggregate principal payments expected to be received from such debt or securities.
(3) Represents preferred dividends to be paid on an accrual basis (payments are made at the end of Jan, Apr, Jul and Oct).

Cash Available for Distribution ("CAD")

- *We believe that CAD is useful for investors because it is a meaningful measure of our operating liquidity. It represents GAAP net cash provided by operating activities adjusted for two factors:*

  1. *Principal payments received from Newcastle's investments in repurchased CDO debt and CDO securities in excess of the portion that represent a return of Newcastle's invested capital. In other words, although these net principal repayments are reported as investing activities for GAAP purposes, they actually represent a portion of Newcastle's return on these investments (or yield), rather than a return of Newcastle's invested capital.*

2. *Preferred dividends. Although these dividends are reported as financing activities for GAAP purposes, they represent a recurring use of Newcastle's operating cash flow similar to interest payments on debt.*

- *Management uses CAD as an important input in determining cash available to pay dividends to Newcastle's common stockholders.*
- *CAD excludes principal repayments on assets purchased at par or assets where the principal received is required to pay down Newcastle's debt (assets held in our CDOs, MH loans and Agency Securities). Furthermore, net cash provided by operating activities, a primary element of CAD, includes timing differences based on changes in accruals. For these reasons CAD is limited in its usefulness and does not represent cash generated from operating activities in accordance with GAAP and should not be considered an alternative to net income as an indicator of our operating performance or as an alternative to cash flow as a measure of our liquidity and is not necessarily indicative of cash available to fund cash needs. Our calculation of CAD may be different from the calculation used by other companies and therefore comparability may be limited.*

Exhibit 99.2

Corrected Transcript

10-May-2012

Newcastle Investment Corp. (NCT.PRB)

Q1 2012 Earnings Call

FACTSET: callstreet

1-877-FACTSET www.callstreet.com

Total Pages: 12

CORPORATE PARTICIPANTS

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Kenneth M. Riis
President, Chief Executive Officer & Director, Newcastle Investment Corp.

Wes Edens
Chairman, Newcastle Investment Corp.

Brian Sigman
Chief Financial Officer & Treasurer, Newcastle Investment Corp.

OTHER PARTICIPANTS

Joshua A. Barber
Analyst, Stifel, Nicolaus & Co., Inc.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Matt Howlett
Analyst, Macquarie Capital (USA), Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Christy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Newcastle First Quarter 2012 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I will now hand the conference over to Ms. Ivy Hernandez. Please go ahead.

Ivy Hernandez
Counsel, Newcastle Investment Corp.

Thanks, and good morning. I'd like to welcome you today, May 10, 2012, to Newcastle's first quarter 2012 earnings conference call. Joining us today are Ken Riis, our CEO and President; Wes Edens, the Chairman of our Board of Directors; and Brian Sigman, our CFO.

Before I turn the call over to Ken, I'd like to point out that certain statements made today may be forward-looking statements. Forward-looking statements are not statements of fact. Instead, these statements describe the company's current beliefs regarding events that, by their nature, are uncertain and outside of the company's control.

The company's actual results may differ materially from the estimates or expectations expressed in any forward-looking statements, so you should not place undue reliance on any forward-looking statements. I encourage you to review the disclaimers in our earnings release regarding forward-looking statements and expected returns, and to review the risk factors contained in our annual and quarterly reports filed with the SEC.

Now I'd like to turn the call over to Ken.

Kenneth M. Riis
President, Chief Executive Officer & Director, Newcastle Investment Corp.

Thanks, [ph] Ivy (01:39). Thanks, everyone, for joining our first quarter earnings conference call. Before I get into the discussion on the first quarter, I wanted to let everybody know that in addition to posting our press release last night, we also posted our first quarter supplement on our website, at www.newcastleinv.com. Since first doing this in March, we received a lot of positive feedback, and I think it's a good resource for our shareholders to gain a better understanding of how we make our money. So now let's dive into the quarter.

We had a great first quarter and first four months of the year. Our portfolio continues to generate stable cash flows, and we have seen attractive investment opportunities to deploy capital at 18% to 20% returns. Our first Excess Mortgage Servicing investment is performing better than expected, which will discuss in a minute, and our operating metrics continue to improve.

Quarter-over-quarter, core earnings improved $0.03, to $0.33 per share, and cash available for distribution increased $1.5 million, or $0.02 per share, to $0.19. We have been very active on the investment side. In the quarter, we committed to invest $170 million in Excess Mortgage Servicing Rights and purchased $70 million of assets for our CDOs. Our MSR pipeline is robust, and we expect to deploy additional capital in this sector in the near term.

On the call today, Wes and I will highlight our activity in the real estate debt and Excess Mortgage Servicing businesses, and Brian will close with a discussion on the overall financial highlights for the quarter. So let's first talk about the real estate debt business.

In the quarter, this segment generated $35 million of total cash flow, an increase of $1.5 million over the fourth quarter. The overall value of our real estate debt portfolio increased by $100 million, or 3.5%, to an average price of 97.5% (sic) [79.5%] (03:53) of par, and I see meaningful upside from here as credits improve and spreads tighten. The over-collateralization in CDOs VIII, IX, and X has been stable and currently stands at $233 million.

In the coming quarters, I expect the OC in these three CDOs to remain constant, with the potential to increase slightly as we successfully work out and restructure assets or we see payoffs at higher valuations than the current amount of OC credit received in the CDOs.

We ended the quarter with $95 million of restricted cash to invest in our CDOs. We invested $60 million to purchase $70 million face amount of CMBS, ABS, and commercial real estate loans at an average price of 87% of par and an average yield of 10%.

Finally, we sourced and repurchased $30 million of our CDO liabilities. In the quarter, we bought 100% of the A-3 Class in CDO X at a price of $30 million, investing $9 million, at an expected return of 18%. Since we started buying back our CDO liabilities in 2008, we have repurchased a total of $950 million at an average price of $0.38 on the dollar. We continue to have active dialogue with current third-party holders and anticipate increased selling in the coming quarters.

Now I'll pass it over to Wes, our Chairman.

Wes Edens
Chairman, Newcastle Investment Corp.

Great. Thank, Ken. Welcome everyone. I'm going to give just a few comments on the newest lines of business, the Mortgage Servicing Rights Excess servicing interest that we have invested in and a couple thoughts on those markets. As we have told you before, we've made a handful of investments in this sector. We currently have or we've committed to about $215 million of investment in MSRs. The first investment, which we made back in November, is detailed in our supplement. You can see it up on our webpage.

The performance of that investment continues to be terrific. We made a $44 million investment. It has been slower in prepayments than we anticipated. The recapture rate, which is our term that we created to describe the refinance activity by Nationstar, which is our partner on this investment, has been terrific, and it has gone really pretty much – very much in line with what we had hoped, where they started out, obviously, recapturing zero because it was a new portfolio to them; the last couple months, it has averaged right around 35%, so recapturing about a third of them.

The net of all that in terms of the returns to investors, our shareholders, has been a terrific one. We have a life-to-date return in the low-20s on an unleveraged basis, about a 23%, and we've gotten back about 17% of the investment that we had made only a few short months ago. So – the characteristics of these investments are mid-teens, mid-20s, unleveraged returns, based on our expectations, with a significant amount of upside if either prepayments come in a bit slower, defaults are a bit slower, or certainly if interest rates were to rise at some point and prepayments were to slow down, be substantial. So we feel great about that.

That's the first one. The second one we have committed to is expected to close here in the next couple of weeks, which is the MSRs from the Aurora Bank transaction. Aurora was the bank that is owned by the bankrupt Lehman Brothers estate. They had a large servicing portfolio of just about $66 billion at the time we committed. It's now about $63 billion. That's scheduled to close in the next couple of weeks, and our investment in that is going to be about $170 million, plus or minus, so we feel great about that.

We've got a third of these transactions that we expect to get done in the very near term. We're very close to kind of final closure on that. And then there's a fourth transaction that is quite a large one that is still very much pending, but we're very optimistic it's going to come to pass here in the next couple of days.

So, needless to say, there's a lot of activity around that, and we think the dynamics, again, for that business and that sector, for us, continue to be very attractive ones. And the returns, as you can see from the supplement, kind of highlight why we think it's such a compelling and interesting area for us.

In addition to the MSR investments, one of the things that we've been very focused on is that as our partner in these transactions, Nationstar, as they have added to their portfolio of non-agency securities that they service, that has opened up a new window for us to look at investments that we think are also very attractive on the securities side.

So Nationstar themselves were a modest issuer of securities kind of historically. They had originated a handful of – $1 billion of transactions that they service. They then – with this Aurora transaction, they add another $63 billion, of which a big chunk of that, about $45 billion of it or so, is non-agency securities they service. This other transaction which is pending is incrementally another big chunk of that as well, so we could end up with well over $100-plus billion in securities that are serviced by Nationstar.

The relevance to us from an investment standpoint is that we have made our first investment of any kind of consequence in a security which is solely serviced by them. We bought a security back a few weeks ago that was a part of the Maiden Lane transaction. It is a $42 million current face security. We bought it on an unleveraged basis at a return, plus or minus, around 10%. With any kind of modest leverage at all, that moves into the mid-teens or even the low 20s.

And obviously the thing that we're focused on there is both the performance from a credit standpoint of the security – with it being serviced by Nationstar, we take a great deal of comfort in that. Also, we think that with HAMP and other prepayment initiatives that are in the marketplace, there is a good potential, with a good servicer and a good originator, the bulk of which we think is the case with Nationstar, for them to increase prepayments. Any kind of marginal increase in prepayments in a portfolio investment like this would have a substantial impact on returns.

And then just to put some context in it, it's been prepaying at about 2%, which that generates a 10% unleveraged return. If that 2% went to 5%, it goes in the mid-teens, and if it went to 10%, it goes into the low 20s on an unleveraged basis. So a lot to wood to chop, but it's something that I think you'll see more from us as – again, as Nationstar continues to add servicing on those non-agency securities, that's something that we think is interesting and that's something we're going to be focused on, so probably more of that to come.

So, as Ken said, we're excited about the quarter. We think it has been a good quarter. And we're excited about the pipeline of investments and activities. And, with that, I will turn it over to Brian.

Brian Sigman
Chief Financial Officer & Treasurer, Newcastle Investment Corp.

Thanks, Wes. We had good financial results in the quarter. First, we had GAAP income of $0.68 per share. This included core earnings of $0.33, which was up 10%, or $0.03, from Q4. In the quarter, we [ph] recorded (11:34) a gain of $21 million, or $0.20 per share, in connection with the repurchase of our CDO debt. We generated $20 million of cash available for distribution, or CAD, in the quarter, an increase of 8% over Q4, and in March, we declared a first quarter dividend of $0.20 per share, up from $0.15.

As Ken and Wes described, we have been breaking out our results by our two business lines. This quarter, we saw the full effect of our first Excess MSR investment, and while the MSR business only generated 10% of our total cash flow, we expect it to grow to approximately 40% with a full quarter of the Aurora investment.

As we close on our outstanding commitments, our operating earnings and cash flows will naturally increase. In the first quarter, we had approximately $140 million of average un-invested cash on our balance sheet. Putting that capital to work at an 18% return would increase quarterly CAD by $0.04 to $0.05, which could potentially grow our dividend to $0.23 to $0.25.

Although we currently have $220 million of unrestricted cash, we expect to close on the Aurora transaction later this month, leaving around $50 million of cash to invest. We currently have an additional $55 million of restricted cash in our CDOs, all of which is held in CDO X, and which we expect to invest in the near term at 8% to 10% unlevered yield.

Lastly, we are pleased to have had three new research analysts pick up coverage of our company in the past couple of months. Combined with the two analysts that have been with us for a while, we think investors will have great resources at their disposal to learn more about our company. The contact information for all our research analysts can be found on our website in the Investor Relations section.

That ends our prepared remarks. We will now take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Josh Barber with Stifel Nicolaus.

Joshua A. Barber
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you and good morning. First, the supplemental information is very helpful, so thank you for posting that. Two quick questions. You mentioned in this quarter's supplemental report, it looks like the CPR on your original $9.9 billion MSR deal is now 30%. I believe the original underwriting there was 20%. Can you talk about what's going on with that portfolio and why those assumptions have changed?

Kenneth M. Riis
President, Chief Executive Officer & Director, Newcastle Investment Corp.

A

Yeah, this is Ken. The average prepayment rate for the life of their – of the pool was 20%, so we factored in a spike in prepayments through the HARP 2.0 period, through December 2013. And if you look in our supplement, you'll see a ramp prepayment rate going up to 30% for the next 18 months, but on average it's 20%. And as you can see, in April, our prepayment rate was only 13%, so materially lower than what we projected in our prepayment assumption.

Joshua A. Barber
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay, but I think across the entire duration, it would still be 20% or so.

Kenneth M. Riis
President, Chief Executive Officer & Director, Newcastle Investment Corp.

A

Yes.

Joshua A. Barber
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. When it comes to – Wes, you referenced a large deal, and I think we all have an idea of what that is. Can you talk about would that be something that's fully done, or would that be something that's done in conjunction with a number of other fortress entities?

Wes Edens
Chairman, Newcastle Investment Corp.

A

Well — just trying to think of what I can say and can't say, probably not much. I think that there's been a lot that has been reported on it, and the one thing I would say is there's obviously been a lot of activity from our standpoint. We've spent a lot of time working on this large deal, and I think it will come to pass, one way or the other, in the next handful of days. So it's near the end of the period that we would either start our involvement or end our involvement with it, and we're pretty optimistic how it's all going to turn out.

With regards to how that capital will be provided and what we're thinking about there, I think it's safe to say that there's a lot of interest in investing in the MSRs across the firm. We have lots of different capital that we manage in addition to this, and so we'll make an allocation process that's consistent with the capital availability, diversification, and other kinds of factors. So I know that's probably not as clear a response as you'd like, but I think, under the circumstances, that's probably the best I can do.

Joshua A. Barber
Analyst, Stifel, Nicolaus & Co., Inc.

Q

No, it's definitely fair. Thanks very much.

Operator: Your next question comes from the line of Jason Stewart with Compass Point.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC

Q

Hi. Good morning. Thank you. One strategic question, when you think about the size of the market opportunity and your balance sheet, is there an optimal size or is there a point at which making the marginal investment just – it creates problems down the road, or is it it's such nascent industry that you've got a tremendous ramp to go?

Wes Edens
Chairman, Newcastle Investment Corp.

A

Well, it's a really good question. I think if you step back and look at the size of the mortgage servicing business in total, that there's just over $10 trillion in mortgages in the U.S., and to make the example simple, let's assume that the servicing is worth roughly 1% on that. That's not probably precisely right, but it's a good estimate. So the market then would be a $100 billion addressable market, which sounds like a great big market, and in fact it is, but historically, the vast majority of that asset class was owned by the banks and was created by them as they created mortgages and sold [ph] them along (17:39), and it never really traded. So the market seemed quite large, but in true actionable amounts was actually quite small.

That has changed fairly dramatically in the past year or so, where, for a variety of reasons – which we have talked about before – but for a variety of reasons the banks, I think, are less good owners of the asset. Both from a regulatory capital, from the regulatory standpoint, from just kind of the headline exposure of it, I think that they are less good owners.

And so if you think that 90%-plus of the business is owned by the banks today, so this adds $90 billion of the $100 billion of actionable amount, and some material portion of that is sold, which indeed we've seen $300 billion, $400 billion, and it could easily be two or three times that in the near term is actually sold, then you're looking at potentially a market of $10 billion or $20 billion or $30 billion in transactions over a relatively short period of time, over a couple-year period.

And so I to think we are on the very early edge of what should be a substantial amount of activity, and that's exciting and interesting for us. And so, obviously, in the context of all of that we're trying to make every marginal investment be a good one, and we've got the two that we've committed to, a third we're very close to, and a fourth potentially that's very close to as well, so that's a great place to start. We've tried to give great clarity.

In fact, before we made our first investment, we actually did a road show, went out and talked to investors to tell them that we were thinking about this because I wanted to have people have a sense of exactly what we thought of the opportunity and what it was. And I think that that was the right thing to do, and we did that early last fall. And that's been followed up by, obviously, a lot of activity, but we do think that there's hopefully a long, long ways to go.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC

Q

And the disclosure's been incredible. We all appreciate that. Along those lines with your balance sheet, have you thought about – or what's your philosophy on adding debt to a transaction — to an investment like Excess MSRs?

Wes Edens
Chairman, Newcastle Investment Corp.

A

One of the things I'd say – when Ken was just talking about prepayments a minute ago – one of the great things about this type of investment is if you get really excellent performance early, it reduces your risk substantially, right? So in the first five months of this one that we show in the supplement, having prepayments to date of just about 10% versus a forecast of 20% to life, when you have no debt on it and that money comes back, it obviously reduces your basis rapidly and it reduces kind of the tail exposure that you have fairly substantially. So I understand the arithmetic, as obviously everyone else does on this call, that if we added leverage to it, it would increase the returns a lot. It would also increase the risk of it a fair bit as well.

So one of the things that we have thought a lot about, and I do think that this leads into this first investment that we made in this non-agency security, is that if we can make investments in other assets that have excellent returns and good profiles, and do so, again, on a very low-leverage or even unleveraged basis, that give us a lot of balance sheet flexibility. Because one of the elements of the MSR investments is that they are fairly episodic, and so you make a commitment, and then it funds at some point in the future. And you don't want to have either an unfunded balance sheet – that's a very bad idea and a good way to go out of business – nor do you want to have just a bunch of capital that sits around that's completely un-invested.

And so I think making investments in some of the related securities and doing so on a low-leverage basis give us a lot of balance sheet flexibility and then also gives a good kind of base level of return to shareholders during kind of time when you've committed and not yet invested. So as the portfolio gets bigger and we get a little more diversification, I think you'll see that play out a little bit, but that's obviously what we're focused on and that's what this first investment represents, and so kind of more on that to follow.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC

Q

Okay. Yeah, and then just one final quick one; the non-agency securities that you're purchasing out of Maiden Lane, are those going into the CDOs or on balance sheet?

Wes Edens
Chairman, Newcastle Investment Corp.

A

The one that I talked about was actually just on balance sheet.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC

Q

Okay. Great. Thank you.

Operator: Your question comes from the line of Bose George with KBW [Keefe, Bruyette & Woods].

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Good morning. Actually, just on the portfolio – the MSR that you guys purchased in December, given that the prepayments are so low, I'm wondering what your thoughts are there on HARP. Do you think it's just coming in a lot lower than expected, that it's going to kick in later than expected? Just curious how you're thinking about that.

Wes Edens
Chairman, Newcastle Investment Corp.

A

Actually [indiscernible] (22:11) I think that there have been a number of government initiatives since the financial crisis to try to encourage repayments. Obviously, getting people that are over-leveraged on their house to be able to take advantage of low interest rates is a good thing for consumers; it's a good thing for the housing market. It's just a good thing in terms of what the government is trying to support. That said, the net impact of those prepayment programs to date, I think, has been disappointing to the government and considerably less than what has been forecast.

And so I think that the latest round of it, we think the latest round of it is the most comprehensive, the most actionable, and thus has the most potential, and it still is not really known what the impact is going to be. We think it could have a big impact. That's obviously why Ken mentions the prepayments fees; we do think that there's a vector of a surge of prepayments here in the next handful of months, but it has not really manifested itself yet, obviously, on this portfolio, nor have we seen it kind of more broadly.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, great. And then just actually thinking kind of longer-term in terms of your MSR investment opportunities, do you envision other companies competing directly with Nationstar against you for some of these assets? Could that potentially happen?

Wes Edens
Chairman, Newcastle Investment Corp.

A

Yes. Look, mid-teens to mid-20s unleveraged returns is attractive, right? So we do think that there's a lot of interest in trying to access them. The good news is that it's relatively difficult to kind of put all the pieces together to compete against it, right? Because when you think about it, from our standpoint, we want to be partners with a servicer that, number one, is a great servicer, because performing loans don't prepay and defaulted loans acts as a prepayment, so keeping people in their house and making their payments is a big part of the picture.

Number two, we want to invest with a partner that has a lot of capital so they can co-invest with us, so their interests are aligned kind of shoulder to shoulder. And number three – and this is a – it's a nuance but it's a really important one – is that we want a servicer that treats all their borrowers like customers and actually is a big participant in their refinancing activity. And that's a productive thing in terms of elongating the life of that MSR, and it really does shut down the tail exposure to it dramatically, and it's been a big, big part of it.

So that's why this whole notion of recapture. that is a term that we coined – and I think it sounds like a child's game, but it's actually – it's an important element of the returns – if you can recapture a substantial portion of those people that are going to refinance anyhow in the ordinary course, it really does – it adds to the base-level return substantially and it cuts down the tail exposure dramatically.

So you add those three things up, and you say how many servicers are out there that are great servicers, they have a lot of capital, that are also really, really capable of financing counterparties, and it's a pretty short list. But there certainly are competitors, and I expect competition, and obviously we know that by being transparent with what we own, it's good for investors. It's also probably good for our competitors because they can see directly what it is, and that's the bad news. But I think, on balance, it's a really good thing for shareholders, so we're prepared to be competitive, land hopefully we'll win more than our share, so.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay, great. Thanks. And yeah, your disclosure obviously is very helpful.

Wes Edens
Chairman, Newcastle Investment Corp.
A

Yes.

Operator: Your next question comes from the line of Matthew Howlett with Macquarie.

Matt Howlett
Analyst, Macquarie Capital (USA), Inc.
Q

…taking my question. Just to follow on that first pool, it's clearly prepaying at – the ramp is below what you guys thought it was, and HARP hasn't been as effective as we once thought it could have been. But if the issue is just with cross-service to re-fis, is it just simply that you guys see an arbitrage with other servicers not coming in and willing to underwrite or re-fi a guy in someone else's pool, and, it's – despite HARP's attempts to try to get that to happen, [ph] indemnified (26:18) originations just simply hasn't happened yet?

Wes Edens
Chairman, Newcastle Investment Corp.
A

I don't know the specific answer to that. What I will tell you is, if you think about a consumer-facing business, one of your large costs is that of customer acquisition, right? So if you're in a consumer business and you're trying to sell more or transact more or whatever you're doing, a big, big part of your cost structure is to go out and pay to kind of acquire those customers. One of the beauties of refinancing our existing customers at Nationstar is that they're existing customers, and so our hot leads come from people picking up the phone and calling us and telling us they'd like to refinance. That's a great place to start.

And there's also – there's obviously – there's a lot of technology that you can use to try to identify people that are looking to refinance, be it they start to pull down credit scores from bureaus and things like that. There's a whole host of other things that go into it besides simply answering the phone.

But I do think that at Nationstar, they have made recapture a focus of their origination activities. It's been a very productive focus thus far, and we're very keen on having as many of those customers stay with us as possible. From an MSR standpoint, if you could recapture 100%, it'd be the perpetual money machine, right? And 100% is not possible. We've seen and even demonstrate here, you've gone from zero to 4, 16, 35, 33, 36; the numbers are pretty consistent, and we hope that that's going to continue to be the case.

Matt Howlett
Analyst, Macquarie Capital (USA), Inc.
Q

Now, the government, from what I can tell, hasn't given up on their sort of expanding HARP. I think there's another bill working its way through Congress. Are you seeing – I think to address some of the cross-servicing issues and other things like HARP isn't working, is there anything out there? From my sense, the market really isn't paying much attention to it, doesn't think it will be effective. Do you think there's some fatigue in Washington, that [ph] they basically tried announcing it (28:18), and that there's been nothing else monumental in terms of trying to get re-fis going again?

Wes Edens
Chairman, Newcastle Investment Corp.

A

Yeah, I think that – look, I think that if you could take people that are paying 6% and get them to take advantage of the current interest rates and pay 4%, that's good for them, it's stimulative for the economy. There's a lot of good science behind that. I think that the practical limitations of making it all happen has been challenging. And now I think it's not just the burnout in Washington; I think it's the burnout with the borrowers, right? They've been contacted, Lord knows how many times over the past four years by people trying to refinance them in some way, shape, or form.

So I think there's a lot – and just anecdotally, I've heard from the origination folks that there is a lot of burnout where people have gotten a dozen solicitations, this is 13th one, and even now it really works, it's kind of a, gee whiz, is this really what it's cracked up to be?

But I do think that there's going to be an impact. We think there is, and so, obviously, modeling that into our numbers is 100% the right thing. But I do think your point about disappointment – I think that the government has to be disappointed that the things they tried to do with the best of intentions over the past couple of years have not been as successful. They're continuing to try, though, and one of these times I think you'll get it right and you'll get a big surge. So that's why actually being aligned with an originator is so important. obviously.

Matt Howlett
Analyst, Macquarie Capital (USA), Inc.

Q

Yeah, it does; it seems they're advantageous. And then just moving to just a broader question, CDO X's reinvestment period's coming to an end this summer. You guys have always had a big presence in the origination space, as an issuer, as a lender. With all of the CDOs now exiting the reinvestment period, you won't be in the market as much as you used to be. How will you be keeping the origination platform going on the commercial side? You have access to the securitization markets; you've been a big issuer. What are the plans in the commercial end to keep the platform going as these reinvestment periods end on your existing CDO portfolio?

Kenneth M. Riis
President, Chief Executive Officer & Director, Newcastle Investment Corp.

A

Well, as you see, we are very active in reinvesting cash in our CDOs at very good returns, in assets that are trading at a discount, high yields, unlevered returns; say, 10% is what we did in the last quarter, and we're seeing great opportunities there. And we're able to be very selective because we have a select amount of capital to invest. Going forward, it really depends on what happens in the financing markets and how we're able to very conservatively finance without taking a lot of mark-to-market or recourse financing against the asset that we want to buy. Not to say that market isn't going to come around. I'm hearing that as the economy improves and credit spreads tighten, I think you'll see the financing markets come back on the commercial real estate side, and I think we're obviously very ready to take advantage of that.

Matt Howlett
Analyst, Macquarie Capital (USA), Inc.

Q

So, in other words – and that was going to be my next question – would you look to – I'm not sure how open the CRE CDO market is again. I know that's coming back. But would you look to just make loans and B-Notes and Mezz loans and just securitize and just access the market? That's a way to hold onto the B piece like you've done traditionally? Is that how you would look to access the commercial markets again?

Kenneth M. Riis
President, Chief Executive Officer & Director, Newcastle Investment Corp.

A

Yeah. I think so. I think that's a very viable alternative for us going forward. And again, we want flexibility in our financings to give us ability to manage the portfolio that we acquire, and if we're able to finance ourselves that way, it's a great opportunity for us. And it's not here today, but I think it will evolve over the coming months.

Matt Howlett
Analyst, Macquarie Capital (USA), Inc.

Q

Great. Thanks, guys.

Operator: That is the allotted time for our question-and-answer session for today. I hand the program back over to management for further comments or closing remarks.

Ivy Hernandez
Counsel, Newcastle Investment Corp.

Thanks again for joining us today. We appreciate your participation, and we look forward to speaking with you next quarter.

Wes Edens
Chairman, Newcastle Investment Corp.

Great, thanks everyone.

Operator: This does conclude today's conference today's conference call. You may now disconnect.