UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________________________ to ____________________________

Commission File Number: 001-31458

Newcastle Investment Corp.

(Exact name of registrant as specified in its charter)

Maryland	81-0559116
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1345 Avenue of the Americas, New York, NY	10105
(Address of principal executive offices)	(Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
☒ Yes No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company)
Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Common stock, $0.01 par value per share: 253,025,645 shares outstanding as of May 2, 2013.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments, the stability of our earnings, and our financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual outcome of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- reductions in cash flows received from our investments;
- our ability to deploy capital accretively;
- the risks that default and recovery rates on our real estate securities and loan portfolios deteriorate compared to our underwriting estimates;
- changes in prepayment rates on the loans underlying certain of our assets;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- the relative spreads between the yield on the assets we invest in and the cost of financing;
- changes in economic conditions generally and the real estate and debt securities markets specifically;
- adverse changes in the financing markets we access affecting our ability to finance our investments, or in a manner that maintains our historic net spreads;
- changing risk assessments by lenders that potentially lead to increased margin calls, not extending our repurchase agreements or other financings in accordance with their current terms or entering into new financings with us;
- changes in interest rates and/or credit spreads, as well as the success of any hedging strategy we may undertake in relation to such changes;
- the quality and size of the investment pipeline and the rate at which we can invest our cash at attractive risk-adjusted returns, including cash inside our collateralized debt obligations ("CDOs");
- impairments in the value of the collateral underlying our investments and the relation of any such impairments to our judgments as to whether changes in the market value of our securities, loans or real estate are temporary or not and whether circumstances bearing on the value of such assets warrant changes in carrying values;
- legislative/regulatory changes, including but not limited to, any modification of the terms of loans;
- the availability and cost of capital for future investments;
- competition within the finance and real estate industries; and
- other risks detailed from time to time below, particularly under the heading "Risk Factors," and in our other reports filed with or furnished to the Securities and Exchange Commission (the "SEC").

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement.

Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views only as of the date of this report. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements provide to be inaccurate;

- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Quarterly Report on Form 10-Q and the Company's other public filings, which are available without charge through the SEC's website at http://www.sec.gov.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

NEWCASTLE INVESTMENT CORP.
FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Real estate securities, available-for-sale	$ 2,495,473	$ 1,691,575
Real estate related loans, held-for-sale, net	851,525	843,132
Residential mortgage loans, held-for-investment, net	317,708	292,461
Residential mortgage loans, held-for-sale, net	2,380	2,471
Investments in excess mortgage servicing rights at fair value	236,555	245,036
Investments in equity method investees at fair value	102,588	—
Subprime mortgage loans subject to call option	406,115	405,814
Investments in real estate, net of accumulated depreciation	168,515	169,473
Intangibles, net of accumulated amortization	16,218	19,086
Other investments	24,907	24,907
Cash and cash equivalents	534,772	231,898
Restricted cash	11,494	2,064
Derivative assets	176	165
Receivables and other assets	27,577	17,230
Total Assets	$ 5,196,003	$ 3,945,312
Liabilities and Stockholders' Equity		
Liabilities		
CDO bonds payable	$ 1,015,560	$ 1,091,354
Other bonds and notes payable	173,723	183,390
Repurchase agreements	1,473,586	929,435
Mortgage notes payable	120,525	120,525
Financing of subprime mortgage loans subject to call option	406,115	405,814
Junior subordinated notes payable	51,242	51,243
Derivative liabilities	26,612	31,576
Dividends Payable	56,596	38,884
Due to affiliates	4,611	3,620
Purchase price payable on investments in excess mortgage servicing rights	59	59
Accrued expenses and other liabilities	17,875	16,352
Total Liabilities	$ 3,346,504	$ 2,872,252
Commitments and contingencies		
Stockholders' Equity		
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, and 620,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, issued and outstanding as of March 31, 2013 and December 31, 2012	$ 61,583	$ 61,583
Common stock, $0.01 par value, 500,000,000 shares authorized, 253,025,645 and172,525,645 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	2,530	1,725
Additional paid-in capital	2,472,931	1,710,083
Accumulated deficit	(790,143)	(771,095)
Accumulated other comprehensive income (loss)	102,598	70,764
Total Equity	$ 1,849,499	$ 1,073,060
Total Liabilities and Stockholders' Equity	$ 5,196,003	$ 3,945,312

Statement continues on the next page.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

The following table presents certain assets of consolidated variable interest entities (VIEs), which are included in the Consolidated Balance Sheets above. The assets in the table below include those assets that can only be used to settle obligations of consolidated VIEs, and are in excess of those obligations. Additionally, the assets in the table below exclude intercompany balances that eliminate in consolidation.

	March 31, 2013 (Unaudited)	December 31, 2012
Assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs		
Real estate securities, available-for-sale	$ 563,639	$ 567,685
Real estate related loans, held-for-sale, net	754,913	813,301
Residential mortgage loans, held-for-investment, net	244,552	292,461
Subprime mortgage loans subject to call option	406,115	405,814
Investments in real estate, net of accumulated depreciation	6,740	6,672
Other investments	18,883	18,883
Restricted cash	11,494	2,064
Receivables and other assets	7,647	7,535
Total assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs	$ 2,013,983	$ 2,114,415

The following table presents certain liabilities of consolidated VIEs, which are included in the Consolidated Balance Sheets above. The liabilities in the table below include liabilities of consolidated VIEs due to third parties only, and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts where creditors or beneficial interest holders have recourse to the general credit of Newcastle.

	March 31, 2013 (Unaudited)	December 31, 2012
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Newcastle		
CDO bonds payable	$ 1,015,560	$ 1,091,354
Other bonds and notes payable	173,723	183,390
Repurchase agreements	-	4,244
Financing of subprime mortgage loans subject to call option	406,115	405,814
Derivative liabilities	26,612	31,576
Accrued expenses and other liabilities	6,954	8,365
Total liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Newcastle	$ 1,628,964	$ 1,724,743

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(dollars in thousands, except share data)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Interest income	$ 71,367	$ 74,899
Interest expense	22,710	30,165
Net interest income	48,657	44,734
Impairment/(Reversal)		
Valuation allowance (reversal) on loans	2,234	(9,031)
Other-than-temporary impairment on securities	422	5,883
Portion of other-than-temporary impairment on securities recognized in other comprehensive income (loss), net of the reversal of other comprehensive loss into net income (loss)	117	(3,932)
	2,773	(7,080)
Net interest income after impairment/reversal	45,884	51,814
Other Revenues		
Rental income	12,887	509
Care and ancillary income	613	—
Total other revenues	13,500	509
Other Income (Loss)		
Gain (loss) on settlement of investments, net	(3)	4,823
Gain on extinguishment of debt	1,206	20,743
Change in fair value of investments in excess mortgage servicing rights	1,858	1,216
Change in fair value of investments in equity method investees	969	—
Other income (loss), net	4,567	2,970
	8,597	29,752
Expenses		
Loan and security servicing expense	1,034	1,098
Property operating expenses	8,363	225
General and administrative expense	6,911	2,286
Management fee to affiliate	9,565	4,976
Depreciation and amortization	4,079	2
	29,952	8,587
Income from continuing operations	38,029	73,488
Income (loss) from discontinued operations	(16)	(17)
Net Income	38,013	73,471
Preferred dividends	(1,395)	(1,395)
Income Available for Common Stockholders	$ 36,618	$ 72,076
Income Per Share of Common Stock		
Basic	$ 0.16	$ 0.68
Diluted	$ 0.15	$ 0.68
Income from continuing operations per share of common stock, after preferred dividends		
Basic	$ 0.16	$ 0.68
Diluted	$ 0.15	$ 0.68
Income (loss) from discontinued operations per share of common stock		
Basic	$ —	$ —
Diluted	$ —	$ —
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	235,136,756	105,181,009
Diluted	240,079,144	105,670,102
Dividends Declared per Share of Common Stock	$ 0.22	$ 0.20

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(dollars in thousands)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net income	$ 38,013	$ 73,471
Other comprehensive income (loss):		
Net unrealized gain (loss) on securities	29,454	76,417
Reclassification of net realized (gain) loss on securities into earnings	539	(4,487)
Net unrealized gain (loss) on derivatives designated as cash flow hedges	1,841	8,174
Reclassification of net realized (gain) loss on derivatives designated as cash flow hedges into earnings	—	(211)
Other comprehensive income (loss)	31,834	79,893
Total comprehensive income	$ 69,847	$ 153,364

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)
FOR THE THREE MONTHS ENDED MARCH 31, 2013
(dollars in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accum. Other Comp. Income (Loss)	Total Stock-holders' Equity
	Shares	Amount	Shares	Amount				
Stockholders' equity - December 31, 2012	2,463,321	$ 61,583	172,525,645	$ 1,725	$ 1,710,083	$ (771,095)	$ 70,764	$ 1,073,060
Dividends declared	—	—	—	—	—	(57,061)	—	(57,061)
Issuance of common stock	—	—	80,500,000	805	762,848	—	—	763,653
Net income	—	—	—	—	—	38,013	—	38,013
Other comprehensive income (loss)	—	—	—	—	—	—	31,834	31,834
Stockholders' equity - March 31, 2013	2,463,321	$ 61,583	253,025,645	$ 2,530	$ 2,472,931	$ (790,143)	$ 102,598	$ 1,849,499

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Three Months Ended March 31,	
	2013	2012
Cash Flows From Operating Activities		
Net income	$ 38,013	$ 73,471
Adjustments to reconcile net income to net cash provided by (used in)operating activities (inclusive of amounts related to discontinued operations):		
Depreciation and amortization	4,079	87
Accretion of discount and other amortization	(8,539)	(12,213)
Interest income in CDOs redirected for reinvestment or CDO bond paydown	(536)	(1,230)
Interest income on investments accrued to principal balance	(6,181)	(5,293)
Interest expense on debt accrued to principal balance	109	109
Valuation allowance (reversal) on loans	2,234	(9,031)
Other-than-temporary impairment on securities	539	1,951
Change in fair value of investments in excess mortgage servicing rights	(1,858)	(1,216)
Change in fair value of investments in equity method investees	(969)	—
Distributions of earnings from equity method investees	1,344	—
(Gain)/Loss on settlement of investments (net)	3	(4,823)
Unrealized gain on non-hedge derivatives and hedge ineffectiveness	(3,126)	(2,086)
Gain on extinguishment of debt	(1,206)	(20,743)
Change in:		
Restricted cash	995	286
Receivables and other assets	(2,277)	554
Due to affiliates	991	—
Accrued expenses and other liabilities	1,004	(559)
Net cash provided by (used in) operating activities	24,619	19,264
Cash Flows From Investing Activities		
Principal repayments from repurchased CDO debt	8,656	4,497
Principal repayments from CDO securities	1,290	198
Principal repayments from non-Agency RMBS	17,472	—
Return of investments in excess mortgage servicing rights	10,272	2,425
Principal repayments from loans and non-CDO securities(excluding non-Agency RMBS)	74,944	22,894
Purchase of real estate securities	(871,127)	(4,340)
Purchase of real estate loans	(101,313)	—
Acquisition of investments in excess mortgage servicing rights	—	(3,072)
Additions to investments in real estate	(259)	—
Contributions to equity method investees	(109,588)	—
Distributions of capital from equity method investees	6,625	—
Deposit paid on investments	(2,700)	—
Net cash provided by (used in) investing activities	(965,728)	22,602

Continued on next page

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Cash Flows From Financing Activities		
Repurchases of CDO bonds payable	(9,722)	(9,159)
Repayments of other bonds and notes payable	(9,922)	(10,450)
Borrowings under repurchase agreements	1,379,928	4,117
Repayments of repurchase agreements	(835,777)	(10,133)
Margin deposits under repurchase agreements	(62,100)	(9,634)
Return of margin deposits under repurchase agreements	56,788	9,634
Issuance of common stock	764,759	—
Costs related to issuance of common stock	(592)	—
Common stock dividends paid	(37,954)	(15,777)
Preferred stock dividends paid	(1,395)	(1,395)
Payment of deferred financing costs	(30)	—
Net cash provided by (used in) financing activities	1,243,983	(42,797)
Net Increase (Decrease) in Cash and Cash Equivalents	302,874	(931)
Cash and Cash Equivalents, Beginning of Period	231,898	157,356
Cash and Cash Equivalents, End of Period	$ 534,772	$ 156,425
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest expense	$ 12,953	$ 20,726
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Preferred stock dividends declared but not paid	$ 930	$ 930
Common stock dividends declared but not paid	$ 55,666	$ 21,036

See notes to consolidated financial statements

1. GENERAL

Newcastle Investment Corp. (and its subsidiaries, "Newcastle") is a Maryland corporation that was formed in 2002. Newcastle conducts its business through the following segments: (i) investments financed with non-recourse collateralized debt obligations ("non-recourse CDOs"), (ii) unlevered investments in deconsolidated Newcastle CDO debt ("unlevered CDOs"), (iii) unlevered investments in excess mortgage servicing rights ("unlevered Excess MSRs"), (iv) investments in senior living assets financed with non-recourse debt ("non-recourse senior living"), (v) investments financed with other non-recourse debt ("non-recourse other"), (vi) investments and debt repurchases financed with recourse debt ("recourse"), (vii) other unlevered investments ("unlevered other") and (viii) corporate. With respect to the non-recourse CDOs and non-recourse other segments, subject to the passing of certain periodic coverage tests, Newcastle is generally entitled to receive the net cash flows from these structures on a periodic basis.

Newcastle is organized and conducts its operations to qualify as a real estate investment trust ("REIT") for U.S. federal income tax purposes. As such, Newcastle will generally not be subject to U.S. federal corporate income tax on that portion of its net income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements.

Newcastle is party to a management agreement (the "Management Agreement") with FIG LLC (the "Manager"), a subsidiary of Fortress Investment Group LLC ("Fortress"), under which the Manager advises Newcastle on various aspects of its business and manages its day-to-day operations, subject to the supervision of Newcastle's board of directors. For its services, the Manager is entitled to an annual management fee and incentive compensation, both as defined in, and in accordance with the terms of, the Management Agreement.

Newcastle is party to management agreements (the "Senior Living Management Agreements") with subsidiaries (the "Senior Living Managers") of Fortress, under which the Senior Living Managers manage the day-to-day operations of the senior living assets, subject to the supervision of Newcastle's officers and board of directors. For their services, the Senior Living Managers are entitled to an annual management fee as defined in, and in accordance with the terms of, the Senior Living Management Agreements.

Approximately 5.3 million shares of Newcastle's common stock were held by Fortress, through its affiliates, and its principals at March 31, 2013. In addition, Fortress, through its affiliates, held options to purchase approximately 17.7 million shares of Newcastle's common stock at March 31, 2013.

The accompanying consolidated financial statements and related notes of Newcastle have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Newcastle's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Newcastle's consolidated financial statements for the year ended December 31, 2012 and notes thereto included in Newcastle's Annual Report on Form 10-K filed with the Securities and Exchange Commission. Capitalized terms used herein, and not otherwise defined, are defined in Newcastle's consolidated financial statements for the year ended December 31, 2012.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

Recent Accounting Pronouncements

In February 2013, the FASB issued new guidance regarding the reporting of reclassifications out of accumulated other comprehensive income. The new guidance does not change current requirements for reporting net income or other comprehensive income in financial statements. However, it requires companies to present the effects on the line items of net income of significant amounts reclassified out of accumulated OCI if the item reclassified is required to be reclassified to net income in its entirety during the same reporting period. Presentation should occur either on the face of the income statement where net income is presented, or in the notes to the financial statements. Newcastle has early adopted this accounting standard and opted to present this information in a note to the financial statements.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, the definition of an investment company, financial statement presentation, revenue recognition, leases, financial instruments, hedging and contingencies. Some of the proposed changes are significant and could have a material impact on Newcastle's reporting. Newcastle has not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

2. SEGMENT REPORTING AND VARIABLE INTEREST ENTITIES

Newcastle conducts its business through the following segments: (i) investments financed with non-recourse collateralized debt obligations ("non-recourse CDOs"), (ii) unlevered investments in deconsolidated Newcastle CDO debt ("unlevered CDOs"), (iii) unlevered investments in excess mortgage servicing rights ("unlevered Excess MSRs"), (iv) investments in senior living assets financed with non-recourse debt ("non-recourse senior living"), (v) investments financed with other non-recourse debt ("non-recourse other"), (vi) investments and debt repurchases financed with recourse debt ("recourse"), (vii) other unlevered investments ("unlevered other") and (viii) corporate. With respect to the non-recourse CDOs and non-recourse other segments, subject to the passing of certain periodic coverage tests, Newcastle is generally entitled to receive the net cash flows from these structures on a periodic basis.

The corporate segment consists primarily of interest income on short-term investments, general and administrative expenses, interest expense on the junior subordinated notes payable and management fees pursuant to the Management Agreement.

(dollars in tables in thousands, except share data)

Summary financial data on Newcastle's segments is given below, together with a reconciliation to the same data for Newcastle as a whole:

	Non-Recourse CDOs (A)	Unlevered CDOs (B)	Unlevered Excess MSRs	Non-Recourse Senior Living	Non-Recourse Other (A) (C)	Recourse (D)	Unlevered Other (E)	Corporate	Inter-segment Elimination (F)	Total
Three Months Ended March 31, 2013										
Interest income	$ 31,589	$ 239	$ 10,035	$ —	$ 16,307	$ 7,285	$ 6,706	$ 72	$ (866)	$ 71,367
Interest expense	7,131	—	—	1,232	12,383	1,878	—	952	(866)	22,710
Net interest income (expense)	24,458	239	10,035	(1,232)	3,924	5,407	6,706	(880)	—	48,657
Impairment (reversal)	3,183	—	—	—	848	—	(1,258)	—	—	2,773
Other revenues	—	—	—	12,997	503	—	—	—	—	13,500
Other income (loss)	4,497	74	2,827	8	—	—	1,191	—	—	8,597
Property operating expenses	—	—	—	8,116	247	—	—	—	—	8,363
Depreciation and amortization	—	—	—	4,022	57	—	—	—	—	4,079
Other operating expenses	194	—	221	2,388	719	42	95	13,851	—	17,510
Income (loss) from continuing operations	25,578	313	12,641	(2,753)	2,556	5,365	9,060	(14,731)	—	38,029
Income (loss) from discontinued operations	—	—	—	—	—	—	(16)	—	—	(16)
Net income (loss)	25,578	313	12,641	(2,753)	2,556	5,365	9,044	(14,731)	—	38,013
Preferred dividends	—	—	—	—	—	—	—	(1,395)	—	(1,395)
Income (loss) applicable to common stockholders	$ 25,578	$ 313	$ 12,641	$ (2,753)	$ 2,556	$ 5,365	$ 9,044	$ (16,126)	$ —	$ 36,618
March 31, 2013										
Investments	$ 1,347,691	$ 5,254	$ 339,143	$ 177,993	$ 708,998	$ 1,634,243	$ 470,509	$ —	$ (61,847)	$ 4,621,984
Cash and restricted cash	11,494	—	—	10,207	—	—	—	524,565	—	546,266
Derivative assets	—	—	—	176	—	—	—	—	—	176
Other assets	7,556	6	—	7,537	91	9,893	2,350	299	(155)	27,577
Total assets	1,366,741	5,260	339,143	195,913	709,089	1,644,136	472,859	524,864	(62,002)	5,196,003
Debt	(1,015,560)	—	—	(120,525)	(641,685)	(1,473,586)	—	(51,242)	61,847	(3,240,751)
Derivative liabilities	(26,612)	—	—	—	—	—	—	—	—	(26,612)
Other liabilities	(5,510)	—	(280)	(4,935)	(1,444)	(142)	(854)	(66,131)	155	(79,141)
Total liabilities	(1,047,682)	—	(280)	(125,460)	(643,129)	(1,473,728)	(854)	(117,373)	62,002	(3,346,504)
Preferred stock	—	—	—	—	—	—	—	(61,583)	—	(61,583)
GAAP book value	$ 319,059	$ 5,260	$ 338,863	$ 70,453	$ 65,960	$ 170,408	$ 472,005	$ 345,908	$ —	$ 1,787,916
Investments in equity method investees at fair value	$ —	$ —	$ 102,588	$ —	$ —	$ —	$ —	$ —	$ —	$ 102,588
Additions to investments in real estate	—	—	—	130	129	—	—	—	—	259

(dollars in tables in thousands, except share data)

	Non-Recourse CDOs (A)	Unlevered CDOs (B)	Unlevered Excess MSRs	Non-Recourse Senior Living	Non-Recourse Other (A)	Recourse	Unlevered Other	Corporate	Inter-segment Elimination (F)	Total
Three Months Ended March 31, 2012										
Interest income	$ 54,402	$ 115	$ 2,037	$ —	$ 18,426	$ 814	$ 523	$ 51	$ (1,469)	$ 74,899
Interest expense	17,636	—	—	—	12,663	268	—	954	(1,356)	30,165
Net interest income (expense)	36,766	115	2,037	—	5,763	546	523	(903)	(113)	44,734
Impairment (reversal)	(8,531)	—	—	—	1,648	—	(197)	—	—	(7,080)
Other revenues	—	—	—	—	509	—	—	—	—	509
Other income (loss)	29,913	92	1,216	—	—	—	(1,469)	—	—	29,752
Property operating expenses	—	—	—	—	338	—	—	—	(113)	225
Depreciation and amortization	—	—	—	—	2	—	—	—	—	2
Other operating expenses	241	1	123	—	844	—	13	7,138	—	8,360
Income (loss) from continuing operations	74,969	206	3,130	—	3,440	546	(762)	(8,041)	—	73,488
Income (loss) from discontinued operations	—	—	—	—	—	—	(17)	—	—	(17)
Net income (loss)	74,969	206	3,130	—	3,440	546	(779)	(8,041)	—	73,471
Preferred dividends	—	—	—	—	—	—	—	(1,395)	—	(1,395)
Income (loss) applicable to common stockholders	$ 74,969	$ 206	$ 3,130	$ —	$ 3,440	$ 546	$ (779)	$ (9,436)	—	$ 72,076

(A) Assets held within CDOs and other non-recourse structures are not available to satisfy obligations outside of such financings, except to the extent Newcastle receives net cash flow distributions from such structures. Furthermore, creditors or beneficial interest holders of these structures have no recourse to the general credit of Newcastle. Therefore, Newcastle's exposure to the economic losses from such structures is limited to its invested equity in them and economically their book value cannot be less than zero. Therefore, impairment recorded in excess of Newcastle's investment, which results in negative GAAP book value for a given non-recourse financing structure, cannot economically be incurred and will eventually be reversed through amortization, sales at gains, or as gains at the deconsolidation or termination of such non-recourse financing structure.

(B) Represents unlevered investments in CDO securities issued by Newcastle. These CDOs have been deconsolidated as Newcastle does not have the power to direct the relevant activities of the CDOs.

(C) The following table summarizes the investments and debt in the other non-recourse segment:

	March 31, 2013			
	Investments		Debt	
	Outstanding Face Amount	Carrying Value	Outstanding Face Amount*	Carrying Value*
Manufactured housing loan portfolio I	$ 114,355	$ 96,752	$ 86,490	$ 78,102
Manufactured housing loan portfolio II	146,865	144,274	112,046	111,447
Subprime mortgage loans subject to call options	406,217	406,115	406,217	406,115
Real estate securities	62,633	55,117	43,989	40,021
Other commercial real estate	N/A	6,740	6,000	6,000
	$ 730,070	$ 708,998	$ 654,742	$ 641,685

* An aggregate face amount of $70.5 million (carrying value of $61.8 million) of debt represents financing provided by the CDO segment (and included as investments in the CDO segment), which is eliminated upon consolidation.

(D) The $1.5 billion of recourse debt is comprised of (i) a $1.3 billion repurchase agreement secured by $1.4 billion carrying value of FNMA/FHLMC securities and (ii) a $158.0 million repurchase agreement secured by $233.8 million carrying value of non-agency residential mortgage backed securities ("RMBS").

(dollars in tables in thousands, except share data)

(E) The following table summarizes the investments in the unlevered other segment:

	March 31, 2013		
	Outstanding Face Amount	Carrying Value	Number of Investments
Real estate securities	$ 592,450	$ 292,337	63
Real estate related loans	265,209	96,612	2
Residential mortgage loans	112,716	75,536	646
Other investments	N/A	6,024	1
	$ 970,375	$ 470,509	712

(F) Represents the elimination of investments and financings and their related income and expenses between the CDO segment and other non-recourse segment as the corresponding inter-segment investments and financings are presented on a gross basis within each of these segments.

Variable Interest Entities ("VIEs")

The VIEs in which Newcastle has a significant interest include (i) Newcastle's CDOs, in which Newcastle has been determined to be the primary beneficiary and therefore consolidates them (with the exception of CDO V), since it has the power to direct the activities that most significantly impact the CDOs' economic performance and would absorb a significant portion of their expected losses and receive a significant portion of their expected residual returns, and (ii) the manufactured housing loan financing structures, which are similar to the CDOs in analysis. Newcastle's CDOs and manufactured housing loan financings are held in special purpose entities whose debt is treated as non-recourse secured borrowings of Newcastle.

Newcastle's subprime securitizations are also considered VIEs, but Newcastle does not control their activities and no longer receives a significant portion of their returns, and therefore does not consolidate them.

In addition, Newcastle's investments in RMBS, CMBS, CDO securities and loans may be deemed to be variable interests in VIEs, depending on their structure. Newcastle monitors these investments and analyzes the potential need to consolidate the related securitization entities pursuant to the VIE consolidation requirements. These analyses require considerable judgment in determining whether an entity is a VIE and determining the primary beneficiary of a VIE since they involve subjective determinations of significance, with respect to both power and economics. The result could be the consolidation of an entity that otherwise would not have been consolidated or the de-consolidation of an entity that otherwise would have been consolidated.

As of March 31, 2013, Newcastle has not consolidated these potential VIEs. This determination is based, in part, on the assessment that Newcastle does not have the power to direct the activities that most significantly impact the economic performance of these entities, such as if Newcastle owned a majority of the currently controlling class. In addition, Newcastle is not obligated to provide, and has not provided, any financial support to these entities.

Newcastle has not consolidated the entities in which Newcastle holds a 50% interest that made an investment in Excess MSRs. Newcastle has determined that the decisions that most significantly impact the economic performance of these entities will be made collectively by Newcastle and the other investor in the entities. In addition, these entities have sufficient equity to permit the entities to finance their activities without additional subordinated financial support. Based on Newcastle's analysis, these entities do not meet any of the VIE criteria.

Newcastle had variable interests in the following unconsolidated VIE at March 31, 2013, in addition to the subprime securitizations which are described in Note 4:

Entity	Gross Assets (A)	Debt (A) (B)	Carrying Value of Newcastle's Investment (C)
Newcastle CDO V	$ 225,628	$ 241,263	$ 5,254

(A) Face amount.
(B) Includes $42.2 million face amount of debt owned by Newcastle with a carrying value of $5.3 million at March 31, 2013.
(C) This amount represents Newcastle's maximum exposure to loss from this entity, which was the fair value at March 31, 2013, related to $7.8 million face amount of CDO V Class I, III, and IV-FL notes.

(dollars in tables in thousands, except share data)

3. REAL ESTATE SECURITIES

The following is a summary of Newcastle's real estate securities at March 31, 2013, all of which are classified as available-for-sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired.

		Amortized Cost Basis			Gross Unrealized				Weighted Average				
Asset Type	Outstanding Face Amount	Before Impairment	Other-Than-Temporary Impairment	After Impairment	Gains	Losses	Carrying Value (A)	Number of Securities	Rating (B)	Coupon	Yield	Maturity (Years) (C)	Principal Subordination (D)
CMBS-Conduit	$ 338,056	$ 314,424	$ (99,020)	$ 215,404	$ 54,263	$ (6,752)	$ 262,915	52	B+	5.54%	10.33%	3.2	9.5%
CMBS- Single Borrower	124,709	123,409	(12,364)	111,045	5,818	(1,609)	115,254	22	BB	4.89%	5.93%	2.5	9.5%
CMBS-Large Loan	5,819	5,643	—	5,643	205	—	5,848	1	BBB-	6.08%	12.16%	0.7	2.0%
REIT Debt	50,700	50,055	—	50,055	4,064	—	54,119	8	BBB-	5.75%	6.10%	1.8	N/A
Non-Agency RMBS (E)	904,784	604,616	(68,708)	535,908	49,218	(1,226)	583,900	93	CC	0.75%	6.55%	7.3	10.0%
ABS-Franchise	10,036	9,329	(7,839)	1,490	219	(325)	1,384	3	CCC-	5.95%	3.47%	4.7	2.7%
FNMA/FHLMC	1,309,855	1,396,400	—	1,396,400	6,130	(2,102)	1,400,428	83	AAA	3.23%	1.42%	4.1	N/A
CDO (F)	202,232	81,608	(14,861)	66,747	4,878	—	71,625	13	CCC+	2.86%	8.12%	1.4	21.4%
Total / Average (G)	$ 2,946,191	$ 2,585,484	$ (202,792)	$ 2,382,692	$ 124,795	$ (12,014)	$ 2,495,473	275	BBB-	2.84%	3.92%	4.7	

(A) See Note 9 regarding the estimation of fair value, which is equal to carrying value for all securities.

(B) Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. For each security rated by multiple rating agencies, the lowest rating is used. Newcastle used an implied AAA rating for the FNMA/FHLMC securities. Ratings provided were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time.

(C) The weighted average maturity is based on the timing of expected principal reduction on the assets.

(D) Percentage of the outstanding face amount of securities and residual interests that is subordinate to Newcastle's investments.

(E) Includes (i) the retained bond with a face amount of $4.0 million and a carrying value of $1.4 million from Securitization Trust 2006 (Note 4) and (ii) 53 non-agency RMBS purchased since April 2012 with an aggregate face amount of $784.3 million and a carrying value of $518.6 million as of March 31, 2013, of which an aggregate face amount of $644.7 million and a carrying value of $440.1 million is serviced by Nationstar. The total UPB of the loans underlying these Nationstar serviced non-Agency RMBS was approximately $8.3 billion as of March 31, 2013.

(F) Includes two CDO bonds issued by a third party with a carrying value of $62.5 million, four CDO bonds issued by CDO V (which has been deconsolidated) and held as investments by Newcastle with a carrying value of $5.3 million and seven CDO bonds issued by C-BASS with a carrying value of $3.9 million.

(G) The total outstanding face amount of fixed rate securities was $0.5 billion, and of floating rate securities was $2.4 billion.

(dollars in tables in thousands, except share data)

Unrealized losses that are considered other-than-temporary are recognized currently in earnings. During the three months ended March 31, 2013, Newcastle recorded other-than-temporary impairment charges ("OTTI") of $0.4 million (net of a $0.1 million reversal of other-than-temporary impairment recognized in other comprehensive income) with respect to real estate securities. Based on management's analysis of these securities, the performance of the underlying loans and changes in market factors, Newcastle noted adverse changes in the expected cash flows on certain of these securities and concluded that they were other-than-temporarily impaired. Any remaining unrealized losses on Newcastle's securities were primarily the result of changes in market factors, rather than issue-specific credit impairment. Newcastle performed analyses in relation to such securities, using management's best estimate of their cash flows, which support its belief that the carrying values of such securities were fully recoverable over their expected holding period. The following table summarizes Newcastle's securities in an unrealized loss position as of March 31, 2013.

		Amortized Cost Basis			Gross Unrealized				Weighted Average			
Securities in an Unrealized Loss Position	Outstanding Face Amount	Before Impairment	Other-than-Temporary Impairment	After Impairment	Gains	Losses	Carrying Value	Number of Securities	Rating	Coupon	Yield	Maturity (Years)
Less Than Twelve Months	$ 562,897	$ 509,420	$ (5,236)	$ 504,184	$ —	$ (3,230)	$ 500,954	34	BBB	2.44%	2.15%	5.9
Twelve or More Months	119,054	118,953	(236)	118,717	—	(8,784)	109,933	24	BB-	4.44%	4.63%	1.5
Total	$ 681,951	$ 628,373	$ (5,472)	$ 622,901	$ —	$ (12,014)	$ 610,887	58	BBB	2.79%	2.62%	5.1

Newcastle performed an assessment of all of its debt securities that are in an unrealized loss position (unrealized loss position exists when a security's amortized cost basis, excluding the effect of OTTI, exceeds its fair value) and determined the following:

	March 31, 2013			
		Amortized Cost Basis	Unrealized Losses	
	Fair Value	After Impairment	Credit (B)	Non-Credit (C)
Securities Newcastle intends to sell	$ —	$ —	$ —	N/A
Securities Newcastle is more likely than not to be required to sell (A)	—	—	—	N/A
Securities Newcastle has no intent to sell and is not more likely than not to be required to sell:				
Credit impaired securities	1,155	1,274	(5,355)	(119)
Non credit impaired securities	609,732	621,627	—	(11,895)
Total debt securities in an unrealized loss position	$ 610,887	$ 622,901	$ (5,355)	$ (12,014)

(A) Newcastle may, at times, be more likely than not to be required to sell certain securities for liquidity purposes. While the amount of the securities to be sold may be an estimate, and the securities to be sold have not yet been identified, Newcastle must make its best estimate, which is subject to significant judgment regarding future events, and may differ materially from actual future sales.

(B) This amount is required to be recorded as other-than-temporary impairment through earnings. In measuring the portion of credit losses, Newcastle's management estimates the expected cash flow for each of the securities. This evaluation includes a review of the credit status and the performance of the collateral supporting those securities, including the credit of the issuer, key terms of the securities and the effect of local, industry and broader economic trends. Significant inputs in estimating the cash flows include management's expectations of prepayment speeds, default rates and loss severities. Credit losses are measured as the decline in the present value of the expected future cash flows discounted at the investment's effective interest rate.

(C) This amount represents unrealized losses on securities that are due to non-credit factors and is required to be recorded through other comprehensive income.

The following table summarizes the activity related to credit losses on debt securities for the three months ended March 31, 2013:

Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in othercomprehensive income	$	(4,770)
Additions for credit losses on securities for which an OTTI was not previously recognized		—
Increases to credit losses on securities for which an OTTI was previously recognized and a portion of anOTTI was recognized in other comprehensive income		(594)
Additions for credit losses on securities for which an OTTI was previously recognized without any portionof OTTI recognized in other comprehensive income		—
Reduction for credit losses on securities for which no OTTI was recognized in other comprehensive incomeat the current measurement date		—
Reduction for securities sold during the period		—
Reduction for securities deconsolidated during the period		—
Reduction for increases in cash flows expected to be collected that are recognized over the remaining lifeof the security		9
Ending balance of credit losses on debt securities for which a portion of an OTTI was recognized in othercomprehensive income	$	(5,355)

The table below summarizes the geographic distribution of the collateral securing Newcastle's CMBS and ABS at March 31, 2013 (in thousands):

	CMBS		ABS	
Geographic Location	Outstanding Face Amount	Percentage	Outstanding Face Amount	Percentage
Western U.S.	$ 114,446	24.4%	$ 331,852	36.3%
Northeastern U.S.	96,067	20.5%	206,507	22.6%
Southeastern U.S.	86,896	18.5%	192,309	21.0%
Midwestern U.S.	63,588	13.6%	104,717	11.4%
Southwestern U.S.	72,915	15.6%	73,155	8.0%
Other	14,730	3.1%	6,280	0.7%
Foreign	19,942	4.3%	—	0.0%
	$ 468,584	100.0%	$ 914,820	100.0%

Geographic concentrations of investments expose Newcastle to the risk of economic downturns within the relevant regions, particularly given the current unfavorable market conditions. These market conditions may make regions more vulnerable to downturns in certain market factors. Any such downturn in a region where Newcastle holds significant investments could have a material, negative impact on Newcastle.

Newcastle evaluates the credit quality of its real estate securities, as of the acquisition date, for evidence of credit quality deterioration. As a result, we identified a population of real estate securities for which it was determined that it was probable that we would be unable to collect all contractually required payments. For securities acquired during the three months ended March 31, 2013, the face amount of these real estate securities was $368.7 million with an aggregate purchase price of approximately $222.8 million and total expected cash flows of $280.4 million.

The following is the outstanding face amount and carrying value for securities in which, as of the acquisition date it was determined probable that Newcastle would be unable to collect all contractually required payments, at December 31, 2012 and March 31, 2013.

	Outstanding Face Amount	Carrying Value
December 31, 2012	$ 342,013	$ 212,129
March 31, 2013	$ 692,140	$ 436,458

(dollars in tables in thousands, except share data)

The following is a summary of the changes in accretable yield (a portion of the discount) for these securities during the three months ended March 31, 2013.

	For the three months ended March 31, 2013
Balance at December 31, 2012	$ 89,636
Additions	57,568
Accretion	(4,248)
Reclassifications from nonaccretable difference	49,553
Disposals	—
Balance at March 31, 2013	$ 192,509

4. REAL ESTATE RELATED LOANS, RESIDENTIAL MORTGAGE LOANS AND SUBPRIME MORTGAGE LOANS

The following is a summary of real estate related loans, residential mortgage loans and subprime mortgage loans at March 31, 2013. The loans contain various terms, including fixed and floating rates, self-amortizing and interest only. They are generally subject to prepayment.

Loan Type	Outstanding Face Amount	Carrying Value (A)	Loan Count	Wtd. Avg. Yield	Weighted Average Coupon	Weighted Average Maturity (Years) (B)	Floating Rate Loans as a % of Face Amount	Delinquent Face Amount (C)
Mezzanine Loans	$ 518,307	$ 432,432	17	9.05%	8.96%	1.5	66.6%	$ 12,000
Corporate Bank Loans	582,474	277,831	7	16.65%	6.70%	1.8	63.8%	—
B-Notes	120,872	111,237	5	10.42%	5.14%	1.1	81.0%	—
Whole Loans	30,025	30,025	2	4.82%	3.80%	0.9	97.0%	—
Total Real Estate Related Loans Held-for-Sale, Net	$ 1,251,678	$ 851,525	31	11.56%	7.42%	1.6	67.4%	$ 12,000
Non-Securitized Manufactured Housing Loan Portfolio I	$ 569	$ 153	15	68.24%	7.76%	0.9	0.0%	$ 56
Non-Securitized Manufactured Housing Loan Portfolio II	2,882	2,227	111	15.47%	10.04%	5.4	9.5%	207
Total Residential Mortgage Loans Held-for-Sale, Net (D)	$ 3,451	$ 2,380	126	18.86%	9.66%	4.7	7.9%	$ 263
Securitized Manufactured Housing Loan Portfolio I (D) (E)	$ 114,355	$ 96,752	3,073	9.45%	8.63%	6.3	0.7%	$ 1,055
Securitized Manufactured Housing Loan Portfolio II (D) (E)	146,865	144,274	5,205	7.54%	9.64%	5.5	16.6%	2,489
Residential Loans (D)(E)	54,458	41,198	191	7.40%	2.44%	6.0	100.0%	6,988
Reverse Mortgage Loans (F)	58,586	35,484	331	11.81%	5.15%	3.9	21.0%	N/A
Total Residential Mortgage Loans Held-for-Investment, Net	$ 374,264	$ 317,708	8,800	8.58%	7.58%	5.6	24.6%	$ 10,532
Subprime Mortgage Loans Subject to Call Option	$ 406,217	$ 406,115						

(A) Carrying value includes interest receivable of $0.1 million for the residential housing loans and principal and interest receivable of $5.2 million for the manufactured housing loans.
(B) The weighted average maturity is based on the timing of expected principal reduction on the assets.
(C) Includes loans that are 60 or more days past due (including loans that are in foreclosure, or borrower's in bankruptcy) or considered real estate owned ("REO"). As of March 31, 2013, $139.2 million face amount of real estate related loans was on non-accrual status.
(D) Loans acquired at a discount for credit quality.
(E) The following is an aging analysis of past due residential loans held-for-investment as of March 31, 2013:

(dollars in tables in thousands, except share data)

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	REO	Total Past Due	Current	Total Outstanding Face Amount
Securitized Manufactured Housing Loan Portfolio I	$ 570	$ 217	$ 344	$ 494	$ 1,625	$ 112,730	$ 114,355
Securitized Manufactured Housing Loan Portfolio II	$ 1,070	$ 467	$ 1,544	$ 478	$ 3,559	$ 143,306	$ 146,865
Residential Loans	$ 990	$ 1,335	$ 5,420	$ 233	$ 7,978	$ 46,480	$ 54,458

Newcastle's management monitors the credit qualities of the Manufactured Housing Loan Portfolios I and II primarily by using aging analyses, current trends in delinquencies and actual loss incurrence rates.

(F) Represents a portfolio of reverse mortgage loans acquired in February 2013. 80% of these loans have reached a termination event. As a result, the borrower can no longer make draws on these loans. The weighted average coupon and floating rate loans percentages are as of December 31, 2012.

The following is a summary of real estate related loans by maturities at March 31, 2013:

Year of Maturity (1)	Outstanding Face Amount	Carrying Value	Number of Loans
Delinquent (2)	$ 12,000	$ —	1
Period from April 1, 2013 to December 31, 2013	98,216	43,571	3
2014	629,726	340,270	12
2015	58,672	55,793	5
2016	177,404	175,779	4
2017	95,226	86,851	4
2018	—	—	—
Thereafter	180,434	149,261	2
Total	$ 1,251,678	$ 851,525	31

(1) Based on the final extended maturity date of each loan investment as of March 31, 2013.
(2) Includes loans that are non-performing, in foreclosure, or under bankruptcy.

Activities relating to the carrying value of our real estate loans and residential mortgage loans are as follows:

	Held-for-Sale		Held-for-Investment	
	Real Estate Related Loans	Residential Mortgage Loans	Residential Mortgage Loans	Reverse Mortgage Loans
Balance at December 31, 2012	$ 843,132	$ 2,471	$ 292,461	$ —
Purchases / additional fundings	66,175	—	—	35,138
Interest accrued to principal balance	6,181	—	—	—
Principal paydowns	(63,511)	(148)	(10,769)	—
Valuation (allowance) reversal on loans	(1,441)	6	(799)	—
Accretion of loan discount and other amortization	—	—	961	346
Other	989	51	370	—
Balance at March 31, 2013	$ 851,525	2,380	$ 282,224	$ 35,484

The following is a rollforward of the related loss allowance.

	Held-For-Sale		Held-For-Investment
	Real Estate Related Loans	Residential Mortgage Loans	Residential Mortgage Loans (A)
Balance at December 31, 2012	$ (182,062)	$ (1,072)	$ (22,478)
Charge-offs	—	47	1,621
Valuation (allowance) reversal on loans	(1,441)	6	(799)
Balance at March 31, 2013	$ (183,503)	$ (1,019)	$ (21,656)

(A) The allowance for credit losses was determined based on the guidance for loans acquired with deteriorated credit quality.

(dollars in tables in thousands, except share data)

Securitization of Subprime Mortgage Loans

The following table presents information on the retained interests in Newcastle's securitizations of subprime mortgage loans at March 31, 2013:

	Subprime Portfolio		
	I	II	Total
Total securitized loans (unpaid principal balance) (A)	$ 412,344	$ 548,890	$ 961,234
Loans subject to call option (carrying value)	$ 299,176	$ 106,939	$ 406,115
Retained interests (fair value) (B)	$ 1,437	$ —	$ 1,437

(A) Average loan seasoning of 92 months and 74 months for Subprime Portfolios I and II, respectively, at March 31, 2013.
(B) The retained interests include retained bonds of the securitizations. The fair value of which is estimated based on pricing models. Newcastle's residual interests were written off in 2010. The weighted average yield of the retained bonds was 8.35% as of March 31, 2013.

Newcastle has no obligation to repurchase any loans from either of its subprime securitizations. Therefore, it is expected that its exposure to loss is limited to the carrying amount of its retained interests in the securitization entities, as described above. A subsidiary of Newcastle gave limited representations and warranties with respect to Subprime Portfolio II and is required to pay the difference, if any, between the repurchase price of any loan in such portfolio and the price required to be paid by a third party originator for such loan. Such subsidiary, however, has no assets and does not have recourse to the general credit of Newcastle.

The following table summarizes certain characteristics of the underlying subprime mortgage loans, and related financing, in the securitizations as of March 31, 2013:

	Subprime Portfolio	
	I	II
Loan unpaid principal balance (UPB)	$ 412,344	$ 548,890
Weighted average coupon rate of loans	5.69%	5.11%
Delinquencies of 60 or more days (UPB) (A)	$ 116,551	$ 204,643
Net credit losses for the three months ended March 31, 2013	$ 5,947	$ 10,021
Cumulative net credit losses	$ 226,364	$ 266,740
Cumulative net credit losses as a % of original UPB	15.1%	24.5%
Percentage of ARM loans (B)	50.8%	64.6%
Percentage of loans with original loan-to-value ratio >90%	10.6%	17.0%
Percentage of interest-only loans	20.3%	4.1%
Face amount of debt (C)	$ 407,585	$ 548,890
Weighted average funding cost of debt (D)	0.57%	1.09%

(A) Delinquencies include loans 60 or more days past due, in foreclosure, under bankruptcy filing or real estate owned.
(B) ARM loans are adjustable-rate mortgage loans. An option ARM is an adjustable-rate mortgage that provides the borrower with an option to choose from several payment amounts each month for a specified period of the loan term. None of the loans in the subprime portfolios are option ARMs.
(C) Excludes face amount of $4 million of retained notes for Subprime Portfolio I at March 31, 2013.
(D) Includes the effect of applicable hedges.

Newcastle received negligible cash inflows from the retained interests of Subprime Portfolios I and II during the three months ended March 31, 2013 and 2012.

The loans subject to call option and the corresponding financing recognize interest income and expense based on the expected weighted average coupons of the loans subject to call option at the call date of 9.24% and 8.68% for Subprime Portfolio's I and II, respectively.

(dollars in tables in thousands, except share data)

5. INVESTMENTS IN EXCESS MORTGAGE SERVICING RIGHTS AND CDO SERVICING RIGHTS

The following is a summary of Newcastle's direct investments in Excess MSRs:

	March 31, 2013					Three Months Ended March 31, 2013
	Unpaid Principal Balance	Amortized Cost Basis (A)	Carrying Value (B)	Weighted Average Yield	Average Maturity (Years) (C)	Changes in Fair Value Recorded in Other Income (Loss) (D)
MSR Pool 1	$ 8,021,789	$ 29,329	$ 35,333	18.0%	4.8	$ 266
MSR Pool 1 - Recapture Agreement	—	3,676	4,355	18.0%	11.0	174
MSR Pool 2	9,038,057	32,345	33,695	17.3%	5.0	306
MSR Pool 2 - Recapture Agreement	—	4,108	4,880	17.3%	12.0	591
MSR Pool 3	8,758,689	26,502	30,126	17.6%	4.7	768
MSR Pool 3 - Recapture Agreement	—	4,598	4,552	17.6%	11.4	30
MSR Pool 4	5,586,851	10,809	11,969	17.9%	4.6	141
MSR Pool 4 - Recapture Agreement	—	2,763	2,705	17.9%	11.1	(43)
MSR Pool 5	41,917,506	102,718	104,507	17.5%	4.7	(190)
MSR Pool 5 - Recapture Agreement	—	8,460	4,433	17.5%	11.7	(185)
	$ 73,322,892	$ 225,308	$ 236,555	17.6%	5.4	$ 1,858

(A) The amortized cost basis of the Recapture Agreements is determined based on the relative fair values of the Recapture Agreements and related Excess MSRs at the time they were acquired.
(B) Carrying value represents the fair value of the pools or Recapture Agreements, as applicable.
(C) The weighted average maturity represents the weighted average expected timing of the receipt of cash flows of each investment.
(D) The portion of the change in fair value of the Recapture Agreement relating to loans recaptured to date is reflected in the respective pool.

The table below summarizes the geographic distribution of the underlying residential mortgage loans of the Excess MSRs at March 31, 2013:

State Concentration	Percentage of Total Outstanding
California	31.7%
Florida	10.1%
New York	4.4%
Washington	4.3%
Arizona	3.8%
Texas	3.6%
Colorado	3.5%
Maryland	3.4%
New Jersey	3.2%
Virginia	3.0%
Other U.S.	29.0%
	100.0%

(A) Based on the information provided by the loan servicer as of the most recent remittance.

Geographic concentrations of investments expose Newcastle to the risk of economic downturns within the relevant states. Any such downturn in a state where Newcastle holds significant investments could affect the underlying borrower's ability to make the mortgage payment and therefore could have a meaningful, negative impact on Newcastle's Excess MSRs.

(dollars in tables in thousands, except share data)

CDO Servicing Rights

In February 2011, Newcastle, through one of its subsidiaries, purchased the management rights with respect to certain CBASS Investment Management LLC ("C-BASS") CDOs pursuant to a bankruptcy proceeding for $2.2 million. Newcastle initially recorded the cost of acquiring the collateral management rights as a servicing asset and subsequently amortizes this asset in proportion to, and over the period of, estimated net servicing income. Servicing assets are assessed for impairment on a quarterly basis, with impairment recognized as a valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing assets include the prepayment speeds of the underlying loans, default rates, loss severities and discount rates. During the three months ended March 31, 2013 and 2012, respectively, Newcastle recorded $0.1 million and $0.1 million of servicing rights amortization and no servicing rights impairment. As of March 31, 2013, Newcastle's servicing asset had a carrying value of $1.6 million recorded in Receivables and Other Assets.

6. INVESTMENTS IN EQUITY METHOD INVESTEES

During the first quarter of 2013, Newcastle entered into investments in joint ventures ("Excess MSR Joint Ventures") jointly controlled by Newcastle and Fortress-managed funds investing in Excess MSRs. Newcastle elected to record these investments at fair value pursuant to the fair value option for financial instruments to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors.

The following table summarizes the investments in equity method investees held by Newcastle at March 31, 2013:

	Newcastle's Investment	Newcastle's Ownership Percentage
Excess MSR Joint Ventures	$ 102,588	50%

Summarized financial information related to Newcastle's equity-method investees was as follows:

	March 31, 2013
Assets (A)	$ 275,779
Debt	—
Other Liabilities	(70,603)
Equity	$ 205,176
Newcastle's Investment	$ 102,588
Ownership	50.0%

(A) Includes $20.8 million of deposits related to investments which have not closed at March 31, 2013.

	Three Months Ended March 31, 2013
Interest income	$ 5,616
Other income	(3,154)
Expenses	(524)
Net Income (Loss)	$ 1,938

(dollars in tables in thousands, except share data)

The following is a summary of Newcastle's Excess MSR investments made through equity method investees:

	March 31, 2013			March 31, 2013			
	Unpaid Principal Balance(A)	Investee Interest in Excess MSR	Newcastle Interest in Investees	Amortized Cost Basis (B)	Carrying Value (C)	Weighted Average Yield	Weighted Average Maturity (Years) (D)
MSR Pool 6	$ 11,821,572	66.7%	50.0%	$ 42,388	$ 41,453	17.4%	4.9
MSR Pool 6 - Recapture Agreement	—	66.7%	50.0%	10,954	10,972	17.4%	10.7
MSR Pool 7	37,234,201	66.7%	50.0%	109,420	109,048	15.2%	5.1
MSR Pool 7 - Recapture Agreement	—	66.7%	50.0%	23,296	23,164	15.2%	12.0
MSR Pool 8	17,104,429	66.7%	50.0%	58,748	57,177	15.0%	5.0
MSR Pool 8 - Recapture Agreement	—	66.7%	50.0%	13,312	13,150	15.0%	11.7
	$ 66,160,202			$ 258,118	$ 254,964	15.6%	6.3

(A) Pool 6 unpaid principal balance is as of March 31, 2013. Pools 7 and 8 unpaid balances are as of February 28, 2013.
(B) Represents the amortized cost basis of the equity method investees in which Newcastle holds a 50% interest. The amortized cost basis of the Recapture Agreements is determined based on the relative fair values of the Recapture Agreements and related Excess MSRs at the time they were acquired.
(C) Represents the carrying value of the equity method investees in which Newcastle holds a 50% interest. Carrying value represents the fair value of the pools or Recapture Agreements, as applicable.
(D) The weighted average maturity represents the weighted average expected timing of the receipt of cash flows of each investment.

On January 4, 2013, Newcastle, through a joint venture, co-invested in Excess MSRs on a portfolio of Ginnie Mae residential mortgage loans with a UPB of approximately $13 billion as of November 30, 2012. Nationstar acquired the related servicing rights from Bank of America in November 2012. Newcastle contributed approximately $28.9 million for a 50% interest in a joint venture which acquired an approximately 67% interest in the Excess MSRs on this portfolio. The remaining interests in the joint venture will be owned by a Fortress-managed fund and the remaining interest of approximately 33% in the Excess MSRs will be owned by Nationstar. As the servicer, Nationstar will perform all servicing and advancing functions, and it will retain the ancillary income, servicing obligations and liabilities associated with this portfolio. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs will be shared on a pro rata basis by the joint venture and Nationstar, subject to certain limitations.

On January 6, 2013 Newcastle, through a joint venture, agreed to co-invest in Excess MSRs on a portfolio of four pools of residential mortgage loans with a UPB of approximately $215 billion as of November 30, 2012. Approximately 53% of the loans in this portfolio are in private label securitizations, and the remainder are owned, insured or guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association ("Ginnie Mae"). Nationstar has agreed to acquire the related servicing rights from Bank of America. Newcastle committed to invest approximately $340 million (based on the November 30, 2012 UPB) for a 50% interest in a joint venture which will acquire an approximately 67% interest in the Excess MSRs on this portfolio. As of March 31, 2013, Newcastle had contibuted approximately $80.7 million to the joint ventures. The remaining interests in the joint venture will be owned by a Fortress-managed fund and the remaining interest of approximately 33% in the Excess MSRs will be owned by Nationstar. As the servicer, Nationstar will perform all servicing and advancing functions, and it will retain the ancillary income, servicing obligations and liabilities associated with this portfolio. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs will be shared on a pro rata basis by the joint venture and Nationstar, subject to certain limitations. On January 31, 2013, Newcastle completed the first closing of this co-investment. The first closing related to Excess MSRs on loans with an aggregate UPB of approximately $58 billion as of December 31, 2012, that are owned, insured, or guaranteed by Fannie Mae or Freddie Mac. There can be no assurance that Newcastle will complete this investment as anticipated or at all.

(dollars in tables in thousands, except share data)

The table below summarizes the geographic distribution of the underlying residential mortgage loans of the Excess MSR investments made through equity method investees at March 31, 2013:

State Concentration	Percentage of Total Outstanding
California	15.2%
Florida	7.9%
New York	7.6%
Texas	5.9%
New Jersey	4.8%
Washington	3.4%
Virginia	3.0%
Maryland	2.8%
Arizona	2.5%
Colorado	2.4%
Other U.S.	44.5%
	100.0%

(A) Based on the information provided by the loan servicer as of the most recent remittance.

(dollars in tables in thousands, except share data)

7. INVESTMENTS IN REAL ESTATE AND INTANGIBLES

Newcastle recorded investments in real estate and related intangibles at their estimated fair value at acquisition. Expenditures for ordinary maintenance and repairs are expensed as incurred. Renovations and improvements which improve and/or extend the life of the assets are capitalized and depreciated over their estimated useful lives. Newcastle will periodically assess the carrying value of the assets to determine if facts and circumstances exist that would suggest that assets might be impaired or that the useful lives should be modified. In the event that an impairment in value occurs and we believe that the carrying amount of the assets will not be recovered, a provision will be recorded to reduce the carrying basis of the assets to their estimated fair value. The following table summarizes Newcastle's investments in real estate:

	March 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value
Senior Living						
Land	$ 15,993	$ —	$ 15,993	$ 15,993	$ —	$ 15,993
Buildings	144,676	(2,254)	142,422	144,676	(1,349)	143,327
Building improvements	2,492	(221)	2,271	2,433	(124)	2,309
Furniture, fixtures and equipment	1,325	(236)	1,089	1,257	(85)	1,172
Senior Living Total	$ 164,486	$ (2,711)	$ 161,775	$ 164,359	$ (1,558)	$ 162,801
Other Commercial Real Estate						
Land	$ 1,106	$ —	$ 1,106	$ 1,106	$ —	$ 1,106
Buildings	6,588	(1,225)	5,363	6,588	(1,181)	5,407
Building improvements	951	(680)	271	826	(667)	159
Furniture, fixtures and equipment	—	—	—	—	—	—
Other Commercial Real Estate Total	$ 8,645	$ (1,905)	$ 6,740	$ 8,520	$ (1,848)	$ 6,672
Total Investments in Real Estate	$ 173,131	$ (4,616)	$ 168,515	$ 172,879	$ (3,406)	$ 169,473

Intangibles

The following table summarizes Newcastle's intangible assets related to its senior living real estate:

	March 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
In-place resident lease intangibles	$ 22,711	$ (7,043)	$ 15,668	$ 22,711	$ (4,205)	$ 18,506
Non-compete intangibles	600	(50)	550	600	(20)	580
Total intangibles	$ 23,311	$ (7,093)	$ 16,218	$ 23,311	$ (4,225)	$ 19,086

(dollars in tables in thousands, except share data)

8. DEBT OBLIGATIONS

The following table presents certain information regarding Newcastle's debt obligations and related hedges at March 31, 2013:

									Collateral					
Debt Obligation/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Unhedged Weighted Average Funding Cost (A)	Weighted Average Funding Cost (B)	Weighted Average Maturity (Years)	Face Amount of Floating Rate Debt	Outstanding Face Amount (C)	Amortized Cost Basis (C)	Carrying Value (C)	Weighted Average Maturity (Years)	Floating Rate Face Amount (C)	Aggregate Notional Amount of Current Hedges (D)
CDO Bonds Payable														
CDO IV (E)	Mar 2004	$ 71,604	$ 71,537	Mar 2039	1.93%	5.08%	1.2	$ 60,804	$ 153,780	$ 141,221	$ 140,589	1.6	$ 42,747	$ 60,804
CDO VI (E)	Apr 2005	91,688	91,689	Apr 2040	0.86%	5.35%	4.5	88,554	177,513	91,701	119,428	2.8	48,073	88,554
CDO VIII	Nov 2006	478,289	477,447	Nov 2052	0.80%	2.36%	1.7	470,689	672,349	489,664	522,209	2.3	349,172	154,100
CDO IX	May 2007	373,412	374,887	May 2052	0.60%	0.60%	1.4	373,412	613,694	491,396	503,618	2.6	299,787	—
		1,014,993	1,015,560			2.17%	1.8	993,459	1,617,336	1,213,982	1,285,844	2.4	739,779	303,458
Other Bonds and Notes Payable														
MH Loans Portfolio I (F)	Apr 2010	65,995	62,276	Jul 2035	6.31%	6.31%	4.1	—	114,355	96,752	96,752	6.3	851	—
MH Loans Portfolio II	May 2011	112,046	111,447	Dec 2033	4.47%	4.47%	3.9	—	146,865	144,274	144,274	5.5	24,374	—
		178,041	173,723			5.13%	4.0	—	261,220	241,026	241,026	5.9	25,225	—
Repurchase Agreements (G)														
Non-Agency RMBS (H)	Various	158,029	158,029	Apr 2013	LIBOR+2.00%	2.20%	0.1	158,029	330,871	208,446	233,813	6.8	330,871	—
FNMA/FHLMC securities (I)	Various	1,315,557	1,315,557	Apr 2013	0.44%	0.44%	0.1	1,315,557	1,309,855	1,396,401	1,400,430	4.1	1,309,855	—
		1,473,586	1,473,586			0.63%	0.1	1,473,586	1,640,726	1,604,847	1,634,243	4.7	1,640,726	—
Mortgage Notes Payable														
BPM Senior Living Facilities	Jul 2012	88,400	88,400	Aug 2019	3.44%	3.44%	6.0	23,400	N/A	135,251	135,251	N/A	—	23,400
Utah Senior Living Facilities	Nov 2012	16,000	16,000	Oct 2017	LIBOR+3.75% (J)	4.75%	4.5	16,000	N/A	21,706	21,706	N/A	—	—
Courtyards Senior living facilities	Dec 2012	16,125	16,125	Oct 2017	LIBOR+3.75% (J)	4.75%	4.5	16,125	N/A	21,036	21,036	N/A	—	—
		120,525	120,525			3.79%	5.6	55,525	N/A	177,993	177,993	N/A	—	23,400
Corporate														
Junior subordinated notes payable	Mar 2006	51,004	51,242	Apr 2035	7.574% (L)	7.40%	22.1	—	—	—	—	—	—	—
		51,004	51,242			7.40%	22.1	—	—	—	—	—	—	—
Subtotal debt obligations		2,838,149	2,834,636			1.71%	1.6	$ 2,522,570	$ 3,519,282	$ 3,237,848	$ 3,339,106	3.7	$ 2,405,730	$ 326,858
Financing on subprime mortgage loans subject to call option	(K)	406,217	406,115											
Total debt obligations		$ 3,244,366	$ 3,240,751											

(A) Weighted average, including floating and fixed rate classes and including the amortization of deferred financing costs.
(B) Including the effect of applicable hedges.
(C) Excluding (i) restricted cash held in CDOs to be used for principal and interest payments of CDO debt, and (ii) operating cash in senior living entities.
(D) Including a $23.4 million notional amount of interest rate cap agreement for the mortgage notes payable and a $60.8million and $88.6 million notional amount of interest rate swap agreements in CDO IV and CDO VI, respectively, which were economic hedges not designated as hedges for accounting purposes.
(E) These CDOs were not in compliance with its applicable over collateralization tests as of March 31, 2013. Newcastle is not receiving cash flows from these CDOs (other than senior management fees and cash flows on senior classes of bonds that were repurchased), since net interest is being used to repay debt, and expects these CDOs to remain out of compliance for the foreseeable future.
(F) Excluding $20.5 million face amount of other bonds payable relating to MH loans Portfolio I sold to certain Newcastle CDOs, which were eliminated in consolidation.
(G) These repurchase agreements had $0.1 million of associated accrued interest payable at March 31, 2013. $1.5 billion face amount of these repurchase agreements were renewed subsequent to March 31, 2013.
(H) The counterparty of these repurchase agreements is Credit Suisse.
(I) The counterparties on these repurchase agreements are Bank of America ($291.4 million), Barclays ($267.2 million), Citi ($118.8 million), Goldman Sachs ($343.8 million), Morgan Stanley ($56.2 million) and Nomura ($238.2 million). Interest rates on these repurchase agreements are fixed, but will be reset on a short-term basis.
(J) These financings have a LIBOR floor of 1%.
(K) Issued in April 2006 and July 2007. See Note 4 regarding the securitizations of Subprime Portfolios I and II.
(L) LIBOR + 2.25% after April 2016.

Each CDO financing is subject to tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would cause the principal and/or interest cashflow that would otherwise be distributed to more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, our cash flow and liquidity are negatively impacted upon such a failure. As of March 31, 2013, CDOs IV and VI were not in compliance with their over collateralization tests.

In the first three months of 2013, Newcastle repurchased $10.9million face amount of CDO bonds payable for $9.7 million. As a result, Newcastle extinguished $10.9million face amount of CDO bonds payable and recorded a gain on extinguishment of debt of $1.2 million.

Newcastle's non-CDO financings contain various customary loan covenants. Newcastle was in compliance with all of the covenants in its non-CDO financings as of March 31, 2013.

(dollars in tables in thousands, except share data)

9. FAIR VALUE

Fair Value Summary Table

The carrying values and fair values of Newcastle's assets and liabilities at March 31, 2013 were as follows:

	Principal Balance or Notional Amount	Carrying Value	Estimated Fair Value	Fair Value Method (A)	Weighted Average Yield/Funding Cost	Weighted Average Maturity (Years)
Assets						
Financial instruments:						
Real estate securities, available-for-sale*	$ 2,946,191	$ 2,495,473	$ 2,495,473	Broker quotations, counterparty quotations, pricing services, pricing models	3.92%	4.7
Real estate related loans, held-for-sale, net	1,251,678	851,525	867,777	Broker quotations, counterparty quotations, pricing services, pricing models	11.56%	1.6
Residential mortgage loans, held-for-investment, net	374,264	317,708	324,554	Pricing models	8.58%	5.6
Residential mortgage loans, held-for-sale, net	3,451	2,380	2,380	Pricing models	18.86%	4.7
Investments in excess mortgage servicing rights at fair value* (B)	73,322,892	236,555	236,555	Pricing models	17.60%	5.4
Investments in equity method investees at fair value* (B)	66,160,202	102,588	102,588	Pricing models	15.56%	6.3
Investments in real estate and intangibles, net		184,733	194,878	Broker quotations, recent purchase price		
Subprime mortgage loans subject to call option (C)	406,217	406,115	406,115	(C)	9.09%	(C)
Restricted cash*	11,494	11,494	11,494			
Cash and cash equivalents*	534,772	534,772	534,772			
Non-hedge derivative assets (D)(E)*	23,400	176	176	Counterparty quotations	N/A	(D)
Other investments		24,907	13,165	Pricing models		
Receivables and other assets		27,577	27,577			
		$ 5,196,003	$ 5,217,504			
Liabilities						
Financial instruments:						
CDO bonds payable (G)	$ 1,014,993	$ 1,015,560	$ 791,641	Pricing models	2.17%	1.8
Other bonds and notes payable	178,041	173,723	180,638	Broker quotations, pricing models	5.13%	4.0
Repurchase agreements	1,473,586	1,473,586	1,473,586	Market comparables	0.63%	0.1
Mortgage notes payable	120,525	120,525	120,525	Pricing models	3.79%	5.6
Financing of subprime mortgage loans subject to call option (C)	406,217	406,115	406,115	(C)	9.09%	(C)
Junior subordinated notes payable	51,004	51,242	32,840	Pricing models	7.40%	22.1
Interest rate swaps, treated as hedges (E)(F)*	154,100	10,331	10,331	Counterparty quotations	N/A	(F)
Non-hedge derivatives (D)(E)*	281,869	16,281	16,281	Counterparty quotations	N/A	(D)
Due to affiliates		4,611	4,611			
Dividends payable, accrued expenses and other liabilities		74,530	74,530			
		$ 3,346,504	$ 3,111,098			

*Measured at fair value on a recurring basis.

(dollars in tables in thousands, except share data)

(A) Methods are listed in order of priority. In the case of real estate securities and real estate related loans, broker quotations are obtained if available and practicable, otherwise counterparty quotations or pricing service valuations are obtained or, finally, internal pricing models are used. Internal pricing models are only used for (i) securities and loans that are not traded in an active market, and, therefore, have little or no price transparency, and for which significant unobservable inputs must be used in estimating fair value, or (ii) loans or debt obligations which are private and untraded.

(B) The notional amount represents the total unpaid principal balance of the mortgage loans. Newcastle does not receive an excess mortgage servicing amount on nonperforming loans for Agency portfolios. The weighted average yield and maturity for the investments in equity method investees represents the yield and maturity of the underlying investments in Excess MSRs.

(C) These two items result from an option, not an obligation, to repurchase loans from Newcastle's subprime mortgage loan securitizations (Note 4), are noneconomic until such option is exercised, and are equal and offsetting.

(D) This represents two interest rate swap agreements with a total notional balance of $281.9 million, maturing in March 2014 and March 2015, respectively, and an interest rate cap agreement with a notional balance of $23.4 million, maturing in August 2019. Newcastle entered into these agreements to reduce its exposure to interest rate changes on the floating rate financings of CDO IV, CDO VI and the senior living assets. These derivative agreements were not designated as hedges for accounting purposes as of March 31, 2013.

(E) Newcastle's derivatives fall into two categories. As of March 31, 2013, all derivative liabilities were held within Newcastle's nonrecourse structures. An aggregate notional balance of $436.0 million, which were liabilities at period end, are only subject to the credit risks of the respective CDO structures. As they are senior to all the debt obligations of the respective CDOs and the fair value of each of the CDOs' total investments exceeded the fair value of each of the CDOs' derivative liabilities, no credit valuation adjustments were recorded. A notional balance of $23.4 million was an asset at period end and therefore is subject to the counterparty's credit risk. No adjustments have been made to the fair value quotations received related to credit risk as a result of the counterparty's "AA" credit rating. Newcastle's significant derivative counterparties include Bank of America, Credit Suisse and Wells Fargo.

(F) Represents derivative agreements as follows:

Year of Maturity	Weighted Average Month of Maturity	Aggregate Notional Amount	Weighted Average Fixed Pay Rate / Cap Rate	Aggregate Fair Value Asset / (Liability)
Interest rate swap agreements which receive 1-Month LIBOR:				
2016	Apr	$ 154,100	5.04%	$ (10,331)

(G) Newcastle notes that the unrealized gain on the liabilities within such structures cannot be fully realized.

(H) Assets held within CDOs and other non-recourse structures are not available to satisfy obligations outside of such financings, except to the extent Newcastle receives net cash flow distributions from such structures. Furthermore, creditors or beneficial interest holders of these structures have no recourse to the general credit of Newcastle. Therefore, Newcastle's exposure to the economic losses from such structures is limited to its invested equity in them and economically their book value cannot be less than zero. As a result, the fair value of Newcastle's net investments in these nonrecourse financing structures is equal to the present value of their expected future net cash flows.

Valuation Hierarchy

The methodologies used for valuing such instruments have been categorized into three broad levels, which form a hierarchy.

Level 1 - Quoted prices in active markets for identical instruments.

Level 2 - Valuations based principally on other observable market parameters, including
- Quoted prices in active markets for similar instruments,
- Quoted prices in less active or inactive markets for identical or similar instruments,
- Other observable inputs (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), and
- Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 - Valuations based significantly on unobservable inputs.
- Level 3A - Valuations based on third party indications (broker quotes, counterparty quotes or pricing services) which were, in turn, based significantly on unobservable inputs or were otherwise not supportable as Level 2 valuations.
- Level 3B - Valuations based on internal models with significant unobservable inputs.

Newcastle follows this hierarchy for its financial instruments measured at fair value on a recurring basis. The classifications are based on the lowest level of input that is significant to the fair value measurement.

Newcastle has various processes and controls in place to ensure that fair value is reasonably estimated. With respect to the broker and pricing service quotations, to ensure these quotes represent a reasonable estimate of fair value, Newcastle's quarterly procedures include a comparison to the outputs generated from its internal pricing models and transactions

(dollars in tables in thousands, except share data)

Newcastle has completed with respect to these or similar securities, as well as on its knowledge and experience of these markets. With respect to fair value estimates generated based on Newcastle's internal pricing models, Newcastle's management validates the inputs and outputs of the internal pricing models by comparing them to available independent third party market parameters and models for reasonableness. Newcastle believes its valuation methods and the assumptions used are appropriate and consistent with other market participants.

For Excess MSRs acquired prior to the current quarter, we obtain a fairness opinion related to the valuation of our Excess MSRs on the existing mortgage pools from an independent valuation firm at the current quarter end date. For Excess MSRs acquired during the current quarter, we obtain a fairness opinion related to the valuation of our Excess MSRs on the existing mortgage pools at the time of acquisition. To date, we have not made any significant valuation adjustments as a result of these third party opinions.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value and such changes could result in a significant increase or decrease in the fair value. For Newcastle's investments in real estate securities, real estate related loans and residential mortgage loans categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs include the discount rates, assumptions relating to prepayments, default rates and loss severities. Significant increases (decreases) in any of the discount rates, default rates or loss severities in isolation would result in a significantly lower (higher) fair value measurement. The impact of changes in prepayment speeds would have differing impacts on fair value, depending on the seniority of the investment. Generally, a change in the default assumption is generally accompanied by directionally similar changes in the assumptions used for the loss severity and the prepayment speed. For Newcastle's investments in Excess MSRs, significant unobservable inputs include the discount rate, assumptions relating to prepayments, delinquency rates, recapture rates and excess mortgage servicing amount. Significant increases (decreases) in the discount rates, prepayments or delinquency rates in isolation would result in a significantly lower (higher) fair value measurement, whereas significant increases (decreases) in the recapture rates or excess mortgage servicing amount in isolation would result in a significantly higher (lower) fair value measurement. Generally, a change in the delinquency rate assumption is accompanied by directionally similar changes in the assumptions used for the prepayment speed.

The following table summarizes such financial assets and liabilities measured at fair value on a recurring basis at March 31, 2013:

	Principal Balance or Notional Amount	Carrying Value	Fair Value Level 2	Fair Value Level 3A	Fair Value Level 3B	Fair Value Total
Assets:						
Real estate securities, available-for-sale:						
CMBS	$ 468,584	$ 384,017	$ —	$ 327,173	$ 56,844	$ 384,017
REIT debt	50,700	54,119	54,119	—	—	54,119
Non-Agency RMBS	904,784	583,900	—	559,703	24,197	583,900
ABS - other real estate	10,036	1,384	—	746	638	1,384
FNMA / FHLMC	1,309,855	1,400,428	1,400,428	—	—	1,400,428
CDO	202,232	71,625	—	66,371	5,254	71,625
Real estate securities total	$ 2,946,191	$ 2,495,473	$ 1,454,547	$ 953,993	$ 86,933	$ 2,495,473
Investments in Excess MSRs (1)	$ 73,322,892	$ 236,555	$ —	$ —	$ 236,555	$ 236,555
Investments in equity method investees (1)	$ 66,160,202	$ 102,588	$ —	$ —	$ 102,588	$ 102,588
Derivative assets:						
Interest rate caps, not treated as hedges	23,400	176	176	—	—	176
Derivative assets total	$ 23,400	$ 176	$ 176	$ —	$ —	$ 176
Liabilities:						
Derivative Liabilities:						
Interest rate swaps, treated as hedges	$ 154,100	$ 10,331	$ 10,331	$ —	$ —	$ 10,331
Interest rate swaps, not treated as hedges	281,869	16,281	16,281	—	—	16,281
Derivative liabilities total	$ 435,969	$ 26,612	$ 26,612	$ —	$ —	$ 26,612

(1) The notional amount represents the total unpaid principal balance of the mortgage loans. Newcastle does not receive an excess mortgage servicing amount on nonperforming loans for Agency portfolios.

(dollars in tables in thousands, except share data)

Newcastle's investments in instruments (excluding the Excess MSRs and investment in equity method investees, see below) measured at fair value on a recurring basis using Level 3 inputs changed during the three months ended March 31, 2013 as follows:

	Level 3A					
	CMBS		ABS			
	Conduit	Other	Non-Agency RMBS	Other	Equity/Other Securities	Total
Balance at December 31, 2012	$ 225,575	$ 104,451	$ 330,021	$ 798	$ 65,027	$ 725,872
Transfers (A)						
Transfers from Level 3B	—	—	1,861	—	—	1,861
Transfers into Level 3B	—	(8,257)	—	—	—	(8,257)
Total gains (losses) (B)						
Included in net income (C)	—	—	—	—	—	—
Included in other comprehensive income (loss)	8,544	1,347	14,166	(25)	1,334	25,366
Amortization included in interest income	2,055	161	5,622	—	998	8,836
Purchases, sales and repayments						
Purchases	—	—	227,293	—	—	227,293
Proceeds from sales	—	—	—	—	—	—
Proceeds from repayments	(3,219)	(3,484)	(19,260)	(27)	(988)	(26,978)
Balance at March 31, 2013	$ 232,955	$ 94,218	$ 559,703	$ 746	$ 66,371	$ 953,993

	Level 3B					
	CMBS		ABS			
	Conduit	Other	Non-Agency RMBS	Other	Equity/Other Securities	Total
Balance at December 31, 2012	$ 29,194	$ 17,171	$ 25,954	$ 677	$ 5,998	$ 78,994
Transfers (A)						
Transfers from Level 3A	—	8,257	—	—	—	8,257
Transfers into Level 3A	—	—	(1,861)	—	—	(1,861)
Total gains (losses) (B)						
Included in net income (C)	(539)	—	—	—	—	(539)
Included in other comprehensive income (loss)	1,271	1,338	(349)	(9)	57	2,308
Amortization included in interest income	1,120	119	1,435	256	232	3,162
Purchases, sales and repayments						
Purchases	—	—	—	—	—	—
Proceeds from sales	—	—	—	—	—	—
Proceeds from repayments	(1,087)	—	(982)	(286)	(1,033)	(3,388)
Balance at March 31, 2013	$ 29,959	$ 26,885	$ 24,197	$ 638	$ 5,254	$ 86,933

(A) Transfers are assumed to occur at the beginning of the quarter.
(B) None of the gains (losses) recorded in earnings during the period is attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting date.
(C) These gains (losses) are recorded in the following line items in the consolidated statements of income:

	Three Months Ended March 31, 2013	
	Level 3A	Level 3B
Gain (loss) on settlement of investments, net	$ —	$ —
Other income (loss), net	—	—
OTTI	—	(539)
Total	$ —	$ (539)
Gain (loss) on settlement of investments, net, from investments transferred into Level 3 during the period	$ —	$ —

(dollars in tables in thousands, except share data)

Securities Valuation

As of March 31, 2013, Newcastle's securities valuation methodology and results are further detailed as follows:

			Fair Value			
Asset Type	Outstanding Face Amount (A)	Amortized Cost Basis (B)	Multiple Quotes (C)	Single Quote (D)	Internal Pricing Models (E)	Total
CMBS	$ 468,584	$ 332,092	$ 269,126	$ 58,047	$ 56,844	$ 384,017
REIT debt	50,700	50,055	28,321	25,798	—	54,119
Non-Agency RMBS	904,784	535,908	531,929	27,774	24,197	583,900
ABS - other real estate	10,036	1,490	—	746	638	1,384
FNMA / FHLMC	1,309,855	1,396,400	1,310,147	90,281	—	1,400,428
CDO	202,232	66,747	—	66,371	5,254	71,625
Total	$ 2,946,191	$ 2,382,692	$ 2,139,523	$ 269,017	$ 86,933	$ 2,495,473

(A) Net of incurred losses
(B) Net of discounts (or gross of premiums) and after OTTI, including impairment taken during the period ended March 31, 2013.
(C) Management generally obtained pricing service quotations or broker quotations from two sources, one of which was generally the seller (the party that sold us the security). Management selected one of the quotes received as being most representative of fair value and did not use an average of the quotes. Even if Newcastle receives two or more quotes on a particular security that come from non-selling brokers or pricing services, it does not use an average because management believes using an actual quote more closely represents a transactable price for the security than an average level. Furthermore, in some cases there is a wide disparity between the quotes Newcastle receives. Management believes using an average of the quotes in these cases would generally not represent the fair value of the asset. Based on Newcastle's own fair value analysis using internal models, management selects one of the quotes which is believed to more accurately reflect fair value. Newcastle never adjusts quotes received. These quotations are generally received via email and contain disclaimers which state that they are "indicative" and not "actionable" – meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price.
(D) Management was unable to obtain quotations from more than one source on these securities. The one source was generally the seller (the party that sold us the security) or a pricing service.
(E) Securities whose fair value was estimated based on internal pricing models are further detailed as follows:

					Weighted Average Significant Input			
	Amortized Cost Basis (B)	Fair Value	Impairment Recorded In Current Period	Unrealized Gains (Losses) in Accumulated OCI	Discount Rate	Prepayment Speed (F)	Cumulative Default Rate	Loss Severity
CMBS - Conduit	$ 23,143	$ 29,959	$ 539	$ 6,816	10.0%	N/A	21.8%	38.7%
CMBS - Large loan /single borrower	26,367	26,885	—	518	2.5%	N/A	31.3%	31.3%
Non-Agency RMBS	12,481	24,197	—	11,716	8.0%	2.8%	19.9%	43.0%
ABS - other RE	424	638	—	214	8.0%	0.5%	44.1%	99.7%
CDO	3,179	5,254	—	2,075	19.8%	5.0%	8.2%	73.0%
Total	65,594	86,933	539	21,339				

All of the assumptions listed have some degree of market observability, based on Newcastle's knowledge of the market, relationships with market participants, and use of common market data sources. Collateral prepayment, default and loss severity projections are in the form of "curves" or "vectors" that vary for each monthly collateral cash flow projection. Methods used to develop these projections vary by asset class (e.g., CMBS projections are developed differently than home equity ABS projections) but conform to industry conventions. Newcastle uses assumptions that generate its best estimate of future cash flows of each respective security.

The prepayment vector specifies the percentage of the collateral balance that is expected to voluntarily pay off at each point in the future. The prepayment vector is based on projections from a widely published investment bank model which considers factors such as collateral FICO score, loan-to-value ratio, debt-to-income ratio, and vintage on a loan level basis. This vector is scaled up or down to match recent collateral-specific prepayment experience, as obtained from remittance reports and market data services.

Loss severities are based on recent collateral-specific experience with additional consideration given to collateral characteristics. Collateral age is taken into consideration because severities tend to initially increase with collateral age before eventually stabilizing. Newcastle typically uses projected severities that are higher than the historic experience for collateral that is relatively new to account for this effect. Collateral characteristics such as loan size, lien position, and location (state) also effect loss severity. Newcastle considers whether a collateral pool has experienced a significant change in its composition with respect to these factors when assigning severity projections.

Default rates are determined from the current "pipeline" of loans that are more than 90 days delinquent, in foreclosure, or are real estate owned (REO). These significantly delinquent loans determine the first 24 months of the default vector. Beyond month 24, the default vector transitions to a steady-state value that is generally equal to or greater than that given by the widely published investment bank model.

The discount rates Newcastle uses are derived from a range of observable pricing on securities backed by similar collateral and offered in a live market. As the markets in which Newcastle transacts have become less liquid, Newcastle has had to rely on fewer data points in this analysis.

(F) Projected annualized average prepayment rate.

(dollars in tables in thousands, except share data)

Loan Valuation

Loans which Newcastle does not have the ability or intent to hold into the foreseeable future are classified as held-for-sale. As a result, these held-for-sale loans are carried at the lower of amortized cost or fair value and are therefore recorded at fair value on a non-recurring basis. These loans were written down to fair value at the time of the impairment, based on broker quotations, pricing service quotations or internal pricing models. All the loans were within Level 3 of the fair value hierarchy. For real estate related loans, the most significant inputs used in the valuations are the amount and timing of expected future cash flows, market yields and the estimated collateral value of such loan investments. For residential mortgage loans, significant inputs include management's expectations of prepayment speeds, default rates, loss severities and discount rates that market participants would use in determining the fair values of similar pools of residential mortgage loans.

The following tables summarize certain information for real estate related loans and residential mortgage loans held-for-sale as of March 31, 2013:

Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Significant Input: Range: Discount Rate	Range: Loss Severity	Weighted Average: Discount Rate	Weighted Average: Loss Severity
Mezzanine	$ 518,307	$ 432,432	$ 445,343	$ (838)	3.5% - 25.0%	0.0% - 100.0%	9.1%	10.9%
Bank Loan	582,474	277,831	277,830	2,285	6.7% - 41.7%	0.0% - 100.0%	16.7%	45.6%
B-Note	120,872	111,237	114,437	(6)	6.0% - 15.0%	0.0%	10.4%	0.0%
Whole Loan	30,025	30,025	30,167	—	4.8% - 6.9%	0.0% - 15.0%	4.8%	14.5%
Total Real Estate Related Loans Held-for-Sale, Net	$ 1,251,678	$ 851,525	$ 867,777	$ 1,441				

Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Significant Input (Weighted Average): Discount Rate	Prepayment Speed	Constant Default Rate	Loss Severity
Non-securitized Manufactured Housing Loans Portfolio I	$ 569	$ 153	$ 153	$ (3)	68.2%	5.0%	11.6%	70.0%
Non-securitized Manufactured Housing Loans Portfolio II	2,882	2,227	2,227	(3)	15.5%	5.0%	3.5%	75.0%
Total Residential Mortgage Loans Held-for-Sale, Net	$ 3,451	$ 2,380	$ 2,380	$ (6)				

Loans which Newcastle has the intent and ability to hold into the foreseeable future are classified as held-for-investment. Loans held-for-investment are carried at the aggregate unpaid principal balance adjusted for any unamortized premium or discount, deferred fees or expenses, an allowance for loan losses, charge-offs and write-downs for impaired loans.

The following table summarizes certain information for residential mortgage loans held-for-investment as of March 31, 2013:

Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Significant Input (Weighted Average): Discount Rate	Prepayment Speed	Constant Default Rate	Loss Severity
Securitized Manufactured Housing Loans Portfolio I	$ 114,355	$ 96,752	$ 97,192	$ 13	9.5%	5.0%	4.0%	70.0%
Securitized Manufactured Housing Loans Portfolio II	146,865	144,274	143,048	835	7.5%	5.0%	3.5%	75.0%
Residential Loans	54,458	41,198	47,134	(49)	7.4%	4.7%	2.8%	46.5%
Reverse Mortgage Loans	58,586	35,484	37,180	—	10.6%	N/A	N/A	N/A
Total Residential Mortgage Loans, Held-for-Investment, Net	$ 374,264	$ 317,708	$ 324,554	$ 799				

(dollars in tables in thousands, except share data)

Excess MSRs Valuation

Fair value estimates of Newcastle's Excess MSRs were based on internal pricing models. The valuation technique is based on discounted cash flows. Significant inputs used in the valuations included expectations of prepayment rates, delinquency rates, recapture rates, the excess mortgage servicing amount of the underlying mortgage loans, and discount rates that market participants would use in determining the fair values of mortgage servicing rights on similar pools of residential mortgage loans. In addition, in valuing the Excess MSRs, management considered the likelihood of Nationstar being removed as servicer, which likelihood is considered to be remote.

The following table summarizes certain information regarding the inputs used in valuing the Excess MSRs owned directly and through equity method investees as of March 31, 2013:

	Significant Input				
Held Directly (Note 5)	Prepayment Speed (A)	Delinquency (B)	Recapture Rate (C)	Excess Mortgage Servicing Amount (D)	Discount Rate
MSR Pool 1	16.1%	10.0%	35.0%	28 bps	18.0%
MSR Pool 1 - Recapture Agreement	8.0%	10.0%	35.0%	21 bps	18.0%
MSR Pool 2	16.0%	11.0%	35.0%	23 bps	17.3%
MSR Pool 2 - Recapture Agreement	8.0%	10.0%	35.0%	21 bps	17.3%
MSR Pool 3	16.2%	12.1%	35.0%	23 bps	17.6%
MSR Pool 3 - Recapture Agreement	8.0%	10.0%	35.0%	21 bps	17.6%
MSR Pool 4	18.3%	15.8%	35.0%	17 bps	17.9%
MSR Pool 4 - Recapture Agreement	8.0%	10.0%	35.0%	21 bps	17.9%
MSR Pool 5	15.0%	N/A(E)	20.0%	13 bps	17.5%
MSR Pool 5 - Recapture Agreement	8.0%	N/A(E)	20.0%	21 bps	17.5%
Held through Equity Method Investees (Note 6)					
MSR Pool 6	19.6%	8.8%	35.0%	25 bps	17.4%
MSR Pool 6 - Recapture Agreement	10.0%	6.0%	35.0%	23 bps	17.4%
MSR Pool 7	13.8%	8.4%	35.0%	16 bps	15.2%
MSR Pool 7 - Recapture Agreement	10.0%	5.0%	35.0%	19 bps	15.2%
MSR Pool 8	15.2%	7.4%	35.0%	19 bps	15.0%
MSR Pool 8 - Recapture Agreement	10.0%	5.0%	35.0%	19 bps	15.0%

(A) Projected annualized weighted average voluntary and involuntary prepayment rate using a prepayment vector.
(B) Projected percentage of mortgage loans in the pool that are expected to miss their mortgage payments.
(C) Percentage of voluntarily prepaid loans that are expected to be refinanced by Nationstar.
(D) Weighted average total mortgage servicing amount in excess of the basic fee.
(E) The Excess MSR will be paid on the total UPB of the mortgage portfolio (including both performing and delinquent loans until REO)

All of the assumptions listed have some degree of market observability, based on Newcastle's knowledge of the market, relationships with market participants, and use of common market data sources.

Prepayment speed projections are in the form of a "vector" that varies over the expected life of the pool. The prepayment vector specifies the percentage of the collateral balance that is expected to prepay voluntarily (i.e., pay off) and involuntarily (i.e., default) at each point in the future. The prepayment vector is based on assumptions that reflect factors such as the borrower's FICO score, loan-to-value ratio, debt-to-income ratio, vintage on a loan level basis, as well as the projected effect on loans eligible for the Home Affordable Refinance Program 2.0 ("HARP 2.0"). Management considers collateral-specific prepayment experience when determining this vector. For the Recapture Agreements and recaptured loans, Newcastle also considers industry research on the prepayment experience of similar loan pools (i.e., loan pools composed of refinanced loans). This data is obtained from remittance reports, market data services and other market sources.

Delinquency rates are based on the pool-specific experience of loans that missed their latest mortgage payments. For the Recapture Agreements and recaptured loans, delinquency rates are based on the experience of similar loan pools originated by Nationstar and delinquency experience over the past year. Management believes this time period provides a reasonable sample for projecting future delinquency rates while taking into account current market conditions. Additional consideration is given to loans that are expected to become 30 or more days delinquent.

(dollars in tables in thousands, except share data)

Recapture rates are based on actual average recapture rates experienced by Nationstar on similar mortgage loan pools. Generally, Newcastle looks to one year worth of actual recapture rates, which management believes provides a reasonable sample for projecting future recapture rates while taking into account current market conditions.

For existing mortgage pools, excess mortgage servicing amount projections are based on the actual total mortgage servicing amount in excess of a basic fee. For loans expected to be refinanced by Nationstar and subject to a Recapture Agreement, Newcastle considers the excess mortgage servicing amount on loans originated by Nationstar over the past year and other general market considerations. Management believes this time period provides a reasonable sample for projecting future excess mortgage servicing amounts while taking into account current market conditions.

The discount rates Newcastle uses are derived from a range of observable pricing on mortgage servicing rights backed by similar collateral.

Newcastle uses different prepayment and delinquency assumptions in valuing the Excess MSRs relating to the original loan pools, the Recapture Agreements and the Excess MSRs relating to recaptured loans. The prepayment speed and delinquency rate assumptions differ because of differences in the collateral characteristics, eligibility for the Home Affordable Refinance Program 2.0 (“HARP 2.0”) and expected borrower behavior for original loans and loans which have been refinanced. Newcastle uses the same assumptions for recapture and discount rates when valuing Excess MSRs and Recapture Agreement. These assumptions are based on historical recapture experience and market pricing.

Newcastle’s MSRs investments measured at fair value on a recurring basis using Level 3B inputs changed during the period ended March 31, 2013 as follows:

	Level 3B (A)					
	MSR Pool 1	MSR Pool 2	MSR Pool 3	MSR Pool 4	MSR Pool 5	Total
Balance at December 31, 2012	$ 40,910	$ 39,322	$ 35,434	$ 15,036	$ 114,334	$ 245,036
Transfers (B)						
Transfers from Level 3A	—	—	—	—	—	—
Transfers into Level 3A	—	—	—	—	—	—
Gains (losses) included in net income (C)	440	897	798	98	(375)	1,858
Interest income	1,970	1,485	1,628	601	4,340	10,024
Purchases, sales and repayments						
Purchases	—	—	—	—	—	—
Purchase adjustments	—	—	—	—	—	—
Proceeds from sales	—	—	—	—	—	—
Proceeds from repayments	(3,632)	(3,129)	(3,182)	(1,061)	(9,359)	(20,363)
Balance at March 31, 2013	$ 39,688	$ 38,575	$ 34,678	$ 14,674	$ 108,940	$ 236,555

(A) Includes the recapture agreement for each respective pool.
(B) Transfers are assumed to occur at the beginning of the quarter.
(C) The gains (losses) recorded in earnings during the period are attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting dates. These gains(losses) are recorded in “Other Income (Loss)” in the consolidated statement of income.

Equity Method Investees Valuation

Fair value estimates of Newcastle’s investments were based on internal pricing models. Newcastle estimated the fair value of the assets and liabilities of the underlying entities in which it holds an equity interest. The valuation technique is based on discounted cash flows. Significant inputs represent the inputs required to estimate the fair value of the Excess MSRs held by the entities and included expectations of prepayment rates, delinquency rates, recapture rates, the excess mortgage servicing amount of the underlying mortgage loans, and discount rates that market participants would use in determining the fair values of mortgage servicing rights on similar pools of residential mortgage loans. In addition, in valuing the Excess MSRs, management considered the likelihood of Nationstar being removed as servicer, which likelihood is considered to be remote. Refer to the Excess MSRs Valuation section above for further details.

(dollars in tables in thousands, except share data)

Newcastle's investments in equity method investees measured at fair value on a recurring basis using Level 3B inputs changed during the period ended March 31, 2013 as follows:

	Three Months Ended March 31, 2013
Balance at December 31, 2012	$ —
Contributions to equity method investees	109,588
Distributions of earnings from equity method investees	(1,344)
Distributions of capital from equity method investees	(6,625)
Change in fair value of investments in equity method investees	969
Balance at March 31, 2013	$ 102,588

Derivatives

Newcastle's derivative instruments are valued using counterparty quotations. These quotations are generally based on valuation models with model inputs that can generally be verified and which do not involve significant judgment. The significant observable inputs used in determining the fair value of our Level 2 derivative contracts are contractual cash flows and market based interest rate curves. Newcastle's derivatives are recorded on its balance sheet as follows:

		Fair Value	
	Balance sheet location	March 31, 2013	December 31, 2012
Derivative Assets			
Interest rate caps, not designated as hedges	Derivative Assets	176	165
		$ 176	$ 165
Derivative Liabilities			
Interest rate swaps, designated as hedges	Derivative Liabilities	$ 10,331	$ 12,175
Interest rate swaps, not designated as hedges	Derivative Liabilities	16,281	19,401
		$ 26,612	$ 31,576

(dollars in tables in thousands, except share data)

The following table summarizes information related to derivatives:

	March 31, 2013	December 31, 2012
Cash flow hedges		
Notional amount of interest rate swap agreements	$ 154,100	$ 154,450
Amount of (loss) recognized in OCI on effective portion	(10,207)	(12,050)
Deferred hedge gain (loss) related to anticipated financings,which have subsequently occurred, net of amortization	221	237
Deferred hedge gain (loss) related to dedesignation,net of amortization	(195)	(210)
Expected reclassification of deferred hedges from AOCI intoearnings over the next 12 months	5	4
Expected reclassification of current hedges from AOCI intoearnings over the next 12 months	(6,181)	(6,259)
Non-hedge Derivatives		
Notional amount of interest rate swap agreements	281,869	294,203
Notional amount of interest rate cap agreements	23,400	23,400

The following table summarizes gains (losses) recorded in relation to derivatives:

	Income statement location	Three Months Ended March 31, 2013	2012
Cash flow hedges			
Gain (loss) on the ineffective portion	Other income (loss)	$ —	$ 30
Gain (loss) immediately recognized at dedesignation	Gain (loss) on sale of investments; Other income (loss)	—	(276)
Amount of gain (loss) reclassified from AOCI into income, related to effective portion	Interest expense	(1,865)	(10,646)
Deferred hedge gain reclassified from AOCI into income, related to anticipated financings	Interest expense	16	15
Deferred hedge gain (loss) reclassified from AOCI into income, related to effective portion of dedesignated hedges	Interest expense	(16)	442
Non-hedge derivatives gain (loss)	Other income (loss)	3,126	2,056

Liabilities for Which Fair Value is Only Disclosed

The following table summarizes the level of the fair value hierarchy, valuation techniques and inputs used for estimating each class of liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed:

Type of Liabilities Not Measured At Fair Value for Which Fair Value Is Disclosed	Fair Value Hierarchy	Valuation Techniques and Significant Inputs
CDO bonds payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: ● Underlying security and loan prepayment, default and cumulative loss expectations ● Amount and timing of expected future cash flows ● Market yields and credit spreads implied by comparisons to transactions of similar tranches of CDO debt by the varying levels of subordination
Other bonds and notes payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: ● Amount and timing of expected future cash flows ● Interest rates ● Broker quotations ● Market yields and credit spreads implied by comparisons to transactions of similar tranches of securitized debt by the varying levels of subordination
Repurchase agreements	Level 2	Valuation technique is based on market comparables. Significant variables include: ● Amount and timing of expected future cash flows ● Interest rates ● Collateral funding spreads
Mortgage notes payable	Level 3	Valuation technique is based on discounted cash flows. Significant inputs include: ● Amount and timing of expected future cash flows ● Interest rates ● Collateral funding spreads
Junior subordinated notes payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: ● Amount and timing of expected future cash flows ● Interest rates ● Market yields and the credit spread of Newcastle

10. EQUITY AND EARNINGS PER SHARE

Newcastle is required to present both basic and diluted earnings per share ("EPS"). Basic EPS is calculated by dividing net income available for common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is calculated by dividing net income available for common stockholders by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period. Newcastle's common stock equivalents are its outstanding stock options. During the three months ended March 31, 2013 and 2012, based on the treasury stock method, Newcastle had 4,942,388 and 489,093 dilutive common stock equivalents, respectively, resulting from its outstanding options. Net income available for common stockholders is equal to net income less preferred dividends.

(dollars in tables in thousands, except share data)

In January 2013, Newcastle issued 57,500,000 shares of its common stock in a public offering at a price to the public of $9.35 per share for net proceeds of approximately $526.2 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 213,900 shares at a price of $9.35 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 5,750,000 shares of Newcastle's common stock at a price of $9.35, which had a fair value of approximately $18.0 million as of the grant date. The assumptions used in valuing the options were: a 2.0% risk-free rate, a 8.8% dividend yield, 56.2% volatility and a 10 year term.

In February 2013, Newcastle issued 23,000,000 shares of its common stock in a public offering at a price to the underwriters of $10.34 per share for net proceeds of approximately $237.4 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 191,000 shares at a price of $10.48 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 2,300,000 shares of Newcastle's common stock at a price of $10.48, which had a fair value of approximately $8.4 million as of the grant date. The assumptions used in valuing the options were: a 2.1% risk-free rate, a 7.8% dividend yield, 55.5% volatility and a 10 year term.

As of March 31, 2013, Newcastle's outstanding options were summarized as follows:

Held by the Manager	17,735,338
Issued to the Manager and subsequently transferred tocertain of the Manager's employees	3,711,937
Issued to the independent directors	10,000
Total	21,457,275

11. COMMITMENTS AND CONTINGENCIES

Litigation — Newcastle is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions, individually and in the aggregate, that existed at March 31, 2013, if any, will not materially affect Newcastle's consolidated results of operations or financial position.

Capital Commitments — As of March 31, 2013, Newcastle had outstanding capital commitments related to investments in joint ventures in connection with the acquisition of Excess MSRs and consumer loans. See Notes 6 and 15, respectively for a description of these commitments.

As of March 31, 2013, Newcastle had committed to purchase approximately $48.8 million face amount of real estate related loans for approximately $17.1 million, but had not yet settled this purchase as of March 31, 2013.

12. GAIN (LOSSES) ON SETTLEMENT OF INVESTMENTS, NET AND OTHER INCOME (LOSS), NET

These items are comprised of the following:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Gain (loss) on settlement of investments, net		
Gain on settlement of real estate securities	$ —	$ 6,772
Loss on settlement of real estate securities	—	(335)
Loss on repayment/disposition of loans held-for-sale	—	(1,614)
Loss on disposal of long-lived assets	(3)	—
	$ (3)	$ 4,823
Other income (loss), net		
Gain (loss) on non-hedge derivative instruments	$ 3,126	$ 2,056
Unrealized (loss) recognized at de-designation of hedges	—	(276)
Hedge ineffectiveness	—	30
Collateral management fee income, net	352	513
Other income (loss)	1,089	647
	$ 4,567	$ 2,970

(dollars in tables in thousands, except share data)

13. RECLASSIFICATION FROM ACCUMULATED OTHER COMPREHENSIVE INCOME INTO NET INCOME

The following table summarizes the amounts reclassified out of accumulated other comprehensive income into net income:

Accumulated Other Comprehensive Income Components	Income Statement Location	Three Months Ended March 31, 2013
Net realized gain (loss) on securities		
Impairment	Other-than-temporary impairment on securities, net of portion of other-than-temporary impairment on securities recognized in other compprehensive income	$ (539)
Gain on settlement of real estate securities	Gain (loss) on settlement of investments, net	—
Loss on settlement of real estate securities	Gain (loss) on settlement of investments, net	—
		$ (539)
Net realized gain (loss) on derivatives designated as cash flow hedges		
Gain (loss) recognized upon de-designation	Other income (loss)	$ —
Hedge ineffectiveness	Other income (loss)	—
Amortization of deferred gain (loss)	Interest expense	—
Gain (loss) reclassified from AOC1 into income, related to effective portion	Interest expense	(1,865)
Gain (loss) of termination of derivative instruments	Gain (loss) on settlement of investments, net	—
		$ (1,865)
Total reclassifications		$ (2,404)

14. SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES RELATED TO CDOs

Newcastle considers all activity in its CDOs' restricted cash accounts to be non-cash activity for purposes of its consolidated statement of cash flows since transactions conducted with restricted cash have no effect on its cash and cash equivalents. Supplemental non-cash investing and financing activities relating to CDOs are disclosed below:

	Three Months Ended March 31, 2013	2012
Restricted cash generated from sale of securities	$ —	$ 13,965
Restricted cash generated from paydowns on securities and loans	$ 83,623	$ 60,466
Restricted cash used for purchases of real estate securities	$ —	$ 14,689
Restricted cash used for purchases of real estate related loans	$ —	$ 45,481
Restricted cash used for repayments of CDO bonds payable	$ 65,086	$ 7,710
Restricted cash used for purchases of derivative instruments	$ —	$ 168

15. RECENT ACTIVITIES

These financial statements include a discussion of material events that have occurred subsequent to March 31, 2013 (referred to as "subsequent events") through the issuance of these consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

On March 5, 2013, Newcastle agreed to co-invest in a portfolio of consumer loans with a UPB of approximately $4.2 billion as of December 31, 2012. The portfolio includes over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. On April 1, 2013, Newcastle completed this co-investment through newly formed limited liability companies (collectively, "the consumer loan companies"). The consumer loan companies acquired the portfolio from HSBC Finance Corporation and its affiliates. Newcastle invested approximately $250 million for 30% membership interests in each of the consumer loan companies. Of the remaining 70% of the membership interests, Springleaf Finance, Inc. ("Springleaf"), which is majority-owned by Fortress funds managed by our Manager, acquired 47%, and an affiliate of Blackstone Tactical Opportunities Advisors L.L.C. acquired 23%. Springleaf will act as the managing member of the consumer loan companies. The consumer loan companies financed $2.2 billion of the approximately $3.0 billion purchase price with asset-backed notes. The consumer loan companies were formed on March 19, 2013, for the purpose of making this investment and commenced operations upon the completion of the investment. After a servicing transition period, Springleaf will be the servicer of the loans and will provide all servicing and advancing functions for the portfolio.

On April 9, 2013, Newcastle financed additional non-Agency RMBS with approximately $144 million of repurchase agreements, at a cost of one-month LIBOR plus 200 bps. The weighted average advance rate for these repurchase agreements is approximately 70%. These repurchase agreements, which contain customary margin call provisions, have an initial term ending on July 9, 2013.

On April 26, 2013, Newcastle announced that its Board of Directors had formally declared the distribution of shares of common stock of New Residential Investment Corp. ("New Residential"), a wholly owned subsidiary of Newcastle. The distribution will complete the spin-off of New Residential from Newcastle. Following the distribution, New Residential will be an independent, publicly-traded real estate investment trust ("REIT") primarily focused on investing in residential mortgage related assets. The distribution is expected to occur on May 15, 2013 to Newcastle stockholders of record as of 5:00 p.m., Eastern Time, on May 6, 2013 (see Note 16).

16. PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information was derived from the application of pro forma adjustments to the consolidated financial statements of Newcastle. These unaudited pro forma condensed consolidated financial statements should be read in conjunction with the other information contained in these financial statements and related notes and with Newcastle's historical consolidated financial statements.

The unaudited pro forma information set forth below reflects the historical information of Newcastle, as adjusted to give effect to the following transaction:

- A spin-off in which Newcastle would separate certain of its investments from the rest of its assets by distributing shares of common stock of New Residential, which is currently a wholly-owned subsidiary of Newcastle.

The unaudited pro forma condensed consolidated statements of operations give effect to the spin-off of New Residential as if the spin-off had occurred on January 1, 2012 based on New Residential's historical consolidated statement of operations. The unaudited pro forma condensed consolidated balance sheet assumes that the spin-off of New Residential occurred on March 31, 2013.

In the opinion of management, all adjustments necessary to reflect the effects of the potential transaction described above have been included and are based upon available information and assumptions that Newcastle believes are reasonable.

Further, the historical financial information presented herein has been adjusted to give pro forma effect to events that Newcastle believes are factually supportable and which are expected to have a continuing impact on Newcastle's results. However, such adjustments are estimates and may not prove to be accurate. Information regarding these adjustments is subject to risks and uncertainties that could cause actual results to differ materially from those anticipated.

These unaudited pro forma condensed consolidated financial statements are provided for information purposes only. The unaudited pro forma condensed consolidated statements of operations and the unaudited pro forma condensed consolidated balance sheet do not purport to represent what Newcastle's results of operations would have been had such transactions been consummated on the dates indicated, nor do they represent the financial position or results of operations of either Newcastle or New Residential for any future date or period.

(dollars in tables in thousands, except share data)

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
At March 31, 2013

	Newcastle Consolidated Historical (A)	Pro Forma Adjustments New Residential	Newcastle Consolidated Pro Forma
Assets			
Real estate securities, available-for-sale	$ 2,495,473	$ (1,598,868) (B)	$ 896,605
Real estate related loans, held-for-sale, net	851,525	—	851,525
Residential mortgage loans, held-for-investment, net	317,708	(35,484) (C)	282,224
Residential mortgage loans, held-for-sale, net	2,380	—	2,380
Investments in excess mortgage servicing rights at fair value	236,555	(236,555) (C)	—
Investments in equity method investees at fair value	102,588	(102,588) (C)	—
Subprime mortgage loans subject to call option	406,115	—	406,115
Investments in real estate, net of accumulated depreciation	168,515	—	168,515
Intangibles, net of accumulated amortization	16,218	—	16,218
Other investments	24,907	—	24,907
Cash and cash equivalents	534,772	—	534,772 (G)
Restricted cash	11,494	—	11,494
Derivative assets	176	—	176
Receivables and other assets	27,577	(450) (C)	27,127
	$ 5,196,003	$ (1,973,945)	$ 3,222,058
Liabilities and Stockholders' Equity			
Liabilities			
CDO bonds payable	$ 1,015,560	$ —	$ 1,015,560
Other bonds and notes payable	173,723	—	173,723
Repurchase agreements	1,473,586	(1,182,212) (D)	291,374
Mortgage notes payable	120,525	—	120,525
Financing of subprime mortgage loans subject to call option	406,115	—	406,115
Junior subordinated notes payable	51,242	—	51,242
Derivative liabilities	26,612	—	26,612
Dividends payable	56,596	—	56,596
Due to affiliates	4,611	(938) (E)	3,673
Purchase price payable on investments in excess mortgageservicing rights	59	(59) (C)	—
Accrued expenses and other liabilities	17,875	(2,780) (C)	15,095
	$ 3,346,504	$ (1,185,989)	$ 2,160,515
Stockholders' Equity			
Preferred stock	$ 61,583	$ —	$ 61,583
Common stock	2,530	—	2,530
Additional paid-in capital	2,472,931	—	2,472,931
Accumulated deficit	(790,143)	(756,247) (F)	(1,546,390)
Accumulated other comprehensive income (loss)	102,598	(31,709) (C)	70,889
	$ 1,849,499	$ (787,956)	$ 1,061,543
	$ 5,196,003	$ (1,973,945)	$ 3,222,058

(A) Represents Newcastle's historical consolidated balance sheet at March 31, 2013.
(B) Represents the fair value of New Residential's real estate securities at March 31, 2013 adjusted to include securities owned by Newcastle at March 31, 2013 and contributed by Newcastle to New Residential subsequent to March 31, 2013.
(C) Represents New Residential's assets, liabilities and accumulated other comprehensive income at March 31, 2013.
(D) Represents New Residential's repurchase agreements at March 31, 2013 adjusted for the additional repurchase agreements to finance the real estate securities described in (B) above.
(E) Represents a reduction of Newcastle's due to affiliates for the allocation of one month of accrued and unpaid management fees from Newcastle to New Residential.
(F) Represents the distribution of New Residential common stock to Newcastle shareholders.
(G) Represents Newcastle's cash and cash equivalents at March 31, 2013. Newcastle will contribute cash to New Residential in connection with the spin-off subsequent to March 31, 2013.

(dollars in tables in thousands, except share data)

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Three Months Ended March 31, 2013

	Newcastle Consolidated Historical (A)	Pro Forma Adjustments New Residential (B)	Newcastle Consolidated Pro Forma
Interest income	$ 71,367	$ (16,191)	$ 55,176
Interest expense	22,710	(899)	21,811
Net interest income	48,657	(15,292)	33,365
Impairment/(Reversal)			
Valuation allowance (reversal) on loans	2,234	—	2,234
Other-than-temporary impairment on securities	422	—	422
Portion of other-than-temporary impairment on securities recognized in other comprehensive income (loss), net of the reversal of other comprehensive loss into net income (loss)	117	—	117
	2,773	—	2,773
Net interest income after impairment/reversal	45,884	(15,292)	30,592
Other Revenues			
Rental income	12,887	—	12,887
Care and ancillary income	613	—	613
Total other revenues	13,500	—	13,500
Other Income (Loss)			
Gain (loss) on settlement of investments, net	(3)	—	(3)
Gain on extinguishment of debt	1,206	—	1,206
Change in fair value of investments in excess mortgage servicing rights	1,858	(1,858)	—
Change in fair value of investments in equity method investees	969	(969)	—
Other income (loss), net	4,567	—	4,567
	8,597	(2,827)	5,770
Expenses			
Loan and security servicing expense	1,034	—	1,034
Property operating expenses	8,363	—	8,363
General and administrative expense	6,911	(2,719)	4,192
Management fee to affiliate	9,565	(2,325)	7,240
Depreciation and amortization	4,079	—	4,079
	29,952	(5,044)	24,908
Income from continuing operations	38,029	(13,075)	24,954
Preferred dividends	(1,395)	—	(1,395)
Income from continuing operations after preferred dividends	$ 36,634	$ (13,075)	$ 23,599
Income from continuing operations per share of common stock, after preferred dividends			
Basic	$ 0.16		$ 0.10
Diluted	$ 0.15		$ 0.10 (C)
Weighted Average Number of Shares of Common Stock Outstanding			
Basic	235,136,756		235,136,756
Diluted	240,079,144		240,079,144 (C)

(dollars in tables in thousands, except share data)

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
12 Months Ended December 31, 2012

	Newcastle Consolidated Historical (A)	Pro Forma Adjustments New Residential (B)	Newcastle Consolidated Pro Forma
Interest income	$ 310,459	$ (33,759)	$ 276,700
Interest expense	109,924	(704)	109,220
Net interest income	200,535	(33,055)	167,480
Impairment/(Reversal)			
Valuation allowance (reversal) on loans	(24,587)	—	(24,587)
Other-than-temporary impairment on securities	19,359	—	19,359
Portion of other-than-temporary impairment on securities recognized in other comprehensive income (loss), net of the reversal of other comprehensive loss into net income (loss)	(436)	—	(436)
	(5,664)	—	(5,664)
Net interest income after impairment/reversal	206,199	(33,055)	173,144
Other Revenues			
Rental income	17,081	—	17,081
Care and ancillary income	2,994	—	2,994
Total other revenues	20,075	—	20,075
Other Income (Loss)			
Gain (loss) on settlement of investments, net	232,897	—	232,897
Gain on extinguishment of debt	24,085	—	24,085
Change in fair value of investments in excess mortgage servicing rights	9,023	(9,023)	—
Other income (loss), net	13,712	(8,400)	5,312
	279,717	(17,423)	262,294
Expenses			
Loan and security servicing expense	4,260	—	4,260
Property operating expenses	12,943	—	12,943
General and administrative expense	22,942	(5,878)	17,064
Management fee to affiliate	24,693	(3,353)	21,340
Depreciation and amortization	6,975	—	6,975
	71,813	(9,231)	62,582
Income from continuing operations	434,178	(41,247)	392,931
Preferred dividends	(5,580)	—	(5,580)
Income from continuing operations after preferred dividends	$ 428,598	$ (41,247)	$ 387,351
Income from continuing operations per share of common stock, after preferred dividends			
Basic	$ 2.97		$ 2.69
Diluted	$ 2.94		$ 2.66 (C)
Weighted Average Number of Shares of Common Stock Outstanding			
Basic	144,146,370		144,146,370
Diluted	145,766,413		145,766,413 (C)

(A) Represents Newcastle's historical consolidated statement of operations for the three months ended March 31, 2013 and the year ended December 31, 2012.
(B) Represents New Residential's historical consolidated statement of operations for the three months ended March 31, 2013 and the year ended December 31, 2012.
(C) Does not include potential additional diluted shares as a result of changes to outstanding Newcastle options from the spin-off. The number of additional diluted shares will depend on various factors, including the share prices of Newcastle and New Residential subsequent to the spin-off.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following should be read in conjunction with the unaudited consolidated financial statements and notes thereto included herein, and with Part II, Item 1A, "Risk Factors."

GENERAL

Newcastle Investment Corp. is a real estate investment and finance company. We invest in, and actively manage, a portfolio of real estate securities, loans, excess mortgage servicing rights ("Excess MSRs"), real estate related assets, such as senior living facilities, and other assets. Our objective is to maximize the difference between the yield on our investments and the cost of financing these investments. We often seek to hedge our interest rate risk. We emphasize portfolio management, asset quality, liquidity, diversification, match funded financing and credit risk management.

We currently own a diversified portfolio of credit sensitive real estate debt investments, including securities and loans, other real estate debt investments, such as Excess MSRs, and other assets. Our portfolio of real estate securities includes commercial mortgage backed securities (CMBS), senior unsecured debt issued by REITs, real estate related asset backed securities (ABS), and FNMA/FHLMC securities. Mortgage backed securities are interests in or obligations secured by pools of mortgage loans. We generally target investments rated A through BB, except for our FNMA/FHLMC securities, which have an implied AAA rating. We also own, directly and indirectly, interests in loans and pools of loans, including real estate related loans, commercial mortgage loans, residential mortgage loans, manufactured housing loans, and subprime mortgage loans.

We generally employ leverage as part of our investment strategy, though we do not currently use leverage to purchase Excess MSRs. We do not have a predetermined target debt to equity ratio as we believe the appropriate leverage for the particular assets we are financing depends on the credit quality of those assets. As of March 31, 2013, we had complied with the general investment guidelines adopted by our board of directors that limit total leverage. We utilize leverage for the sole purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates.

We strive to maintain access to a broad array of capital resources in an effort to insulate our business from potential fluctuations in the availability of capital. We seek to utilize multiple forms of financing, including sales of common or preferred equity, collateralized debt obligations (CDOs), other securitizations, term loans, and trust preferred securities, as well as short term financing in the form of loans and repurchase agreements. As we discuss in more detail under "–Market Considerations" below, while market conditions have improved meaningfully since 2008, the current conditions continue to reduce the array of capital resources available to us and have made the terms of capital resources we are able to obtain generally less favorable to us relative to the terms we were able to obtain prior to the onset of challenging conditions. That said, we have recently been able to access more types of capital – and on better terms – than we had been able to access during 2008 and 2009.

We typically seek to match fund our investments with respect to interest rates and maturities in order to reduce the impact of interest rate fluctuations on earnings and reduce the risk of refinancing our liabilities prior to the maturity of the investments. We seek to finance a substantial portion of our real estate securities and loans through the issuance of term debt, which generally represents obligations issued in multiple classes secured by an underlying portfolio of assets. Specifically, our CDO financings offer us the structural flexibility to buy and sell certain investments to manage risk and, subject to certain limitations, to optimize returns.

We conduct our business through the following segments: (i) investments financed with non-recourse collateralized debt obligations ("non-recourse CDOs"), (ii) unlevered investments in deconsolidated Newcastle CDO debt ("unlevered CDOs"), (iii) unlevered Excess MSRs, (iv) investments in senior living assets financed with non-recourse debt ("non-recourse senior living"), (v) investments financed with other non-recourse debt ("non-recourse other"), (vi) investments and debt repurchases financed with recourse debt ("recourse"), (vii) other unlevered investments ("unlevered other") and (viii) corporate. With respect to the non-recourse CDOs and non-recourse other segments, Newcastle is generally entitled to receive net cash flows from these structures on a periodic basis. Revenues attributable to each segment, as restated for previously reported periods, are disclosed below (in thousands).

For the Three Months Ended March 31,	Non-Recourse CDOs	Unlevered CDOs	Unlevered Excess MSRs	Non-recourse Senior Living	Non-Recourse Other	Recourse	Unlevered Other	Corporate	Inter-segment Elimination	Total
2013	$ 31,589	$ 239	$ 10,035	$ 12,997	$ 16,810	$ 7,285	$ 6,706	$ 72	$ (866)	$ 84,867
2012	$ 54,402	$ 115	$ 2,037	$ 509	$ 18,426	$ 814	$ 523	$ 51	$ (1,469)	$ 75,408

Market Considerations

Markets in which We Operate

Overall Credit Markets

Our ability to generate income is dependent on our ability to invest our capital on a timely basis at attractive returns.

Two primary market factors that affect our ability to do this in the real estate debt business are (1) credit spreads and (2) the availability of financing on favorable terms.

Generally speaking, widening credit spreads reduce any unrealized gains on our current debt investments (or cause or increase unrealized losses) and increase our costs for new financings, but increase the yields available on potential new debt investments, while tightening credit spreads increase the unrealized gains (or reduce unrealized losses) on our current debt investments and reduce our costs for new financings, but reduce the yields available on potential new debt investments. By reducing unrealized gains (or causing unrealized losses), widening credit spreads also impact our ability to realize gains on existing debt investments if we were to sell such assets.

From mid-2007 through early 2009, credit spreads widened substantially. One of the key drivers of the widening of credit spreads over these years was the continued disruption and liquidity concerns throughout the credit markets. The severity and scope of the disruption intensified meaningfully during the fourth quarter of 2008 and the first quarter of 2009. In the latter part of 2009, credit spreads tightened substantially and continued to tighten in 2010 and the first half of 2011. However, credit spreads widened in the third quarter of 2011, reflecting the challenging economic environment. These changes in credit spreads caused the net unrealized gains on our securities to increase during the first half of 2011, but these increases were reversed and resulted in net unrealized losses in the second half of 2011. Credit markets improved in the beginning of 2012, however, worldwide economic issues caused investors to become risk adverse which drove spreads wider in the second quarter of 2012. As 2012 progressed, investor fear subsided and demand began to increase which in turn drove prices higher. The new securitization market in both the commercial and residential real estate markets picked up dramatically and the new supply was absorbed with ease. With US economic data improving and rates at all time lows, investor demand for higher yields drove asset prices higher for 2012. We have seen further increases in prices through the first quarter of 2013.

We utilize multiple forms of financing, depending on their appropriateness and availability, to finance our investments, including sales of common and preferred equity, collateralized debt obligations (CDOs) or other securitizations, term loans, trust preferred securities, and short-term financing in the form of loans and repurchase agreements. One component of our investment strategy is to use match funded financing structures, such as CDOs, at rates that provide a positive net spread relative to our investment returns.

Recent conditions in the credit markets have impaired our ability to match fund investments. During the past several years, financing in the form of securitizations or other long-term non-recourse structures not subject to margin requirements was generally not available or economical, and it remains difficult to obtain under current market conditions. Lenders have generally tightened their underwriting standards and increased their margin requirements, resulting in a decline in the overall amount of leverage available to us and an increase in our borrowing costs. These conditions make it highly likely that we will have to use less efficient forms of financing for any new investments, which will likely require a larger portion of our cash flows to be put toward making the initial investment and thereby reduce the amount of cash available for distribution to our stockholders and funds available for operations and investments, and which will also likely require us to assume higher levels of risk when financing our investments. Moreover, financial market conditions remain volatile and have been adversely affected by the unrest in the Middle East, the earthquake in Japan, the European financial crisis, continuing weakness in the U.S. job market and concern about the United States' level of indebtedness. Volatility in equity markets could impair our ability to raise debt or equity capital or otherwise finance our business.

Excess MSRs

We believe that the current environment has created an attractive opportunity to invest in MSRs. Specifically:

- changes in the regulatory treatment of MSRs for financial institutions subject to Basel III, a revision to the global regulatory capital and liquidity framework for banks, which will impose increased regulatory capital costs on banks for owning MSRs;
- elevated borrower delinquencies and defaults experienced over the last few years, and increased regulatory oversight, has led to substantially higher costs for mortgage servicers and negatively impacted their profitability; and
- mortgage servicing has become less attractive to many financial institutions due to increasingly negative publicity and heightened government and regulatory scrutiny.

These dynamics resulted in a pipeline of MSRs for sale by banks and non-bank servicers, as these institutions are under pressure to exit or reduce their exposure to the mortgage servicing business. As a result, we believe that this relative oversupply of MSRs, combined with a historically low interest rate environment and a challenging credit market, have contributed to an availability of MSRs that are attractively priced. We closed on our first investment in Excess MSRs in December 2011, continued investing in this sector in 2012 and early 2013, and are exploring opportunities to acquire additional MSRs that provide attractive risk-adjusted returns.

Non-Agency RMBS

We are also pursuing investments in residential mortgage backed securities ("RMBS") that have been securitized by either public or private trusts ("non-Agency RMBS"). Since the onset of the financial crisis in 2007, there has been significant volatility in the prices for non-Agency RMBS. This has resulted from a widespread contraction in capital available for this asset class, deteriorating housing fundamentals, and an increase in forced selling by institutional investors (often in response to rating agency downgrades). While the prices of these assets have started to recover from their lows, we believe a meaningful gap still exists between current prices and the recovery value of many non-Agency RMBS. Accordingly, we believe there are opportunities to acquire non-Agency RMBS at attractive risk-adjusted yields, with the potential for meaningful upside if the U.S. economy and housing market continue to strengthen. We believe the value of existing non-Agency RMBS may also rise if the number of buyers returns to pre-2007 levels. As of March 31, 2013, we had acquired non-Agency RMBS with a face amount of approximately $829.8 million for a total purchase price of $515.7 million, or 62.1% of face amount.

Senior Living

In addition, we believe that the senior living sector currently presents an attractive investment opportunity. Specifically,

- projected changes in demographics will drive increased demand for senior housing, yet new supply is limited, creating favorable supply-demand fundamentals;
- targeting smaller portfolios enables us to avoid pricing competition with other active REIT buyers of large portfolios, thereby focusing our acquisitions on quality senior housing assets that provide more competitive pricing fundamentals; and
- capitalizing on the experience of our manager in the senior living industry, we expect to generate growth in property-level net operating income when operational and structural efficiencies are achieved.

We made three acquisitions of senior living assets comprised of 12 properties in 2012. We are exploring opportunities to invest in additional senior living facilities.

Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets, including, but not limited to, any type of assets that can be held by a REIT. We do not have specific policies as to the allocation among types of real estate related, or other, assets or investment categories, since our manager's investment decisions depend on changing market conditions.

Liquidity

Credit and liquidity conditions have improved relative to the conditions experienced during the 2008-2009 financial crisis. That said, the challenging credit and liquidity conditions that we experienced during the financial crisis continue to adversely affect us and the markets in which we operate in a number of ways. For example, these conditions have reduced the market trading activity for many real estate securities and loans, resulting in less liquid markets for those securities and loans. As the securities held by us and many other companies in our industry are marked to market at the end of each quarter, the decreased liquidity and concern over market conditions have resulted in significant reductions in mark to market valuations of many real estate securities and loans and the collateral underlying them, as well as volatility and uncertainty with respect to such valuations. These lower valuations, and decreased expectations of future cash flows, have affected us by, among other things, reducing the amount, which we refer to as "cushion," by which we satisfy the over collateralization and interest coverage tests of our CDOs (sometimes referred to as CDO "triggers") or contributing to several of our CDOs failing their over collateralization tests (see "– Liquidity and Capital Resources" and "– Debt Obligations" below).

Failed CDO triggers, impairments resulting from incurred losses, and asset sales made at prices significantly below face amount while the related debt is being repaid at its full face amount, as well as the retention of cash, could contribute to reductions in future earnings, cash flow and liquidity.

With respect to dividends, we have paid all dividends on our preferred stock through April 30, 2013. We declared a quarterly dividend of $0.22 per common share for the first quarter of 2013, which was paid on April 30, 2013. We may elect to adjust or not to pay any future dividend payments to reflect our current and expected cash from operations or to satisfy future liquidity needs.

Extent of Market Disruption

Market conditions have meaningfully improved over the last few years, but it is not clear whether a sustained recovery will occur or, if so, for how long it will last. We do not currently know the full extent to which the continuing challenging market conditions will affect us or the markets in which we operate. If such conditions persist, particularly with respect to commercial real estate, we may experience additional impairment charges, potential reductions in cash flows from our investments and additional challenges in raising capital and obtaining investment or other financing on attractive terms. Moreover, we will likely need to continue to place a high priority on managing our liquidity. Certain aspects of these effects are more fully described in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate, Credit and Spread Risk" and "– Liquidity and Capital Resources" as well as in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Spin-Off of New Residential

On April 26, 2013, we announced that our Board of Directors formally declared the distribution of shares of common stock of New Residential Investment Corp. ("New Residential"), a wholly owned subsidiary of Newcastle. The distribution will complete the spin-off of New Residential from Newcastle. The distribution is expected to occur on May 15, 2013 to Newcastle stockholders of record as of 5:00 p.m., Eastern Time, on May 6, 2013.

Following the distribution, New Residential will be an independent, publicly-traded REIT (NYSE: NRZ) with an initial portfolio composed of all of our investments in Excess MSRs, the non-Agency RMBS we have acquired since the second quarter of 2012, certain Agency RMBS, residential mortgage loans acquired since the beginning of 2013 and all of our consumer loans. New Residential will be externally managed by our manager pursuant to a new management agreement.

Following the spin-off, we currently expect that Newcastle will pursue, among other investments, additional acquisitions of senior housing assets and strategic opportunities to liquidate its CDOs and restructure its real estate and other debt portfolio. The investment guidelines of each of Newcastle and New Residential are purposefully broad to enable each to make investments in a wide array of assets. For a description of the risks associated with the spin-off, see "Risk Factors" including, but not limited to "Risks Related to the Spin-Off of New Residential."

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from these estimates. Management believes that the estimates and assumptions utilized in the preparation of the consolidated financial statements are prudent and reasonable. Actual results historically have been in line with management's estimates and judgments used in applying each of the accounting policies described below, as modified periodically to reflect current market conditions. The following is a summary of our accounting policies that are most effected by judgments, estimates and assumptions.

Variable Interest Entities

Variable interest entities ("VIEs") are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, and only by its primary beneficiary, which is defined as the party who has the power to direct the activities of a VIE that most significantly impact its economic performance and who has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The VIEs in which we have a significant interest include (i) our CDOs, and (ii) our manufactured housing loan financing structures. We do not have the power to direct the relevant activities of CDO V, as a result of an event of default which allows us to be removed as collateral manager of this CDO and prevents us from purchasing or selling certain collateral within this CDO, and therefore we deconsolidated this CDO as of June 17, 2011. Similar events of default in the future, if they occur, could cause us to deconsolidate additional financing structures. We completed two securitization transactions to refinance our Manufactured Housing Loans Portfolios I and II. We analyzed the securitizations under the applicable accounting guidance and concluded that the securitization transactions should be accounted for as secured borrowings. As a result, we continue to recognize the portfolios of manufactured housing loans as pledged assets, which have been classified as loans held-for-investment at securitization, and recorded the notes issued to third parties as secured borrowings.

Our subprime securitizations are also considered VIEs, but we do not control their activities and no longer receive a significant portion of their returns, and therefore do not consolidate them.

In addition, our investments in RMBS, CMBS, CDO securities and loans may be deemed to be variable interests in VIEs, depending on their structure. We monitor these investments and analyze the potential need to consolidate the related securitization entities pursuant to the VIE consolidation requirements. These analyses require considerable judgment in determining whether an entity is a VIE and determining the primary beneficiary of a VIE since they involve subjective determinations of significance, with respect to both power and economics. The result could be the consolidation of an entity that otherwise would not have been consolidated or the de-consolidation of an entity that otherwise would have been consolidated.

We have not consolidated the entities in which we hold a 50% interest that made an investment in Excess MSRs. We have determined that the decisions that most significantly impact the economic performance of these entities will be made collectively by us and the other investor in the entities. In addition, these entities have sufficient equity to permit the entities to finance their activities without additional subordinated financial support. Based on our analysis, these entities do not meet any of the VIE criteria.

Valuation of Securities

We have classified all our real estate securities as available for sale. As such, they are carried at fair value with net unrealized gains or losses reported as a component of accumulated other comprehensive income, to the extent impairment losses are considered temporary as described below. Fair value may be based upon broker quotations, counterparty quotations or pricing services quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof and are subject to significant variability based on market conditions, such as interest rates, credit spreads and market liquidity. A significant portion of our securities are currently not traded in active markets and therefore have little or no price transparency. For a further discussion of this trend, see "– Market Considerations" above. As a result, we have estimated the fair value of these illiquid securities based on internal pricing models rather than the sources described above. The determination of estimated cash flows used in pricing models is inherently subjective and imprecise. Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant and immediate increase or decrease in our book equity. For securities valued with pricing models, these inputs include the discount rate, assumptions relating to prepayments, default rates and loss severities, as well as other variables.

See Note 9 to our consolidated financial statements in Part I, Item 1, "Financial Statements" for information regarding the fair value of our investments, and its estimation methodology, as of March 31, 2013.

Our securities must be categorized by the "level" of inputs used in estimating their fair values. Level 1 would be assets valued based on quoted prices for identical instruments in active markets. We have no level 1 assets. Level 2 would be assets valued based on quoted prices in active markets for similar instruments, on quoted prices in less active or inactive markets, or on other "observable" market inputs. Level 3 would be assets valued based significantly on "unobservable" market inputs. We have further broken level 3 into level 3A, third party indications, and level 3B, internal models. Fair value under GAAP represents an exit price in the normal course of business, not a forced liquidation price. If we were forced to sell assets in a short period to meet liquidity needs, the prices we receive could be substantially less than the recorded fair values.

We generally classify the broker and pricing service quotations we receive as level 3A inputs, except for certain liquid securities. They are quoted prices in generally inactive and illiquid markets for identical or similar securities. These quotations are generally received via email and contain disclaimers which state that they are "indicative" and not "actionable" – meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price. These quotations are generally based on models prepared by the brokers, and we have little visibility into the inputs they use. Based on quarterly procedures we have performed with respect to quotations received from these brokers, including comparison to the outputs generated from our internal pricing models and transactions we have completed with respect to these securities, as well as on our knowledge and experience of these markets, we have generally determined that these quotes represent a reasonable estimate of fair value. For the $2.4 billion carrying value of securities valued using quotations as of March 31, 2013, a 100 basis point change in credit spreads would impact estimated fair value by approximately $60.0 million.

Our estimation of the fair value of level 3B assets (as described below) involves significant judgment. We validated the inputs and outputs of our models by comparing them to available independent third party market parameters and models for reasonableness. We believe the assumptions we used are within the range that a market participant would use and factor in the liquidity conditions currently in the markets. In the period ended March 31, 2013, the inputs to our models, including discount rates, prepayment speeds, default rates and severity assumptions, have generally remained consistent with the assumptions used at December 31, 2012, other than certain modifications we have made to the assumptions to reflect conditions relevant to specific assets.

For CMBS and ABS valued with internal models, which have an aggregate fair value of $81.7 million as of March 31, 2013, a 10% unfavorable change in our assumptions would result in the following decreases in such aggregate fair value (in thousands):

	CMBS	ABS
Outstanding face amount	$ 129,468	$ 84,848
Fair value	$ 56,844	$ 24,835
Effect on fair value with 10% unfavorable change in:		
Discount rate	$ (795)	$ (869)
Prepayment rate	N/A	$ (729)
Default rate	$ (2,737)	$ (2,713)
Loss severity	$ (2,349)	$ (3,484)

Impairment of Securities

We must also assess whether unrealized losses on securities, if any, reflect a decline in value which is other-than-temporary and, if so, write the impaired security down to its fair value through earnings. A decline in value is deemed to be other-than-temporary if (i) it is probable that we will be unable to collect all amounts due according to the contractual terms of a security which was not impaired at acquisition (there is an expected credit loss), or (ii) if we have the intent to sell a security in an unrealized loss position or it is more likely than not we will be required to sell a security in an unrealized loss position prior to its anticipated recovery (if any). For the purposes of performing this analysis, we assume the anticipated recovery period is until the respective security's expected maturity. Also, for certain securities that represent beneficial interests in securitized financial assets, whenever there is a probable adverse change in the timing or amounts of estimated cash flows of a security from the cash flows previously projected, an other-than temporary impairment will be deemed to have occurred. Our non-Agency RMBS acquired with evidence of deteriorated credit quality for which it was deemed probable, at acquisition, that we would be unable to collect all contractually required payments as they come due, fall within the scope of loans and debt securities acquired with deteriorated credit quality, as opposed to beneficial interests in securitized financial assets. We note that primarily all of our securities, except our FNMA/FHLMC securities and our non-Agency RMBS acquired with evidence of deteriorated credit quality, fall within the definition of beneficial interests in securitized financial assets.

Temporary declines in value generally result from changes in market factors, such as market interest rates and credit spreads, or from certain macroeconomic events, including market disruptions and supply changes, which do not directly impact our ability to collect amounts contractually due. We continually evaluate the credit status of each of our securities and the collateral supporting our securities. This evaluation includes a review of the credit of the issuer of the security (if applicable), the credit rating of the security, the key terms of the security (including credit support), debt service coverage and loan to value ratios, the performance of the pool of underlying loans and the estimated value of the collateral supporting such loans, including the effect of local, industry and broader economic trends and factors. These factors include loan default expectations and loss severities, which are analyzed in connection with a particular security's credit support, as well as prepayment rates. These factors are also analyzed in relation to the amount of the unrealized loss and the period elapsed since it was incurred. The result of this evaluation is considered when determining management's estimate of cash flows, particularly with respect to developing the necessary inputs and assumptions. Each security is impacted by different factors and in different ways; generally the more negative factors which are identified with respect to a given security, the more likely we are to determine that we do not expect to receive all contractual payments when due with respect to that security.
Significant judgment is required in this analysis.

As of March 31, 2013, we had 8 securities with a carrying amount of $26.9 million that had been downgraded during the period ended March 31, 2013. We did not record a net other-than-temporary impairment charge on these securities in the period ended March 31, 2013. However, we do not depend on credit ratings in underwriting our securities, either at acquisition or on an ongoing basis. As mentioned above, a credit rating downgrade is one factor that we monitor and consider in our analysis regarding other-than-temporary impairment, but it is not determinative. Our securities generally benefit from the support of one or more subordinate classes of securities or equity or other forms of credit support. Therefore, credit rating downgrades, even to the extent they relate to an expectation that a securitization we have invested in, on an overall basis, has credit issues, may not ultimately impact cash flow estimates for the class of securities in which we are invested.

Furthermore, the analysis of whether it is more likely than not that we will be required to sell securities in an unrealized loss position prior to an expected recovery in value (if any), the amount of such expected required sales, and the projected identification of which securities would be sold is also subject to significant judgment, particularly in times of market illiquidity such as we are currently experiencing.

Revenue Recognition on Securities

Income on our securities is recognized using a level yield methodology based upon a number of cash flow assumptions that are subject to uncertainties and contingencies. Such assumptions include the rate and timing of principal and interest receipts (which may be subject to prepayments and defaults). These assumptions are updated on at least a quarterly basis to reflect changes related to a particular security, actual historical data, and market changes. These uncertainties and contingencies are difficult to predict and are subject to future events, and economic and market conditions, which may alter the assumptions. For securities acquired at a discount for credit losses, we recognize the excess of all cash flows expected over our investment in the securities as Interest Income on a "loss-adjusted" yield basis. The loss-adjusted yield is determined based on an evaluation of the credit status of securities, as described in connection with the analysis of impairment above.

Valuation of Derivatives

Similarly, our derivative instruments are carried at fair value. Fair value is based on counterparty quotations. Newcastle reports the fair value of derivative instruments gross of cash paid or received pursuant to credit support agreements and fair value is reflected on a net counterparty basis when Newcastle believes a legal right of offset exists under an enforceable netting agreement. To the extent they qualify as cash flow hedges, net unrealized gains or losses are reported as a component of accumulated other comprehensive income; otherwise, the net unrealized gains and losses are reported currently in income. To the extent they qualify as fair value hedges, net unrealized gains or losses on both the derivative and the related portion of the hedged item are reported currently in income. Fair values of such derivatives are subject to significant variability based on many of the same factors as the securities discussed above, including counterparty credit risk. The results of such variability, the effectiveness of our hedging strategies and the extent to which a forecasted hedged transaction remains probable of occurring, could result in a significant increase or decrease in our GAAP equity and/or earnings.

Loans

We invest in loans, including, but not limited to, real estate related loans, commercial mortgage loans, residential mortgage loans, manufactured housing loans and subprime mortgage loans. Loans for which we have the intent and ability to hold for the foreseeable future, or until maturity or payoff, are classified as held-for-investment. Loans for which we do not have the intent or the ability to hold for the foreseeable future, or until maturity or payoff, are classified as held-for-sale. Loans are presented in the consolidated balance sheet net of any unamortized discount (or gross of any unamortized premium) and an allowance for loan losses. We determine at acquisition whether loans will be aggregated into pools based on common risk characteristics (credit quality, loan type, and date of origination or acquisition); loans aggregated into pools are accounted for as if each pool were a single loan.

Impairment of Loans

To the extent that they are classified as held for investment, we must periodically evaluate each of these loans or loan pools for possible impairment. Impairment is indicated when it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the loan, or, for loans acquired at a discount for credit losses, when it is deemed probable that we will be unable to collect as anticipated. Upon determination of impairment, we would establish a specific valuation allowance with a corresponding charge to earnings. We continually evaluate our loans receivable for impairment.

Our residential mortgage loans, including manufactured housing loans, are aggregated into pools for evaluation based on like characteristics, such as loan type and acquisition date. Individual loans are evaluated based on an analysis of the borrower's performance, the credit rating of the borrower, debt service coverage and loan to value ratios, the estimated value of the underlying collateral, the key terms of the loan, and the effect of local, industry and broader economic trends and factors. Pools of loans are also evaluated based on similar criteria, including historical and anticipated trends in defaults and loss severities for the type and seasoning of loans being evaluated. This information is used to estimate specific impairment charges on individual loans as well as provisions for estimated unidentified incurred losses on pools of loans.

Significant judgment is required both in determining impairment and in estimating the resulting loss allowance. Furthermore, we must assess our intent and ability to hold our loan investments on a periodic basis. If we do not have the intent to hold a loan for the foreseeable future or until its expected payoff, the loan must be classified as "held for sale" and recorded at the lower of cost or estimated value.

Revenue Recognition on Loans Held for Investment

Income on these loans is recognized similarly to that on our securities and is subject to similar uncertainties and contingencies, which are also analyzed on at least a quarterly basis. For loans acquired at a discount for credit losses, the net income recognized is based on a "loss adjusted yield" whereby a gross interest yield is recorded to Interest Income, offset by a provision for probable, incurred credit losses which is accrued on a periodic basis to Valuation Allowance. The provision is determined based on an evaluation of the loans as described under "– Impairment of Loans" above.

Revenue Recognition on Loans Held for Sale

Real estate related, commercial mortgage and residential mortgage loans that are considered held for sale are carried at the lower of amortized cost or market value determined on either an individual method basis, or in the aggregate for pools of similar loans. Interest income is recognized based on the loan's coupon rate to the extent management believes it is collectable. Purchase discounts are not amortized as interest income during the period the loan is held for sale. A change in the market value of the loan, to the extent that the value is not above the average cost basis, is recorded in Valuation Allowance.

Investments in Excess Mortgage Servicing Rights (Excess MSRs)

Upon acquisition, we have elected to record each of such investments at fair value. We elected to record our investments in Excess MSRs at fair value in order to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors on the Excess MSRs. Under this election, we record a valuation adjustment on our Excess MSRs investments on a quarterly basis to recognize the changes in fair value in net income as described in Revenue Recognition on Investments in Excess Mortgage Servicing Rights below. As of March 31, 2013, all Excess MSRs investments are classified as held-for-investment as we have the intent and ability to hold the investments for the foreseeable future.

Revenue Recognition on Investments in Excess Mortgage Servicing Rights

Investments in Excess MSRs are aggregated into pools as applicable; each pool of Excess MSRs is accounted for in the aggregate. Interest income for Excess MSRs is accreted into interest income on an effective yield or "interest" method, based upon the expected excess servicing amount through the expected life of the underlying mortgages. Changes to expected cash flows result in a cumulative retrospective adjustment, which will be recorded in the period in which the change in expected cash flows occurs. Under the retrospective method, the interest income recognized for a reporting period is measured as the difference between the amortized cost basis at the end of the period and the amortized cost basis at the beginning of the period, plus any cash received during the period. The amortized cost basis is calculated as the present value of estimated future cash flows using an effective yield, which is the yield that equates all past actual and current estimated future cash flows to the initial investment. In addition, our policy is to recognize interest income only on Excess MSRs in existing eligible underlying mortgages. The difference between the fair value of Excess MSRs and their amortized cost basis is recorded as "Change in Fair Value of Investments in Excess Mortgage Servicing Rights." Fair value is generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the Excess MSRs, and therefore may differ from their effective yields.

The following tables summarize the estimated change in fair value of our interests in the Excess MSRs owned directly and through equity method investees as of March 31, 2013 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

Fair value at March 31, 2013	$ 328,898(A)			
Discount rate shift in %	-20%	-10%	+10%	+20%
Estimated fair value	$ 369,207	$ 348,669	$ 313,957	$ 299,166
Change in estimated fair value:				
Amount	$ 40,309	$ 19,771	$ (14,941)	$ (29,732)
%	12.3%	6.0%	-4.5%	-9.0%
Prepayment rate shift in %	-20%	-10%	+10%	+20%
Estimated fair value	$ 362,481	$ 345,524	$ 315,285	$ 301,661
Change in estimated fair value:				
Amount	$ 33,583	$ 16,626	$ (13,613)	$ (27,237)
%	10.2%	5.1%	-4.1%	-8.3%
Delinquency rate shift in %	-20%	-10%	+10%	+20%
Estimated fair value	$ 338,055	$ 333,946	$ 325,728	$ 321,621
Change in estimated fair value:				
Amount	$ 9,157	$ 5,048	$ (3,170)	$ (7,277)
%	2.8%	1.5%	-1.0%	-2.2%
Recapture rate shift in %	-20%	-10%	+10%	+20%
Estimated fair value	$ 320,753	$ 325,524	$ 335,189	$ 339,974
Change in estimated fair value:				
Amount	$ (8,145)	$ (3,374)	$ 6,291	$ 11,076
%	-2.5%	-1.0%	1.9%	3.4%

(A) Excludes our share of the non-Excess MSR net assets of the equity method investees of $10.2 million.

The sensitivity analysis is hypothetical and should be used with caution. In particular, the results are calculated by stressing a particular economic assumption independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might counteract or amplify the sensitivities. Also, changes in the fair value based on a 10% variation in an assumption generally may not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

Investments in Equity Method Investees

We account for our interests in entities over which we exercise significant influence, but with respect to which the requirements for consolidation are not met, as investments in equity method investees. These investments are recorded based on the equity method of accounting, unless we elect to measure them at fair value.

We have elected to measure our investments in equity method investees which are invested in Excess MSRs at fair value. The equity method investees have also elected to measure their investments in Excess MSRs at fair value.

Purchase Accounting

The acquisition of the senior living assets and the liabilities assumed were recorded at fair value. In determining the allocation of the purchase price between net tangible and identified intangible assets acquired and liabilities assumed, management made estimates of the fair value of the tangible and intangible assets and liabilities using information obtained as a result of preacquisition due diligence, marketing, leasing activities, and independent appraisals. Management allocated the purchase price to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values as of the acquisition date. The determination of fair value involved the use of significant judgment and estimation.

Impairment of Investments in Real Estate and Residential Lease Intangibles

We own senior living assets held for investment. Intangibles and long-lived assets are tested for potential impairment annually or when changes in circumstances indicate the carrying value may not be recoverable. Indicators of impairment include material adverse changes in the projected revenues and expenses, significant underperformance relative to historical or projected future operating results, and significant negative industry or economic trends. An impairment is determined to have occurred if the future net undiscounted cash flows expected to be generated is less than the carrying value of an asset.

The impairment is measured as the difference between the carrying value and the fair value. Significant judgment is required both in determining impairment and in estimating the fair value. We may use assumptions and estimates derived from a review of our operating results, business projections, expected growth rates, discount rates, and tax rates. We also make certain assumptions about future economic conditions, interest rates, and other market data. Many of the factors used in these assumptions and estimates are outside the control of management, and can change in future periods.

Rental Income, Care and Ancillary Income

We record rental revenue, care and ancillary income as they become due as provided for in the leases.

Recent Accounting Pronouncements

In February 2013, the FASB issued new guidance regarding the reporting of reclassifications out of accumulated other comprehensive income. The new guidance does not change current requirements for reporting net income or other comprehensive income in financial statements. However, it requires companies to present the effects on the line items of net income of significant amounts reclassified out of accumulated OCI if the item reclassified is required to be reclassified to net income in its entirety during the same reporting period. Presentation should occur either on the face of the income statement where net income is presented, or in the notes to the financial statements. Newcastle has early adopted this accounting standard and opted to present this information in a note to the financial statements.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, the definition of an investment company, financial statement presentation, revenue recognition, leases, financial instruments, hedging, and contingencies. Some of the proposed changes are significant and could have a material impact on Newcastle's reporting. Newcastle has not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

RESULTS OF OPERATIONS

The following table summarizes the changes in our results of operations for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 (dollars in thousands):

	Three Months Ended March 31,		Increase (Decrease)	
	2013	2012	Amount	%
Interest income	$ 71,367	$ 74,899	$ (3,532)	(4.7%)
Interest expense	22,710	30,165	(7,455)	(24.7%)
Net interest income	48,657	44,734	3,923	8.8%
Impairment (Reversal)				
Valuation allowance (reversal) on loans	2,234	(9,031)	11,265	124.7%
Other-than-temporary impairment on securities, net	539	1,951	(1,412)	(72.4%)
	2,773	(7,080)	9,853	139.2%
Net interest income (loss) after impairment/reversal	45,884	51,814	(5,930)	(11.4%)
Other Revenues	13,500	509	12,991	N.M.
Other Income (Loss)				
Gain (loss) on settlement of investments, net	(3)	4,823	(4,826)	(100.1%)
Gain on extinguishment of debt	1,206	20,743	(19,537)	(94.2%)
Change in fair value of investments in excess mortgage servicing rights	1,858	1,216	642	N.M.
Change in fair value of investments in equity method investees	969	—	969	N.M.
Other income (loss), net	4,567	2,970	1,597	53.8%
	8,597	29,752	(21,155)	(71.1%)
Expenses				
Loan and security servicing expense	1,034	1,098	(64)	(5.8%)
Property operating expenses	8,363	225	8,138	N.M.
General and administrative expense	6,911	2,286	4,625	202.3%
Management fee to affiliate	9,565	4,976	4,589	92.2%
Depreciation and amortization	4,079	2	4,077	N.M.
	29,952	8,587	21,365	248.8%
Income (loss) from continuing operations	$ 38,029	$ 73,488	$ (35,459)	(48.3%)

N.M. – Not meaningful.

Interest Income

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

Interest income decreased by $3.5 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012 primarily due to a $23.4 million net decrease in interest income as a result of the deconsolidation of CDO X in September 2012, partially offset by $11.9 million and $8.0 million net increases in interest income as a result of new investments and investments in Excess MSRs, respectively.

Interest Expense

Three Months ended March 31, 2013 compared to the three months ended March 31, 2012

Interest expense decreased by $7.5 million primarily due to (i) a $2.2 million decrease in interest expense on debt as a result of the paydowns and repurchases of our CDO debt obligations and the deconsolidation of CDO X in September 2012 and (ii) an $8.4 million decrease in interest expense on derivatives as a result of the termination of interest rate swaps, decreases in swap notional amounts, and changes in interest rates. The decreases described in (i) and (ii) above were partially offset by a $1.2 million increase in mortgage interest expense as a result of the acquisition of senior living assets in July 2012 and a $1.9 million net increase in interest expense primarily due to a higher outstanding balance of repurchase agreement financing on our FNMA/FHLMC securities and non-agency RMBS.

Valuation Allowance (Reversal) on Loans

Three Months ended March 31, 2013 compared to the three months ended March 31, 2012

The valuation allowance (reversal) on loans changed by $11.3 million primarily due to an $11.9 million change related to our real estate loans during the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This change was a result of write-downs recorded in the 2013 period as compared to a reversal of the valuation allowance recorded during the 2012 period as a result of the general improvement in market conditions during the 2012 period. This change was partially offset by a $0.7 million lower net valuation allowance on our manufactured housing loans and residential mortgage loans in the 2013 period than in the 2012 period as a result of market conditions improving more in the 2013 period than in the 2012 period.

Other-than-temporary Impairment on Securities, Net

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

The other-than-temporary impairment on securities decreased by $1.4 million primarily due to market conditions improving in the quarter ended March 2013. We recorded an impairment charge of $0.5 million on 1 security during the quarter ended March 31, 2013, compared to an impairment charge of $2.0 million on 5 securities during the quarter ended March 31, 2012.

Other Revenues

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

The other revenues increased by $13.0 million primarily due to the acquisitions of the senior living assets since July 2012.

Gain (Loss) on Settlement of Investments, Net

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

The net gain on settlement of investments decreased by $4.8 million as a result of the decreased volume of sales and repayments of investments during the quarter ended March 31, 2013 as compared to the quarter ended March 31, 2012. We recorded a net gain of $4.8 million on 10 securities and loans that were sold or paid off during the quarter ended March 31, 2012, compared to a minimal loss on settlement of investments recorded for the quarter ended March 31, 2013.

Gain (Loss) on Extinguishment of Debt

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

The gain on extinguishment of debt decreased by $19.5 million due to a lower face amount and a higher average price of debt repurchased in the three months ended March 31, 2013 compared to the three months ended March 31, 2012. We repurchased $10.9 million face amount of our own CDO debt at an average price of 88.8% of par during the three months ended March 31, 2013 compared to $30.0 million face amount of CDO bonds and other bonds payable repurchased at an average price of 30.5% of par during the three months ended March 31, 2012.

Change in Fair Value of Investments in Excess Mortgage Servicing Rights

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

The change in fair value of investments in excess mortgage servicing rights increased $0.6 million due to the acquisition of investments since March 2012 and subsequent net increases in value.

Change in Fair Value of Investments in Equity Method Investees

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

The change in fair value of investments in equity method investees increased $1.0 million due to the acquisition of these investments in the first quarter of 2013 and subsequent net increases in value.

Other Income (Loss), Net

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

Other income increased by $1.6 million primarily due to (i) a $1.1 million greater increase in the fair value of certain non-hedge interest rate swap agreements as a result of changes in interest rates in the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012 and (ii) an increase in other income related to cash received from a real estate loan.

Loan and Security Servicing Expense

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

Loan and security servicing expense remained relatively stable during the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

Property Operating Expenses

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

The property operating expenses increased $8.1 million due to the acquisitions of the senior living assets since July 2012.

General and Administrative Expense

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

General and administrative expense increased by $4.6 million primarily due to an increase in professional fees related to the potential separation transaction and the investments in consumer loans, senior living assets and other investments.

Management Fee to Affiliate

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

Management fees increased by $4.6 million primarily due to (i) an increase in gross equity as a result of our public offerings of common stock in 2012 and 2013, and (ii) an increase in property management fees in connection with the acquisitions of senior living assets since July 2012.

Depreciation and Amortization

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

The depreciation and amortization expense increased $4.1 million due to the acquisitions of the senior living assets since July 2012.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, and other general business needs. Additionally, to maintain our status as a REIT under the Code, we must distribute annually at least 90% of our REIT taxable income. As of December 31, 2011, we had a loss carryforward, inclusive of net operating loss and capital loss, of approximately $896.8 million. The net operating loss carryforward and capital loss carryforward can generally be used to offset future ordinary taxable income and capital gain, for up to twenty years and five years, respectively. As a result, we do not expect that there will be any REIT distribution requirements for the year ended December 31, 2012. In January 2013, we experienced an “ownership change” for purposes of Section 382 of the Code, which limits our ability to utilize our net operating loss and net capital loss carryforwards to reduce our future taxable income and potentially increases our related REIT distribution requirement. We do not believe that the limitation as a result of the January 2013 ownership change will prevent us from satisfying our REIT distribution requirement for the current year and future years. No assurance, however, can be given that we will be able to satisfy our distribution requirement following a current or future ownership change or otherwise. We note that a portion of this requirement may be able to be met in future years through stock dividends, rather than cash, subject to limitations based on the value of our stock.

Our primary sources of funds for liquidity consist of net cash provided by operating activities, sales or repayments of investments, potential refinancing of existing debt, and the issuance of equity securities, when feasible. We have an effective shelf registration statement with the SEC, which allows us to issue common stock, preferred stock, depository shares, debt securities and warrants. Our debt obligations are generally secured directly by our investment assets, except for the junior subordinated notes payable.

Sources of Liquidity and Uses of Capital

As of the date of this filing, we have sufficient liquid assets, which include unrestricted cash and FNMA/FHLMC securities, to satisfy all of our short-term recourse liabilities. Our junior subordinated notes payable are long-term obligations. With respect to the next twelve months, we expect that our cash on hand combined with our cash flow provided by operations will be sufficient to satisfy our anticipated liquidity needs with respect to our current investment portfolio, including related financings, hedging activity, potential margin calls and operating expenses. While it is inherently more difficult to forecast beyond the next twelve months, we currently expect to meet our long-term liquidity requirements, specifically the repayment of our recourse debt obligations, through our cash on hand and, if needed, additional borrowings, proceeds received from repurchase agreements and similar financings, proceeds from equity offerings and the liquidation or refinancing of our assets.

These short-term and long-term expectations are forward-looking and subject to a number of uncertainties and assumptions, which are described below under "–Factors That Could Impact Our Liquidity, Capital Resources and Capital Obligations" as well as Part I, Item 1A, "Risk Factors." If our assumptions about our liquidity prove to be incorrect, we could be subject to a shortfall in liquidity in the future, and this short-fall may occur rapidly and with little or no notice, which would limit our ability to address the shortfall on a timely basis.

Cash flow provided by operations constitutes a critical component of our liquidity. Essentially, our cash flow provided by operations is equal to (i) the net cash flow from our CDOs that have not failed their over collateralization or interest coverage tests, plus (ii) the net cash flow from our non-CDO investments that are not subject to mandatory debt repayment, including excess mortgage servicing income, principal and sales proceeds, (iii) revenues received from our senior living portfolios, less (iv) operating expenses (primarily management fees, property operating expenses, professional fees and insurance), less (v) interest on the junior subordinated notes payable and less (vi) preferred dividends.

Our cash flow provided by operations differs from our net income (loss) due to these primary factors: (i) accretion of discount or premium on our real estate securities and loans (including the accrual of interest and fees payable at maturity), discount on our debt obligations, deferred financing costs, and deferred hedge gains and losses, (ii) gains and losses from sales of assets financed with CDOs, (iii) the valuation allowance recorded in connection with our loan assets, as well as other-than-temporary impairment on our securities, (iv) unrealized gains or losses on our non-hedge derivatives and Excess MSRs owned directly and through equity method investees, (v) the non-cash gains or losses associated with our early extinguishment of debt, (vi) depreciation and amortization, and (vii) net income (loss) generated within CDOs that have failed their over collateralization or interest coverage tests. Proceeds from the sale of assets which serve as collateral for our CDO financings, including gains thereon, are required to be retained in the CDO structure until the related bonds are retired and are, therefore, not available to fund current cash needs outside of these structures.

Update on Liquidity, Capital Resources and Capital Obligations

Certain details regarding our liquidity, current financings and capital obligations as of May 2, 2013 are set forth below:

- *Unrestricted Cash Available to Invest after Commitments* - We are currently fully invested after commitments;

- *Margin Exposure and Recourse Financings* – We have margin exposure on a $299.3 million repurchase agreement related to the financing of non-Agency RMBS and a $1.3 billion repurchase agreement related to the financing of FNMA/FHLMC securities.

The following table compares our recourse financings excluding the junior subordinated notes (in thousands):

Recourse Financings	May 2, 2013	March 31, 2013	December 31, 2012
CDO Securities	$ —	$ —	$ 1,415
Non-agency RMBS	299.278	158,029	150,922
Non-FNMA/FHLMC recourse financings	299.278	158,029	152,337
FNMA/FHLMC securities	1,307,794	1,315,557	772,855
Total recourse financings	$ 1.607,072	$ 1,473,586	$ 925,192

The non-agency RMBS recourse financing will mature in July 2013. The FNMA/FHLMC recourse financing will mature in May 2013.

- Mortgage Notes Payable – We have $120.5 million mortgage notes payable related to the financing of the senior living assets. These financings are secured by first lien security interests in the senior living properties, have no recourse to the general credit of Newcastle and will mature between October 2017 and August 2019.

We have not incurred any financing on our investments in Excess MSRs. Our liquidity will be impacted by our decision and ability to borrow and access capital to finance any existing and future Excess MSR investments.

It is important for readers to understand that our liquidity, available capital resources and capital obligations could change rapidly due to a variety of factors, many of which are beyond our control. Set forth below is a discussion of some of the factors that could impact our liquidity, available capital resources and capital obligations.

Factors That Could Impact Our Liquidity, Capital Resources and Capital Obligations

We refer readers to our discussions in other sections of this report for the following information:

- For a further discussion of recent trends and events affecting our liquidity, see "– Market Considerations" above;
- As described above, under "– Update on Liquidity, Capital Resources and Capital Obligations," we are subject to margin calls in connection with our repurchase agreements;
- Our match funded investments are financed long term, and their credit status is continuously monitored, which is described under "Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Exposure" below. Our remaining investments, generally financed with short term debt or short term repurchase agreements, are also subject to refinancing risk upon the maturity of the related debt. See "– Debt Obligations" below; and
- For a further discussion of a number of risks that could affect our liquidity, access to capital resources and our capital obligations, see Part I, Item 1A, "Risk Factors" above.

In addition to the information referenced above, the following factors could affect our liquidity, access to capital resources and our capital obligations. As such, if their outcomes do not fall within our expectations, changes in these factors could negatively affect our liquidity.

- *Access to Financing from Counterparties* – Decisions by investors, counterparties and lenders to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial performance, compliance with the terms of our current credit and derivative arrangements, industry and market trends, the availability of capital and our investors', counterparties' and lenders' policies and rates applicable thereto, and the relative attractiveness of alternative investment or lending opportunities. Recent conditions and events have limited the array of capital resources available to us and made the terms of capital resources we are able to obtain generally less favorable to us relative to the terms we were able to obtain prior to the onset of challenging conditions. Our business strategy is dependent upon our ability to finance our real estate securities, loans and other real estate related assets at rates that provide a positive net spread. Currently, spreads for such liabilities have widened relative to historical levels and demand for such liabilities remains lower than the demand prior to the onset of challenging market conditions.
- *Impact of Rating Downgrades on CDO Cash Flows* – Ratings downgrades of assets in our CDOs can negatively impact compliance with the CDOs' over collateralization tests. Generally, the over collateralization test measures the principal balance of the specified pool of assets in a CDO against the corresponding liabilities issued by the CDO. However, based on ratings downgrades, the principal balance of an asset or of a specified percentage of assets in a CDO may be deemed to be reduced below their current balance to levels set forth in the related CDO documents for purposes of calculating the over collateralization test. As a result, ratings downgrades can reduce the assumed principal balance of the assets used in the over collateralization test relative to the corresponding liabilities in the test, thereby reducing the over collateralization percentage. In addition, actual defaults of assets would also negatively impact compliance with the over collateralization tests. Failure to satisfy an over collateralization test could result in the redirection of cashflows, or, in certain cases, in the potential removal of Newcastle as collateral manager of the affected CDO. See "– Debt Obligations" below for a summary of assets on negative watch for possible downgrade in our CDOs.
- *Impact of Expected Repayment or Forecasted Sale on Cash Flows* – The timing of and proceeds from the repayment or sale of certain investments may be different than expected or may not occur as expected. Proceeds from sales of assets in the current illiquid market environment are unpredictable and may vary materially from their estimated fair value and their carrying value.

Investment Portfolio

The following summarizes our consolidated investment portfolio at March 31, 2013 (dollars in millions).

Investment [11]	Outstanding Face Amount	Amortized Cost Basis [1]	Percentage of Total Amortized Cost Basis	Carrying Value	Number of Investments	Credit [2]	Weighted Average Life (years) [3]
I. New Residential Investment Corp. Assets (“New Residential”)							
Excess MSRs Investments [4]	329	319	7.9%	329	8	—	5.7
Non-Agency RMBS [5]	784	489	12.0%	519	53	CC	7.6
FNMA/FHLMC Securities [6]	1,020	1,079	26.6%	1,080	53	AAA	4.1
Reverse Mortgage Loans	59	35	0.9%	35	331	—	3.9
Total New Residential Assets	2,192	1,922	47.4%	1,963			5.6
II. Commercial Real Estate Debt & Other Assets							
Commercial Assets							
CMBS	$ 469	$ 332	8.2%	$ 384	75	BB-	3.0
Mezzanine Loans	518	432	10.6%	432	17	77%	1.5
B-Notes	121	111	2.7%	111	5	77%	1.1
Whole Loans	30	30	0.7%	30	2	48%	0.9
CDO Securities [7]	94	67	1.7%	72	5	BB	3.0
Other Investments [8]	25	25	0.6%	25	1	—	—
Total Commercial Assets	1,257	997	24.5%	1,054			2.1
Residential Assets							
MH and Residential Loans	319	279	6.9%	279	8,595	704	5.9
Non-Agency RMBS	121	47	1.2%	65	40	CCC	4.8
Real Estate ABS	10	1	0.0%	1	3	CCC-	4.7
	450	327	8.1%	345			5.6
FNMA/FHLMC securities	290	305	7.5%	308	30	AAA	4.3
Total Residential Assets	740	632	15.6%	653			5.1
Corporate Assets							
REIT Debt	51	50	1.2%	54	8	BBB-	1.8
Corporate Bank Loans	582	278	6.9%	278	7	CC	1.8
Total Corporate Assets	633	328	8.1%	332			1.8
Senior Living Properties Investments [9]	188	178	4.4%	178	12	—	—
Total Commercial Real Estate Debt & Other Assets	2,818	2,135	52.6%	2,217			2.9
TOTAL / WA	$ 5,010	$ 4,057	100.0%	$ 4,180			4.1
Reconciliation to GAAP total assets:							
Subprime mortgage loans subject to call option [10]				405			
Other commercial real estate				7			
Cash and restricted cash				546			
Other				58			
GAAP total assets				$ 5,196			

WA – Weighted average, in all tables.

(1) Net of impairment.
(2) Credit represents the weighted average of minimum rating 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 AAA rating for FNMA/FHLMC securities. Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time.
(3) Weighted average life is based on the timing of expected principal reduction on the asset.
(4) Represents excess MSR investments made directly and through equity method investees, excluding our share of the non-excess MSR net assets of the equity method investees.
(5) Represents non-Agency RMBS purchased outside of our CDOs since April 2012. These non-Agency RMBS will be assets of New Residential subsequent to the spin-off.
(6) Represents Agency RMBS contributed to New Residential Investment Corp. (including contributions made subsequent to March 31, 2013.)
(7) Represents non-consolidated CDO securities, excluding eight securities with a zero value, which had an aggregate face amount of $108 million.

(8) Represents an equity investment in a real estate owned property.
(9) Face amount of senior living property investments represents the gross carrying amount, which excludes accumulated depreciation and amortization.
(10) Our subprime mortgage loans subject to call option are excluded from the statistics because they result from an option, not an obligation, to repurchase such loans, are noneconomic until such option is exercised, and are offset by an equal liability on the consolidated balance sheet.
(11) The following tables summarize certain supplemental data relating to our investments (dollars in tables in thousands):

Excess MSRs

The following table summarizes the collateral characteristics of the loans underlying our direct Excess MSR investments at March 31, 2013. For each of these pools, we invested in a 65% interest in the Excess MSRs :

		Collateral Characteristics											
	Current Carrying Amount	Original Principal Balance	Current Principal Balance	Number of Loans	WA FICO Score (A)	WA Coupon	WA Maturity (months)	Average Loan Age (months)	Adjustable Rate Mortgage % (B)	1 Month CPR (C)	1 Month CRR (D)	1 Month CDR (E)	1 Month Recapture Rate
Pool 1													
Original Pool	$ 32,360	$ 9,940,385	$ 7,309,445	50,281	680	5.8%	279	77	19.4%	29.1%	25.9%	4.3%	47.7%
Recaptured Loans	2,973	—	712,344	3,516	749	4.3%	319	7	0.2%	1.7%	1.7%	0.0%	0.0%
Recapture Agreements	4,355	—	—	—	—	—	—	—	—	—	—	—	—
	39,688	9,940,385	8,021,789	53,797	686	5.7%	283	71	17.7%	27.3%	24.3%	3.9%	47.5%
Pool 2													
Original Pool	31,685	10,383,891	8,614,840	44,555	675	5.1%	317	67	10.9%	27.6%	24.1%	4.6%	57.5%
Recaptured Loans	2,010	—	423,217	2,030	755	4.2%	332	3	0.0%	0.3%	0.3%	0.0%	0.0%
Recapture Agreements	4,880	—	—	—	—	—	—	—	—	—	—	—	—
	38,575	10,383,891	9,038,057	46,585	679	5.0%	318	64	10.4%	26.8%	23.4%	4.4%	57.5%
Pool 3													
Original Pool	29,421	9,844,114	8,594,053	53,113	677	4.5%	288	90	37.9%	18.6%	15.4%	3.8%	48.5%
Recaptured Loans	705	—	164,636	961	752	4.1%	331	2	0.1%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	4,552	—	—	—	—	—	—	—	—	—	—	—	—
	34,678	9,844,114	8,758,689	54,074	678	4.5%	289	88	37.2%	18.4%	15.2%	3.7%	48.5%
Pool 4													
Original Pool	11,739	6,250,549	5,533,266	27,486	673	3.6%	311	81	58.0%	17.4%	8.5%	9.6%	39.2%
Recaptured Loans	230	—	53,585	268	756	4.2%	345	3	8.1%	0.3%	0.3%	0.0%	0.0%
Recapture Agreements	2,705	—	—	—	—	—	—	—	—	—	—	—	—
	14,674	6,250,549	5,586,851	27,754	674	3.6%	311	80	57.5%	17.3%	8.4%	9.6%	39.2%
Pool 5													
Original Pool	104,437	47,572,905	41,901,133	178,958	652	4.7%	290	86	56.7%	15.9%	5.1%	11.4%	2.1%
Recapture Loans	70	—	16,373	63	749	3.6%	333	2	5.9%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	4,433	—	—	—	—	—	—	—	—	—	—	—	—
	108,940	47,572,905	41,917,506	179,021	652	4.7%	290	86	56.7%	15.9%	5.1%	11.4%	2.1%
Total/WA	$ 236,555	$ 83,991,844	$ 73,322,892	361,231	664	4.7%	294	81	44.4%	18.9%	10.9%	8.7%	36.0%

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	Collateral Characteristics						
	Uncollected Payments (F)	Delinquency 30 Days (F)	Delinquency 60 Days (F)	Delinquency 90+ Days (F)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
Pool 1							
Original Pool	9.2%	5.1%	1.8%	1.1%	4.3%	0.9%	2.7%
Recaptured Loans	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	—	—	—	—	—	—	—
	8.4%	4.7%	1.6%	1.0%	3.9%	0.8%	2.5%
Pool 2							
Original Pool	13.4%	4.5%	1.9%	1.5%	7.7%	0.6%	5.1%
Recaptured Loans	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	—	—	—	—	—	—	—
	12.8%	4.3%	1.8%	1.4%	7.3%	0.6%	4.9%
Pool 3							
Original Pool	13.4%	4.1%	1.4%	1.1%	7.7%	2.1%	3.2%
Recaptured Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	—	—	—	—	—	—	—
	13.1%	4.0%	1.4%	1.1%	7.6%	2.1%	3.1%
Pool 4							
Original Pool	17.5%	3.5%	1.5%	1.1%	11.5%	1.9%	4.4%
Recaptured Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	—	—	—	—	—	—	—
	17.3%	3.5%	1.5%	1.1%	11.4%	1.9%	4.4%
Pool 5							
Original Pool	27.0%	9.5%	2.1%	4.0%	16.9%	2.3%	4.7%
Recapture Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	—	—	—	—	—	—	—
	27.0%	9.5%	2.1%	4.0%	16.9%	2.3%	4.7%
Total/WA	20.8%	7.2%	1.9%	2.8%	12.8%	1.9%	4.3%

(A) Weighted average FICO scores are reported based on information provided by the loan servicer on a monthly basis. The loan servicer generally updates the FICO score on a monthly basis.

(B) Adjustable Rate Mortgage % represents the percentage of the total principal balance of the pool that corresponds to adjustable rate mortgages.

(C) Constant prepayment rate represents the annualized rate of the prepayments during the month as a percentage of the total principal balance of the pool.

(D) 1 Month CRR, or the voluntary prepayment rate, represents the annualized rate of the voluntary prepayments during the month as a percentage of the total principal balance of the pool.

(E) 1 Month CDR, or the involuntary prepayment rate, represents the annualized rate of the involuntary prepayments (defaults) during the month as a percentage of the total principal balance of the pool.

(F) Uncollected Payments represents the percentage of the total principal balance of the pool that corresponds to loans for which the most recent payment was not made. Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days represent the percentage of the total principal balance of the pool that corresponds to loans that are delinquent by 30-59 days, 60-89 days or more than 90 days, respectively.

The following table summarizes the collateral characteristics of the loans underlying Excess MSR investments made through equity method investees at March 31, 2013. For each of these pools, we own a 50% interest in an entity that invested in a 67% interest in the Excess MSRs.

		Collateral Characteristics											
	Current Carrying Amount	Original Principal Balance	Current Principal Balance	Number of Loans	WA FICO Score (A)	WA Coupon	WA Maturity (months)	Average Loan Age (months)	Adjustable Rate Mortgage % (B)	1 Month CPR (C)	1 Month CRR (D)	1 Month CDR (E)	1 Month Recapture Rate
Pool 6													
Original Pool	41,329	12,987,190	11,795,608	80,783	662	5.6%	310	50	0.0%	26.8%	23.2%	4.6%	5.2%
Recaptured Loans	124	—	25,964	132	714	3.5%	358	1	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	10,972	—	—	—	—	—	—	—	—	—	—	—	—
	52,425	12,987,190	11,821,572	80,915	662	5.6%	310	50	0.0%	26.8%	23.2%	4.6%	5.2%
Pool 7													
Original Pool	109,048	37,965,199	37,234,201	264,617	711	5.2%	286	76	23.2%	18.6%	18.2%	0.4%	N/A
Recaptured Loans	—	—	—	—	—	0.0%	—	—	0.0%	0.0%	0.0%	0.0%	N/A
Recapture Agreements	23,164	—	—	—	—	—	—	—	—	—	—	—	—
	132,212	37,965,199	37,234,201	264,617	711	5.2%	286	76	23.2%	18.6%	18.2%	0.4%	N/A
Pool 8													
Original Pool	57,177	17,622,383	17,104,429	110,075	719	5.5%	295	68	14.1%	28.4%	26.9%	2.1%	N/A
Recapture Loans	—	—	—	—	—	0.0%	—	—	0.0%	0.0%	0.0%	0.0%	N/A
Recapture Agreements	13,150	—	—	—	—	—	—	—	—	—	—	—	—
	70,327	17,622,383	17,104,429	110,075	719	5.5%	295	68	14.1%	28.4%	26.9%	2.1%	N/A
Total/WA	$ 254,964	$ 68,574,772	$ 66,160,202	455,607	704	5.3%	293	69	16.7%	22.6%	21.3%	1.6%	5.2%

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	Collateral Characteristics						
	Uncollected Payments (F)	Delinquency 30 Days (F)	Delinquency 60 Days (F)	Delinquency 90+ Days (F)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
Pool 6							
Original Pool	11.1%	5.5%	1.4%	2.4%	6.2%	0.5%	2.1%
Recaptured Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	—	—	—	—	—	—	—
	11.1%	5.5%	1.4%	2.4%	6.2%	0.5%	2.1%
Pool 7							
Original Pool (G)	13.0%	1.1%	0.5%	6.1%	6.5%	0.0%	3.8%
Recaptured Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	—	—	—	—	—	—	—
	13.0%	1.1%	0.5%	6.1%	6.5%	0.0%	3.8%
Pool 8							
Original Pool (G)	11.6%	3.2%	1.2%	5.6%	4.3%	0.0%	3.1%
Recapture Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	—	—	—	—	—	—	—
	11.6%	3.2%	1.2%	5.6%	4.3%	0.0%	3.1%
Total/WA	12.3%	2.4%	0.8%	5.3%	5.9%	0.1%	3.3%

(A) Weighted average FICO scores are reported based on information provided by the loan servicer on a monthly basis. The loan servicer generally updates the FICO score on a monthly basis.

(B) Adjustable Rate Mortgage % represents the percentage of the total principal balance of the pool that corresponds to adjustable rate mortgages.

(C) Constant prepayment rate represents the annualized rate of the prepayments during the month as a percentage of the total principal balance of the pool.

(D) 1 Month CRR, or the voluntary prepayment rate, represents the annualized rate of the voluntary prepayments during the month as a percentage of the total principal balance of the pool.

(E) 1 Month CDR, or the involuntary prepayment rate, represents the annualized rate of the involuntary prepayments (defaults) during the month as a percentage of the total principal balance of the pool.

(F) Uncollected Payments represents the percentage of the total principal balance of the pool that corresponds to loans for which the most recent payment was not made. Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days represent the percentage of the total principal balance of the pool that corresponds to loans that are delinquent by 30-59 days, 60-89 days or more than 90 days, respectively.

(G) Collateral information shown as of February 28, 2013.

Non-Agency RMBS (A)

Vintage (B)	Average Minimum Rating (C)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (D)	Excess Spread (E)
	Security Characteristics							
Pre 2004	CCC-	14	$ 28,115	$ 21,804	4.5%	$ 23,328	19.6%	3.8%
2004	B-	6	45,763	25,000	5.1%	29,551	17.6%	3.7%
2005	CC	3	35,749	21,443	4.4%	21,785	12.2%	2.1%
2006	CC	15	451,500	278,658	57.0%	292,475	5.1%	3.4%
2007 and later	CC	15	223,132	142,144	29.0%	151,429	8.8%	3.4%
Total/WA	CC	53	$ 784,259	$ 489,049	100.0%	$ 518,568	7.7%	3.4%

Vintage (B)	Average Loan Age (years)	Collateral Factor (F)	3 month CPR (G)	Delinquency (H)	Cumulative Losses to Date
	Collateral Characteristics				
Pre 2004	10.0	0.07	10.7%	18.0%	3.4%
2004	8.8	0.09	8.4%	20.3%	4.0%
2005	7.8	0.15	12.7%	21.0%	13.9%
2006	6.8	0.28	14.7%	31.0%	24.3%
2007 and later	6.3	0.41	13.9%	33.7%	28.5%
Total / WA	6.9	0.29	13.9%	30.2%	23.1%

(A) Represents non-Agency RMBS purchased outside of our CDOs since April 2012. These non-Agency RMBS will be assets of New Residential subsequent to the spin-off.
(B) The year in which the securities were issued.
(C) Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time. We had no assets that were on negative watch for possible downgrade by at least one rating agency as of March 31, 2013.
(D) The percentage of the outstanding face amount of securities and residual interests that is subordinate to our investments.
(E) The annualized amount of interest received on the underlying loans in excess of the interest paid on the securities, as a percentage of the outstanding collateral balance.
(F) The ratio of original unpaid principal balance of loans still outstanding.
(G) Three month average constant prepayment rate.
(H) The percentage of underlying loans that are 90+ days delinquent, or in foreclosure or considered real estate owned (REO).

CMBS

Deal Vintage (A)	Average Minimum Rating (B)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Delinquency 60+/FC/REO (C)	Principal Subordination (D)	Weighted Average Life (years) (E)
Pre 2004	B	16	$ 57,478	$ 51,805	15.6%	$ 49,148	11.7%	18.3%	0.9
2004	BB+	17	79,419	69,408	20.9%	72,392	1.6%	5.4%	1.7
2005	BB-	9	80,133	30,398	9.2%	53,176	5.1%	6.6%	2.5
2006	B+	21	148,397	95,690	28.8%	109,372	9.0%	13.7%	3.0
2007	CCC+	4	15,237	2,540	0.8%	5,098	4.9%	6.8%	1.4
2010	BB	3	35,000	33,037	9.9%	38,209	0.0%	2.0%	7.6
2011	BB+	5	52,920	49,214	14.8%	56,620	0.0%	3.8%	5.2
Total / WA	BB-	75	$ 468,584	$ 332,092	100.0%	$ 384,015	5.6%	9.4%	3.0

(A) The year in which the securities were issued.
(B) Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time. We had no CMBS assets that were on negative watch for possible downgrade by at least one rating agency as of March 31, 2013.
(C) The percentage of underlying loans that are 60+ days delinquent, in foreclosure or considered real estate owned (REO).
(D) The percentage of the outstanding face amount of securities that is subordinate to our investments.
(E) Weighted average life is based on the timing of expected principal reduction on the asset.

Mezzanine Loans, B-Notes and Whole Loans

Asset Type	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Weighted Average First Dollar Loan to Value (A)	Weighted Average Last Dollar to Loan Value (A)	Delinquency (B)
Mezzanine Loans	17	$ 518,307	$ 432,432	75.4%	$ 432,432	66.6%	77.0%	2.3%
B-Notes	5	120,872	111,237	19.4%	111,237	66.2%	76.7%	0.0%
Whole Loans	2	30,025	30,025	5.2%	30,025	0.0%	48.4%	0.0%
Total/WA	24	$ 669,204	$ 573,694	100.0%	$ 573,694	63.5%	75.7%	1.8%

(A) Loan to value is based on the appraised value at the time of purchase or refinancing.
(B) The percentage of underlying loans that are non-performing, in foreclosure, under bankruptcy filing or considered real estate owned.

CDO Securities (A)

Collateral Manager	Primary Collateral Type	Number	Average Minimum Rating (B)	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (C)
Third Party	CMBS	1	CC	$ 5,500	$ 3,204	4.8%	$ 3,905	55.5%
Newcastle	CMBS	3	CCC	17,827	3,179	4.8%	5,254	15.8%
Newcastle	ABS	1	BBB	70,984	60,364	90.4%	62,466	52.7%
TOTAL/WA		5	BB	$ 94,311	$ 66,747	100.0%	$ 71,625	45.9%

(A) Represents non-consolidated CDO securities, excluding eight securities with a zero value, which had an aggregate face amount of $108 million.
(B) Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time. We had no CDO assets that were on negative watch for possible downgrade by at least one rating agency as of March 31, 2013.
(C) The percentage of the outstanding face amount of securities that is subordinate to our investments.

Manufactured Housing and Residential Loans

Deal	Average FICO Score (A)	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Average Loan Age (years)	Original Balance	Delinquency 90+/FC/REO (B)	Cumulative Loss to Date
Manufactured Housing Loans Portfolio I	703	$ 114,924	$ 94,723	33.9%	$ 94,723	11.4	$ 327,855	0.8%	9.1%
Manufactured Housing Loans Portfolio II	702	149,747	143,494	51.4%	143,494	13.8	434,739	1.5%	7.5%
Residential Loans Portfolio I	712	50,680	37,565	13.4%	37,565	9.9	646,357	11.2%	0.5%
Residential Loans Portfolio II	737	3,779	3,520	1.3%	3,520	8.6	83,950	0.0%	0.0%
Total / WA	704	$ 319,130	$ 279,302	100.0%	$ 279,302	12.3	$ 1,492,901	2.7%	6.9%

(A) Based on updated FICO scores provided by the loan servicer of the manufactured housing loan portfolios and original FICO scores for the residential loan portfolios as the loan servicers of the residential loan portfolios do not provide updated FICO scores.
(B) The percentage of loans that are 90+ days delinquent, or in foreclosure or considered real estate owned (REO).

Non-Agency RMBS (A)

	Security Characteristics							
Vintage (B)	Average Minimum Rating (C)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (D)	Excess Spread (E)
Pre 2004	CCC+	6	$ 5,460	$ 2,451	5.2%	$ 3,817	27.5%	3.4%
2004	CCC	6	11,572	2,757	5.9%	5,827	5.9%	2.6%
2005	CC	18	53,044	7,978	17.0%	13,373	16.5%	3.8%
2006	B+	5	37,716	25,073	53.5%	31,325	41.8%	4.1%
2007	CCC-	5	12,733	8,600	18.4%	10,990	24.9%	3.8%
Total / WA	CCC	40	$ 120,525	$ 46,859	100.0%	$ 65,332	24.8%	3.8%

Vintage (B)	Collateral Characteristics: Average Loan Age (years)	Collateral Factor (F)	3 Month CPR (G)	Delinquency (H)	Cumulative Losses to Date
Pre 2004	9.7	0.05	7.7%	19.0%	2.6%
2004	8.8	0.13	14.1%	13.5%	2.9%
2005	8.0	0.20	11.3%	28.4%	11.0%
2006	7.0	0.26	11.2%	22.7%	21.8%
2007	6.3	0.39	10.6%	28.4%	24.9%
Total / WA	7.7	0.23	11.3%	24.8%	14.9%

Real Estate ABS

Asset Type	Security Characteristics: Average Minimum Rating (C)	Number	Outstanding Face Amount	Amortized Cost Basis Amount	Percentage of Total Amortized Basis	Carrying Value	Principal Subordination (D)	Excess Spread (E)
Small Business Loans	CCC-	3	$ 10,036	$ 1,490	100.0%	$ 1,384	2.7%	0.6%
Total / WA	CCC-	3	$ 10,036	$ 1,490	100.0%	$ 1,384	2.7%	0.6%

Asset Type	Collateral Characteristics: Average Loan Age (years)	Collateral Factor (F)	3 Month CPR (G)	Delinquency (H)	Cumulative Loss to Date
Small Business Loans	10.0	0.21	0.7%	38.3%	21.5%
Total / WA	10.0	0.21	0.7%	38.3%	21.5%

(A) Represents non-agency RMBS purchased prior to April 2012 that will be retained by Newcastle Investment Corp. subsequent to the spin-off of New Residential. This includes subprime retained securities in the securitizations of Subprime Portfolios I and II. For further information on these securitizations, see Note 4 to our consolidated financial statements included herein.
(B) The year in which the securities were issued.
(C) Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time. We had no ABS assets that were on negative watch for possible downgrade by at least one rating agency as of March 31, 2013.
(D) The percentage of the outstanding face amount of securities and residual interests that is subordinate to our investments.
(E) The annualized amount of interest received on the underlying loans in excess of the interest paid on the securities, as a percentage of the outstanding collateral balance.
(F) The ratio of original unpaid principal balance of loans still outstanding.
(G) Three month average constant prepayment rate.
(H) The percentage of underlying loans that are 90+ days delinquent, or in foreclosure or considered real estate owned (REO).

REIT Debt

Industry	Average Minimum Rating (A)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value
Retail	A-	1	$ 4,500	$ 4,019	8.0%	$ 5,025
Diversified	B-	1	12,000	11,991	24.0%	12,510
Office	BBB	1	5,000	5,017	10.0%	5,164
Multifamily	BBB+	2	12,500	12,497	25.0%	13,079
Healthcare	BBB	3	16,700	16,531	33.0%	18,341
Total / WA	BBB-	8	$ 50,700	$ 50,055	100.0%	$ 54,119

Corporate Bank Loans

Industry	Average Minimum Rating (A)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value
Media	CCC-	2	346,052	126,062	45.4%	126,062
Resorts	NR	3	210,859	135,172	48.6%	135,172
Restaurant	B	2	25,563	16,597	6.0%	16,597
Total / WA	CC	7	$ 582,474	$ 277,831	100.0%	$ 277,831

(A) Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time. We had no corporate assets that were on negative watch for possible downgrade by at least one rating agency as of March 31, 2013.

Senior Living Portfolio

Investment characteristics:

Portfolio	Acquisition Date	Number of Communities	Number of Beds	Gross Initial Investment (A)	Purchase Price	Costs Capitalized Sebsequent to Acquisition	Accumulated Depreciation/ Amortization and Closing Adjustments	Carrying value (B)	Outstanding Debt
BPM	July 2012	8	836	$ 149,267	$ 143,300	$ 292	$ 8,341	$ 135,251	$ (88,400)
Utah	November 2012	3	359	$ 24,002	$ 22,578	$ 118	$ 990	$ 21,706	$ (16,000)
Courtyards	December 2012	1	221	$ 22,415	$ 21,500	$ 10	$ 474	$ 21,036	$ (16,125)
		12	1,416	$ 195,684	$ 187,378	$ 420	$ 9,805	$ 177,993	$ (120,525)

Performance information:

	Average Occupancy		Average Revenue Per Occupied Bed (C)	
Portfolio	Three Months Ended March 31, 2013	At Acquisition	Three Months Ended March 31, 2013	At Acquisition
BPM	89.9%	87.7%	$ 4,234	$ 4,208
Utah	80.1%	82.0%	$ 2,396	$ 2,428
Courtyards	90.6%	88.8%	$ 2,436	$ 2,385

(A) Purchase price plus related acquisition costs.
(B) Combined GAAP carrying value of long-lived assets and intangible assets, net of accumulated depreciation and amortization.
(C) Total monthly revenue divided by the average number of occupied beds.

Debt Obligations

Our debt obligations, as summarized in Note 8 to our consolidated financial statements included herein, existing at March 31, 2013 (gross of $3.6 million of discounts) had contractual maturities as follows (in thousands):

	Nonrecourse	Recourse	Total
Period from April 1, 2013 through December 31, 2013	$ 543	$ 1,473,586	$ 1,474,129
2014	1,713	—	1,713
2015	2,274	—	2,274
2016	2,305	—	2,305
2017	32,763	—	32,763
2018	1,855	—	1,855
Thereafter	1,729,327	—	1,729,327
Total	$ 1,770,780	$ 1,473,586	$ 3,244,366

Certain of the debt obligations included above are obligations of our consolidated subsidiaries which own the related collateral. In some cases, including the CDO Bonds Payable and Other Bonds Payable, such collateral is not available to other creditors of ours.

Our non-CDO debt obligations contain various customary loan covenants. We were in compliance with all of the covenants in our non-CDO financings as of March 31, 2013.

The following table provides additional information regarding short-term borrowings. These short-term borrowings were used to finance certain of our investments in FNMA/FHLMC securities, non-agency RMBS and our investments in certain senior notes issued by Newcastle CDO VI. The FNMA/FHLMC and non-agency RMBS repurchase agreements have full recourse to Newcastle. The CDO VI repurchase agreement was repaid in full in January 2013. The weighted average differences between the fair value of the assets and the face amount of available financing for the FNMA/FHLMC repurchase agreements and non-agency RMBS repurchase agreements were 5% and 33%, respectively, during the three months ended March 31, 2013.

	Outstanding Balance at March 31, 2013	Three Months Ended March 31, 2013 Average Daily Amount Outstanding	Maximum Amount Outstanding	Weighted Average Interest Rate
Repurchase agreements	$ 1,473,586*	$ 1,050,612	$ 1,485,673	0.71%

*All of which was recourse to us.

In the first three months of 2013, we purchased $609.4 million principal balance of FNMA/FHLMC securities (primarily one-year ARMs) for approximately $643.8 million, using $32.0 million of unrestricted cash and financed with $611.8 million of repurchase agreements. These repurchase agreements bear interest at 0.42%, mature in April 2013, and are subject to customary margin call provisions.

On April 9, 2013, we financed additional non-Agency RMBS with approximately $144 million of repurchase agreements, at a cost of one-month LIBOR plus 200 bps. The weighted average advance rate for these repurchase agreements is approximately 70%. These repurchase agreements, which contain customary margin call provisions, have an initial term ending on July 9, 2013.

In the first three months of 2013, we repurchased $10.9 million face amount of CDO bonds for $9.7 million. As a result, we extinguished $10.9 million face amount of CDO debt and recorded a gain on extinguishment of debt of $1.2 million.

Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. At issuance, each of our CDOs passed all of these tests. Failure to satisfy these tests would generally cause (or has caused) the cash flow that would otherwise be distributed to the more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, our cash flow and liquidity are negatively impacted upon such a failure, and the impact could be (and has been) material. The table set forth below presents data, including the most recent quarterly cash flows received by Newcastle, for each of our CDOs, and sets forth which of the CDOs have satisfied these tests in the most recent quarter. The amounts set forth are as of March 31, 2013 unless otherwise noted (dollars in thousands). For those CDOs that have failed their applicable over collateralization tests, the impact of failing is already reflected in the cash flow set forth in the table. For those CDOs that have satisfied their applicable over collateralization tests, we could potentially lose substantially all of the cash flows from those CDOs in future quarters if we fail to satisfy the tests in the future. The amounts in the table reflect data at the CDO level and thus are different from the GAAP balance sheet due to intercompany amounts eliminated in Newcastle's consolidated balance sheet.

	CDO IV			CDO VI			CDO VIII			CDO IX		
Balance Sheet:												
Assets Face Amount		$ 153,780			$ 177,513			$ 820,930			$ 705,060	
Assets Fair Value		140,589			119,428			635,606			557,337	
Issued Debt Face Amount (1)		76,854			91,688			549,789			423,412	
Derivative Net Liabilites Fair Value		2,376			13,666			10,207			—	
Cash Receipts:												
Quarterly net cash receipts (2)		$ 324			$ 109			$ 5,547			$ 8,302	
Collateral Composition (3):	Face	Fair Value		Face	Fair Value		Face	Fair Value		Face	Fair Value	
CMBS	$ 113,277	$ 101,954	BB-	$ 104,466	$ 74,479	BB	$ 145,341	$ 121,373	BB-	$ 80,701	$ 84,901	BB
REIT Debt	21,500	22,509	BBB	29,200	31,610	BB+	—	—	—	—	—	—
ABS	9,271	6,454	B-	43,847	13,339	CC	69,689	59,996	B	3,059	3,094	BBB+
Bank Loans	—	—	—	—	—	—	224,771	144,734	C	185,194	122,081	C
Mezzanine Loans / B-Notes / Whole Loans	9,732	9,672	BB+	—	—	—	314,379	281,849	CCC	345,093	298,425	CCC
CDO	—	—	—	—	—	—	66,750	27,654	C	68,351	35,455	CCC+
Residential Loans	—	—	—	—	—	—	—	—	—	3,779	3,400	NR
Other Investments	—	—	—	—	—	—	—	—	—	18,883	9,981	—
Cash for Reinvestment	—	—	—	—	—	—	—	—	—	—	—	—
Total	$ 153,780	$ 140,589	BB-	$ 177,513	$ 119,428	B+	$ 820,930	$ 635,606	CCC	$ 705,060	$ 557,337	CCC
Collateral on Negative Watch (4)	$ —			$ —			$ —			$ —		
CDO Cash Flow Triggers (5):												
Over Collateralization (6):												
As of Mar-2013 remittance Cushion (Deficit) ($)		$ (4,117)			$ (179,515)			$ 78,797			$ 139,681	
As of Apr-2013 remittance Cushion (Deficit) ($)		N/A			$ (179,218)			$ 83,665			$ 145,501	
Interest Coverage (6):												
As of Mar-2013 remittance Cushion (Deficit) (%)		46.0%			(211.4%)			384.4%			536.0%	
As of Apr-2013 remittance Cushion (Deficit) (%)		N/A			(280.9%)			375.9%			488.7%	
CDO Overview:												
Effective		Sep-04			Aug-05			Mar-07			Jul-07	
Reinvestment Period End (7)		Passed			Passed			Passed			Passed	
Optional Call (8)		Passed			Passed			Passed			Passed	
Auction Call (9)		Mar-14			Apr-15			Nov-16			May-17	
WA Debt Spread (bps) (10)		90			50			52			66	

See notes on next page.

(1) Includes CDO bonds issued to third parties and held by Newcastle's consolidated CDOs.

(2) Represents net cash received from each CDO based on all of our interests in such CDO (including senior management fees but excluding principal received from senior CDO bonds owned by Newcastle) for the three months ended March 31, 2013. Cash receipts for this period include $0.8 million of senior collateral management fees, and may not be indicative of cash receipts for subsequent periods. Excluded from the quarterly net cash receipts was $8.7 million of unrestricted cash received from principal repayments on senior CDO bonds owned by Newcastle. This cash represents a return of principal and the realization of the difference between par and the discounted purchase price of these bonds. See "Cautionary Note Regarding Forward Looking Statements" for risks and uncertainties that could cause our receipts for subsequent periods to differ materially from these amounts.

(3) Collateral composition is calculated as a percentage of the face amount of collateral and includes CDO bonds of $126.7 million and other bonds and notes payable of $20.5 million issued by Newcastle, and bank loans of $92.7 million, collateralized by Newcastle CDO VI bonds, real estate properties and a third party CDO security, which are eliminated in consolidation. The fair value of these CDO bonds, other bonds and notes payable, and bank loans was $55.8 million, $18.5 million and $85.6 million at March 31, 2013, respectively. Also reflected are weighted average credit ratings, which were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time.

(4) Represents the face amount of collateral on negative watch for possible downgrade by at least one rating agency (Moody's, S&P or Fitch) as of the determination date in March 2013 for all CDOs. The amount does not include any bonds issued by Newcastle, which are eliminated in consolidation and not reflected in the investment portfolio disclosures.

(5) Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would cause the principal and/or interest cashflow that would otherwise be distributed to more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, our cash flow and liquidity are negatively impacted upon such a failure, and the impact could be material. Each CDO contains tests at various over collateralization and interest coverage percentage levels. The trigger percentages used above represent the first threshold at which cashflows would be redirected as described in this footnote. The data presented is as of the most recent remittance date on or before March 31, 2013 and may change or have changed subsequent to that date. In addition, our CDOs may also contain specific over collateralization tests that, if failed, can result in the occurrence of an event of default or our being removed as collateral manager of the CDO. Failure of the over collateralization tests can also cause a "phantom income" issue if cash that constitutes income is diverted to pay down debt instead of being distributed to us. As of the March 2013 remittance date, we were not receiving cash flows from CDO IV and CDO VI (other than senior management fees and cash flows on senior classes of bonds we own). Based upon our current calculations, we expect CDOs IV and VI to remain out of compliance for the foreseeable future. Moreover, given current market conditions, it is possible that all of our CDOs could be out of compliance with their over collateralization tests as of one or more measurement dates within the next twelve months. Our ability to rebalance will depend upon the availability of suitable securities, market prices, whether the reinvestment period of the applicable CDO has ended, and other factors that are beyond our control. Such rebalancing efforts may be extremely difficult given current market conditions and we cannot assure you that we will be successful in our rebalancing efforts. If the liabilities of our CDOs are downgraded by Moody's to certain predetermined levels, our discretion to rebalance the applicable CDO portfolios may be negatively impacted. Moreover, if we bring these coverage tests into compliance, we cannot assure you that they will not fall out of compliance in the future or that we will be able to correct any noncompliance. For a more detailed discussion of the impact of CDO financings on our cash flows, see Part II, Item 1A, "Risk Factors – Risks Relating to our Business – The coverage tests applicable to our CDO financings may have a negative impact on our operating results and cash flows."

(6) Represents excess or deficiency under the applicable over collateralization or interest coverage tests to the first threshold at which cash flow would be redirected. We generally do not receive material cash flow from the junior classes of a CDO until a deficiency is corrected. Ratings downgrades of assets in our CDOs can negatively impact compliance with the over collateralization tests. Generally, the over collateralization test measures the principal balance of the specified pool of assets in a CDO against the corresponding liabilities issued by the CDO. However, based on ratings downgrades, the principal balance of an asset or of a specified percentage of assets in a CDO may be deemed reduced below their current balance to levels set forth in the related CDO documents for purposes of calculating the over collateralization test. As a result, ratings downgrades can reduce the principal balance of the assets used in the over collateralization test relative to the corresponding liabilities in the test, thereby reducing the over collateralization percentage. In addition, actual defaults of an asset would also negatively impact compliance with the over collateralization tests. Failure to satisfy an over collateralization test could result in the redirection of cashflows as described in footnote 5 above or, in certain circumstances, in our removal as manager of the applicable portfolio.

(7) Our CDO financings typically have a 5-year reinvestment period. Generally, after such period ends, principal payments on the collateral are used to paydown the most senior debt outstanding. Prior to the end of the reinvestment period, principal payments received on the collateral are reinvested.

(8) At the option call date, Newcastle, as the equity holder, has the right to payoff the CDO bonds at their related redemption price.

(9) At the auction call date, there is a mandatory auction of the assets pursuant to which the collateral manager will solicit bids for the CDO assets. If the aggregate amount of the bids are sufficient to pay off the outstanding CDO bonds set forth in the CDO governing document, the assets will be sold and the CDO bonds will be redeemed. However, if the aggregate amount of the bids is insufficient to pay off the outstanding CDO bonds set forth in the CDO governing document, the assets will not be sold and the redemption of CDO bonds will not occur.

(10) Debt spread represents the spread above the benchmark interest rate (LIBOR or U.S. Treasuries) that Newcastle pays on its debt.

The following table sets forth further information with respect to the bonds of our consolidated CDO financings as of March 31, 2013 (dollars in thousands):

		Current Face Amount (1)					
		Held By					
Class	Original Face Amount	Third Parties	Newcastle CDOs (2)	Newcastle Outside of its CDOs (3)	Total	Stated Interest Rate	
CDO IV							
Class I	$ 353,250	$ 44,631	—	$ 34,198	$ 78,829	LIBOR +	0.40%
Class II-FL	13,000	3,000	—	10,000	13,000	LIBOR +	0.65%
Class II-FX	7,250	—	5,250	2,000	7,250		4.73%
Class III-FL	7,500	5,000	—	2,500	7,500	LIBOR +	1.00%
Class III-FX	15,000	1,325	—	10,760	12,085		5.11%
Class IV-FL	9,000	8,173	—	—	8,173	LIBOR +	2.25%
Class IV-FX	9,000	9,475	—	—	9,475		6.34%
Class V	13,500	—	—	18,625	18,625		8.67%
Preferred	22,500	—	—	22,500	22,500		N/A
	$ 450,000	$ 71,604	$ 5,250	$ 100,583	$ 177,437		
CDO VI							
Class I-MM	$ 323,000	$ —	$ —	$ 114,024*	$ 114,024	LIBOR +	0.25%
Class I-B	59,000	59,000	—	—	59,000	LIBOR +	0.40%
Class II	33,000	23,679	—	10,295	33,974	LIBOR +	0.50%
Class III-FL	15,000	5,225	—	10,449	15,674	LIBOR +	0.80%
Class III-FX	5,000	—	—	6,300	6,300		5.67%
Class IV-FL	9,600	651	—	9,761	10,412	LIBOR +	1.70%
Class IV-FX	2,400	3,133	—	—	3,133		6.55%
Class V	21,000	—	—	28,859	28,859		7.81%
Preferred	32,000	—	—	32,000	32,000		N/A
	$ 500,000	$ 91,688	$ —	$ 211,688	$ 303,376		

* Of the $114.0 million CDO VI Class I-MM bonds, $72.3 million served as collateral for a $42.7 million bank loan owned jointly bytwo of Newcastle's CDOs.

CDO VIII							
Class I-A	$ 462,500	$ 357,040	—	$ 24,031	381,071	LIBOR +	0.28%
Class I-AR	60,000	49,436	—	—	49,436	LIBOR +	0.34%
Class I-B	38,000	—	—	38,000	38,000	LIBOR +	0.36%
Class II	42,750	—	29,000	13,750	42,750	LIBOR +	0.42%
Class III	42,750	—	22,750	20,000	42,750	LIBOR +	0.50%
Class IV	28,500	—	—	—	—	LIBOR +	0.60%
Class V	28,500	28,500	—	—	28,500	LIBOR +	0.75%
Class VI	27,312	—	—	—	—	LIBOR +	0.80%
Class VII	21,375	—	—	—	—	LIBOR +	0.90%
Class VIII	22,563	11,063	8,250	3,250	22,563	LIBOR +	1.45%
Class IX-FL	6,000	6,000	—	—	6,000	LIBOR +	1.80%
Class IX-FX	7,600	7,600	—	—	7,600		6.80%
Class X	19,650	18,650	—	—	18,650	LIBOR +	2.25%
Class XI	26,125	—	—	24,125	24,125	LIBOR +	2.50%
Class XII	28,500	—	11,500	17,000	28,500		7.50%
Preferred	87,875	—	—	87,875	87,875		N/A
	$ 950,000	$ 478,289	$ 71,500	$ 228,031	$ 777,820		

Continued on next page.

Class	Original Face Amount	Current Face Amount (1) Held By Third Parties	Newcastle CDOs (2)	Newcastle Outside of its CDOs (3)	Total	Stated Interest Rate	
CDO IX							
Class A-1	$ 379,500	$ 272,787	$ —	$ —	$ 272,787	LIBOR +	0.26%
Class A-2	115,500	65,500	—	50,000	115,500	LIBOR +	0.47%
Class B	37,125	35,125	—	2,000	37,125	LIBOR +	0.65%
Class C	33,000	—	—	—	—	LIBOR +	0.93%
Class D	20,625	—	—	—	—	LIBOR +	1.00%
Class E	24,750	—	—	24,750	24,750	LIBOR +	1.10%
Class F	18,562	—	—	18,562	18,562	LIBOR +	1.30%
Class G	18,562	—	—	11,262	11,262	LIBOR +	1.50%
Class H	21,656	—	8,751	9,305	18,056	LIBOR +	2.50%
Class J	21,656	—	21,656	—	21,656	LIBOR +	3.00%
Class K	19,593	—	19,593	—	19,593	LIBOR +	3.50%
Class L	23,718	—	—	23,718	23,718		7.50%
Class M	39,187	—	—	39,187	39,187		8.00%
Preferred	51,566	—	—	51,566	51,566		N/A
	$ 825,000	$ 373,412	$ 50,000	$ 230,350	$ 653,762		

(1) The amounts presented in these columns exclude the face amount of any cancelled bonds within an applicable class.
(2) Amounts in this column represent the amount of bonds of the applicable class held by Newcastle's consolidated CDOs. These bonds are eliminated in Newcastle's consolidated balance sheet.
(3) Amounts in this column represent the amount of bonds of the applicable class held as investments by Newcastle outside of its non-recourse financing structures. These bonds are eliminated in Newcastle's consolidated balance sheet.

Stockholders' Equity

Common Stock

The following table presents information on shares of our common stock issued during the three months ended March 31, 2013:

Shares Issued	Range of Issue Prices (1)	Net Proceeds (millions)	Options Granted to manager
57,500,000	$ 9.35	$ 526.2	5,750,000
23,000,000	$ 10.48	$ 237.4	2,300,000

(1) Excludes prices of shares issued pursuant to the exercise of options and of shares issued to our independent directors.

At March 31, 2013, we had 253,025,645 shares of common stock outstanding.

As of March 31, 2013, our outstanding options issued prior to 2011 had a weighted average strike price of $26.85 and our outstanding options issued in 2011, 2012 and 2013 had a weighted average strike price of $7.88. Our outstanding options at March 31, 2013 were summarized as follows:

	Issued Prior to 2011	Issued in 2011, 2012 and 2013	Total
Held by the manager	1,751,172	15,984,166	17,735,338
Issued to the manager and subsequently transferred to certain of the manager's employees	701,937	3,010,000	3,711,937
Issued to the independent directors	8,000	2,000	10,000
Total	2,461,109	18,996,166	21,457,275

In January 2013, Newcastle issued 57,500,000 shares of its common stock in a public offering at a price to the public of $9.35 per share for net proceeds of approximately $526.3 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 213,900 shares at a price of $9.35 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the

Manager to purchase 5,750,000 shares of Newcastle's common stock at a price of $9.35, which had a fair value of approximately $18.0 million as of the grant date.

In February 2013, Newcastle issued 23,000,000 shares of its common stock in a public offering at a price to the underwriters of $10.34 per share for net proceeds of approximately $237.4 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 191,000 shares at a price of $10.48 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 2,300,000 shares of Newcastle's common stock at a price of $10.48, which had a fair value of approximately $8.4 million as of the grant date.

We declared a quarterly dividend of $0.22 per common share for the quarter ended March 31, 2013, which was paid in April 2013.

Preferred Stock

We paid the quarterly dividends on our preferred stock on April 30, 2013.

Accumulated Other Comprehensive Income (Loss)

During the three months ended March 31, 2013, our accumulated other comprehensive income (loss) changed due to the following factors (in thousands):

	Gains (Losses) on Cash Flow Hedges	Gains (Losses) on Securities	Total Accumulated Other Comprehensive Income (Loss)
Accumulated other comprehensive income (loss), December, 31, 2012	$ (12,024)	$ 82,788	$ 70,764
Net unrealized gain (loss) on securities	—	29,454	29,454
Reclassification of net realized (gain) loss on securities into earnings	—	539	539
Net unrealized gain (loss) on derivatives designated as cash flow hedges	1,841	—	1,841
Reclassification of net realized (gain) loss on derivatives designated as cash flow hedges into earnings	—	—	—
Accumulated other comprehensive income (loss), March 31, 2013	$ (10,183)	$ 112,781	$ 102,598

Our GAAP equity changes as our real estate securities portfolio and derivatives are marked to market each quarter, among other factors. The primary causes of mark to market changes are changes in interest rates and credit spreads. During the three months ended March 31, 2013, a net tightening of credit spreads has caused an increase in the net unrealized gains recorded in accumulative other comprehensive income on our real estate securities. Net unrealized losses on derivatives designated as cash flow hedges decreased for the three months ended March 31, 2013, primarily as a result of swap interest payments.

See "- Market Considerations" above for a further discussion of recent trends and events affecting our unrealized gains and losses as well as our liquidity.

Cash Flow

Operating Activities

Net cash flow provided by (used in) operating activities increased to $24.6 million for the three months ended March 31, 2013 from $19.3 million for the three months ended March 31, 2012. This change resulted primarily from the factors described below:

- Net cash receipts from our CDOs decreased approximately 5.7 million for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 primarily due to the deconsolidation of CDO X in September 2012, partially offset by the increased interest receipts resulting from investments made in CDO IX using restricted cash just prior to the end of its reinvestment period in June 2012.

- Net cash receipts from our manufactured housing loan portfolios decreased approximately $0.6 million for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 primarily due to paydowns.

- Cash receipts from excess mortgage servicing income increased approximately $9.4 million in the three months ended March 31, 2013 compared to the three months ended March 31, 2012 primarily due to the additional Excess MSR investments made since March 2012.

- Received net operating cash receipts of approximately $2.3 million from the senior living investments we have made since July 2012.

- Net cash receipts from our investments in real estate securities and loans held outside of our CDOs increased approximately $5.3 million for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 primarily due (i) higher investments in FNMA/FHLMC securities, (ii) higher investments in real estate related loans and (iii) delinquent interest received on certain securities.

- Management fees paid increased approximately $2.9 million for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 due to an increase in gross equity as a result of our public offerings of common stock in 2012 and 2013.

- General and administrative expenses paid increased approximately $2.5 million for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 due to fees paid in connection with the acquisitions of Excess MSRs, senior living assets and other corporate activities.

Investing Activities

Investing activities provided (used) ($965.7) million and $22.6 million during the three months ended March 31, 2013 and 2012, respectively. Investing activities consisted primarily of investments made in certain real estate securities, loans, Excess MSRs, deposits on senior living assets and contributions to equity method investments net of proceeds from the repayment or settlement of investments and distributions of capital from equity method investees.

Financing Activities

Financing activities provided (used) $1.2 billion and $(42.8) million during the three months ended March 31, 2013 and 2012, respectively. The public offerings of common stock and borrowings under repurchase agreements served as the primary sources of cash flow from financing activities. Uses of cash flow from financing activities included the repurchases of CDO bonds payable, the repayment of debt, the payment of financing costs related to our common stock offerings and the payment of common and preferred dividends.

INTEREST RATE, CREDIT AND SPREAD RISK

We are subject to interest rate, credit and spread risk with respect to our investments. These risks are further described in “Quantitative and Qualitative Disclosures About Market Risk.”

OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2013, we had the following material off-balance sheet arrangements.

- In April 2006, we securitized our Subprime Portfolio I. The loans were sold to a securitization trust, of which 80% were treated as a sale, which is an off-balance sheet financing.

- In July 2007, we securitized our Subprime Portfolio II. The loans were sold to a securitization trust, of which 90% were treated as a sale, which is an off-balance sheet financing.

- On June 17, 2011, we deconsolidated CDO V, which is now effectively an off-balance sheet financing.

We have no obligation to repurchase any loans from either of our subprime securitizations. Therefore, it is expected that our exposure to loss is limited to the carrying amount of our retained interests in the securitization entities, as described above. A subsidiary of ours gave limited representations and warranties with respect to the second securitization; however, it has no assets and does not have recourse to the general credit of Newcastle.

We also had the following arrangements which do not meet the definition of off-balance sheet arrangements, but do have some of the characteristics of off-balance sheet arrangements.

- We have made investments in equity method investees. See Note 6 to our consolidated financial statements. In each case, our exposure to loss is limited to the carrying (fair) value of our investment.

CONTRACTUAL OBLIGATIONS

During the first three months of 2013, we had all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2012, excluding the debt which was repaid or repurchased, as described in "– Liquidity and Capital Resources," as well as the following:

Contract Category	Change
Repurchase Agreements	We entered into new repurchase agreements to finance newly acquired FNMA/FHLMC securities.

The terms of these contracts are described under "Quantitative and Qualitative Disclosures About Market Risk" below.

INFLATION

Virtually all of our assets and liabilities are financial in nature. As a result, interest rates and other factors affect our performance more so than inflation, although inflation rates can often have a meaningful influence over the direction of interest rates. Furthermore, our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors primarily based on our taxable income, and, in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation. See "Quantitative and Qualitative Disclosure About Market Risk - Interest Rate Exposure" below.

CORE EARNINGS

Newcastle has five primary variables that impact its operating performance: (i) the current yield earned on its investments that are not included in non-recourse financing structures (i.e., unlevered investments, including investments in equity method investees and investments subject to recourse debt), (ii) the net yield it earns from its non-recourse financing structures, (iii) the interest expense and dividends incurred under its recourse debt and preferred stock, (iv) its operating expenses and (v) its realized and unrealized gains or losses, including any impairment, on its investments, derivatives and debt obligations. "Core earnings" is a non-GAAP measure of the operating performance of Newcastle excluding the fifth variable listed above, and excluding depreciation and amortization charges. It 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. It also excludes the effect of depreciation and amortization charges, which, in the judgment of management, are not indicative of operating performance. Management believes that the exclusion from "Core earnings" of the items specified above allows investors and analysts to readily identify the operating performance of the assets that form the core of our activity, assists in comparing the core operating results between periods, and 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. For a further description of the differences between cash flow provided by operations and net income, see " – Liquidity and Capital Resource" above. Our calculation of core earnings may be different from the calculation used by other companies and, therefore, comparability may be limited. Set forth below is a reconciliation of core earnings to the most directly comparable GAAP financial measure.

	Three Months Ended March 31,	
	2013	2012
Income available for common stockholders	$ 36,618	$ 72,076
Add (Deduct):		
Impairment (reversal)	2,773	(7,080)
Other (income) loss	(8,597)	(29,752)
(Income) loss from discontinued operations	16	17
Depreciation and amortization	4,079	2
Core earnings of equity method investees	2,546	—
Core earnings	$ 37,435	$ 35,263

Cash Available For Distribution ("CAD")

Newcastle determines its common dividends based significantly on cash available for distribution, which is net cash flow from operations plus principal repayments less return of capital and preferred dividends. We believe that CAD is useful for investors because it is a meaningful measure of our operating liquidity. Management uses CAD as an important input in determining Newcastle's dividends. It represents GAAP net cash provided by operating activities adjusted for two factors:

(i) Principal payments received in excess of the portion which represents a return of Newcastle's invested capital in certain of Newcastle's investments, which were acquired at a significant discount to par. These investments include repurchased CDO debt, CDO securities and non-Agency RMBS. 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.

(ii) 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.

CAD is limited in its usefulness because it 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. CAD 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.

Set forth below is a reconciliation of CAD to the most directly comparable GAAP liquidity measure (in thousands).

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net cash provided by (used in) operating activities	$ 24,619	$ 19,264
Add (Deduct):		
Principal repayments from repurchased CDO debt	8,656	4,497
Principal repayments from CDO securities	1,290	198
Principal repayments from non-Agency RMBS	17,472	—
Return of capital included above (1)	(21,214)	(3,005)
Preferred dividends (2)	(1,395)	(1,395)
Cash available for distribution	$ 29,428	$ 19,559

Other data from the consolidated statements of cash flows:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net cash provided by (used in) investing activities	$ (965,728)	$ 22,602
Net cash provided by (used in) financing activities	$ 1,243,983	$ (42,797)
Net increase (decrease) in cash and cash equivalents	$ 302,874	$ (931)

(1) Represents the portion of principal repayments from repurchased CDO debt, CDO securities and non-Agency RMBS 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.

(2) Represents preferred dividends to be paid on an accrual basis.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads, foreign currency exchange rates, commodity prices and equity prices. The primary market risks that we are exposed to are interest rate risk and credit spread risk. These risks are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. All of our market risk sensitive assets, liabilities and derivative positions are for non-trading purposes only. For a further understanding of how market risk may affect our financial position or results of operations, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations − Application of Critical Accounting Policies."

Interest Rate Exposure

Changes in interest rates, including changes in expected interest rates or "yield curves," affect our investments in two distinct ways, each of which is discussed below.

First, changes in interest rates affect our net interest income, which is the difference between the interest income earned on assets and the interest expense incurred in connection with our debt obligations and hedges.

One component of our financing strategy includes the use of match funded structures, when appropriate and available. This means that we seek to match the maturities of our debt obligations with the maturities of our assets to reduce the risk that we have to refinance our liabilities prior to the maturities of our assets, and to reduce the impact of changing interest rates on our earnings. In addition, we seek to match fund interest rates on our assets with like-kind debt (i.e., fixed rate assets are financed with fixed rate debt and floating rate assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps or other financial instruments (see below), or through a combination of these strategies, which we believe allows us to reduce the impact of changing interest rates on our earnings.

However, increases in interest rates can nonetheless reduce our net interest income to the extent that we are not completely match funded. Furthermore, a period of rising interest rates can negatively impact our return on certain floating rate investments. Although these investments may be financed with floating rate debt, the interest rate on the debt may reset prior to, and in some cases more frequently than, the interest rate on the assets, causing a decrease in return on equity during a period of rising interest rates.

As of March 31, 2013, a 100 basis point increase in short term interest rates would increase our earnings by approximately $12.2 million per annum, based on the current net floating rate exposure from our investments, financings and interest rate derivatives.

Second, changes in the level of interest rates also affect the yields required by the marketplace on debt. Increasing interest rates would decrease the value of the fixed rate assets we hold at the time because higher required yields result in lower prices on existing fixed rate assets in order to adjust their yield upward to meet the market.

Changes in unrealized gains or losses resulting from changes in market interest rates do not directly affect our cash flows, or our ability to pay a dividend, to the extent the related assets are expected to be held, as their fair value is not relevant to their underlying cash flows. Our assets are largely financed to maturity through long term CDO financings that are not redeemable as a result of book value changes. As long as these fixed rate assets continue to perform as expected, our cash flows from these assets would not be affected by increasing interest rates. Changes in unrealized gains or losses would impact our ability to realize gains on existing investments if they were sold. Furthermore, with respect to changes in unrealized gains or losses on investments which are carried at fair value, changes in unrealized gains or losses would impact our net book value and, in the cases of impaired assets and non-hedge derivatives, our net income.

Changes in the value of our assets could affect our ability to borrow and access capital. Also, if the value of our assets subject to short term financing were to decline, it could cause us to fund margin and affect our ability to refinance such assets upon the maturity of the related financings, adversely impacting our rate of return on such securities.

As of March 31, 2013, a 100 basis point change in short term interest rates would impact our net book value by approximately $10.7 million, based on the current net fixed rate exposure from our investments and interest rate derivatives.

Interest rate swaps are agreements in which a series of interest rate flows are exchanged with a third party (counterparty) over a prescribed period. The notional amount on which swaps are based is not exchanged. In general, our swaps are "pay fixed" swaps involving the exchange of floating rate interest payments from the counterparty for fixed interest payments from us. This can effectively convert a floating rate debt obligation into a fixed rate debt obligation. Interest rate swaps may be subject to margin calls.

Similarly, an interest rate cap or floor agreement is a contract in which we purchase a cap or floor contract on a notional face amount. We will make an up-front payment to the counterparty for which the counterparty agrees to make future payments to us should the reference rate (typically LIBOR) rise above (cap agreements) or fall below (floor agreements) the "strike" rate specified in the contract. Payments on an annualized basis will equal the contractual notional face amount multiplied by the difference between the actual reference rate and the contracted strike rate.

While a REIT may utilize these types of derivative instruments to hedge interest rate risk on its liabilities or for other purposes, such derivative instruments could generate income that is not qualified income for purposes of maintaining REIT status. As a consequence, we may only engage in such instruments to hedge such risks within the constraints of maintaining our standing as a REIT. We do not enter into derivative contracts for speculative purposes or as a hedge against changes in credit risk.

Our hedging transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. There can be no assurance that we will be able to adequately protect against the foregoing risks and will ultimately realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging strategies.

Credit Spread Exposure

Credit spreads measure the yield demanded on loans and securities by the market based on their credit relative to U.S. Treasuries, for fixed rate credit, or LIBOR, for floating rate credit. Our fixed rate loans and securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. Our floating rate loans and securities are valued based on a market credit spread over LIBOR. Excessive supply of such loans and securities combined with reduced demand will generally cause the market to require a higher yield on such loans and securities, resulting in the use of a higher (or "wider") spread over the benchmark rate to value them.

Widening credit spreads would result in higher yields being required by the marketplace on loans and securities. This widening would reduce the value of the loans and securities we hold at the time because higher required yields result in lower prices on existing securities in order to adjust their yield upward to meet the market. The effects of such a decrease in values on our financial position, results of operations and liquidity are discussed above under "- Interest Rate Exposure."

As of March 31, 2013, a 25 basis point movement in credit spreads would impact our net book value by approximately $17.8 million, assuming a static portfolio of current investments and financings, but would not directly affect our earnings or cash flow.

Our financing strategy is dependent on our ability to place the match funded debt we use to finance our investments at rates that provide a positive net spread. Currently, spreads for such liabilities have widened and demand for such liabilities has become extremely limited, therefore restricting our ability to execute future financings.

In an environment where spreads are tightening, if spreads tighten on the assets we purchase to a greater degree than they tighten the liabilities we issue, our net spread will be reduced.

Credit Risk

In addition to the above described market risks, Newcastle is subject to credit risk.

Credit risk refers to the ability of each individual borrower under our loans and securities to make required interest and principal payments on the scheduled due dates. The commercial mortgage and asset backed securities we invest in are generally junior in right of payment of interest and principal to one or more senior classes, but benefit from the support of one or more subordinate classes of securities or other form of credit support (which absorbs losses before the securities in which we invest) within a securitization transaction. The senior unsecured REIT debt securities we invest in reflect comparable credit risk. The value of the subordinated securities has generally been reduced or, in some cases, eliminated, which could leave our securities economically in a first loss position. We also invest in loans and securities which represent "first loss" pieces; in other words, they do not benefit from credit support although we believe they predominantly benefit from underlying collateral value in excess of their carrying amounts.

We seek to reduce credit risk by actively monitoring our asset portfolio and the underlying credit quality of our holdings and, where appropriate and achievable, repositioning our investments to upgrade their credit quality. In the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results. As described in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Considerations" and elsewhere in this quarterly report, adverse market and credit conditions have resulted in our recording of other-than-temporary impairment in certain securities and loans.

Prepayment Speed Exposure

Prepayment speeds significantly affect the value of Excess MSRs. Prepayment speed is the measurement of how quickly borrowers pay down the unpaid principal balance of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. The price we pay in acquiring MSRs investments will be based on, among other things, our projection of the cash flows from the related pool of mortgage loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speeds are significantly greater than expected, the carrying value of Excess MSRs could exceed their estimated fair value. If the fair value of Excess MSRs decreases, we would be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from Excess MSRs, and we could ultimately receive substantially less than what we paid for such assets.

We seek to reduce our exposure to prepayment through the structuring of our investments in Excess MSRs. For example, pursuant to the terms of the Excess MSR agreements we entered into in December 2012 and March 2013, in the event that mortgage loans are prepaid in full and Nationstar originates the new mortgage loans, subject to certain limitations, we are entitled to the pro rata share of the Excess MSRs of such "recaptured" loans. We will seek to enter into similar "recapture" agreements in making any future investments in Excess MSRs.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Application of Critical Accounting Policies" for a sensitivity analysis of 10% and 20% changes in key assumptions on the estimated fair value of Excess MSRs.

Margin

We are subject to margin calls on our repurchase agreements. Furthermore, we may, from time to time, be a party to derivative agreements or financing arrangements that are subject to margin calls based on the value of such instruments. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates.

Interest Rate and Credit Spread Risk Sensitive Instruments and Fair Value

Our holdings of such financial instruments, and their fair values and the estimation methodology thereof, are detailed in Note 9 to our consolidated financial statements included herein. For information regarding the impact of prepayment, reinvestment, and expected loss factors on the timing of realization of our investments, please refer to the consolidated financial statements included herein and in our Annual Report on Form 10-K for the year ended December 31, 2012. For information regarding the impact of changes in these factors on the value of securities valued with internal models, see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies."

We note that the values of our investments in real estate securities, loans, Excess MSRs and derivative instruments are sensitive to changes in market interest rates, credit spreads and other market factors. The value of these investments can vary, and has varied, materially from period to period.

Trends

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Considerations" above for a further discussion of recent trends and events affecting our liquidity, unrealized gains and losses.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are or may be involved in various disputes and litigation matters that arise in the ordinary course of business. The Company is not party to any material legal proceedings as of the date on which this report is filed.

Item 1A. Risk Factors

Certain risks relating to the financial markets, our manager, our business, our REIT status and other matters, and our common stock are set forth below.

Risks Related to the Financial Markets

We do not know what impact the Dodd-Frank Act will have on our business.

On July 21, 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act" or "Act"). The Dodd-Frank Act affects almost every aspect of the U.S. financial services industry, including certain aspects of the markets in which we operate. The Act imposes new regulations on us and how we conduct our business. For example, the Act will impose additional disclosure requirements for public companies and generally require issuers or originators of asset-backed securities to retain at least five percent of the credit risk associated with the securitized assets. In addition, as a result of the Act, we were required to register as an investment adviser with the SEC, which increases our regulatory compliance costs and subjects us to the Investment Advisers Act of 1940, as amended (the "Advisers Act"). The Advisers Act imposes numerous obligations on registered investment advisers, including record-keeping, reporting, operational and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act, ranging from fines and censure to termination of an investment adviser's registration. Investment advisers also are subject to certain state securities laws and regulations. Non-compliance with the Advisers Act or other federal and state securities laws and regulations could result in investigations, sanctions, disgorgement, fines and reputational damage.

The Act will impose mandatory clearing, exchange-trading and margin requirements on many derivatives transactions (including formerly unregulated over-the-counter derivatives) in which we may engage. The Act also creates new categories of regulated market participants, such as "swap-dealers," "security-based swap dealers," "major swap participants" and "major security-based swap participants," who will be subject to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements that will give rise to new administrative costs.

Even if certain new requirements are not directly applicable to us, they may still increase our costs of entering into transactions with the parties to whom the requirements are directly applicable. Moreover, new exchange-trading and trade reporting requirements may lead to reductions in the liquidity of derivative transactions, causing higher pricing or reduced availability of derivatives, or the reduction of arbitrage opportunities for us, which could adversely affect the performance of certain of our trading strategies. Importantly, many key aspects of the changes imposed by the Act will be established by various regulatory bodies and other groups over the next several years. As a result, we do not know how significantly the Act will affect us. It is possible that the Act could, among other things, increase our costs of operating as a public company, impose restrictions on our ability to securitize assets and reduce our investment returns on securitized assets.

We do not know what impact certain U.S. government programs intended to stabilize the economy and the financial markets will have on our business.

In recent years, the U.S. government has taken a number of steps to attempt to strengthen the financial markets and U.S. economy, including direct government investments in, and guarantees of, troubled financial institutions as well as government-sponsored programs such as the Term Asset-Backed Securities Loan Facility program (TALF) and the Public Private Investment Partnership Program (PPIP). The U.S. government continues to evaluate or implement an array of other measures and programs intended to help improve U.S. financial and market conditions. While conditions appear to have improved relative to the depths of the global financial crisis, it is not clear whether this improvement is real or will last for a significant period of time. It is not clear what impact the government's future actions to improve financial and market conditions will have on our business. To date, we have not benefited in a direct, material way from any government programs, and we may not derive any meaningful benefit from these programs in the future. Moreover, if any of our competitors are able to benefit from one or more of these initiatives, they may gain a significant competitive advantage over us.

Legislation that permits modifications to the terms of outstanding loans has negatively affected our business, financial condition and results of operations.

The U.S. government has enacted legislation that enables government agencies to modify the terms of a significant number of residential and other loans to provide relief to borrowers without the applicable investor's consent. These modifications allow for outstanding principal to be deferred, interest rates to be reduced, the term of the loan to be extended or other terms to be changed in ways that can permanently eliminate the cash flow (principal and interest) associated with a portion of the loan. These modifications are currently reducing, or in the future may reduce, the value of a number of our current or future investments, including investments in mortgage-backed securities and Excess MSRs. As a result, such loan modifications are negatively affecting our business, results of operations and financial condition. In addition, certain market participants propose reducing the amount of paperwork required by a borrower to modify a loan, which could increase the likelihood of fraudulent modifications and materially harm the U.S. mortgage market and investors that have exposure to this market. Additional legislation intended to provide relief to borrowers may be enacted and could further harm our business, results of operations and financial condition.

Risks Relating to Our Manager

We are dependent on our manager and may not find a suitable replacement if our manager terminates the management agreement.

We have no employees. Our officers and other individuals who perform services for us are employees of our manager. We are completely reliant on our manager, which has significant discretion as to the implementation of our operating policies and strategies, to conduct our business. We are subject to the risk that our manager will terminate the management agreement and that we will not be able to find a suitable replacement for our manager in a timely manner, at a reasonable cost or at all. Furthermore, we are dependent on the services of certain key employees of our manager whose compensation is partially or entirely dependent upon the amount of incentive or management compensation earned by our manager and whose continued service is not guaranteed, and the loss of such services could adversely affect our operations.

There are conflicts of interest in our relationship with our manager.

Our chairman serves as an officer of our manager. Our management agreement with our manager was not negotiated at arm's-length, and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party.

There are conflicts of interest inherent in our relationship with our manager insofar as our manager and its affiliates — including investment funds, private investment funds, or businesses managed by our manager — invest in real estate securities, consumer loans, real estate related loans, Excess MSRs, operating real estate, including senior living facilities, and other assets, and whose investment objectives overlap with our investment objectives. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles. Members of our board of directors and employees of our manager who are our officers may serve as officers and/or directors of these other entities. For instance, some of our officers and directors will serve as officers and directors of New Residential Investment Corp. ("New Residential"), which we expect to spin off on May 15, 2013. In addition, our manager or its affiliates may have investments in and/or earn fees from such other investment vehicles that are higher than their economic interests in us and which may therefore create an incentive to allocate investments to such other investment vehicles. Our manager or its affiliates may determine, in their discretion, to make a particular investment through another investment vehicle rather than through us and have no obligation to offer to us the opportunity to participate in any particular investment opportunity. For example, Fortress has a fund primarily focused on investments in Excess MSRs. These funds generally have a fee structure similar to ours, but the fees actually paid will vary depending on the size and performance of each fund.

Our management agreement with our manager does not limit or restrict our manager or its affiliates from engaging in any business or managing other pooled investment vehicles that invest in investments that meet our investment objectives. In April 2013, in connection with the planned spin-off of New Residential, we amended our management agreement to remove a provision that restricted our manager and any entity controlled by or under common control with our manager from raising or sponsoring any new pooled investment vehicle whose investment policies, guidelines or plan target as its primary investment category investment in U.S. dollar-denominated credit sensitive real estate related securities reflecting primarily U.S. loans or assets. Our manager will serve as New Residential's manager, and our manager intends to engage in additional real estate related management and investment opportunities in the future, which may compete with us for investments or result in a change in our current investment strategy.

The ability of our manager and its officers and employees to engage in other business activities, subject to the terms of our management agreement with our manager, may reduce the amount of time our manager, its officers or other employees spend managing us. In addition, we may engage (subject to our investment guidelines) in material transactions with our

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manager or another entity managed by our manager or one of its affiliates, including, but not limited to, certain financing arrangements, purchases of debt, co-investments, investments in Excess MSRs, servicing advances, senior living facilities and other assets that present an actual, potential or perceived conflict of interest. For instance, we recently entered into agreements with an affiliate of our manager to manage the senior living facilities that we own. It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction, litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential, actual or perceived conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation, which could materially adversely affect our business in a number of ways, including causing an inability to raise additional funds, a reluctance of counterparties to do business with us, a decrease in the prices of our common and preferred securities and a resulting increased risk of litigation and regulatory enforcement actions.

The management compensation structure that we have agreed to with our manager, as well as compensation arrangements that we may enter into with our manager in the future (in connection with new lines of business or other activities), may incentivize our manager to invest in high risk investments. In addition to its management fee, our manager is currently entitled to receive incentive compensation based in part upon our achievement of targeted levels of funds from operations (as defined in the management agreement). In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on funds from operations or, in the case of any future incentive compensation arrangement, other financial measures on which incentive compensation may be based, may lead our manager to place undue emphasis on the maximization of such measures at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation, particularly in light of the fact that our manager has not received any incentive compensation since 2008. Investments with higher yield potential are generally riskier or more speculative than lower-yielding investments. Moreover, because our manager receives compensation in the form of options in connection with the completion of our common equity offerings, our manager may be incentivized to cause us to issue additional common stock, which could be dilutive to existing stockholders. In addition to the shares available for issuance under the 2012 Newcastle Nonqualified Stock Option and Incentive Plan (the “Plan”), our Board may also determine to grant options to our manager that are not issued pursuant to the Plan, provided that the number of shares underlying any options granted to the Manager in connection with any capital raising efforts will not exceed 10% of the shares sold in such offering and would be subject to New York Stock Exchange rules.

If the spin off of New Residential is completed, our manager will enter into a separate management agreement with New Residential, and the terms of that management agreement will be substantially similar to the terms of Newcastle’s existing management agreement. As a result, our manager will be entitled to earn a management fee from New Residential and will be eligible to receive incentive compensation based in part upon New Residential’s achievement of targeted level of funds from operations tested from the date of the spin off and without regard to Newcastle’s prior performance.

It would be difficult and costly to terminate our management agreement with our manager.

It would be difficult and costly for us to terminate our management agreement with our manager. The management agreement may only be terminated annually upon (i) the affirmative vote of at least two-thirds of our independent directors, or by a vote of the holders of a simple majority of the outstanding shares of our common stock, that there has been unsatisfactory performance by our manager that is materially detrimental to us or (ii) a determination by a simple majority of our independent directors that the management fee payable to our manager is not fair, subject to our manager’s right to prevent such a termination by accepting a mutually acceptable reduction of fees. Our manager will be provided 60 days’ prior notice of any such termination and will be paid a termination fee equal to the amount of the management fee earned by the manager during the twelve-month period preceding such termination. In addition, following any termination of the management agreement, the manager may require us to purchase its right to receive incentive compensation at a price determined as if our assets were sold for their fair market value (as determined by an appraisal, taking into account, among other things, the expected future value of the underlying investments) or otherwise we may continue to pay the incentive compensation to our manager. These provisions may increase the effective cost to us of terminating the management agreement, thereby adversely affecting our ability to terminate our manager without cause.

Our directors have approved very broad investment guidelines for our manager and do not approve each investment decision made by our manager.

Our manager is authorized to follow very broad investment guidelines. Consequently, our manager has great latitude in determining the types and categories of assets it may decide are proper investments for us including the latitude to invest in types and categories of assets that may differ significantly from those in which we currently invest. Our directors periodically review our investment guidelines and our investment portfolio. However, our board does not review or pre-approve each proposed investment or our related financing arrangements. In addition, in conducting periodic reviews, the directors rely primarily on information provided to them by our manager. Furthermore, transactions entered into by our manager may be difficult or impossible to unwind by the time they are reviewed by the directors even if the transactions contravene the terms of the management agreement.

We may change our investment strategy and asset portfolio without stockholder consent, which may result in our making investments that are different, riskier or less profitable than our current investments.

Our investment strategy is poised to undergo a meaningful change as a result of the planned spin-off of New Residential, which we expect to complete on May 15, 2013. We were not required to obtain stockholder consent for the spin-off of New Residential. In connection with the spin-off, we will contribute to New Residential all of our investments in Excess MSRs to date, the non-Agency RMBS we have acquired since the second quarter of 2012, certain Agency RMBS, residential mortgage loans acquired since the beginning of 2013 and all of our consumer loans, and we may elect not to acquire these types of investments in the future (although we are not prohibited from doing so). There can be no assurance that our investments following this spin-off will be as profitable as our current portfolio.

Our investment strategy and asset portfolio will continue to evolve in light of existing market conditions and investment opportunities. Our investment guidelines are purposefully broad to enable our manager to make investments in a wide array of assets, including, but not limited to, any type of assets that can be held by a REIT. We do not have specific policies as to the allocation among types of real estate related, or other, assets or investment categories, since our manager's investment decisions depend on changing market conditions. The evolution of our investment strategy and asset portfolio may involve additional risks depending upon the nature of the assets in which we invest and our ability to finance such assets on a short or long-term basis. Investment opportunities that present unattractive risk-return profiles relative to other available investment opportunities under particular market conditions may become relatively attractive under changed market conditions and changes in market conditions may therefore result in changes in the investments we target. Decisions to make investments in new asset categories present risks that may be difficult for us to adequately assess and could therefore reduce our ability to pay dividends on both our common stock and preferred stock or have adverse effects on our liquidity or financial condition. A change in our investment strategy may also increase our exposure to interest rate, foreign currency, real estate market or credit market fluctuations. In addition, a change in our investment strategy may increase our use of non-match-funded financing, increase the guarantee obligations we agree to incur or increase the number of transactions we enter into with affiliates. Our failure to accurately assess the risks inherent in new asset categories or the financing risks associated with such assets could adversely affect our results of operations and our financial condition.

We are actively exploring new business opportunities and asset categories, which may be unsuccessful, divert managerial attention or require significant financial resources, which could have a negative impact on our financial results.

Consistent with our broad investment guidelines and our investment objectives, we have acquired a variety of assets, such as Excess MSRs and senior living facilities, that differ from our legacy assets. See "—We invest in Excess MSRs, and such investments could have a negative impact on our financial results," and "—We invest in senior living facilities, which are subject to various risks that could have a negative impact on our financial results." We may also pursue opportunities to invest in a variety of other types of assets.

Although we currently believe that we will have significant investment opportunities in the future, these opportunities may not materialize and our ability to act on new investment opportunities may be constrained by the requirements of the Investment Company Act of 1940, as amended (the "1940 Act"), and federal tax law. We also believe investing in our target assets will provide us attractive risk-adjusted returns, but, assuming we are successful in acquiring these assets, they may not achieve the returns we anticipate and may not even be profitable. Moreover, these investments may not be successful, as a result of our manager's limited experience with certain types of assets, or for other reasons. Further, new business opportunities may divert managerial attention from more profitable opportunities, and they may require significant financial resources. Any or all of the foregoing could have a negative impact on our financial results.

Our manager will not be liable to us for any acts or omissions performed in accordance with the management agreement, including with respect to the performance of our investments.

Pursuant to our management agreement, our manager will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Under the terms of our management agreement, our manager, its officers, partners, members, managers, directors, personnel, other agents, any person controlling or controlled by our manager and any person providing sub-advisory services to our manager will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to our management agreement, except because of acts constituting bad faith, willful misconduct or gross negligence, as determined by a final non-appealable order of a court of competent jurisdiction. In addition, we have agreed to indemnify our manager, its officers, partners, members, managers, directors, personnel, other agents, any person controlling or controlled by our manager and any person providing sub-advisory services to our manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our manager not constituting bad faith, willful misconduct or gross negligence, pursuant to our management agreement.

Our manager's due diligence of investment opportunities or other transactions may not identify all pertinent risks, which could materially affect our business, financial condition, liquidity and results of operations.

Our manager intends to conduct due diligence with respect to each investment opportunity or other transaction it pursues. It is possible, however, that our manager's due diligence processes will not uncover all relevant facts, particularly with respect to any assets we acquire from third parties. In these cases, our manager may be given limited access to information about the investment and will rely on information provided by the target of the investment. In addition, if investment opportunities are scarce, the process for selecting bidders is competitive, or the timeframe in which we are required to complete diligence is short, our ability to conduct a due diligence investigation may be limited, and we would be required to make investment decisions based upon a less thorough diligence process than would otherwise be the case. Accordingly, investments and other transactions that initially appear to be viable may prove not to be over time due to the limitations of the due diligence process or other factors.

Risks Relating to Our Business

Market conditions could negatively impact our business, results of operations and financial condition.

The market in which we operate is affected by a number of factors that are largely beyond our control but can nonetheless have a potentially significant, negative impact on us. These factors include, among other things:

- Interest rates and credit spreads;
- The availability of credit, including the price, terms and conditions under which it can be obtained;
- The quality, pricing and availability of suitable investments and credit losses with respect to our investments;
- The ability to obtain accurate market-based valuations;
- Loan values relative to the value of the underlying real estate assets;
- Default rates on both residential and commercial mortgages and the amount of the related losses;
- Prepayment speeds, delinquency rates and legislative/regulatory changes with respect to our investments in Excess MSRs;
- The actual and perceived state of the real estate markets, market for dividend-paying stocks and the U.S. economy and public capital markets generally;
- Unemployment rates; and
- The attractiveness of other types of investments relative to investments in real estate or REITs generally.

Changes in these factors are difficult to predict, and a change in one factor can affect other factors. For example, during 2007, increased default rates in the subprime mortgage market played a role in causing credit spreads to widen, reducing availability of credit on favorable terms, reducing liquidity and price transparency of real estate related assets, resulting in difficulty in obtaining accurate mark-to-market valuations, and causing a negative perception of the state of the real estate markets and of REITs generally. These conditions worsened during 2008, and intensified meaningfully during the fourth quarter of 2008 as a result of the global credit and liquidity crisis, resulting in extraordinarily challenging market conditions. Since then, market conditions have generally improved, but they could deteriorate in the future, including, as a result of increased taxes and pending mandatory reductions in federal spending during 2013.

A prolonged economic slowdown, a lengthy or severe recession, or declining real estate values could harm our operations.

We believe the risks associated with our business are more severe during periods similar to those we recently experienced in which an economic slowdown or recession is accompanied by declining real estate values. Declining real estate values generally reduce the level of new mortgage loan originations, since borrowers often use increases in the value of their existing properties to support the purchase of, or investment in, additional properties. Borrowers may also be less able to pay principal and interest on our loans, and the loans underlying our securities and Excess MSRs, if the economy weakens. Further, declining real estate values significantly increase the likelihood that we will incur losses on our loans and securities in the event of default because the value of our collateral may be insufficient to cover our basis. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect our net interest income from loans and securities in our portfolio and our income from Excess MSRs, as well as our ability to originate, sell and securitize loans, which would significantly harm our revenues, results of operations, financial condition, liquidity, business prospects and our ability to make distributions to our stockholders. For more information on the impact of market conditions on our business and results of operations see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Considerations."

The geographic distribution of the residential mortgage loans underlying, and collateral securing, certain of our investments subjects us to geographic real estate market risks, which could adversely affect the performance of our investments, our results of operations and our financial condition.

The geographic distribution of the residential mortgage loans underlying, and collateral securing, certain of our investments, including our Excess MSRs and non-Agency RMBS, exposes us to risks associated with the real estate industry in general within the states and regions in which we hold significant investments. These risks include, without limitation: possible declines in the value of real estate; risks related to general and local economic conditions; possible lack of availability of mortgage funds; overbuilding; extended vacancies of properties; increases in competition, property taxes and operating expenses; changes in zoning laws; costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; casualty or condemnation losses; uninsured damages from floods, earthquakes or other natural disasters; and changes in the interest rates. To the extent any of the foregoing risks arise in states and regions where we hold significant investments, the performance of our investments, our results of operations and our financial condition could suffer a material adverse effect.

The coverage tests applicable to our CDO financings may have a negative impact on our operating results and cash flows.

We have retained, and may in the future retain or repurchase, subordinate classes of bonds issued by certain of our subsidiaries in our CDO financings. Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would generally result in principal and/or interest cash flow that would otherwise be distributed to more junior classes of securities (including those held by us) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, failure to satisfy the coverage tests could adversely affect our operating results and cash flows by temporarily or permanently directing funds that would otherwise come to us to holders of the senior classes of bonds. In addition, the redirected funds would be used to pay down financing, which currently bears an attractive rate, thereby reducing our future earnings from the affected CDO. The ratings assigned to the assets in each CDO affect the results of the tests governing whether a CDO can distribute cash to the various classes of securities in the CDO. As a result, ratings downgrades of the assets in a CDO can result in a CDO failing its tests and thereby cause us not to receive cash flows from the affected CDO.

We did not have any assets in our consolidated CDOs as of March 31, 2013 under negative watch for possible downgrade by at least one of the rating agencies. However, one or more of the rating agencies could downgrade some or all of these assets at any time, and any such downgrade could negatively affect – and possibly materially affect – our future cash flows. As of the March 2013 remittance date for CDO IV and as of the April 2013 remittance date for CDO VI, these CDOs were not in compliance with their applicable over collateralization tests and consequently, we are not receiving residual cash flows from these CDOs, other than senior management fees and cash flow distributions from senior classes of bonds we own. Based upon our current calculations, we expect CDO VI to remain out of compliance for the foreseeable future. Moreover, given current market conditions, it is possible that all of our CDOs could be out of compliance with their over collateralization tests as of one or more measurement dates within the next twelve months.

Our ability to rebalance will depend upon a variety of factors, such as the availability of suitable securities, market prices, available cash, whether the reinvestment period of the applicable CDO has ended, and other factors that may be beyond our control. For example, one strategy we have employed to facilitate compliance with over collateralization tests has been to repurchase notes issued by our CDOs and subsequently cancel them in accordance with the terms of the relevant governing documentation. However, there can be no assurance that the trustee of our CDOs will not impose guidelines for such cancelations that would make it more difficult or impossible to employ this strategy in the future. While there are other permissible methods to rebalance or otherwise correct CDO test failures, such methods may be extremely difficult to employ as a result of market conditions or other factors, and we cannot assure you that we will be successful in our rebalancing efforts. If the liabilities of our CDOs are downgraded by Moody's Investors Service to certain predetermined levels, our discretion to rebalance the applicable CDO portfolios may be negatively impacted. Moreover, if we bring these coverage tests into compliance, we cannot assure you that they will not fall out of compliance in the future or that we will be able to correct any noncompliance.

Failure of the over collateralization tests can also cause a "phantom income" issue if cash that constitutes income is diverted to pay down debt instead of distributed to us. For more information regarding noncompliance with the terms of certain of our CDO financings in the near future, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources" and "–Debt Obligations."

We may experience an event of default or be removed as collateral manager under one or more of our CDOs, which would negatively affect us in a number of ways.

The documentation governing our CDOs specifies certain events of default, which, if they occur, would negatively affect us. Events of default include, among other things, failure to pay interest on senior classes of securities within the CDO, breaches of covenants, representations or warranties, bankruptcy, and failure to satisfy specific over collateralization and interest coverage tests. If an event of default occurs under any of our CDOs, it could negatively affect our cash flows, business, results of operations and financial condition.

In addition, we can be removed as manager of a CDO if certain events occur, including the failure to satisfy specific over collateralization and interest coverage tests, failure to satisfy certain "key man" requirements or an event of default occurring for the failure to pay interest on the related senior classes of securities of the CDO. If we are removed as collateral manager, we would no longer receive management fees from — and no longer be able to manage the assets of — the applicable CDO, which could negatively affect our cash flows, business, results of operations and financial condition. On June 17, 2011, CDO V failed additional over collateralization tests. The consequences of failing these tests are that an event of default has occurred, and we may be removed as the collateral manager under the documentation governing CDO V. So long as the event of default continues, we will not be permitted to purchase or sell any collateral in CDO V. If we are removed as the collateral manager of CDO V, we would no longer receive the senior management fees from such CDO. As of March 31, 2013, we have not been removed as collateral manager. Based upon our current calculations, we estimate that if we are removed as the collateral manager of CDO V, the loss of senior management fees would not have a material negative impact on our cash flows, business, results of operations or financial condition. Given current market conditions, it is possible that events of default may occur in other CDOs, and we could be removed as the collateral manager of those CDOs if certain events of default occur. Moreover, our cash flows, business, results of operations and/or financial condition could be materially and negatively impacted if certain events of default occur.

We have assumed the role of manager of numerous CDOs previously managed by a third party, and we may assume the role of manager of additional CDOs in the future. Each such engagement exposes us to a number of potential risks.

Changes within our industry may result in CDO collateral managers being replaced. In such instances, we may seek to be engaged as the collateral manager of CDOs currently managed by third parties. For example, in February 2011, one of our subsidiaries became the collateral manager of certain CDOs previously managed by C-BASS Investment Management LLC ("C-BASS").

While being engaged as the collateral manager of such CDOs potentially enables us to grow our business, it also entails a number of risks that could harm our reputation, results of operations and financial condition. For example, we purchased the management rights with respect to the C-BASS CDOs pursuant to a bankruptcy proceeding. As a result, we were not able to conduct extensive due diligence on the CDO assets even though many classes of securities issued by the CDOs were rated as "distressed" by the rating agencies as of the most recent rating date prior to our becoming the collateral manager of the CDOs. We may willingly or unknowingly assume actual or contingent liabilities for significant expenses, we may become subject to new laws and regulations with which we are not familiar, and we may become subject to increased risk of litigation, regulatory investigation or negative publicity. For example, we determined that it would be prudent to register the subsidiary that became the collateral manager of the C-BASS CDOs as a registered investment adviser, which has increased our regulatory compliance costs. In addition to defending against litigation and complying with regulatory requirements, being engaged as collateral manager may require us to invest other resources for various other reasons, which could detract from our ability to capitalize on future opportunities. Moreover, being engaged as collateral manager may require us to integrate complex technological, accounting and management systems, which may be difficult, expensive and time-consuming and which we may not be successful in integrating into our current systems. In addition to the risk that we face if we are successful in becoming the manager of additional CDOs, we may attempt but fail to become the collateral manager of CDOs in the future, which could harm our reputation and subject us to costly litigation. Finally, if we include the financial performance of the C-BASS CDOs or other CDOs for which we become the collateral manager in our public filings, we are subject to the risk that, particularly during the period immediately after we become the collateral manager, this information may prove to be inaccurate or incomplete. The occurrence of any of these negative integration events could negatively impact our reputation with both regulators and investors, which could, in turn, subject us to additional regulatory scrutiny and impair our relationships with the investment community. The occurrence of any of these problems could negatively affect our reputation, financial condition and results of operations.

Our investments have previously been — and in the future may be — subject to significant impairment charges, which adversely affect our results of operations.

We are required to periodically evaluate our investments for impairment indicators. The value of an investment is impaired when our analysis indicates that, with respect to a loan, it is probable that we will not be able to collect the full amount we intended to collect from the loan or, with respect to a security, it is probable that the value of the security is other than temporarily impaired. The judgment regarding the existence of impairment indicators is based on a variety of factors depending upon the nature of the investment and the manner in which the income related to such investment was calculated for purposes of our financial statements. If we determine that an impairment has occurred, we are required to make an adjustment to the net carrying value of the investment, which could adversely affect our results of operations in the applicable period and thereby adversely affect our ability to pay dividends to our stockholders.

As has been widely publicized, the recent market conditions have resulted in a number of financial institutions recording an unprecedented amount of impairment charges, and we were also affected by these conditions. These challenging conditions have reduced the market trading activity for many real estate securities, resulting in less liquid markets for those securities. These lower valuations have affected us by, among other things, decreasing our net book value and contributing to our decision to record impairment charges.

The lenders under our repurchase agreements may elect not to extend financing to us, which could quickly and seriously impair our liquidity.

We have historically financed a meaningful portion of our investments not held in CDOs with repurchase agreements, which are short-term financing arrangements, and we may enter into additional repurchase agreements in the future. Under the terms of these agreements, we sell a security to a counterparty for a specified price and concurrently agree to repurchase the same security from our counterparty at a later date for a higher specified price. During the term of the repurchase agreement – generally 30 days – the counterparty makes funds available to us and holds the security as collateral. Our counterparties can also require us to post additional margin as collateral at any time during the term of the agreement. When the term of a repurchase agreement ends, we are required to repurchase the security for the specified repurchase price, with the difference between the sale and repurchase prices serving as the equivalent of paying interest to the counterparty in return for extending financing to us. If we want to continue to finance the security with a repurchase agreement, we ask the counterparty to extend – or “roll” – the repurchase agreement for another term.

Our counterparties are not required to roll our repurchase agreements upon the expiration of their stated terms, which subjects us to a number of risks. As we have experienced recently and may experience in the future, counterparties electing to roll our repurchase agreements may charge higher spread and impose more onerous terms upon us, including the requirement that we post additional margin as collateral. More significantly, if a repurchase agreement counterparty elects not to extend our financing, we would be required to pay the counterparty the full repurchase price on the maturity date and find an alternate source of financing. Alternate sources of financing may be more expensive, contain more onerous terms or simply may not be available. If we were unable to pay the repurchase price for any security financed with a repurchase agreement, the counterparty has the right to sell the underlying security being held as collateral and require us to compensate for any shortfall between the value of our obligation to the counterparty and the amount for which the collateral was sold (which may be a significantly discounted price). As of March 31, 2013, we had $1.5 billion outstanding under repurchase agreement financings. These repurchase agreement obligations are with seven counterparties. If any of our counterparties elected not to roll these repurchase agreements, we may not be able to find a replacement counterparty in a timely manner.

Our determination of how much leverage to apply to our investments may adversely affect our return on our investments and may reduce cash available for distribution.

We leverage a meaningful portion of our portfolio through borrowings, generally through the use of credit facilities, warehouse facilities, repurchase agreements, mortgage loans on real estate, securitizations, including the issuance of CDOs, private or public offerings of debt by subsidiaries, loans to entities in which we hold, directly or indirectly, interests in pools of properties or loans, and other borrowings. Our investment policies do not limit the amount of leverage we may incur with respect to any specific asset or pool of assets, subject to an overall limit on our use of leverage to 90% (as defined in our governing documents) of the value of our assets on an aggregate basis. During the recent financial crisis, the return we were able to earn on our investments and cash available for distribution to our stockholders was significantly reduced due to changes in market conditions causing the cost of our financing to increase relative to the income that can be derived from our assets. While our liquidity position has improved, we cannot assure you that we will be able to sustain our improved liquidity position.

We may become party to agreements that require cash payments at periodic intervals. Failure to make such required payments may adversely affect our business, financial condition and results of operations.

We are currently party to repurchase agreements that may require us to post additional margin as collateral at any time during the term of the agreement, based on the value of the collateral. We may become party to additional financing agreements that require us to make cash payments at periodic intervals or upon the occurrence of certain events. Events could occur or circumstances could arise, which we may not be able to foresee, that may cause us to be unable to make any such cash payments when they become due. Failure to make the payments required under our financing documents would give the lenders the right to require us to repay all amounts owed to them under the applicable financing immediately.

We are subject to counterparty default and concentration risks.

In the ordinary course of our business, we enter into various types of financing arrangements with counterparties. Currently, the majority of our financing arrangements take the form of repurchase agreements, securitization vehicles, loans, hedge contracts, swaps and other derivative and non-derivative contracts. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight.

We are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur rapidly and without notice to us. Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack the contractual ability or because market conditions make it difficult to take effective action. This inability could occur in times of market stress consistent with the conditions we are currently experiencing, which are precisely the times when defaults may be most likely to occur.

In addition, our risk-management processes may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although we monitor our credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

In the event of a counterparty default, particularly a default by a major investment bank, we could incur material losses rapidly, and the resulting market impact of a major counterparty default could seriously harm our business, results of operations and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

In addition, with respect to our CDOs, certain of our derivative counterparties are required to maintain certain ratings to avoid having to post collateral or transfer the derivative to another counterparty. If a counterparty was downgraded below these levels, it may not be able to satisfy its obligations under the derivative, which could have a material negative effect on the applicable CDO.

With respect to our Excess MSRs, we are subject to counterparty concentration risk as a result of our co-investments with Nationstar. All of our investments in Excess MSRs to date relate to loans serviced by Nationstar. If Nationstar is terminated as the servicer of the underlying mortgages, Newcastle's right to receive its portion of the excess mortgage servicing amount is also terminated. Moreover, in the event that Nationstar files for bankruptcy, our expected returns on these investments would be severely impacted. See "—We will be dependent on mortgage servicers, including Nationstar to service the mortgage loans underlying the Excess MSRs that we acquire." Moreover, Nationstar has no obligation to offer us any future co-investment opportunity on the same terms of prior transactions, or at all, and we may not be able to find suitable counterparties other than Nationstar from which to acquire Excess MSRs, which could impact our business strategy. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

The counterparty risks that we face have increased in complexity and magnitude as a result of the insolvency of a number of major financial institutions (such as Lehman Brothers). For example, the consolidation and elimination of counterparties has increased our concentration of counterparty risk and decreased the universe of potential counterparties. We are currently party to repurchase agreements with two counterparties. If any of our counterparties elected not to roll these repurchase agreements, we may not be able to find a replacement counterparty. In addition, counterparties have generally tightened their underwriting standards and increased their margin requirements for financing, which has negatively impacted us in several ways, including, decreasing the number of counterparties willing to provide financing to us, decreasing the overall amount of leverage available to us, and increasing the costs of borrowing.

We are not restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with a few counterparties. Any loss suffered by us as a result of a counterparty defaulting, refusing to conduct business with us or imposing more onerous terms on us would also negatively affect our business, results of operations and financial condition.

We may not match fund certain of our investments, which may increase the risks associated with these investments.

One component of our investment strategy is to use match funded financing structures for certain of our investments, which match assets and liabilities with respect to maturities and interest rates. When available, this strategy mitigates the risk of not being able to refinance an investment on favorable terms or at all. However, our manager may elect for us to bear a level of refinancing risk on a short-term or longer-term basis, as in the case of investments financed with repurchase agreements, when, based on its analysis, our manager determines that bearing such risk is advisable or unavoidable (which is generally the case with respect to the residential mortgage loans and FNMA/FHLMC securities in which we invest). In addition, we may be unable, as a result of conditions in the credit markets, to match fund our investments. For example, non-recourse term financing not subject to margin requirements was generally not available or economical for the past three years and is currently still difficult to obtain, which impairs our ability to match fund our investments. Moreover, we may not be able to enter into interest rate swaps. Lastly, lenders may be unwilling to finance certain types of assets, such as Excess MSRs, because of the challenges with perfecting security interests in the underlying collateral. A decision not to, or the inability to, match fund certain investments, exposes us to additional risks.

Furthermore, we anticipate that, in most cases, for any period during which our floating rate assets are not match funded with respect to maturity, the income from such assets may respond more slowly to interest rate fluctuations than the cost of our borrowings. Because of this dynamic, interest income from such investments may rise more slowly than the related interest expense, with a consequent decrease in our net income. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us from these investments.

Accordingly, if we do not or are unable to match fund our investments with respect to maturities and interest rates, we will be exposed to the risk that we may not be able to finance or refinance our investments on economically favorable terms or may have to liquidate assets at a loss.

We may not be able to finance our investments on attractive terms or at all, and financing for Excess MSRs may be particularly difficult or impossible to obtain.

When we acquire securities and loans that we finance on a short-term basis with a view to securitization or other long-term financing, we bear the risk of being unable to securitize the assets or otherwise finance them on a long-term basis at attractive prices or in a timely matter, or at all. If it is not possible or economical for us to securitize or otherwise finance such assets on a long-term basis, we may be unable to pay down our short-term credit facilities, or be required to liquidate the assets at a loss in order to do so. For example, our ability to finance investments with securitizations or other long-term non-recourse financing not subject to margin requirements has been impaired since 2007 as a result of market conditions. These conditions make it highly likely that we will have to use less efficient forms of financing for any new investments, which will likely require a larger portion of our cash flows to be put toward making the initial investment and thereby reduce the amount of cash available for distribution to our stockholders and funds available for operations and investments, and which will also likely require us to assume higher levels of risk when financing our investments. In addition, there is no established market for financing of investments in Excess MSRs, and it is possible that one will not develop. Any such financing would likely require the consent of the applicable government sponsored enterprise ("GSE") or other owner of the underlying loans, and such consent may be costly or impossible to obtain. Moreover, obtaining such consent may require us or our co-investment counterparties to agree to material structural, economic and indemnification, or other, terms that expose us to risks to which we have not previously been exposed and that could negatively affect our returns from our investments. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

As non-recourse long-term financing structures become available to us and are utilized, such structures expose us to risks which could result in losses to us.

We may use securitization and other non-recourse long-term financing for our investments to the extent available. In such structures, our lenders typically would have only a claim against the assets included in the securitizations rather than a general claim against us as an entity. Prior to any such financing, we would seek to finance our investments with relatively short-term facilities until a sufficient portfolio is accumulated. As a result, we would be subject to the risk that we would not be able to acquire, during the period that any short-term facilities are available, sufficient eligible assets or securities to maximize the efficiency of a securitization. We also bear the risk that we would not be able to obtain new short-term facilities or would not be able to renew any short-term facilities after they expire should we need more time to seek and acquire sufficient eligible assets or securities for a securitization. In addition, conditions in the capital markets may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets or securities. While we would intend to retain the unrated equity component of securitizations and, therefore, still have exposure to any investments included in such securitizations, our inability to enter into such securitizations may increase our overall exposure to risks associated with direct ownership of such investments, including the risk of default. Our inability to refinance any short-term facilities would also increase our risk because borrowings thereunder would likely be recourse to us as an entity. If we are unable to obtain and renew short-term facilities or to consummate securitizations to finance our investments on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price.

The loans we invest in and the loans underlying the securities we invest in are subject to delinquency, foreclosure and loss, which could result in losses to us.

Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things: tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions and/or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, changes in the availability of credit on favorable terms, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

Residential mortgage loans, manufactured housing loans and subprime mortgage loans are secured by single-family residential property and are also subject to risks of delinquency and foreclosure, and risks of loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors may impair borrowers' abilities to repay their loans, including, among other things, changes in the borrower's employment status, changes in national, regional or local economic conditions, changes in interest rates or the availability of credit on favorable terms, changes in regional or local real estate values, changes in regional or local rental rates and changes in real estate taxes.

In the event of default under a loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the outstanding principal and accrued but unpaid interest of the loan, which could adversely affect our cash flow from operations. Foreclosure of a loan, particularly a commercial loan, or any other restructuring archives related to an investment, can be an expensive and lengthy process, which would negatively affect our anticipated return on the foreclosed loan or such other investment. In addition, as part of any foreclosure or other restructuring, we may acquire control of a property securing a defaulted loan, which would expose us to additional risks specific to the property, including, but not limited to, the risks related to any business conducted on such property. As part of a restructuring we may also exchange our debt for, or otherwise acquire, equity of an entity, which may involve contested negotiations and expose us to risks associated with owning the entity.

Mortgage and asset backed securities are bonds or notes backed by loans and/or other financial assets and include commercial mortgage back securities (CMBS), FNMA/FHLMC securities, and real estate related asset backed securities (ABS). The ability of a borrower to repay these loans or other financial assets is dependent upon the income or assets of these borrowers. If a borrower has insufficient income or assets to repay these loans, it will default on its loan. While we intend to focus on real estate related asset backed securities, there can be no assurance that we will not invest in other types of asset backed securities.

Our investments in mortgage and asset backed securities will be adversely affected by defaults under the loans underlying such securities. To the extent losses are realized on the loans underlying the securities in which we invest, we may not recover the amount invested in, or, in extreme cases, any of our investment in such securities.

Our investments in debt securities are subject to specific risks relating to the particular issuer of the securities and to the general risks of investing in subordinated real estate securities.

Our investments in debt securities involve special risks. REITs generally are required to invest substantially in real estate or real estate-related assets and are subject to the inherent risks associated with real estate-related investments discussed in this report. Our investments in debt are subject to the risks described above with respect to mortgage loans and mortgage-backed securities and similar risks, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of and net income from real property;

- risks generally incident to interests in real property; and
- risks that may be presented by the type and use of a particular property.

Debt securities may be unsecured and may also be subordinated to other obligations of the issuer. We may also invest in debt securities that are rated below investment grade. As a result, investments in debt securities are also subject to risks of:

- limited liquidity in the secondary trading market;
- substantial market price volatility resulting from changes in prevailing interest rates or credit spreads;
- subordination to the prior claims of senior lenders to the issuer;
- the possibility that earnings of the debt security issuer may be insufficient to meet its debt service; and
- the declining creditworthiness and potential for insolvency of the issuer of such debt securities during periods of rising interest rates and economic downturn.

These risks may adversely affect the value of outstanding debt securities and the ability of the issuers thereof to repay principal and interest.

Investments in Excess MSRs could have a negative impact on our financial results.

We have recorded Excess MSRs on our balance sheet at fair value, and changes in their fair value are reflected in our consolidated results of operations. The determination of the fair value of Excess MSRs requires our management to make numerous estimates and assumptions that could materially differ from actual results. Such estimates and assumptions include, without limitation, estimates of the future cash flows from the Excess MSRs, which in turn are based upon assumptions about interest rates as well as prepayment rates, delinquencies and foreclosure rates of the underlying mortgage loans.

The ultimate realization of the value of Excess MSRs, which are measured at fair value on a recurring basis, may be materially different than the fair values of such Excess MSRs as may be reflected in our consolidated statement of financial position as of any particular date. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets, which could have a material adverse effect on our consolidated financial position, results of operations and cash flows. Accordingly, there may be material uncertainty about the fair value of any Excess MSRs we acquire.

The values of Excess MSRs are highly sensitive to changes in interest rates. Historically, the value of Excess MSRs has increased when interest rates rise and decreased when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. We may pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us. To the extent we do not utilize derivatives to hedge against changes in the fair value of Excess MSRs, our balance sheet, results of operations and cash flows would be susceptible to significant volatility due to changes in the fair value of, or cash flows from, Excess MSRs as interest rates change.

Prepayment speeds significantly affect the value of Excess MSRs. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. When we invest in Excess MSRs, we base the price we pay and the rate of amortization of those assets on, among other things, our projection of the cash flows from the related pool of mortgage loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speeds are significantly greater than expected, the carrying value of Excess MSRs could exceed their estimated fair value. If the fair value of Excess MSRs decreases, we would be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from Excess MSRs, and we could ultimately receive substantially less than what we paid for such assets.

Moreover, delinquency rates have a significant impact on the value of Excess MSRs. An increase in delinquencies will generally result in lower revenue because typically we will only collect the mortgage servicing amount from GSEs or mortgage owners for performing loans. The price we pay for Excess MSRs is based on, among other things, our projections of the cash flows from related pools of mortgage loans. Our expectation of delinquencies is a significant assumption underlying those cash flow projections. If delinquencies are significantly greater than expected, the estimated fair value of the Excess MSRs could be diminished. As a result, we could suffer a loss, which would have a negative impact on our financial results.

Furthermore, MSRs are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on our business. If the servicer, actually or allegedly failed to comply with applicable laws, rules or regulations, it could be terminated as the servicer, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our ability to acquire Excess MSRs is subject to the applicable REIT qualification tests, and we may have to hold these interests through taxable REIT subsidiaries, which would negatively impact our returns from these assets. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

We will be dependent on mortgage servicers, including Nationstar, to service the mortgage loans underlying the Excess MSRs that we acquire.

Our investments in Excess MSRs are dependent on the mortgage servicer to perform the servicing obligations. As a result, we could be materially and adversely affected if the servicer is terminated. The duties and obligations of mortgage servicers are defined through contractual agreements, generally referred to as Servicing Guides in the case of GSEs, or Pooling and Servicing Agreements in the case of private-label securities (collectively, the "Servicing Guidelines"). Such Servicing Guidelines generally provide for the possibility for termination of the contractual rights of the servicer in the absolute discretion of the owner of the mortgages being serviced. In the event of such termination by a mortgage owner with respect to a particular servicer, the related Excess MSRs could potentially lose all value on a going forward basis. Moreover, the termination by a mortgage owner of a servicer could take effect across all mortgages of such mortgage owner. Therefore, to the extent we make multiple investments relating to mortgages owned by the same owner and serviced by the same servicer, all such investments, including our investments with Nationstar, could lose all their value in the event of the termination of the servicer by the mortgage owner.

We could also be materially and adversely affected if the servicer is unable to adequately service the underlying mortgage loans due to:

- its failure to comply with applicable laws and regulation;
- its failure to perform its loss mitigation obligations;
- a downgrade in its servicer rating;
- its failure to perform adequately in its external audits;
- a failure in or poor performance of its operational systems or infrastructure;
- regulatory scrutiny regarding foreclosure processes lengthening foreclosure timelines;
- a GSE's or a whole-loan owner's transfer of servicing to another party; or
- any other reason.

Favorable ratings from third-party rating agencies such as Standard & Poor's, Moody's Investors Service and Fitch are important to the conduct of a mortgage servicer's loan servicing business and a downgrade in a mortgage servicer's ratings could have an adverse effect on us and the value of our Excess MSRs. Downgrades in a mortgage servicer's servicer ratings could adversely affect their ability to finance servicing advances and maintain their status as an approved servicer by Fannie Mae and Freddie Mac. Downgrades in servicer ratings could also lead to the early termination of existing advance facilities and affect the terms and availability of match funded advance facilities that a mortgage servicer may seek in the future. A mortgage service's failure to maintain favorable or specified ratings may cause their termination as a servicer and may impair their ability to consummate future servicing transactions, which could have an adverse effect on our operations since we will rely heavily on mortgage servicers to achieve our investment objective with respect to Excess MSRs.

In addition, a bankruptcy by any mortgage servicer that services the mortgage loans underlying any Excess MSRs that we have acquired or may acquire in the future could result in:

- the validity and priority of our ownership of the Excess MSRs being challenged in a bankruptcy proceeding;
- payments made by such servicer to us, or obligations incurred by it, being avoided by a court under federal or state preference laws or federal or state fraudulent conveyance laws;
- a re-characterization of any sale of the Excess MSRs or other assets to us as a pledge of such assets in a bankruptcy proceeding; or
- any agreement pursuant to which we acquired the Excess MSRs being rejected in a bankruptcy proceeding.

Any of the foregoing events could have a material and adverse effect on us. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

GSE initiatives and other actions may adversely affect returns from investments in Excess MSRs.

On January 17, 2011, the Federal Housing Finance Agency announced that it has instructed FNMA and FHLMC to study possible alternatives to the current residential mortgage servicing and compensation system used for single-family mortgage loans. It is too early to determine what the GSEs, including FNMA and FHLMC, may propose as alternatives to current servicing compensation practices, or when any such alternatives would become effective. Although we do not expect MSRs that have already been created to be subject to any changes implemented by FNMA and FHLMC, it is possible that, because of the significant role of FNMA and FHLMC in the secondary mortgage market, any changes they implement could become prevalent in the mortgage servicing industry generally. Other industry stakeholders or regulators may also implement or require changes in response to the perception that the current mortgage servicing practices and compensation do not appropriately serve broader housing policy objectives. These proposals are still evolving. To the extent the GSEs implement reforms that materially affect the market for conforming loans, there may be secondary effects on the subprime and Alt-A markets. These reforms may have a material adverse effect on the economics or performance of any Excess MSRs that we may acquire in the future. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

Changes to the minimum servicing amount for GSE loans could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

Currently, when a loan is sold into the secondary market for FNMA and FHLMC loans, the servicer is generally required to retain a minimum servicing amount (“MSA”) of 25 basis points of the outstanding principal balance for fixed rate mortgages. As has been widely publicized, in September 2011, the Federal Housing Finance Agency (“FHFA”) announced that a Joint Initiative on Mortgage Servicing Compensation was seeking public comment on two alternative mortgage servicing compensation structures detailed in a discussion paper. Changes to the MSA structure could significantly impact our business in negative ways that we cannot predict or protect against. For example, the elimination of an MSA could radically change the mortgage servicing industry and could severely limit the supply of Excess MSRs available for us to invest in. In addition, a removal of, or a reduction in, the MSA could significantly reduce the recapture rate on the affected portfolio, which would negatively affect the investment return on our Excess MSRs. We cannot predict whether any changes to current MSA rules will occur or what impact any changes will have on our business, results of operations, liquidity or financial condition. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

We are subject to significant competition, and we may not compete successfully.

We are subject to significant competition in seeking investments. We compete with other companies, including other REITs, mortgage servicers, insurance companies and other investors, including funds and companies affiliated with our manager. We may also compete with our subsidiary New Residential following the completion of its spin-off on May 15, 2013. Some of our competitors have greater resources than we possess or have greater access to capital or various types of financing structures than are available to us, and we may not be able to compete successfully for investments or provide attractive investment returns relative to our competitors. These competitors may be willing to accept lower returns on their investments or to compromise underwriting standards and, as a result, our origination volume and profit margins could be adversely affected. Furthermore, competition for investments that are suitable for us may lead to the returns available from such investments decreasing, which may further limit our ability to generate our desired returns. We cannot assure you that other companies will not be formed that compete with us for investments or otherwise pursue investment strategies similar to ours or that we will be able to complete successfully against any such companies.

Furthermore, we do not intend to build a mortgage servicing platform. Therefore, we may not be an attractive buyer for those sellers of MSRs that prefer to sell MSRs and their mortgage servicing platform in a single transaction. Since our business model does not currently include acquiring and running servicing platforms, to engage in a bid for such a business we would need to find a servicer to acquire and run the platform or we would need to incur additional costs to shut down the acquired servicing platform. The need to work with a servicer in these situations increases the complexity of such potential acquisitions, and Nationstar may be unwilling or unable to act as servicer or subservicer on any Excess MSRs acquisition we want to execute. The complexity of these transactions and the additional costs incurred by us if we were to execute future acquisition of this type could adversely affect our future operating results. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

Following the closing of a CDO financing when we have locked in the liability costs for a CDO during the reinvestment period, the rate at which we are able to acquire eligible investments and changes in market conditions may adversely affect our anticipated returns.

During the reinvestment period, we must invest the restricted cash available for reinvestments in our CDOs. Until we are able to acquire sufficient assets, our returns will reflect income earned on uninvested cash and, having locked in the cost of liabilities for the particular CDO, the particular CDO's returns will be at risk of declining to the extent that yields on the assets to be acquired decline. In general, our ability to acquire appropriate investments depends upon the supply in the market of investments we deem suitable, and changes in various economic factors may affect our determination of what constitutes a suitable investment.

Our returns will be adversely affected when investments held in CDOs are prepaid or sold subsequent to the reinvestment period.

Real estate securities and loans are subject to prepayment risk. In addition, we may sell, and realize gains (or losses) on, investments. To the extent such assets were held in CDOs subsequent to the end of the reinvestment period, the proceeds are fully utilized to pay down the related CDO's debt. This causes the leverage on the CDO to decrease, thereby lowering our returns on equity.

Our investments in senior unsecured REIT securities are subject to specific risks relating to the particular REIT issuer and to the general risks of investing in subordinated real estate securities, which may result in losses to us.

Our investments in REIT securities involve special risks relating to the particular REIT issuer of the securities, including the financial condition and business outlook of the issuer. REITs generally are required to substantially invest in operating real estate or real estate related assets and are subject to the inherent risks associated with real estate related investments discussed in this report.

Our investments in REIT securities are also subject to the risks described above with respect to mortgage loans and mortgage backed securities and similar risks, including (i) risks of delinquency and foreclosure, and risks of loss in the event thereof, (ii) the dependence upon the successful operation of and net income from real property, (iii) risks generally incident to interests in real property, and (iv) risks that may be presented by the type and use of a particular commercial property.

REIT securities are generally unsecured and may also be subordinated to other obligations of the issuer. We may also invest in REIT securities that are rated below investment grade. As a result, investments in REIT securities are also subject to risks of: (i) limited liquidity in the secondary trading market, (ii) substantial market price volatility resulting from changes in prevailing interest rates, (iii) subordination to the prior claims of banks and other senior lenders to the issuer, (iv) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the issuer to reinvest premature redemption proceeds in lower yielding assets, (v) the possibility that earnings of the REIT issuer may be insufficient to meet its debt service and dividend obligations and (vi) the declining creditworthiness and potential for insolvency of the issuer of such REIT securities during periods of rising interest rates and economic downturn. These risks may adversely affect the value of outstanding REIT securities and the ability of the issuers thereof to repay principal and interest or make dividend payments.

The real estate related loans and other direct and indirect interests in pools of real estate properties or other loans that we invest in may be subject to additional risks relating to the structure and terms of these transactions, which may result in losses to us.

We invest in real estate related loans and other direct and indirect interests in pools of real estate properties or loans such as mezzanine loans and "B Note" mortgage loans. We invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying real property or other business assets or revenue streams or loans secured by a pledge of the ownership interests of the entity owning real property or other business assets or revenue streams (or the ownership interest of the parent of such entity). These types of investments involve a higher degree of risk than long-term senior lending secured by business assets or income producing real property because the investment may become unsecured as a result of foreclosure by a senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to repay our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt is repaid in full. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan to value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

We also invest in mortgage loans ("B Notes") that while secured by a first mortgage on a single large commercial property or group of related properties are subordinated to an "A Note" secured by the same first mortgage on the same collateral. As a result, if an issuer defaults, there may not be sufficient funds remaining for B Note holders. B Notes reflect similar credit risks to comparably rated commercial mortgage backed securities. In addition, we invest, directly or indirectly, in pools of real estate properties or loans. Since each transaction is privately negotiated, these investments can vary in their structural characteristics and risks. For example, the rights of holders of B Notes to control the process following a borrower default may vary from transaction to transaction, while investments in pools of real estate properties or loans may be subject to varying contractual arrangements with third party co-investors in such pools. Further, B Notes typically are secured by a single property, and so reflect the risks associated with significant concentration. These investments also are less liquid than commercial mortgage backed securities.

Investment in non-investment grade loans may involve increased risk of loss.

We have acquired and may continue to acquire in the future certain loans that do not conform to conventional loan criteria applied by traditional lenders and are not rated or are rated as non-investment grade (for example, for investments rated by Moody's Investors Service, ratings lower than Baa3, and for Standard & Poor's, BBB- or below). The non-investment grade ratings for these loans typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers' credit history, the properties' underlying cash flow or other factors. As a result, these loans have a higher risk of default and loss than conventional loans. Any loss we incur may reduce distributions to our stockholders. There are no limits on the percentage of unrated or non-investment grade assets we may hold in our portfolio.

Insurance on real estate in which we have interests (including the real estate serving as collateral for our real estate securities and loans) may not cover all losses.

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations, and other factors, including terrorism or acts of war, also might make the insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to restore our economic position with respect to the affected real property. As a result of the events of September 11, 2001, insurance companies have limited or excluded coverage for acts of terrorism in insurance policies. As a result, we may suffer losses from acts of terrorism that are not covered by insurance.

In addition, the mortgage loans that are secured by certain of the properties in which we have interests contain customary covenants, including covenants that require property insurance to be maintained in an amount equal to the replacement cost of the properties. There can be no assurance that the lenders under these mortgage loans will not take the position that exclusions from coverage for losses due to terrorist acts is a breach of a covenant which, if uncured, could allow the lenders to declare an event of default and accelerate repayment of the mortgage loans.

Many of our investments are illiquid, and this lack of liquidity could significantly impede our ability to vary our portfolio in response to changes in economic and other conditions or to realize the value at which such investments are carried if we are required to dispose of them.

The real estate properties that we own and operate and our other direct and indirect investments in real estate, real estate related and other assets are generally illiquid. In addition, the real estate securities that we purchase in connection with privately negotiated transactions are not registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. In addition, there are no established trading markets for a majority of our investments. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be limited.

Our securities have historically been valued based primarily on third party quotations, which are subject to significant variability based on the liquidity and price transparency created by market trading activity. The dislocation in the trading markets has reduced the trading for many real estate securities, resulting in less transparent prices for those securities. Consequently, it is currently more difficult for us to sell many of our assets than it has been historically because, if we were to sell such assets, we would likely not have access to readily ascertainable market prices when establishing valuations of them. Moreover, currently there is a relatively low market demand for the vast majority of the types of assets that we hold, which may make it extremely difficult to sell our assets. If we are required to liquidate all or a portion of our illiquid investments quickly, we may realize significantly less than the amount at which we have previously valued these investments.

In addition, Excess MSRs are highly illiquid and subject to numerous restrictions on transfers. For example, the Servicing Guidelines of a mortgage owner generally require that holders of Excess MSRs obtain the mortgage owner's prior approval for any change of ownership of such Excess MSRs. Such approval may be withheld for any reason or no reason in the discretion of the mortgage owner. Additionally, investments in Excess MSRs are a new type of transaction, and there have been extremely few investment products that pursue a similar investment strategy. Accordingly, the risks associated with the transaction and structure are not fully known to buyers or sellers. As a result of the foregoing, if we were seeking to sell an Excess MSR investment, there is some risk that we would be unable to locate a buyer or that we would be required to dispose of Excess MSRs either through an in-kind distribution or other liquidation vehicle, which would, in either case, provide little or no economic benefit to us, or a sale to a co-investor in the Excess MSR, which may be an affiliate. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

Our ability to invest in, and dispose of our investments in, Excess MSRs may be subject to the receipt of third-party consents.

GSEs may require that we submit to costly or burdensome conditions as a prerequisite to their consent to our investments in Excess MSRs. GSE conditions may diminish or eliminate the investment potential of certain Excess MSRs by making such investments too expensive for us or by severely limiting the potential returns available from Excess MSRs. Moreover, we have not received and do not expect to receive any assurances from any GSEs that their conditions for the disposition of an investment in Excess MSRs will not change. Therefore the potential costs, issues or restrictions associated with receiving such GSEs' consent for any such dispositions by us cannot be determined with any certainty. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

Our investments in Excess MSRs may involve complex or novel structures.

Our manager has extremely limited transaction history involving GSEs, and our investments in Excess MSRs may involve complex or novel structures. It is possible that a GSE's views on whether any such investment structure is appropriate or acceptable may not be known to us when we make an investment and may change from time to time for any reason or for no reason, even with respect to a completed investment. Accordingly, the terms of any future transaction may differ significantly from the terms of our existing investments in Excess MSRs. A GSE's evolving posture toward an acquisition or disposition structure through which we invest in or dispose of Excess MSRs may cause such GSE to impose new conditions on our existing investments in Excess MSRs, including the owner's ability to hold such Excess MSRs directly or indirectly through a grantor trust or other means. Such new conditions may be costly or burdensome and may diminish or eliminate the investment potential of the Excess MSRs that are already owned by us. Moreover, obtaining such consent may require us or our co-investment counterparties to agree to material structural, economic and indemnification, or other terms that expose us to risks which we have not previously been exposed and that could negatively affect our returns from our investments.

In addition, the requirements imposed by mortgage owners on servicers may require us to structure the terms, purchase price and form of consideration that we and the servicer pay differently in various deals. For example, if a mortgage owner imposes stricter requirements on a servicer to repurchase loans under certain circumstances, the servicer will be required to assume a significantly higher level of risk in connection with servicing the loans underlying the applicable mortgage servicing right and related Excess MSR than the servicer would assume if the mortgage owner did not impose such requirements. As a result, the base fee paid to the servicer with respect to those mortgage servicing rights may be higher – and the related Excess MSR may be lower – than in deals where the mortgage owner does not impose such requirements. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

Interest rate fluctuations and shifts in the yield curve may cause losses.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Our primary interest rate exposures relate to our real estate securities, loans, floating rate debt obligations and interest rate swaps. Changes in interest rates, including changes in expected interest rates or "yield curves," affect our business in a number of ways. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities and hedges. Changes in the level of interest rates also can affect, among other things, our ability to acquire real estate securities and loans at attractive prices, the value of our real estate securities, loans and derivatives and our ability to realize gains from the sale of such assets. In the past, we have utilized hedging transactions to protect our positions from interest rate fluctuations, but as a result of current market conditions we face significant obstacles to entering into new hedging transactions. As a result, we may not be able to protect new investments from interest rate fluctuations to the same degree as in the past, which could adversely affect our financial condition and results of operations.

In the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control.

Our ability to execute our business strategy, particularly the growth of our investment portfolio, depends to a significant degree on our ability to obtain additional capital. Our financing strategy is dependent on our ability to place the match funded debt we use to finance our investments at rates that provide a positive net spread. If spreads for such liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future financings will be severely restricted.

Interest rate changes may also impact our net book value as our real estate securities, real estate related loans and hedge derivatives are marked to market each quarter. Debt obligations are not marked to market. Generally, as interest rates increase, the value of our fixed rate securities decreases, which will decrease the book value of our equity.

Furthermore, shifts in the U.S. Treasury yield curve reflecting an increase in interest rates would also affect the yield required on our real estate securities and therefore their value. For example, increasing interest rates would reduce the value of the fixed rate assets we hold at the time because the higher yields required by increased interest rates result in lower market prices on existing fixed rate assets in order to adjust the yield upward to meet the market, and vice versa. This would have similar effects on our real estate securities portfolio and our financial position and operations to a change in interest rates generally.

We invest in RMBS collateralized by subprime mortgage loans, which are subject to increased risks.

We invest in RMBS backed by collateral pools of subprime residential mortgage loans. ‘‘Subprime’’ mortgage loans refer to mortgage loans that have been originated using underwriting standards that are less restrictive than the underwriting requirements used as standards for other first and junior lien mortgage loan purchase programs, such as the programs of Fannie Mae and Freddie Mac. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories (including outstanding judgments or prior bankruptcies), mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with subprime mortgage loans, the performance of RMBS backed by subprime mortgage loans in which we may invest could be correspondingly adversely affected, which could adversely impact our results of operations, financial condition and business.

The value of our RMBS may be adversely affected by deficiencies in servicing and foreclosure practices, as well as related delays in the foreclosure process.

Allegations of deficiencies in servicing and foreclosure practices among several large sellers and servicers of residential mortgage loans that surfaced in 2010 raised various concerns relating to such practices, including the improper execution of the documents used in foreclosure proceedings (so-called “robo signing”), inadequate documentation of transfers and registrations of mortgages and assignments of loans, improper modifications of loans, violations of representations and warranties at the date of securitization and failure to enforce put-backs.

As a result of alleged deficiencies in foreclosure practices, a number of servicers temporarily suspended foreclosure proceedings beginning in the second half of 2010 while they evaluated their foreclosure practices. In late 2010, a group of state attorneys general and state bank and mortgage regulators representing nearly all 50 states and the District of Columbia, along with the U.S. Justice Department and the Department of Housing and Urban Development, began an investigation into foreclosure practices of banks and servicers. The investigations and lawsuits by several state attorneys general lead to a proposed settlement agreement in early February 2012 with five of the nation’s largest banks, pursuant to which the banks agreed to pay more than $25 billion to settle claims relating to improper foreclosure practices.

The proposed settlement does not prohibit the states, the federal government, individuals or investors in RMBS from pursuing additional actions against the banks and servicers in the future.

The integrity of the servicing and foreclosure processes are critical to the value of the mortgage loan portfolios underlying our RMBS, and our financial results could be adversely affected by deficiencies in the conduct of those processes. For example, delays in the foreclosure process that have resulted from investigations into improper servicing practices may adversely affect the values of, and our losses on, our non-Agency RMBS. Foreclosure delays may also increase the administrative expenses of the securitization trusts for the non-Agency RMBS, thereby reducing the amount of funds available for distribution to investors. In addition, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments while the defaulted loans remain in the trusts, rather than absorbing the default losses. This may reduce the amount of credit support available for the senior classes we own, thus possibly adversely affecting these securities. Additionally, a substantial portion of the proposed $25 billion settlement is intended to be a “credit” to the banks and servicers for principal write-downs or reductions they may make to certain mortgages underlying RMBS. There remains considerable uncertainty as to how these principal reductions will work and what effect they will have on the value of related RMBS; as a result, there can be no assurance that any such principal reductions will not adversely affect the value of certain of our RMBS.

While we believe that the sellers and servicers would be in violation of their servicing contracts to the extent that they have improperly serviced mortgage loans or improperly executed documents in foreclosure or bankruptcy proceedings, or do not comply with the terms of servicing contracts when deciding whether to apply principal reductions, it may be difficult, expensive, and time consuming for us to enforce our contractual rights. We continue to monitor and review the issues raised by the alleged improper foreclosure practices. While we cannot predict exactly how the servicing and foreclosure matters or the resulting litigation or settlement agreements will affect our business, there can be no assurance that these matters will not have an adverse impact on our results of operations and financial condition.

We invest in senior living facilities, which are subject to various risks that could have a negative impact on our financial results.

Subject to maintaining our qualification as a REIT, we intend to continue to purchase senior living facilities. In connection with any such investment, we expect that we would engage an affiliate of our manager to manage the operations of these facilities, as we have previously done, for which we would pay a management fee. The income from any senior living facilities would be dependent on the ability of the managers of such facilities to successfully manage these properties. The managers would compete with other companies on a number of different levels, including: the quality of care provided, reputation, the physical appearance of a facility, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in surrounding areas, and the financial condition of tenants and managers. A manager’s inability to successfully compete with other companies on one or more of the foregoing levels could adversely affect the senior living facility and materially reduce the income we would receive from an investment in such facility.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business or applicable accounting rules. For example, as a result of new investments, including any investments in senior living facilities, we may be required to consolidate additional entities, and, therefore, to document and test effective internal controls over the financial reporting of these entities in accordance with Section 404, which we may not be able to do. Even if we are able to do so, there could be significant costs and delays, particularly if these entities were not subject to Section 404 prior to being acquired by us. Under certain circumstances, the SEC permits newly acquired businesses to be excluded for a limited period of time from management’s annual assessment of the effectiveness of internal control. We have excluded the senior living assets acquired in 2012 from management’s annual assessment of the effectiveness of internal control in 2012 and may avail ourselves of this flexibility with respect to any newly acquired business. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm would not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates, which could subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements, which could lead to a decline in our share price, impair our ability to raise capital and other adverse consequences.

In addition, private, federal and state payment programs as well as the effect of laws and regulations may also have a significant impact on the profitability of such facilities. The failure of a manager to comply with any of these laws could result in the loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from federal and state healthcare programs, loss of license or closure of the facility. These events, among others, could result in the loss of part or all of any investment we make in a senior living facility.

Furthermore, the ability to successfully manage a senior living facility depends on occupancy levels. Any senior living facility in which we invest may have relatively flat or declining occupancy levels due to falling home prices, declining incomes, stagnant home sales and other economic factors. In addition, the senior housing segment may continue to experience a decline in occupancy due to the weak economy and the associated decision of certain residents to vacate a facility and instead be cared for at home. A material decline in occupancy levels and revenues may make it more difficult for the manager of any senior living facility in which we invest to successfully generate income for us. Alternatively, to avoid a decline in occupancy, a manager may reduce the rates charged, which would also reduce our revenues and therefore negatively impact the ability to generate income.

Our ability to acquire senior living facilities will be subject to the applicable REIT qualification tests, and we may have to hold these interests through taxable REIT subsidiaries, which may negatively impact our returns from these assets.

Our investments in real estate securities and loans are subject to changes in credit spreads, which could adversely affect our ability to realize gains on the sale of such investments.

Real estate securities and loans are subject to changes in credit spreads. Credit spreads measure the yield demanded on securities and loans by the market based on their credit relative to a specific benchmark.

Fixed rate securities and loans are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. Floating rate securities and loans are valued based on a market credit spread over LIBOR and are affected similarly by changes in LIBOR spreads. Excessive supply of these securities combined with reduced demand will generally cause the market to require a higher yield on these securities and loans, resulting in the use of a higher, or "wider," spread over the benchmark rate to value such securities. Under such conditions, the value of our real estate securities and loan portfolios would tend to decline. Conversely, if the spread used to value such securities were to decrease, or "tighten," the value of our real estate securities portfolio would tend to increase. Such changes in the market value of our real estate securities and loan portfolios may affect our net equity, net income or cash flow directly through their impact on unrealized gains or losses on available-for-sale securities, and therefore our ability to realize gains on such securities, or indirectly through their impact on our ability to borrow and access capital. During 2008 through the first quarter of 2009, credit spreads widened substantially. This widening of credit spreads caused the net unrealized gains on our securities, loans and derivatives, recorded in accumulated other comprehensive income or retained earnings, and therefore our book value per share, to decrease and resulted in net losses.

In addition, if the value of our loans subject to financing agreements were to decline, it could affect our ability to refinance such loans upon the maturity of the related repurchase agreements. Any credit or spread related losses incurred with respect to our loans would affect us in the same way as similar losses on our real estate securities portfolio as described above.

Any hedging transactions that we enter into may limit our gains or result in losses.

We have used (and may continue to use, when feasible and appropriate) derivatives to hedge a portion of our interest rate exposure, and this approach has certain risks, including the risk that losses on a hedge position will reduce the cash available for distribution to stockholders and that such losses may exceed the amount invested in such instruments. We have adopted a general policy with respect to the use of derivatives, which generally allows us to use derivatives where appropriate, but does not set forth specific policies and procedures or require that we hedge any specific amount of risk. From time to time, we use derivative instruments, including forwards, futures, swaps and options, in our risk management strategy to limit the effects of changes in interest rates on our operations. A hedge may not be effective in eliminating all of the risks inherent in any particular position. Our profitability may be adversely affected during any period as a result of the use of derivatives.

There are limits to the ability of any hedging strategy to protect us completely against interest rate risks. When rates change, we expect the gain or loss on derivatives to be offset by a related but inverse change in the value of the items, generally our liabilities, that we hedge. We cannot assure you, however, that our use of derivatives will offset the risks related to changes in interest rates. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses. In addition, our hedging strategy may limit our flexibility by causing us to refrain from taking certain actions that would be potentially profitable but would cause adverse consequences under the terms of our hedging arrangements.

The REIT provisions of the Internal Revenue Code of 1986, as amended, or the Code, limit our ability to hedge. In managing our hedge instruments, we consider the effect of the expected hedging income on the REIT qualification tests that limit the amount of gross income that a REIT may receive from hedging. We need to carefully monitor, and may have to limit, our hedging strategy to assure that we do not realize hedging income, or hold hedges having a value, in excess of the amounts that would cause us to fail the REIT gross income and asset tests. In addition, our ability to hedge is limited by certain undertakings that we made to the U.S. Commodity Futures Trading Commission in order to avail ourselves of no-action relief from the requirement to register as a commodity pool operator.

Accounting for derivatives under U.S. generally accepted accounting principles, or GAAP, is extremely complicated. Any failure by us to account for our derivatives properly in accordance with GAAP in our financial statements could adversely affect our earnings.

Under certain conditions, increases in prepayment rates can adversely affect yields on many of our investments.

The value of many of the assets in which we invest may be affected by prepayment rates on these assets. Prepayment rates are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond our control, and consequently, such prepayment rates cannot be predicted with certainty. In periods of declining mortgage interest rates, prepayments on loans generally increase. If general interest rates decline as well, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the market value of floating rate assets may, because of the risk of prepayment, benefit less than fixed rate assets from declining interest rates. Conversely, in periods of rising interest rates, prepayments on loans generally decrease, in which case we would not have the prepayment proceeds available to invest in assets with higher yields. Under certain interest rate and prepayment scenarios we may fail to recoup fully our cost of acquisition of certain investments.

In addition, when market conditions lead us to increase the portion of our CDO investments that are comprised of floating rate securities, the risk of assets inside our CDOs prepaying increases. Since our CDO financing costs are locked in, reinvestment of such prepayment proceeds at lower yields than the initial investments, as a result of changes in the interest rate or credit spread environment, will result in a decrease of the return on our equity and therefore our net income.

Changes in accounting rules could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

As has been widely publicized, the SEC, the Financial Accounting Standards Board and other regulatory bodies that establish the accounting rules applicable to us have recently proposed or enacted a wide array of changes to accounting rules. Moreover, in the future these regulators may propose additional changes that we do not currently anticipate. Changes to accounting rules that apply to us could significantly impact our business or our reported financial performance in negative ways that we cannot predict or protect against. We cannot predict whether any changes to current accounting rules will occur or what impact any codified changes will have on our business, results of operations, liquidity or financial condition.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. Our management identified a material weakness in our internal controls with respect to our financial statements for the year ended December 31, 2011. Although this was remediated, we cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we believe that internal controls were effective. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in our share price and impairing our ability to raise capital.

Environmental compliance costs and liabilities related to real estate that we own, or in which we have interests, may adversely affect our results of operations.

Our operating costs may be affected by the cost of complying with existing or future environmental laws, ordinances and regulations with respect to the properties, or loans secured by such properties, or by environmental problems that materially impair the value of such properties. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under, or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous or toxic substances, or the failure to remediate properly, may adversely affect the owner's ability to borrow using such real property as collateral. Certain environmental laws and common law principles could be used to impose liability for releases of hazardous materials, including asbestos-containing materials, into the environment, and third parties may seek recovery from owners or operators of real properties for personal injury associated with exposure to released asbestos-containing materials or other hazardous materials. Environmental laws may also impose restrictions on the manner in which a property may be used or transferred or in which businesses it may be operated, and these restrictions may require expenditures. In connection with the direct or indirect ownership and operation of properties, we may be potentially liable for any such costs. The cost of defending against claims of liability or remediating contaminated property and the cost of complying with environmental laws could adversely affect our results of operations and financial condition.

Lawsuits, investigations and indemnification claims could result in significant liabilities and reputational harm, which could materially adversely affect our results of operations, financial condition and liquidity.

From time to time, we may be involved in lawsuits or investigations or receive claims for indemnification. Our efforts to resolve any such lawsuits, investigations or claims could be very expensive and highly damaging to our reputation, even if the underlying claims are without merit. We could potentially be found liable for significant damages or indemnification obligations. Such developments could have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to Our REIT Status and Other Matters

Our failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to our stockholders.

We operate in a manner intended to qualify us as a REIT for federal income tax purposes. Our ability to satisfy the asset tests depends upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we do not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of an instrument as debt or equity for federal income tax purposes, and the tax treatment of participation interests that we hold in mortgage loans and mezzanine loans, may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements. Accordingly, there can be no assurance that the Internal Revenue Service (the "IRS") will not contend that our interests in subsidiaries or other issuers violate the REIT requirements.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and distributions to stockholders would not be deductible by us in computing our taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of, and trading prices for, our stock. Unless entitled to relief under certain provisions of the Code, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we initially ceased to qualify as a REIT.

Our failure to qualify as a REIT would create issues under a number of our financings and other agreements and would cause our common and preferred stock to be delisted from the NYSE.

Our failure to qualify as a REIT would create issues under a number of our financing and other agreements. In addition, the New York Stock Exchange (the "NYSE") requires, as a condition to the continued listing of our common and preferred stock, that we maintain our REIT status. Consequently, if we fail to maintain our REIT status, our common and preferred stock would promptly be delisted from the NYSE, which would decrease the trading activity of such stock. This could make it difficult to sell stock and could cause the market volume of the shares trading to decline.

If we were delisted as a result of losing our REIT status and desired to relist our stock on the NYSE, we would have to reapply to the NYSE to be listed as a domestic corporation. As the NYSE's listing standards for REITs are less onerous than its standards for domestic corporations, it would be more difficult for us to become a listed company under these heightened standards. We might not be able to satisfy the NYSE's listing standards for a domestic corporation. As a result, if we were delisted from the NYSE, we might not be able to relist as a domestic corporation, in which case our common and preferred stock could not trade on the NYSE.

Our failure to qualify as a REIT would potentially give rise to a claim for damages from New Residential.

In connection with the spin-off of New Residential, we represented in the Separation and Distribution Agreement that we have no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT. We also covenanted in the Separation and Distribution Agreement to use our reasonable best efforts to maintain our REIT status for each of our taxable years ending on or before December 31, 2014 (unless we obtain an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS to the effect that our failure to maintain our REIT status will not cause New Residential to fail to qualify as a REIT under the successor REIT rules). In the event of a breach of this representation or covenant, New Residential may be able to seek damages from us, which could have a significantly negative effect on our liquidity and results of operations.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to qualify as a REIT.

We have historically financed a meaningful portion of our investments not held in CDOs with repurchase agreements, which are short-term financing arrangements and we may enter into additional repurchase agreements in the future. Under these agreements, we nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings that are secured by the assets sold pursuant thereto. We believe that, for purposes of the REIT asset and income tests, we should be treated as the owner of the assets that are the subject of any such sale and repurchase agreement, notwithstanding that those agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we might fail to qualify as a REIT.

The failure of our Excess MSRs to qualify as real estate assets, or the income from our Excess MSRs to qualify as mortgage interest, could adversely affect our ability to continue to make this type of investment or to qualify as a REIT.

We have received from the IRS a private letter ruling substantially to the effect that our Excess MSRs represent interests in mortgages on real property and thus are qualifying "real estate assets" for purposes of the REIT asset test, which generate income that qualifies as interest on obligations secured by mortgages on real property for purposes of the REIT income test. The ruling is based on, among other things, certain assumptions as well as on the accuracy of certain factual representations and statements that we have made to the IRS. If any of the representations or statements that we have made in connection with the private letter ruling, are, or become, inaccurate or incomplete in any material respect with respect to one or more Excess MSR investments, or if we acquire an Excess MSR investment with terms that are not consistent with the terms of the Excess MSR investments described in the private letter ruling, then we will not be able to rely on the private letter ruling. If we are unable to rely on the private letter ruling with respect to an Excess MSR investment, the IRS could assert that such Excess MSR investments do not qualify under the REIT asset and income tests, and if successful, our ability to continue to make this type of investment and our ability to qualify as a REIT could be adversely affected. Our wholly owned subsidiary New Residential owns all of our investments in Excess MSRs, and we expect to complete a spin-off of New Residential on May 15, 2013. Following the spin-off, we might elect not to acquire additional Excess MSRs in the future (although we are not prohibited from doing so).

Rapid changes in the values of assets that we hold may make it more difficult for us to maintain our qualification as a REIT or our exemption from the 1940 Act.

If the market value or income potential of qualifying assets for purposes of our qualification as a REIT or our exemption from registration as an investment company under the 1940 Act declines as a result of increased interest rates, changes in prepayment rates or other factors, we may need to increase our investments in qualifying assets and/or liquidate our non-qualifying assets to maintain our REIT qualification or our exemption from registration under the 1940 Act. If the decline in market values or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets we may own. We may have to make investment decisions that we otherwise would not make absent the intent to maintain our qualification as a REIT and exemption from registration under the 1940 Act.

Dividends payable by REITs do not qualify for the reduced tax rates.

Dividends payable to domestic stockholders that are individuals, trusts or estates are generally taxed at reduced rates. Dividends payable by REITs, however, are generally not eligible for the reduced rates. Although these rules do not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock. In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to corporate dividends, which could affect the value of our real estate assets negatively.

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Compliance with these requirements must be carefully monitored on a continuing basis, and there can be no assurance that our manager's personnel responsible for doing so will be able to successfully monitor our compliance.

REIT distribution requirements could adversely affect our liquidity and our ability to execute our business plan.

In order to maintain our tax status as a REIT, we are generally required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and not including net capital gains) each year to our stockholders. We intend to make distributions to our stockholders to comply with the requirements of the Code. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Code. Certain of our assets may generate substantial mismatches between taxable income and available cash. As a result, the requirement to distribute a substantial portion of our net taxable income could cause us to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, or (iv) make taxable distributions of our capital stock in order to comply with REIT requirements. Further, amounts distributed will not be available to fund investment activities. If we fail to obtain debt or equity capital in the future, it could limit our ability to satisfy our liquidity needs, which could adversely affect the value of our common stock.

In January 2013, we experienced an "ownership change" for purposes of Section 382 of the Code, which limits our ability to utilize our net operating loss and net capital loss carryforwards to reduce our future taxable income, potentially increasing our related REIT distribution requirement.

In order to maintain our tax status as a REIT, we are generally required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and not including net capital gains) each year to our stockholders. To qualify for the tax benefits accorded to REITs, we intend to make distributions to our stockholders such that we distribute all or substantially all our net taxable income (if any) each year, subject to certain adjustments. In the past, we have used net operating loss and net capital loss carryforwards to facilitate the satisfaction of our distribution requirements. As a result of our January 2013 "ownership change", our future ability to utilize our net operating loss and net capital loss carryforwards to reduce our taxable income may be limited by certain provisions of the Code.

Specifically, the Code limits the ability of a company that undergoes an "ownership change" to utilize its net operating loss carryforwards and certain built-in losses to offset taxable income earned in years after the ownership change. An ownership change occurs if, during a three-year testing period, more than 50% of the stock of a company is acquired by one or more persons (or certain groups of persons) who own, directly or constructively, 5% or more of the stock of such company. An ownership change can occur as a result of a public offering of stock, as well as through secondary market purchases of our stock and certain types of reorganization transactions. Generally, when an ownership change occurs, the annual limitation on the use of net operating loss carryforwards and certain built-in losses is equal to the product of the applicable long-term tax exempt rate and the value of the company's stock immediately before the ownership change. We have substantial net operating and net capital loss carry forwards which we have used, and will continue to use, to offset our tax and distribution requirements. In January 2013, an "ownership change" for purposes of Section 382 of the Code occurred. Therefore, the provisions of Section 382 of the Code impose an annual limit on the amount of net operating loss carryforwards and built in losses that we can use to offset future taxable income. Such limitation may increase our dividend distribution requirement in the future, which could adversely affect our liquidity. We do not believe that the limitation as a result of the January 2013 ownership change will prevent us from satisfying our REIT distribution requirement for the current year and future years. No assurance, however, can be given that we will be able to satisfy our distribution requirement following a current or future ownership change or otherwise. If we were to fail to satisfy our distribution requirement, it would cause us to lose our REIT status and thereby materially negatively impact our business, financial condition and potentially impair our ability to continue operating in the future.

Certain properties are leased to our taxable REIT subsidiaries pursuant to special provisions of the Code.

We currently lease certain "qualified healthcare properties" to our taxable REIT subsidiaries ("TRSs") (or a limited liability company of which the TRS is a member). These TRSs in turn contract with an affiliate of our manager to manage the healthcare operations at these properties. The rents paid by the TRSs in this structure will be treated as qualifying rents from real property for purposes of the REIT requirements if (i) they are paid pursuant to an arm's-length lease of a qualified healthcare property and (ii) the operator qualifies as an "eligible independent contractor" with respect to the property. An operator will qualify as an eligible independent contractor if it meets certain ownership tests with respect to us, and if, at the time the operator enters into the management agreement, the operator is actively engaged in the trade or business of operating qualified healthcare properties for any person who is not a related person to us or the lessee. If any of the above conditions were not satisfied, then the rents would not be considered income from a qualifying source for purposes of the REIT rules, which could cause us to incur penalty taxes or to fail to qualify as a REIT.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may acquire debt instruments in the secondary market for less than their face amount. The amount of such discount will generally be treated as "market discount" for federal income tax purposes. Accrued market discount is generally recognized as taxable income over our holding period in the instrument in advance of the receipt of cash. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

In addition, we may acquire debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are "significant modifications" under the applicable Treasury regulations, the modified debt may be considered to have been reissued to us in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt, even if the value of the debt or the payment expectations have not changed. Following such a taxable modification, we would hold the modified loan with a cost basis equal to its principal amount for federal tax purposes.

Moreover, in the event that any debt instruments acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income. Similarly, we may be required to accrue interest income with respect to subordinate mortgage-backed securities at the stated rate regardless of whether corresponding cash payments are received.

The IRS tax rules regarding recognizing capital losses and ordinary income for our non-recourse financings, coupled with current REIT distribution requirements, could result in our recognizing significant taxable net income without receiving an equivalent amount of cash proceeds from which to make required distributions. This disconnect could have a serious, negative effect on us.

We may experience issues regarding the characterization of income for tax purposes. For example, we may recognize significant ordinary income, which we would not be able to offset with capital losses, which would, in turn, increase the amount of income we would be required to distribute to stockholders in order to maintain our REIT status. We expect that this disconnect will occur in the case of one or more of our non-recourse financing structures, including off balance sheet structures such as our subprime securitizations and non-consolidated CDOs, where we incur capital losses on the related assets, and ordinary income from the cancellation of the related non-recourse financing if the ultimate proceeds from the assets are insufficient to repay such debt. Through March 31, 2013, no such cancellation of CDO debt had been effected as a result of losses incurred. However, we expect that such cancellation of indebtedness within our CDOs, consolidated or non-consolidated, may occur in the future. In the case of our subprime securitizations, $68.7 million of such cancellations had been effected through March 31, 2013, and we expect such cancellations will continue as losses are realized. This disconnect could also occur, and has occurred, as a result of the repurchase of our outstanding debt at a discount as the gain recorded upon the cancellation of indebtedness is characterized as ordinary income for tax purposes. We have repurchased our debt at a discount in the past, and we intend to attempt to do so in the future. During 2009 and 2010, we repurchased $787.8 million face amount of our outstanding CDO debt and junior subordinated notes at a discount, and recorded $521.1 million of gain. In compliance with tax laws, we had the ability to defer the ordinary income recorded as a result of this cancellation of indebtedness to future years and have deferred or intend to defer all or a portion of such gain for 2009 and 2010. While such deferral may postpone the effect of the disconnect on the ability to offset taxable income and losses, it does not eliminate it. Furthermore, cancellation of indebtedness income recognized on or after January 1, 2011 cannot be deferred and must generally be recognized as ordinary income in the year of such cancellation. During the years ended December 31, 2011 and December 31, 2012, we repurchased $188.9 million and $34.1 million face amount of our outstanding CDO debt and notes payable at a discount and recorded $81.1 million and $23.2 million of gain for tax purposes, respectively, (of which only $66.1 million and $24.1 million gain relating to $171.8 million and $39.3 million face amount of debt repurchased, respectively, was recognized for GAAP purposes). During the three months ended March 31, 2013, we repurchased $10.9 million face amount of our outstanding CDO debt and notes payable at a discount and recorded $1.2 million of gain for tax and GAAP purposes. The elimination of the ability to defer the recognition of cancellation of indebtedness income introduces additional tax implications that may significantly reduce the economic benefit of repurchasing our outstanding CDO debt.

When we experience any of these disconnects, and to the extent that a distribution through stock dividends is not viable, we may not have sufficient cashflow to make the distributions necessary to satisfy our REIT distribution requirements, which would cause us to lose our REIT status and thereby materially negatively impact our business, financial condition and potentially impair our ability to continue operating in the future. Under current market conditions, this type of disconnect between taxable income and cash proceeds would be likely to occur at some point in the future if the current regulations that create the disconnect are not revised, but we cannot predict at this time when such a disconnect might occur.

We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay distributions to our stockholders.

As a REIT, we are generally required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and not including net capital losses) each year to our stockholders. To qualify for the tax benefits accorded to REITs, we intend to make distributions to our stockholders in amounts such that we distribute all or substantially all of our net taxable income each year, subject to certain adjustments. However, our ability to make distributions may be adversely affected by the risk factors described herein. In the event of a sustained downturn in our operating results and financial performance relative to previous periods or sustained declines in the value of our asset portfolio, we may be unable to declare or pay quarterly distributions or make distributions to our stockholders, and we may elect to comply with our REIT distribution requirements by, after completing various procedural steps, distributing, under certain circumstances, a portion of the required amount in the form of common shares in lieu of cash. The timing and amount of distributions are in the sole discretion of our board of directors, which considers, among other factors, our earnings, financial condition, debt service obligations and applicable debt covenants, REIT qualification requirements and other tax considerations and capital expenditure requirements as our board may deem relevant from time to time.

The stock ownership limit imposed by the Internal Revenue Code for REITs and our charter may inhibit market activity in our stock and restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year after our first year. Our charter, with certain exceptions, authorizes our board of directors to take the actions that are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 8% of the aggregate value of our outstanding capital stock, treating classes and series of our stock in the aggregate, or more than 25% of the outstanding shares of our Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock. Our board may grant an exemption in its sole discretion, subject to such conditions, representations and undertakings as it may determine in its sole discretion. These ownership limits could delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Moreover, if a REIT distributes less than 85% of its taxable income to its stockholders during any calendar year (including any distributions declared by the last day of the calendar year but paid in the subsequent year), then it is required to pay an excise tax of 4% on any shortfall between the required 85% and the amount that was actually distributed. Any of these taxes would decrease cash available for distribution to our stockholders. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through taxable REIT subsidiaries. Such subsidiaries will be subject to corporate level income tax at regular rates.

Complying with REIT requirements may cause us to forego, liquidate or contribute to a TRS otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. As a result of these tests, we may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, forego otherwise attractive investment opportunities, liquidate assets in adverse market conditions or contribute assets to a TRS that is subject to regular corporate federal income tax. Thus, compliance with the REIT requirements may hinder our ability to make and retain certain attractive investments.

Complying with REIT requirements may limit our ability to hedge effectively.

The existing REIT provisions of the Code may substantially limit our ability to hedge our operations because a significant amount of the income from those hedging transactions is likely to be treated as non-qualifying income for purposes of both REIT gross income tests. In addition, we must limit our aggregate income from non-qualified hedging transactions, from our provision of services and from other non-qualifying sources, to less than 5% of our annual gross income (determined without regard to gross income from qualified hedging transactions). As a result, we may have to limit our use of certain hedging techniques or implement those hedges through total return swaps. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur or could increase the cost of our hedging activities. If we fail to comply with these limitations, we could lose our REIT qualification for federal income tax purposes, unless our failure was due to reasonable cause, and not due to willful neglect, and we meet certain other technical requirements. Even if our failure were due to reasonable cause, we might incur a penalty tax.

The "taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

Certain of our securitizations have resulted in the creation of taxable mortgage pools for federal income tax purposes. As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we would generally not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we could incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we might reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax.

Moreover, we may be precluded from selling equity interests in these securities to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

Maintenance of our 1940 Act exemption imposes limits on our operations.

We conduct our operations in reliance on an exemption from the 1940 Act, which we refer to as Section 3(c)(5)(C). The assets that we may acquire, therefore, are limited by the provisions of Section 3(c)(5)(C) and the rules, regulations and SEC guidance promulgated under Section 3(c)(5)(C). The SEC recently solicited public comment on a wide range of issues relating to Section 3(c)(5)(C), including the nature of the assets that qualify for purposes of the exemption and whether mortgage REITs should be regulated in a manner similar to investment companies. There can be no assurance that the laws and regulations governing the 1940 Act status of REITs, or SEC guidance regarding these exemptions, will not change in a manner that adversely affects our operations. If the SEC takes action that could result in our or our subsidiaries' failure to maintain an exception or exemption from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to maintain our exemption from registration as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company (which, among other things, would require us to comply with the leverage constraints applicable to investment companies), any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions to our stockholders, which could, in turn, materially and adversely affect us and the market price of our stock. Maintenance of our exemption under the 1940 Act generally limits the amount of our investments in non-real estate assets, including consumer loans, to no more than 20% of our total assets. To the extent that we acquire significant non-real estate assets in the future, in order to maintain our exemption under the 1940 Act, we may need to offset those acquisitions with additional qualifying real estate and real estate related assets which may not generate risk-adjusted returns as attractive as those generated by non-real estate related assets.

Our staggered board and other provisions of our charter and bylaws may prevent a change in our control.

Our board of directors is divided into three classes of directors. Directors of each class are chosen for three-year terms upon the expiration of their current terms, and each year one class of directors is elected by the stockholders. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our stockholders. In addition, our charter and bylaws also contain other provisions that may delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Risks Related to Our Common Stock

Our stock price has fluctuated meaningfully, particularly on a percentage basis, and may fluctuate meaningfully in the future. Accordingly, you may not be able to resell your shares at or above the price at which you purchased them.

The trading price of our common stock has fluctuated significantly over the last three years. Moreover, future share price fluctuations could likely be subject to similarly wide price fluctuations in the future in response to various factors, including:

- the planned sign-off of New Residential;
- market conditions in the broader stock market in general, or in the REIT or real estate industry in particular;
- our ability to make investments with attractive risk-adjusted returns;
- market perception of our current and projected financial condition, potential growth, future earnings and future cash dividends;
- announcements we make regarding dividends;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- market perception or media coverage of our manager or its affiliates;
- actions by rating agencies;
- short sales of our common stock;
- any decision to pursue a distribution or disposition of a meaningful portion of our assets;
- issuance of new or changed securities analysts' reports or recommendations;
- media coverage of us, other REITs or the outlook of the real estate industry;
- major reductions in trading volumes on the exchanges on which we operate;
- credit deterioration within our portfolio;
- legislative or regulatory developments, including changes in the status of our regulatory approvals or licenses; and
- litigation and governmental investigations.

These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may negatively affect the price or liquidity of our common stock. Moreover, the recent market conditions negatively impacted our stock price and may do so in the future. When the market price of a stock has been volatile or has decreased significantly in the past, holders of that stock have, at times, instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending, settling or paying any resulting judgments related to the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business and hurt our share price.

We may be unable – or elect not – to pay dividends on our common or preferred stock in the future, which would negatively impact our business in a number of ways and decrease the price of our common and preferred stock.

While we are required to make distributions in order to maintain our REIT status (as described above under "–We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay distributions to our stockholders"), we may elect not to maintain our REIT status, in which case we would no longer be required to make such distributions. Moreover, even if we do elect to maintain our REIT status, we may elect to comply with the applicable requirements by, after completing various procedural steps, distributing, under certain circumstances, a portion of the required amount in the form of shares of our common stock in lieu of cash. If we elect not to maintain our REIT status or to satisfy any required distributions in common stock in lieu of cash, such action could negatively affect our business and financial condition as well as the price of both our common and preferred stock. No assurance can be given that we will pay any dividends on our common stock in the future.

We do not currently have unpaid accrued dividends on our preferred stock. However, to the extent we do, we cannot pay any dividends on our common stock, pay any consideration to repurchase or otherwise acquire shares of our common stock or redeem any shares of any series of our preferred stock without redeeming all of our outstanding preferred stock in accordance with the governing documentation. Consequently, the failure to pay dividends on our preferred stock restricts the actions that we may take with respect to our common stock and preferred stock. Moreover, if we do not pay dividends on any series of preferred stock for six or more periods, then holders of each affected series obtain the right to call a special meeting and elect two members to our board of directors. We cannot predict whether the holders of our preferred stock would take such action or, if taken, how long the process would take or what impact the two new directors on our board of directors would have on our company (other than increasing our director compensation costs). However, the election of additional directors would affect the composition of our board of directors and, thus, could affect the management of our business.

We may in the future choose to pay dividends in our own stock, in which case you could be required to pay income taxes in excess of the cash dividends you receive.

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. We may also determine to distribute a taxable dividend in the stock of a subsidiary in connection with a spin-off or other transaction, and our Board has in fact declared a distribution of stock of our wholly owned subsidiary New Residential, which is expected to be distributed on May 15, 2013. Taxable stockholders receiving such distributions will be required to include the full amount of the distribution as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

It is unclear whether and to what extent we will be able to pay taxable dividends in cash and stock. Moreover, various aspects of such a taxable cash/stock dividend are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/stock dividends have not been met.

Shares eligible for future sale may adversely affect our common stock price.

Sales of our common stock or other securities in the public or private market, or the perception that these sales may occur, could cause the market price of our common stock to decline. This could also impair our ability to raise additional capital through the sale of our equity securities. Under our certificate of incorporation, we are currently authorized to issue up to 500,000,000 shares of common stock, of which 253,025,645 shares of common stock were outstanding as of March 31, 2013. At our annual shareholders meeting on June 6, 2013, we will seek a shareholder vote on an amendment to our charter that would increase our authorized shares of common stock to 1,000,000,000 shares. We cannot predict the size of future issuances of our common stock or other securities or the effect, if any, that future sales and issuances would have on the market price of our common stock.

An increase in market interest rates may have an adverse effect on the market price of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell shares of our common stock is our distribution rate as a percentage of our share price relative to market interest rates. If the market price of our common stock is based primarily on the earnings and return that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions will likely affect the market price of our common stock. For instance, if market interest rates rise without an increase in our distribution rate, the market price of our common stock could decrease as potential investors may require a higher distribution yield on our common stock or seek other securities paying higher distributions or interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay distributions.

ERISA may restrict investments by plans in our common stock.

A plan fiduciary considering an investment in our common stock should consider, among other things, whether such an investment is consistent with the fiduciary obligations under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, including whether such investment might constitute or give rise to a prohibited transaction under ERISA, the Code or any substantially similar federal, state or local law and, if so, whether an exemption from such prohibited transaction rules is available.

Maryland takeover statutes may prevent a change of our control, which could depress our stock price.

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include certain mergers, consolidations, share exchanges, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities or a liquidation or dissolution. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation's outstanding shares; or
- an affiliate or associate of a corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which he or she otherwise would have become an interested stockholder.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation voting together as a single group; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder voting together as a single voting group.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer, including potential acquisitions that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our authorized, but unissued common and preferred stock may prevent a change in our control.

Our charter authorizes us to issue additional authorized but unissued shares of our common stock or preferred stock. In addition, our board of directors may classify or reclassify any unissued shares of our common stock or preferred stock and may set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board may establish a series of preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Risks Related to the Spin-Off of New Residential

We may not be able to complete the spin-off of New Residential on the terms anticipated or at all.

Our board of directors has determined upon careful review and consideration in accordance with the applicable standard of review under Maryland law that the spin-off of our wholly owned subsidiary New Residential is in our best interests. The spin-off will be effected as a distribution of the shares of common stock of New Residential to the holders of our common stock as of the record date. On April 26, 2013, our Board established the record date for the spin-off as May 6, 2013, and we expect the spin-off to be completed on May 15, 2013. However, there can be no assurance that the spin-off will be completed as anticipated or at all. A failure to complete the spin-off could negatively affect the price of the shares of our common stock.

The spin-off may not have the benefits we anticipate.

The spin-off may not have the full or any strategic and financial benefits that we expect, or such benefits may be delayed or may not materialize at allThe anticipated benefits of the spin-off are based on a number of assumptions, which may prove incorrect. For example, we believe that analysts and investors will regard our and New Residential's respective investment strategy and asset portfolio more favorably as separate companies than as part of our existing portfolio and strategy and thus place a greater value on each company respective as a stand-alone REIT than as a combined business. In the event that the spin-off does not have these and other expected benefits, because of the diversification of New Residential's portfolio or for any other reason, the costs associated with the transaction, including an expected increase in management compensation and general and administrative expenses, could have a negative effect on our financial condition and our and New Residential's ability to make distributions to the stockholders of each company.

New Residential may not be able to successfully implement its business strategy.

Assuming the spin-off is completed, there can be no assurance that New Residential will be able to generate sufficient returns to pay its operating expenses and make satisfactory distributions to its stockholders, or any distributions at all, once it commences operations as an independent company. New Residential's financial condition, results of operations and cash flows will be affected by the expenses it will incur as a stand-alone public company, including fees paid to its manager, legal, accounting, compliance and other costs associated with being a public company with equity securities traded on the NYSE. In addition, its results of operations and its ability to make or sustain distributions to its stockholders depend on the availability of opportunities to acquire attractive assets, the level and volatility of interest rates, the availability of adequate short- and long-term financing, conditions in the real estate market, the financial markets and economic conditions, among other factors described in the registration statement for the transaction. After the separation, we will not be required, and do not intend, to provide New Residential with funds to finance its working capital or other cash requirements, so New Residential would need to obtain additional financing from banks, through public offerings or private placements of debt or equity securities, strategic relationships or other arrangements.

Our agreements with New Residential may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties, and we have agreed to indemnify New Residential for certain liabilities.

The terms of the agreements related to New Residential's separation from us, including a Separation and Distribution Agreement between us and New Residential and a Management Agreement between our manager and New Residential, were not negotiated among unaffiliated third parties. Such terms were proposed by our officers and other employees of our manager and approved by our board of directors. As a result, these terms may be less favorable to us than the terms that would have resulted from arm's-length negotiations among unaffiliated third parties.

For example, the terms of New Residential's management agreement with our manager will be substantially similar to the terms of our existing management agreement. As a result, our manager will be entitled to earn a management fee from New Residential and will be eligible to receive incentive compensation based in part upon New Residential's achievement of targeted levels of funds from operations tested from the date of the spin-off and without regard to our prior performance.

In the Separation and Distribution Agreement, we have agreed to indemnify New Residential and its affiliates and representatives against losses arising from: (a) any liability related to our junior subordinated notes due 2035; (b) any other liability that has not been defined as a liability of New Residential; (c) any failure by us and our subsidiaries (other than New Residential and its subsidiaries) (collectively, the "Newcastle Group") to pay, perform or otherwise promptly discharge any liability listed under (a) and (b) above in accordance with their respective terms, whether prior to, at or after the time of effectiveness of the Separation and Distribution Agreement; (d) any breach by any member of the Newcastle Group of any provision of the Separation and Distribution Agreement and any agreements ancillary thereto (if any), subject to any limitations of liability provisions and other provisions applicable to any such breach set forth therein; and (e) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the information statement or the registration statement of which the information statement is a part that relates solely to any assets owned, directly or indirectly by us, other than New Residential's initial portfolio of assets. Any indemnification payments that we may be required to make could have a significantly negative effect on our liquidity and results of operations.

The distribution of New Residential common stock will not qualify for tax-free treatment and may be taxable to you as a dividend.

The distribution of New Residential common stock will not qualify for tax-free treatment. The distribution of New Residential common stock, as well as each cash distribution made by us is taxable to taxable shareholders to the extent of our earnings and profits. If the aggregate value of the distributions we make in a given year exceeds our earnings and profits, then such excess is treated as a return of capital to the extent of a shareholder's basis and then to capital gain. The distribution of New Residential stock will contribute to Newcastle's earnings and profits to the extent that the value of the shares distributed exceeds Newcastle's tax basis in the New Residential assets.

In addition, we or other applicable withholding agents may be required or permitted to withhold at the applicable rate on all or a portion of the distribution payable to non-U.S. stockholders, and any such withholding would be satisfied by us or such agent withholding and selling a portion of the New Residential stock otherwise distributable to non-U.S. stockholders. Such non-U.S. stockholders may bear brokerage fees or other costs from this withholding procedure. Your tax basis in our shares held at the time of the distribution will be reduced (but not below zero) to the extent the fair market value of the New Residential shares distributed by us to you in the distribution exceeds your ratable share of our current and accumulated earnings and profits. Your holding period for such our shares will not be affected by the distribution. We will not be able to advise you of the amount of its earnings and profits until after the end of the 2013 calendar year

Although we will be ascribing a value to New Residential's shares in the distribution for tax purposes, this valuation is not binding on the IRS or any other tax authority. These taxing authorities could ascribe a higher valuation to your shares, particularly if New Residential's stock trades at prices significantly above the value ascribed to the shares by us in the period following the distribution. Such a higher valuation may cause a larger reduction in the tax basis of your shares of us or may cause you to recognize additional dividend or capital gain income. You should consult your own tax advisor as to the particular tax consequences of the distribution to you.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

2.1	Separation and Distribution Agreement dated April 25, 2013, between New Residential Investment Corp. and the Registrant.
3.1	Articles of Amendment and Restatement (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-90578), Exhibit 3.1).
3.2	Articles Supplementary Relating to the Series B Preferred Stock (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003, Exhibit 3.3).
3.3	Articles Supplementary Relating to the Series C Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 3.3, filed on October 25, 2005).
3.4	Articles Supplementary Relating to the Series D Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-A, Exhibit 3.1, filed on March 14, 2007).
3.5	Amended and Restated By-laws (incorporated by reference to the Registrant's Registration Statement on Form 8-K, Exhibit 3.1, filed on May 5, 2006).
4.1	Junior Subordinated Indenture between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.1, filed on May 4, 2009).
4.2	Pledge and Security Agreement between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, as trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.2, filed on May 4, 2009).
4.3	Pledge, Security Agreement and Account Control Agreement among Newcastle Investment Corp., NIC TP LLC, as pledgor, and The Bank of New York Mellon Trust Company, National Association, as bank and trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.3, filed on May 4, 2009).
10.1	Amended and Restated Management and Advisory Agreement by and among the Registrant and FIG LLC dated April 25, 2013.
10.2	2012 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, adopted as of May 7, 2012 (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.3).
10.3	Exchange Agreement between Newcastle Investment Corp. and Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd., dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on May 4, 2009).
10.4	Exchange Agreement, dated as of January 29, 2010, by and among Newcastle Investment Corp., Taberna Capital Management, LLC, Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd. (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on February 2, 2010).
10.5	Excess Servicing Spread Sale and Assignment Agreement between NIC MSR I LLC, a wholly owned subsidiary of Newcastle Investment Corp., and Nationstar Mortgage LLC, dated December 8, 2011. (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).
10.6	Excess Spread Refinanced Loan Replacement Agreement between NIC MSR I LLC, a wholly owned subsidiary of Newcastle Investment Corp., and Nationstar Mortgage LLC, dated December 8, 2011. (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).
10.7	Future Spread Agreement for FNMA Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR V LLC (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).
10.8	Future Spread Agreement for FHLMC Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR IV LLC (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).
10.9	Future Spread Agreement for Non-Agency Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR VI LLC (incorporated by reference to the Registrant's Report

on Form 8-K, Exhibit 10.6, filed on May 15, 2012).

10.10	Future Spread Agreement for GNMA Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR VII LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.8, filed on May 15, 2012).
10.11	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, dated as of June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.1, filed on June 7, 2012).
10.12	Amended and Restated Future Spread Agreement for FNMA Mortgage Loans, dated June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.2, filed on June 7, 2012).
10.13	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, dated as of June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.3, filed on June 7, 2012).
10.14	Amended and Restated Future Spread Agreement for FHLMC Mortgage Loans, dated June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.4, filed on June 7, 2012).
10.15	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, dated as of June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.5, filed on June 7, 2012).
10.16	Amended and Restated Future Spread Agreement for Non-Agency Mortgage Loans, dated June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.6, filed on June 7, 2012).
10.17	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, dated as of May 31, 2012, between Nationstar Mortgage LLC and NIC MSR III LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.1, filed on June 6, 2012).
10.18	Future Spread Agreement for FHLMC Mortgage Loans , dated May 31, 2012, between Nationstar Mortgage LLC and NIC MSR III LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.2, filed on June 6, 2012).
10.19	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR V LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.1, filed on July 5, 2012).
10.20	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR IV LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.2, filed on July 5, 2012).
10.21	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR VI LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.3, filed on July 5, 2012).
10.22	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR VII LLC (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.4, filed on July 5, 2012).
10.23	Master Designation Agreement, dated as of July 17, 2012, among B Healthcare Properties LLC and the designees listed on the signature pages attached thereto (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.1, filed on July 23, 2012).
10.24	Amended and Restated Purchase Agreement, dated as of February 27, 2012, by and among the Purchasers named therein, the Sellers named therein, the Former Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 10.2, filed on July 23, 2012).

10.25	Amendment No. 1 to the Amended and Restated Purchase Agreement, dated as of March 30, 2012, among the Purchasers named therein, the Sellers named therein, BDC/West Covina II, LLC and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.3, filed on July 23, 2012).
10.26	Amendment No. 2 to the Amended and Restated Purchase Agreement, dated as of April 11, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.4, filed on July 23, 2012).
10.27	Amendment No. 3 to the Amended and Restated Purchase Agreement, dated as of April 27, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.5, filed on July 23, 2012).
10.28	Amendment No 4 to the Amended and Restated Purchase Agreement, dated as of June 14, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.6, filed on July 23, 2012).
10.29	Amendment No. 5 to the Amended and Restated Purchase Agreement, dated as of July 16, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.7, filed on July 23, 2012).
10.30	Master Credit Facility Agreement, dated as of July 18, 2012, by and among the Borrowers named therein, Propco LLC, TRS LLC and Oak Grove Commercial Mortgage, LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.8, filed on July 23, 2012).
10.31	Assignment of Master Credit Facility Agreement and Other Loan Documents, dated as of July 18, 2012, from Oak Grove Commercial Mortgage, LLC to Fannie Mae (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.9, filed on July 23, 2012).
10.32	Management Agreement, dated as of July 5, 2012, between Willow Park Management LLC and Willow Park Leasing LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.10, filed on July 23, 2012).
10.33	Sale and Cooperation Agreement, dated September 7, 2012, among Newcastle Investment Corp., Barclays Bank PLC and ED LIMITED (incorporated by reference to the Registrant's Report on Form 10-Q, Exhibit 10.33, filed on October 26, 2012).
10.34	Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, dated as of December 31, 2012, between Nationstar Mortgage LLC and MSR VIII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.35).
10.35	Future Spread Agreement for GNMA Mortgage Loans, dated as of December 31, 2012, between Nationstar Mortgage LLC and MSR VIII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.36).
10.36	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR IX LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.37).
10.37	Future Spread Agreement for FHLMC Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR IX LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.38).
10.38	Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR X LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.39).
10.39	Future Spread Agreement for FNMA Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR X LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.40).

10.40	Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XI LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.41).
10.41	Future Spread Agreement for GNMA Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XI LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.42).
10.42	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.43).
10.43	Future Spread Agreement for Non-Agency Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.44).
10.44	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XIII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.45).
10.45	Future Spread Agreement for Non-Agency Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XIII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.46).
10.46	Purchase Agreement, among the Sellers listed therein, HSBC Finance Corporation and SpringCastle Acquisition LLC, dated March 5, 2013 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 99.1, filed on March 11, 2013).
10.47	Form of Interim Servicing Agreement, among the Interim Servicers listed therein, HSBC Bank USA, National Association and SpringCastle Acquisition LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 99.2, filed on March 11, 2013).
21.1	Subsidiaries of the Registrant (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012, Exhibit 21.1)
31.1	Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

*XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

The following management agreements are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K, as discussed in Item 1.01 on Form 8-K filed on July 23, 2012:

Management Agreement, dated as of July 5, 2012, between Sun Oak Management LLC and Sun Oak Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Orchard Park Management LLC and Orchard Park Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Desert Flower Management LLC and Desert Flower Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Canyon Creek Property Management LLC and Canyon Creek Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Regent Court Management LLC and Regent Court Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Sunshine Villa Management LLC and Sunshine Villa Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Sheldon Park Management LLC and Sheldon Park Leasing LLC.

SIGNATURES

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 thereunto duly authorized:

NEWCASTLE INVESTMENT CORP.

By: /s/ Kenneth M. Riis
Kenneth M. Riis
Chief Executive Officer and President

May 3, 2013

By: /s/ Brian Sigman
Brian C. Sigman
Chief Financial Officer and Principal Accounting Officer

May 3, 2013

EXECUTION VERSION
Exhibit 2.1

SEPARATION AND DISTRIBUTION AGREEMENT

by and between

NEWCASTLE INVESTMENT CORP.

and

NEW RESIDENTIAL INVESTMENT CORP.

dated as of

April 25, 2013

TABLE OF CONTENTS

ARTICLE I

DEFINITIONS

ARTICLE II

THE SEPARATION

ARTICLE III

CERTAIN ACTIONS PRIOR TO THE DISTRIBUTION

ARTICLE IV

THE DISTRIBUTION

ARTICLE V

CONDITIONS

ARTICLE VI

NO REPRESENTATIONS OR WARRANTIES

ARTICLE VII

CERTAIN COVENANTS AND ADDITIONAL AGREEMENTS

ARTICLE VIII

ACCESS TO INFORMATION; CONFIDENTIALITY; PRIVILEGE

ARTICLE IX

MUTUAL RELEASES; INDEMNIFICATION

ARTICLE X

DISPUTE RESOLUTION

ARTICLE XI

TERMINATION

ARTICLE XII

MISCELLANEOUS

SEPARATION AND DISTRIBUTION AGREEMENT

This SEPARATION AND DISTRIBUTION AGREEMENT (this "Agreement") is entered into as of April 25, 2013, by and between Newcastle Investment Corp., a Maryland corporation ("Newcastle"), and New Residential Investment Corp., a Delaware corporation and a direct, wholly owned subsidiary of Newcastle ("New Residential"). Newcastle and New Residential are sometimes referred to herein individually as a "Party," and collectively as the "Parties." Capitalized terms used but not otherwise defined herein shall have the respective meanings set forth in Section 1.1.

RECITALS

WHEREAS, Newcastle, through New Residential, has invested in certain residential mortgage related investments and other investments, such as excess mortgage servicing rights, residential mortgage backed securities, residential mortgage loans and consumer loans;

WHEREAS, the board of directors of Newcastle has determined that it is advisable and in the best interests of Newcastle to establish New Residential as an independent publicly traded company; and

WHEREAS, pursuant to the terms of this Agreement, the Parties intend to effect the separation of Newcastle and New Residential by distributing to the holders of Newcastle's outstanding shares of common stock, par value $0.01 per share ("Newcastle Common Stock"), on a pro rata basis, all of the outstanding shares of common stock, par value $0.01 per share, of New Residential ("New Residential Common Stock"), owned by Newcastle as of the Distribution Date (which shall represent 100% of the issued and outstanding shares of New Residential Common Stock).

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the Parties hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. As used in this Agreement, the following terms shall have the meanings set forth in this Section 1.1:

"Action" means any demand, claim, action, suit, countersuit, arbitration, litigation, inquiry, proceeding or investigation by or before any Governmental Authority or any arbitration or mediation tribunal or authority.

"Adjusted Newcastle Stock Options" has the meaning set forth in Section 4.4(a).

"Affiliate" means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the specified Person. For this purpose "control" of a Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through ownership of voting securities, by contract or otherwise.

"Agreement" has the meaning set forth in the preamble to this Agreement and includes all Exhibits and Schedules attached hereto or delivered pursuant hereto.

"Agreement Dispute" has the meaning set forth in Section 10.2(a).

"Ancillary Agreements" has the meaning set forth in Section 3.5(a).

"Appointed Representative" has the meaning set forth in Section 10.1.

"Appropriate Member of the Newcastle Group" has the meaning set forth in Section 9.3.

"Appropriate Member of the New Residential Group" has the meaning set forth in Section 9.2.

"Asset" means all rights, properties or other assets, whether real, personal or mixed, tangible or intangible, of any kind, nature and description, whether accrued, contingent or otherwise, and wheresoever situated and whether or not carried or reflected, or required to be carried or reflected, on the books of any Person.

"Business Day" means a day other than a Saturday, a Sunday or a day on which banking institutions located in the State of New York are authorized or obligated by applicable Law or executive order to close.

"Code" means the Internal Revenue Code of 1986, as amended.

"Confidential Information" means any and all information:

(a) that is required to be maintained in confidence by any Law or under any Contract;

(b) concerning market studies, business plans, computer hardware, computer software (including all versions, source and object codes and all related files and data), software and database technologies, systems, structures and architectures, and other similar technical or business information;

(c) concerning any business and its affairs, which includes earnings reports and forecasts, macro-economic reports and forecasts, business and strategic plans, general market evaluations and surveys, litigation presentations and risk assessments, financing and credit-related information, financial projections, tax returns and accountants' materials, historical, business plans, strategic plans, Contracts, however documented, and other similar financial or business information;

(d) constituting communications by or to attorneys (including attorney-client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), communications and materials otherwise related to or made or prepared in connection with or in preparation for any legal proceeding; or

(e) constituting notes, analyses, compilations, studies, summaries and other material that contain or are based, in whole or in part, upon any information included in the foregoing clauses (a) through (d).

"Consent" means any consent, waiver or approval from, or notification requirement to, any Person other than a member of either Group.

"Contract" means any written, oral, implied or other contract, agreement, covenant, lease, license, guaranty, indemnity, representation, warranty, assignment, sales order, purchase order, power of attorney, instrument or other commitment, assurance, undertaking or arrangement that is binding on any Person or entity or any part of its property under applicable Law.

"CPR" means The International Institute for Conflict Prevention & Resolution.

"CPR Rules" has the meaning set forth in Section 10.3(a).

"Distribution" means the transactions contemplated by Section 4.3.

"Distribution Agent" means American Stock Transfer & Trust Company, LLC.

"Distribution Date" means the date on which the Distribution occurs, such date to be determined by, or under the authority of, the board of directors of Newcastle, in its sole and absolute discretion.

"Distribution Ratio" has the meaning set forth in Section 4.3(a).

"Effective Time" means the time at which the Distribution is effective on the Distribution Date.

"Escrow Account" has the meaning set forth in Section 9.4(h).

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Expense Amount" has the meaning set forth in Section 9.4(h).

"Expense Amount Accountant's Letter" has the meaning set forth in Section 9.4(h).

"Expense Amount Tax Opinion" has the meaning set forth in Section 9.4(h).

"Governmental Approval" means any notice, report or other filing to be given to or made with, or any release, consent, substitution, approval, amendment, registration, permit or authorization from, any Governmental Authority.

"Governmental Authority" means any U.S. federal, state, local or non-U.S. court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority.

"Group" means either the Newcastle Group or the New Residential Group, as the context requires.

"Guarantee" means any guarantee (including guarantees of performance or payment under Contracts, commitments, Liabilities and permits), letter of credit or other credit or credit support arrangement or similar assurance, including surety bonds, bid bonds, advance payment bonds, performance bonds, payment bonds, retention and/or warranty bonds or other bonds or similar instruments.

"Indebtedness" of any specified Person means (a) all obligations of such specified Person for borrowed money or arising out of any extension of credit to or for the account of such specified Person (including reimbursement or payment obligations with respect to surety bonds, letters of credit, bankers' acceptances and similar instruments), (b) all obligations of such specified Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such specified Person upon which interest charges are customarily paid, (d) all obligations of such specified Person under conditional sale or other title retention agreements relating to Assets purchased by such specified Person, (e) all obligations of such specified Person issued or assumed as the deferred purchase price of property or services, (f) all Liabilities secured by (or for which any Person to which any such Liability is owed has an existing right, contingent or otherwise, to be secured by) any mortgage, lien, pledge or other encumbrance on property owned or acquired by such specified Person (or upon any revenues, income or profits of such specified Person therefrom), whether or not the obligations secured thereby have been assumed by the specified Person or otherwise become Liabilities of the specified Person, (g) all capital lease obligations of such specified Person, (h) all securities or other similar instruments convertible or exchangeable into any of the foregoing, and (i) any Liability of others of a type described in any of the preceding clauses (a) through (h) in respect of which the specified Person has incurred, assumed or acquired a Liability by means of a Guarantee.

"Indemnifiable Loss" has the meaning set forth in Section 9.5.

"Indemnifying Party" has the meaning set forth in Section 9.4(a).

"Indemnitee" means any Newcastle Indemnitee or any New Residential Indemnitee.

"Indemnity Loan" has the meaning set forth in Section 9.4(h).

"Indemnity Loan Agreement" has the meaning set forth in Section 9.4(h).

"Indemnity Payment" has the meaning set forth in Section 9.5.

"Information Statement" means the information statement, attached as an exhibit to the Registration Statement, and any related documentation to be provided to holders of Newcastle Common Stock in connection with the Distribution, including any amendments or supplements thereto.

"Insurance Policy" means any insurance policies and insurance Contracts, including, without limitation, general liability, property and casualty, workers' compensation, automobile, directors & officers liability, errors and omissions, employee dishonesty and fiduciary liability policies, whether, in each case, in the nature of primary, excess, umbrella or self-insurance overage, together with all rights, benefits and privileges thereunder.

"Insurance Proceeds" means those monies (in each case, net of any out-of-pocket costs or expenses incurred in the collection thereof):

(a) received by an insured Person from any insurer, insurance underwriter, mutual protection and indemnity club or other risk collective, excluding any proceeds received directly or indirectly (such as through reinsurance arrangements) from any captive insurance Subsidiary of the insured Person; or

(b) paid on behalf of an insured Person by any insurer, insurance underwriter, mutual protection and indemnity club or other risk collective, excluding any such payment made directly or indirectly (such as through reinsurance arrangements) from any captive insurance Subsidiary of the insured Person, on behalf of the insured.

"Intercompany Account" means any receivable, payable or loan between any member of the Newcastle Group, on the one hand, and any member of the New Residential Group, on the other hand, that exists prior to the Effective Time and is reflected in the records of the relevant members of the Newcastle Group and the New Residential Group, except for any such receivable, payable or loan that arises pursuant to this Agreement or any Ancillary Agreement.

"Intercompany Agreement" means any Contract, whether or not in writing, between or among any member of the Newcastle Group, on the one hand, and any member of the New Residential Group, on the other hand, entered into prior to the Distribution Date, but excluding any Contract to which a Person other than any member of the Newcastle Group or the New Residential Group is also a party.

"IRS" means the United States Internal Revenue Service.

"Investment Advisors Act" means the Investment Advisors Act of 1940.

"Investment Company Act" means the Investment Company Act of 1940.

"Junior Subordinated Notes" means Newcastle's junior subordinated notes due 2035, issued pursuant to the Junior Subordinated Indenture, dated April 30, 2009, between Newcastle and The Bank of New York Mellon Trust Company, National Association.

"Law" means any law, statute, ordinance, code, rule, regulation, order, writ, proclamation, judgment, injunction or decree of any Governmental Authority.

"Liabilities" means any and all Indebtedness, liabilities and obligations, whether accrued, fixed or contingent, mature or inchoate, known or unknown, reflected on a balance sheet or otherwise, including those arising under any Law, Action or any judgment of any Governmental Authority or any award of any arbitrator of any kind, and those arising under any Contract.

"Losses" means any and all damages, losses, deficiencies, Liabilities, obligations, penalties, judgments, settlements, claims, payments, interest costs, Taxes, fines and expenses (including the costs and expenses of any and all Actions and demands, assessments, judgments, settlements and compromises relating thereto and attorneys', accountants', consultants' and other professionals' fees and expenses incurred in the investigation or defense thereof or the enforcement of rights hereunder).

"Manager" means FIG LLC, a Delaware limited liability company.

"Newcastle" has the meaning set forth in the preamble to this Agreement.

"Newcastle Assets" means all Assets owned, directly or indirectly, by Newcastle, other than any New Residential Assets.

"Newcastle Common Stock" has the meaning set forth in the recitals to this Agreement.

"Newcastle D&O Policy" has the meaning set forth in Section 7.1.

"Newcastle Group" means Newcastle and the Subsidiaries of Newcastle other than New Residential and the New Residential Subsidiaries.

"Newcastle Indemnitees" means each member of the Newcastle Group and its Affiliates (other than New Residential and the New Residential Subsidiaries) and each of their respective current or former stockholders, directors, officers, agents and employees (in each case, in such Person's respective capacity as such) and their respective heirs, executors, administrators, successors and assigns.

"Newcastle Liabilities" means the Junior Subordinated Notes and any other Liabilities of Newcastle or any of its Subsidiaries, other than any New Residential Liabilities.

"Newcastle Management Agreement" means the Amended and Restated Management and Advisory Agreement, dated as of April 25, 2013, by and between Newcastle and FIG LLC.

"Newcastle Option Plan" has the meaning set forth in Section 4.4(a).

"Newcastle Stock Options" has the meaning set forth in Section 4.4(a).

"New Residential" has the meaning set forth in the preamble to this Agreement.

"New Residential Assets" means all of the equity of the New Residential Subsidiaries and all of the other assets held by New Residential set forth on Section 1.1 of the Disclosure Schedule. For the avoidance of doubt, the New Residential Assets shall include, but not be limited to, all Assets recorded on the consolidated balance sheet of New Residential as of the date of this Agreement.

"New Residential Common Stock" has the meaning set forth in the recitals to this Agreement.

"New Residential Group" means New Residential and the New Residential Subsidiaries.

"New Residential Indemnitees" means each member of the New Residential Group and their Affiliates and each of their respective current or former stockholders, directors, officers, agents and employees (in each case, in such Person's respective capacity as such) and their respective heirs, executors, administrators, successors and assigns.

"New Residential Liabilities" means, except as otherwise expressly provided in this Agreement or one or more Ancillary Agreements, if any:

(a) all Liabilities relating to or arising out of the New Residential Assets whether arising prior to, at the time of, or after the Effective Time;

(b) all Liabilities arising out of claims made by New Residential's directors, officers and Affiliates after the Effective Time against Newcastle or New Residential, to the extent relating to the New Residential Assets; and

(c) any potential liabilities with respect to matters identified on, and subject to the limitations set forth on, Section 1.2 of the Disclosure Schedule.

"New Residential Management Agreement" has the meaning set forth in Section 3.4(a).

"New Residential Ratio" means the amount determined by dividing (x) the number one (1) by (y) the Distribution Ratio.

"New Residential Stock Options" has the meaning set forth in Section 4.4(a).

"New Residential Subsidiaries" means the Subsidiaries of New Residential as of the date of this Agreement, including, but not limited to, the Subsidiaries of New Residential listed on Exhibit A hereto, and any Subsidiary of New Residential formed after the date of this Agreement and prior to the Distribution Date.

"Nonqualifying Income" means any amount that is treated as gross income for purposes of Section 856 of the Code and which is not Qualifying Income.

"NYSE" means the New York Stock Exchange, Inc.

"NYSE Listing Application" has the meaning set forth in Section 3.2(a).

"Party" or "Parties" has the meaning set forth in the preamble to this Agreement.

"Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, a union, an unincorporated organization or a governmental entity or any department, agency or political subdivision thereof.

"Post-Distribution Newcastle Common Stock Price" means the five (5) day average closing price for Newcastle Common Stock subsequent to the Distribution Date.

"Post-Distribution New Residential Common Stock Price" means the five (5) day average closing price for New Residential Common Stock subsequent to the Distribution Date.

"Post-Distribution Stock Options" has the meaning set forth in Section 4.4(a).

"Pre-Distribution Option Price" has the meaning set forth in Section 4.4(a).

"Protected REIT" means any entity that (i) has elected to be taxed as a REIT, and (ii) either (A) is an Indemnitee or (B) owns a direct or indirect equity interest in any Indemnitee and is treated for purposes of Section 856 of the Code as owning all or a portion of the assets of such Indemnitee or as receiving all or a portion of the Indemnitee's income.

"Qualifying Income" means gross income that is described in Section 856(c)(3) of the Code.

"Record Date" means the close of business on the date, to be determined by the board of directors of Newcastle, as the record date for determining holders of Newcastle Common Stock entitled to receive shares of New Residential Common Stock in the Distribution.

"Record Holders" has the meaning set forth in Section 4.2.

"Registration Statement" means the registration statement on Form 10 of New Residential with respect to the registration under the Exchange Act of the New Residential Common Stock to be distributed in the Distribution, including any amendments or supplements thereto.

"REIT" means a real estate investment trust, as defined under the Code.

"REIT Qualification Ruling" has the meaning set forth in Section 9.4(h).

"REIT Requirements" means the requirements imposed on REITs pursuant to Sections 856 through and including 860 of the Code.

"Release Document" has the meaning set forth in Section 9.4(h).

"Repurchase Agreements" means the agreements listed on Section 3.8 of the Disclosure Schedule.

"SEC" means the United States Securities and Exchange Commission.

"Security Interests" means any mortgage, security interest, pledge, lien, charge, claim, option, indenture, right to acquire, right of first refusal, deed of trust, licenses to third parties, leases to third parties, security agreements, voting or other restriction, covenant, condition, restriction, encroachment, restriction on transfer, restrictions or limitations on use of real or personal property or any other encumbrance of any nature whatsoever, imperfections in or failure of title or defect of title.

"Separation" means the transactions contemplated by Article II.

"Subsidiary" means, with respect to any specified Person, any corporation, partnership, limited liability company, joint venture or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such specified Person or by any one or more of its subsidiaries, or by such specified Person and one or more of its subsidiaries.

"Taxes" means all taxes, charges, fees, duties, levies, imposts or other assessments imposed by any federal, state, local or foreign Taxing Authority, including, but not limited to, income, gross receipts, excise, property, sales, use, license, capital stock, transfer, franchise, payroll, withholding, social security, value added and other taxes, and any interest, penalties or additions attributable thereto.

"Taxing Authority" means any Governmental Authority or any subdivision, agency, commission or authority thereof or any quasi-governmental or private body having jurisdiction over the assessment, determination, collection or imposition of any Tax (including the IRS).

"Third-Party Claim" has the meaning set forth in Section 9.4(b).

"Transactions" means the Separation, the Distribution and any other transactions contemplated by this Agreement or any Ancillary Agreement.

"Vendor Services Agreements" means the agreements listed on Section 3.9 of the Disclosure Schedule.

Section 1.2 Interpretation. In this Agreement and the Ancillary Agreements, if any, unless the context clearly indicates otherwise:

(a) words used in the singular include the plural and words used in the plural include the singular;

(b) the words "include," "includes" and "including" shall be deemed to be followed by the words "without limitation";

(c) the word "or" shall have the inclusive meaning represented by the phrase "and/or";

(d) relative to the determination of any period of time, "from" means "from and including," "to" means "to but excluding" and "through" means "through and including";

(e) accounting terms used herein shall have the meanings historically ascribed to them by Newcastle and its Subsidiaries in its and their internal accounting and financial policies and procedures in effect immediately prior to the date of this Agreement;

(f) reference to any agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and by this Agreement;

(g) reference to any Law means such Law (including any and all rules and regulations promulgated thereunder) as amended, modified, codified or reenacted, in whole or in part, and in effect at the time of determining compliance or applicability;

(h) references to any Person include such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this Agreement; a reference to such Person's "Affiliates" shall be deemed to mean such Person's Affiliates following the Distribution and any reference to a third party shall be deemed to mean a Person who is not a Party or an Affiliate of a Party;

(i) if there is any conflict between the provisions of the main body of this Agreement or an Ancillary Agreement and the Exhibits and Schedules hereto or thereto, the provisions of the main body of this Agreement or the Ancillary Agreement, as applicable, shall control unless explicitly stated otherwise in such Schedule;

(j) if there is any conflict between the provisions of this Agreement and any Ancillary Agreement, the provisions of such Ancillary Agreement shall control (but only with respect to the subject matter thereof) unless explicitly stated otherwise therein; and

(k) any portion of this Agreement or any Ancillary Agreement obligating a Party to take any action or refrain from taking any action, as the case may be, shall mean that such Party shall also be obligated to cause its relevant Subsidiaries to take such action or refrain from taking such action, as the case may be.

ARTICLE II

THE SEPARATION

Section 2.1 Transfers of Assets and Assumptions of Liabilities.

(a) Transfer of Assets and Assumption of Liabilities Prior to Effective Time. Subject to Section 2.1(b), Newcastle and New Residential agree to take all actions necessary so that, immediately prior to the Effective Time, (i) the New Residential Group will own, to the extent it does not already own, all of the New Residential Assets and none of the Newcastle Assets, and (ii) the New Residential Group will assume, to the extent it is not already liable for, all New Residential Liabilities.

(b) Deferred Transfers and Assumptions.

(i) Nothing in this Agreement or in any Ancillary Agreement will be deemed to require the transfer of any Assets or the assumption of any Liabilities that by their terms or by operation of Law cannot be transferred or assumed.

(ii) To the extent that any transfer of Assets or assumption of Liabilities contemplated by this Agreement or any Ancillary Agreement is not consummated prior to the Effective Time as a result of an absence or non-satisfaction of any required Consent, Governmental Approval and/or other condition (such Assets or Liabilities, a "Deferred Asset" or a "Deferred Liability," as applicable, and, collectively, a "Deferred Asset or Liability"), the Parties will use commercially reasonable efforts to effect such transfers or assumptions as promptly following the Effective Time as practicable. If and when the Consents, Governmental Approvals and/or other conditions, the absence or non-satisfaction of which gave rise to the Deferred Asset or Deferred Liability, are obtained or satisfied, the transfer or assumption of the Deferred Asset or Deferred Liability will be effected in accordance with and subject to the terms of this Agreement or the applicable Ancillary Agreement, if any.

(iii) From and after the Effective Time until such time as the Deferred Asset or Deferred Liability is transferred or assumed, as applicable, (A) the Party retaining such Deferred Asset will thereafter hold such Deferred Asset for the use and benefit of the Party entitled thereto (at the expense of the Party entitled thereto) and (B) the Party intended to assume such Deferred Liability will pay or reimburse the Party retaining such Deferred Liability for all amounts paid or incurred in connection with the retention of such Deferred Liability; it being agreed that the Party retaining such Deferred Asset or Deferred Liability will not be obligated, in connection with the foregoing clause (A) and clause (B), to expend any money unless the necessary funds are advanced or agreed in writing to be reimbursed by the Party entitled to such Deferred Asset or intended to assume such Deferred Liability. The Party retaining the Deferred Asset or Deferred Liability will use its commercially reasonable efforts to notify the Party entitled to or intended to assume such Deferred Asset or Deferred Liability of the need for such expenditure. In addition, the Party retaining such Deferred Asset or Deferred Liability will, insofar as reasonably practicable and to the extent permitted by applicable Law, (A) treat such Deferred Asset or Deferred Liability in the ordinary course of business consistent with past practice, (B) promptly take such other actions as may be requested by the Party entitled to such

Deferred Asset or by the Party intended to assume such Deferred Liability in order to place such Party in the same position as if the Deferred Asset or Deferred Liability had been transferred or assumed, as applicable, as contemplated hereby, and so that all the benefits and burdens relating to such Deferred Asset or Deferred Liability, including possession, use, risk of loss, potential for gain, and control over such Deferred Asset or Deferred Liability, are to inure from and after the Effective Time to such Party entitled to such Deferred Asset or intended to assume such Deferred Liability and (C) hold itself out to third parties as agent or nominee on behalf of the Party entitled to such Deferred Asset or intended to assume such Deferred Liability.

(iv) In furtherance of the foregoing, the Parties agree that, as of the Effective Time, each Party will be deemed to have acquired beneficial ownership of all of the Assets, together with all rights and privileges incident thereto, and will be deemed to have assumed all of the Liabilities, and all duties, obligations and responsibilities incident thereto, that such Party is entitled to acquire or intended to assume pursuant to the terms of this Agreement or the applicable Ancillary Agreement, if any.

(v) The Parties agree to treat, for all tax purposes, any Asset or Liability that is not transferred or assumed prior to the Effective Time and which is subject to the provisions of this Section 2.1(b), as (A) owned by the Party to which such Asset was intended to be transferred or by the Party which was intended to assume such Liability, as the case may be, from and after the Effective Time, (B) having not been owned by the Party retaining such Asset or Liability, as the case may be, at any time from and after the Effective Time, and (C) having been held by the Party retaining such Asset or Liability, as the case may be, only as agent or nominee on behalf of the other Party from and after the Effective Time until the date such Asset or Liability, as the case may be, is transferred to or assumed by such other Party. The Parties will not take any position inconsistent with the foregoing unless otherwise required by applicable Law (in which case, the Parties will provide indemnification for any Taxes attributable to the Asset or Liability during the period beginning on the Distribution Date and ending on the date of the actual transfer).

(c) Misallocated Assets and Liabilities.

(i) In the event that, at any time from and after the Effective Time, either Party discovers that it or another member of its Group is the owner of, receives or otherwise comes to possess or benefit from any Asset (including the receipt of payments made pursuant to Contracts and proceeds from accounts receivable with respect to such Asset) that should have been allocated to a member of the other Group pursuant to this Agreement or any Ancillary Agreement (except in the case of any deliberate acquisition of Assets from a member of the other Group for value subsequent to the Effective Time), such Party shall promptly transfer, or cause to be transferred, such Asset to such member of the other Group, and such member of the other Group shall accept such Asset for no further consideration other than that set forth in this Agreement and such Ancillary Agreement. Prior to any such transfer, such Asset shall be held in accordance with Section 2.1(b).

(ii) In the event that, at any time from and after the Effective Time, either Party discovers that it or another member of its Group is liable for any Liability that should have been allocated to a member of the other Group pursuant to this Agreement or any Ancillary Agreement (except in the case of any deliberate assumption of Liabilities from a member of the other Group for value subsequent to the Effective Time), such Party shall promptly transfer, or cause to be transferred, such Liability to such member of the other Group and such member of the other Group shall assume such Liability for no further consideration than that set forth in this Agreement and such Ancillary Agreement. Prior to any such assumption, such Liabilities shall be held in accordance with Section 2.1(b) .

(d) Instruments of Transfer and Assumption. The Parties agree that (i) transfers of Assets that may be required by this Agreement or any Ancillary Agreement shall be effected by delivery by the transferor to the transferee of (A) with respect to those Assets that constitute stock or other equity interests, certificates endorsed in blank or evidenced or accompanied by stock powers or other instruments of transfer endorsed in blank, against receipt and (B) with respect to all other Assets, such good and sufficient instruments of contribution, conveyance, assignment and transfer, in form and substance reasonably satisfactory to the Parties, as shall be necessary, in each case, to vest in the designated transferee all of the title and ownership interest of the transferor in and to any such Asset, and (ii) the assumptions of Liabilities required by this Agreement or any Ancillary Agreement shall be effected by delivery by the transferee to the transferor of such good and sufficient instruments of assumption, in form and substance reasonably satisfactory to the Parties, as shall be necessary, in each case, for the assumption by the transferee of such Liabilities.

Section 2.2 Termination of Intercompany Agreements.

(a) Except as set forth in Section 2.2(b), Newcastle, on behalf of itself and each of the other members of the Newcastle Group, and New Residential, on behalf of itself and each of the other members of the New Residential Group, hereby terminate, effective as of the Effective Time, any and all Intercompany Agreements. No such terminated Intercompany Agreement will be of any further force or effect from and after the Effective Time and all Parties shall be released from all Liabilities thereunder other than the Liability to settle any Intercompany Accounts as provided in Section 2.3. Each Party shall take, or cause to be taken, any and all actions as may be reasonably necessary to effect the foregoing.

(b) The provisions of Section 2.2(a) shall not apply to any of the following agreements (which agreements shall continue to be outstanding after the Distribution Date and thereafter shall be deemed to be, for each relevant Party (or the member of such Party's Group), an obligation to a third party and shall no longer be an Intercompany Agreement):

(i) this Agreement and the Ancillary Agreements (and each other agreement or instrument expressly contemplated by this Agreement or any Ancillary Agreement), if any;

(ii) any confidentiality or non-disclosure agreements among any members of either Group or employees of the Manager; and

(iii) any agreement listed or described on Section 2.2(b) of the Disclosure Schedule, if any.

Section 2.3 Settlement of Intercompany Account. Each Intercompany Account outstanding immediately prior to the Distribution Date (other than those set forth on Section 2.3 of the Disclosure Schedule, if any), will be satisfied and/or settled in full in cash or otherwise cancelled and terminated or extinguished by the relevant members of the Newcastle Group and the New Residential Group prior to the Effective Time, in each case, in the manner agreed to by the Parties. Each Intercompany Account outstanding immediately prior to the Distribution Date set forth on Section 2.3 of the Disclosure Schedule shall continue to be outstanding after the Distribution Date (unless previously satisfied in accordance with its terms) and thereafter shall be deemed to be, for each Party (or the relevant member of such Party's Group), an obligation to a third party and shall no longer be an Intercompany Account.

ARTICLE III

CERTAIN ACTIONS PRIOR TO THE DISTRIBUTION

Section 3.1 SEC and Other Securities Filings.

(a) Prior to the date of this Agreement, the Parties caused the Registration Statement to be prepared and filed with the SEC.

(b) The Parties shall use their respective commercially reasonable efforts to cause the Registration Statement to become effective as soon as reasonably practicable following the date of this Agreement.

(c) As soon as practicable after the Registration Statement becomes effective, Newcastle shall cause the Information Statement to be mailed to the Record Holders.

(d) The Parties shall cooperate in preparing, filing with the SEC and causing to become effective any other registration statements or amendments or supplements thereto that are necessary or appropriate in order to effect the Transactions, or to reflect the establishment of, or amendments to, any employee benefit plans contemplated hereby.

(e) The Parties shall take all such action as may be necessary or appropriate under state and foreign securities or "blue sky" Laws in connection with the Transactions.

Section 3.2 NYSE Listing Application.

(a) Prior to the date of this Agreement, the Parties caused an application for the listing on the NYSE of New Residential Common Stock to be issued to the Record Holders in the Distribution (the "NYSE Listing Application") to be prepared and filed.

(b) The Parties shall use commercially reasonable efforts to have the NYSE Listing Application approved, subject to official notice of issuance, as soon as reasonably practicable following the date of this Agreement.

(c) Newcastle shall give the NYSE notice of the Record Date in compliance with Rule 10b-17 under the Exchange Act.

Section 3.3 Distribution Agent Agreement. On or prior to the date of this Agreement, Newcastle shall, if requested by the Distribution Agent, enter into a distribution agent agreement with the Distribution Agent.

Section 3.4 Management Agreements.

(a) New Residential Management Agreement. On or prior to the Distribution Date, New Residential shall enter into a management and advisory agreement with the Manager (the "New Residential Management Agreement") substantially in the form filed by New Residential with the SEC as an exhibit to the Registration Statement.

(b) Adjustment to Newcastle Management Fee. The Parties acknowledge and agree that immediately following the Distribution, the amount of Newcastle's "Gross Equity" as defined in Section 8(a) of the Newcastle Management Agreement shall be reduced by an amount equal to New Residential's initial "Gross Equity" as defined in Section 8(a) of the New Residential Management Agreement.

Section 3.5 Governmental Approvals and Consents. To the extent that any of the Transactions require any Governmental Approval or Consent which has not been obtained prior to the date of this Agreement, the Parties will use commercially reasonable efforts to obtain, or cause to be obtained, such Governmental Approval or Consent prior to the Effective Time.

Section 3.6 Ancillary Agreements. Prior to the Effective Time, each Party shall execute and deliver, and shall cause each applicable member of its Group to execute and deliver, as applicable, such other written agreements, documents or instruments (collectively, the "Ancillary Agreements") as the Parties may agree are reasonably necessary or desirable and which specifically state that they are Ancillary Agreements within the meaning of this Agreement.

Section 3.7 Governance Matters.

(a) Articles of Incorporation and Bylaws. On or prior to the Distribution Date, the Parties shall take all necessary actions to adopt each of the amended and restated articles of incorporation and the amended and restated bylaws of New Residential, each substantially in the forms filed by New Residential with the SEC as exhibits to the Registration Statement.

(b) Officers and Directors. On or prior to the Distribution Date, the Parties shall take all necessary action so that, as of the Distribution Date, the officers and directors of New Residential will be as set forth in the Information Statement.

Section 3.8 Repurchase Agreements. Prior to the Effective Time, Newcastle shall use commercially reasonable efforts to amend, or to assign to New Residential, or shall terminate, the outstanding Repurchase Agreements listed on Section 3.8 of the Disclosure Schedule.

Section 3.9 Vendor Services Agreements. Prior to the Effective Time, Newcastle shall terminate the Vendor Services Agreements listed onSection 3.9 of the Disclosure Schedule., and Newcastle and New Residential shall use commercially reasonable efforts to cause replacement agreements with substantially similar terms as the Vendor Services Agreements to be entered into by each respective Party, at the cost and expense of such Party. Such replacement agreements may also be entered into by the Manager on behalf of each of Newcastle and/or New Residential, in which case Newcastle and/or New Residential, as applicable, shall reimburse the Manager for the cost and expenses of entering into such agreements on such terms as each party may agree with the Manager.

ARTICLE IV

THE DISTRIBUTION

Section 4.1 Dividend to Newcastle. Prior to the Distribution Date, New Residential shall issue to Newcastle as a stock dividend such number of shares of New Residential Common Stock (or Newcastle and New Residential shall take or cause to be taken such other appropriate actions to ensure that Newcastle has the requisite number of shares of New Residential Common Stock) as may be required to effect the Distribution.

Section 4.2 Delivery to Distribution Agent. Subject to Section 5.1, on or prior to the Distribution Date, Newcastle will authorize the Distribution Agent, for the benefit of holders of record of Newcastle Common Stock at the close of business on the Record Date (the "Record Holders"), to effect the book-entry transfer of all outstanding shares of New Residential Common Stock and will instruct the Distribution Agent to effect the Distribution at the Effective Time in the manner set forth in Section 4.3.

Section 4.3 Mechanics of the Distribution.

(a) On the Distribution Date, Newcastle will direct the Distribution Agent to distribute, effective as of the Effective Time, to each Record Holder, one share of New Residential Common Stock for each share of Newcastle Common Stock held by such Record Holder on the Record Date (the "Distribution Ratio"). All such shares of New Residential Common Stock to be so distributed shall be distributed as uncertificated shares registered in book-entry form through the direct registration system. No certificates therefor shall be distributed. Following the Distribution, Newcastle shall cause the Distribution Agent to deliver an account statement to each holder of New Residential Common Stock reflecting such holder's ownership thereof. All of the shares of New Residential Common Stock distributed in the Distribution will be validly issued, fully paid and non-assessable.

(b) Notwithstanding any other provision of this Agreement, Newcastle, the Distribution Agent, or any Person that is a withholding agent under applicable Law shall be entitled to deduct and withhold from any consideration distributable or payable hereunder the amounts required to be deducted and withheld under the Code, or any provision of any U.S. federal, state, local or foreign Tax Law. Any amounts so withheld shall be paid over to the appropriate Taxing Authority in the manner prescribed by Law. To the extent that amounts are so deducted and withheld, such deducted and withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Persons in respect of which such deduction and withholding was made.

Section 4.4 Stock Options.

(a) Subsequent to the effectiveness of the Registration Statement, but prior to the consummation of the Distribution, and subject to the consummation of the Distribution, each option to purchase Newcastle Common Stock ("Newcastle Stock Options" granted and outstanding under the Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan and the 2012 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan (collectively, the "Newcastle Option Plan" shall remain granted and outstanding and shall not, and Newcastle shall cause (to the maximum extent permitted under the Newcastle Option Plan) the Newcastle Stock Options not to, terminate, accelerate or otherwise vest as a result of the Distribution.

(b) Subsequent to the effectiveness of the Registration Statement, but prior to the consummation of the Distribution, and subject to the consummation of the Distribution, each holder of Newcastle Stock Options immediately prior to the Distribution will be entitled to the following, determined in a manner in accordance with, and subject to, the Newcastle Option Plan, any award agreement pursuant to which the Newcastle Stock Option was awarded, and, to the extent applicable, FASB ASC Topic 718, Compensation—Stock Compensation, and Section 409A of the Code:

(i) an option to acquire a number of shares of New Residential Common Stock (the "New Residential Stock Options") equal to the product of (1) the Distribution Ratio multiplied by (2) the number of shares of Newcastle Common Stock subject to the Newcastle Stock Option held by such holder immediately prior to the Distribution, rounded down to the nearest whole share, with an exercise price equal to the product of (1) the per share exercise price of the Newcastle Stock Option immediately prior to the Distribution Date (the "Pre-Distribution Option Price") multiplied by (2) a fraction, the numerator of which shall be the Post-Distribution New Residential Common Stock Price and the denominator of which shall be the sum of (x) the Post-Distribution Newcastle Common Stock Price and (y) the quotient determined by dividing the Post-Distribution New Residential Common Stock Price by the New Residential Ratio, rounded up to the nearest cent and

(ii) the adjustment of the exercise price of such holder's Newcastle Stock Option, to be equal to the product of (1) the Pre-Distribution Option Price multiplied by (2) a fraction, the numerator of which shall be the Post-Distribution Newcastle Common Stock Price and the denominator of which shall be the sum of (x) the Post-Distribution Newcastle Common Stock Price and (y) the quotient determined by dividing the Post-Distribution New Residential Common Stock Price by the New Residential Ratio, rounded up to the nearest cent (the "Adjusted Newcastle Stock Options") (the New Residential Stock Options and the Adjusted Newcastle Stock Options, together, the "Post-Distribution Stock Options").

The terms and conditions applicable to the New Residential Stock Options shall be substantially similar to the terms and conditions otherwise applicable to the corresponding Newcastle Stock Options.

(c) The option exercise price of the New Residential Stock Options and the Adjusted Newcastle Stock Options shall be set in compliance with Treasury Regulation Section 1.409A-1(b)(5)(v)(D), regardless whether applicable, to maintain the intrinsic value of the Newcastle Stock Options as of the Distribution Date, and to maintain the ratio of exercise price to fair market value of the Newcastle Stock Options and the Post-Distribution Stock Options.

(d) Each of Newcastle and New Residential intends that, subsequent to the Distribution, New Residential shall establish, or shall cause to be established, one or more equity incentive or similar plans that will allow or provide for the issuance of restricted stock, new options (or other equity-based awards) to acquire New Residential Common Stock, or other equity awards on such terms, and subject to such conditions (including, without limitation, as to eligibility, vesting and performance criteria), as New Residential may decide in its sole discretion.

ARTICLE V

CONDITIONS

Section 5.1 Conditions Precedent to Consummation of the Distribution. The Distribution shall not be effected unless and until the following conditions have been satisfied or waived by Newcastle, in its sole and absolute discretion, at or before the Effective Time:

(a) the board of directors of Newcastle shall have declared the Distribution, which declaration may be made or withheld at its sole and absolute discretion;

(b) the Registration Statement shall have been declared effective by the SEC, with no stop order in effect with respect thereto, and no proceedings for such purpose shall be pending before, or threatened by, the SEC;

(c) Newcastle shall have mailed the Information Statement (and such other information concerning New Residential, the Distribution and such other matters as the Parties shall determine and as may otherwise be required by Law) to the Record Holders;

(d) all other actions and filings necessary or appropriate under applicable federal or state securities Laws and state blue sky Laws in connection with the Transactions shall have been taken;

(e) Newcastle shall have obtained an opinion from Skadden, Arps, Slate, Meagher & Flom LLP, in form and substance reasonably satisfactory to Newcastle, to the effect that, commencing with Newcastle's initial taxable year that ended on December 31, 2002, Newcastle has been organized in conformity with the requirements for qualification as a REIT under the Code, and its actual method of operation through the date of this letter has enabled, and its proposed method of operation will enable, it to meet the requirements for qualification and taxation as a REIT;

(f) New Residential shall have obtained an opinion from Skadden, Arps, Slate, Meagher & Flom LLP, in form and substance reasonably satisfactory to New Residential, to the effect that, commencing with New Residential's initial taxable year ending on December 31, 2013, New Residential has been organized in conformity with the requirements for qualification as a REIT under the Code, and its proposed method of operation will enable it to meet the requirements for qualification and taxation as a REIT;

(g) Newcastle shall not be required to register as an investment company under the Investment Company Act;

(h) New Residential shall not be required to register as an investment company under the Investment Company Act;

(i) the NYSE shall have approved the NYSE Listing Application, subject to official notice of issuance;

(j) New Residential and the Manager shall have executed and delivered the New Residential Management Agreement and the Manager shall be registered under the Investment Advisors Act;

(k) the Ancillary Agreements, if any, shall have been executed and delivered by each of the parties thereto and no party to any of the Ancillary Agreements will be in material breach of any such agreement;

(l) any material Governmental Approvals and Consents necessary to consummate the Transactions or any portion thereof shall have been obtained and be in full force and effect;

(m) no preliminary or permanent injunction or other order, decree, or ruling issued by a Governmental Authority, and no statute (as interpreted through orders or rules of any Governmental Authority duly authorized to effectuate the statute), rule, regulation or executive order promulgated or enacted by any Governmental Authority shall be in effect preventing the consummation of, or materially limiting the benefits of, the Transactions; and

(n) no other event or development shall have occurred or failed to occur that, in the judgment of the board of directors of Newcastle, in its sole discretion, prevents the consummation of the Transactions or any portion thereof or makes the consummation of the Transactions inadvisable.

Section 5.2 Right Not to Close. Each of the conditions set forth in Section 5.1 is for the benefit of Newcastle, and the board of directors of Newcastle may, in its sole and absolute discretion, determine whether to waive any condition, in whole or in part. Any determination made by the board of directors of Newcastle concerning the satisfaction or waiver of any or all of the conditions in Section 5.1 will be conclusive and binding on the Parties. The satisfaction of the conditions set forth in Section 5.1 will not create any obligation on the part of Newcastle to any other Person to effect any of the Transactions or in any way limit Newcastle's right to terminate this Agreement and the Ancillary Agreements as set forth in Section 11.1 or alter the consequences of any termination from those specified in Section 11.2.

ARTICLE VI

NO REPRESENTATIONS OR WARRANTIES

Section 6.1 Disclaimer of Representations and Warranties. EACH PARTY (ON BEHALF OF ITSELF AND EACH OTHER MEMBER OF ITS GROUP) UNDERSTANDS AND AGREES THAT, EXCEPT AS EXPRESSLY SET FORTH HEREIN, IN ANY ANCILLARY AGREEMENT OR IN ANY OTHER AGREEMENT OR DOCUMENT CONTEMPLATED BY THIS AGREEMENT OR ANY ANCILLARY AGREEMENT, NO PARTY IS REPRESENTING OR WARRANTING IN ANY WAY AS TO (A) THE ASSETS, BUSINESSES OR LIABILITIES CONTRIBUTED, TRANSFERRED, DISTRIBUTED OR ASSUMED AS CONTEMPLATED HEREBY OR THEREBY, (B) ANY CONSENTS OR GOVERNMENTAL APPROVALS REQUIRED IN CONNECTION HEREWITH OR THEREWITH, (C) THE VALUE OR FREEDOM FROM ANY SECURITY INTERESTS OF, OR ANY OTHER MATTER CONCERNING, ANY ASSETS OF ANY PARTY, (D) THE ABSENCE OF ANY DEFENSES OR RIGHT OF SETOFF OR FREEDOM FROM COUNTERCLAIM WITH RESPECT TO ANY ACTION OR OTHER ASSET, INCLUDING ACCOUNTS RECEIVABLE, OF ANY PARTY, OR (E) THE LEGAL SUFFICIENCY OF ANY CONTRIBUTION, DISTRIBUTION, ASSIGNMENT, DOCUMENT, CERTIFICATE OR INSTRUMENT DELIVERED HEREUNDER OR THEREUNDER TO CONVEY TITLE TO ANY ASSET UPON THE EXECUTION, DELIVERY AND FILING HEREOF OR THEREOF.

Section 6.2 As Is, Where Is. EACH PARTY (ON BEHALF OF ITSELF AND EACH OTHER MEMBER OF ITS GROUP) UNDERSTANDS AND AGREES THAT ALL ASSETS TRANSFERRED PURSUANT TO THIS AGREEMENT OR ANY ANCILLARY AGREEMENT ARE BEING TRANSFERRED "AS IS, WHERE IS."

ARTICLE VII

CERTAIN COVENANTS AND ADDITIONAL AGREEMENTS

Section 7.1 Insurance Matters. Following the Distribution Date, Newcastle shall maintain its currently existing Insurance Policies related to director and officer liability (the

"Newcastle D&O Policies"). Prior to the Distribution Date, Newcastle and New Residential shall use commercially reasonable efforts to obtain separate Insurance Policies for New Residential on substantially similar terms as the Newcastle D&O Policies (it being understood that New Residential shall be responsible for all premiums, costs and fees associated with any new insurance policies placed for the benefit of New Residential pursuant to this Section 7.1, which, for the avoidance of doubt, shall exclude any premiums, costs and fees associated with any run-off Insurance Policy obtained by Newcastle in connection with the Separation).

Section 7.2 Tax Matters.

(a) Taxability of Distribution. The Parties acknowledge that the Distribution is a taxable distribution under Section 301 of the Code, and the Parties shall not take any position on any U.S. federal, state, local or foreign Tax return that is inconsistent with such treatment.

(b) Newcastle and New Residential REIT Status.

(i) Newcastle has no knowledge of any fact or circumstance that would cause New Residential to fail to qualify as a REIT, including a failure to qualify as a REIT due to Newcastle's failure to maintain REIT status.

(ii) Subject to Section 7.2(b)(iii), Newcastle shall use its commercially reasonable efforts to cooperate with New Residential as necessary to enable New Residential to qualify for taxation as a REIT and receive customary legal opinions concerning New Residential's qualification and taxation as a REIT, including by providing information and representations to New Residential and its tax counsel with respect to the composition of Newcastle's income and Assets, the composition of the holders of stock of Newcastle and Newcastle's organization, operation, and qualification as a REIT.

(iii) Newcastle shall use reasonable best efforts to maintain its REIT status for each of its taxable years ending on or before December 31, 2014, unless Newcastle obtains an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS, on which New Residential can rely, substantially to the effect that Newcastle's failure to maintain its REIT status will not prevent New Residential from making a valid REIT election for any taxable year, or otherwise cause New Residential to fail to qualify for taxation as a REIT for any taxable year, pursuant to Section 856(g)(3) of the Code.

(iv) New Residential shall use its reasonable best efforts to qualify for taxation as a REIT for its taxable year ending December 31, 2013.

Section 7.3 No Restrictions on Post-Closing Competitive Activities; Corporate Opportunities

(a) Each of the Parties agrees that this Agreement shall not include any non-competition or other similar restrictive arrangements with respect to the range of business activities that may be conducted, or investments that may be made, by the Groups. Accordingly, each of the Parties acknowledges and agrees that nothing set forth in this Agreement shall be construed to create any explicit or implied restriction or other limitation on the ability of any Group to engage in any business or other activity that overlaps or competes with the business of the other Group, including investing in residential mortgage related securities. Except as expressly provided herein, or in the Ancillary Agreements, if any, each Group shall have the right to, and shall have no duty to abstain from exercising such right to, (i) engage or invest, directly or indirectly, in the same, similar or related business activities or lines of business as the other Group, (ii) make investments in the same or similar types of investments as the other Group, (iii) do business with any client, customer, vendor or lessor of any of the other Group or (iv) employ or otherwise engage any officer, director or employee of the other Group. Neither Party or Group, nor any officer or director thereof, shall be liable to the other Party or Group or its stockholders for breach of any fiduciary duty by reason of any such activities of such Party or Group or of any such Person's participation therein.

(b) Except as Newcastle and each other member of the Newcastle Group, on the one hand, and New Residential and each other member of the New Residential Group, on the other hand, may otherwise agree in writing, the Parties hereby acknowledge and agree that if any Person that is a member of a Group, including any officer or director thereof, acquires knowledge of a potential transaction or matter that may be a corporate opportunity for either or both Groups, neither the other Group nor its stockholder shall have an interest in, or expectation that, such corporate opportunity be offered to it or that it be offered an opportunity to participate therein, and any such interest, expectation, offer or opportunity to participate, and any other interest or expectation otherwise due to such Group with respect to such corporate opportunity, is hereby renounced by such Group on its behalf and on behalf of its stockholders. Accordingly, subject to Section 7.3(c) below, (i) neither Group nor any officer or director thereof will be under any obligation to present, communicate or offer any such corporate opportunity to the other Group and (ii) each Group has the right to hold any such corporate opportunity for their own account, or to direct, recommend, sell, assign or otherwise transfer such corporate opportunity to any Person or Persons other than the other Group, and, to the fullest extent permitted by Law, neither Group nor the officers or directors thereof shall have or be under any fiduciary duty, duty of loyalty or duty to act in good faith or in the best interests of the other Group and its stockholders and shall not be liable to the other Group and its stockholders for any breach or alleged breach thereof or for any derivation of personal economic gain by reason of the fact that such Group or any of its officers or directors pursues or acquires the corporate opportunity for itself, or directs, recommends, sells, assigns or otherwise transfers the corporate opportunity to another Person, or such Group and its officers or directors does not present, offer or communicate information regarding the corporate opportunity to the other Group.

(c) Except as Newcastle and each other member of the Newcastle Group, on the one hand, and New Residential and each other member of the New Residential Group, on the other hand, may otherwise agree in writing, the Parties hereby acknowledge and agree that in the event that a director or officer of either Group who is also a director or officer of the other Group acquires knowledge of a potential transaction or matter that may be a corporate opportunity or is offered a corporate opportunity, if (i) such Person acts in good faith and (ii) such knowledge of such potential transaction or matter was not obtained solely in connection with, or such corporate opportunity was not offered to such Person solely in, such Person's capacity as director or officer of either Group, then (A) such director or officer, to the fullest extent permitted by Law, (1) shall be deemed to have fully satisfied and fulfilled such Person's fiduciary duty to each Group and their stockholders with respect to such corporate opportunity, (2) shall not have or be under any fiduciary duty to either Group or their stockholders and shall not be liable to either Group or their stockholders for any breach or alleged breach thereof by reason of the fact that the other Group pursues or acquires the corporate opportunity for itself, or directs, recommends, sells, assigns or otherwise transfers the corporate opportunity to another Person, or either Group or such director or officer does not present, offer or communicate information regarding the corporate opportunity to the other Group, (3) shall be deemed to have acted in good faith and in a manner such Person reasonably believes to be in, and not opposed to, the best interests of each Group and its stockholders and (4) shall not have any duty of loyalty to the other Group and its stockholders or any duty not to derive any personal benefit therefrom and shall not be liable to the other Group or its stockholders for any breach or alleged breach thereof and (B) such potential transaction or matter that may be a corporate opportunity, or the corporate opportunity, shall belong to the applicable Group (and not to the other Group).

(d) Except as provided in the Newcastle Management Agreement or the New Residential Management Agreement, if the Manager acquires knowledge of a potential transaction or matter that may be a corporate opportunity for either or both Groups, neither the Manager, nor any agent or advisor thereof, shall have any duty to communicate or present such corporate opportunity to either Group and shall not be liable to either Group or to their stockholders for breach of any fiduciary duty by reason of the fact that the Manager pursues or acquires the corporate opportunity for itself, or directs, recommends, sells, assigns or otherwise transfers the corporate opportunity to either Group or another Person, or does not present such corporate opportunity to either Group.

(e) For the purposes of this Section 7.3, "corporate opportunities" of a Group shall include business opportunities that such Group are financially able to undertake, that are, by their nature, in a line of business of such Group, are of practical advantage to it and are ones in which any member of the Group has an interest or a reasonable expectancy, and in which, by embracing the opportunities, the self-interest of a Person or any of its officers or directors will be brought into conflict with that of such Group.

ARTICLE VIII

ACCESS TO INFORMATION; CONFIDENTIALITY; PRIVILEGE

Section 8.1 Agreement for Exchange of Information.

(a) Subject to Section 8.1(b), for a period of three (3) years (the "Period") following the Distribution Date, as soon as reasonably practicable after written request: (i) Newcastle shall afford to any member of the New Residential Group and their authorized accountants, counsel and other designated representatives reasonable access during normal business hours to, or, at the New Residential Group's expense, provide copies of, all books, records, Contracts, instruments, data, documents and other information in the possession or under the control of any member of the Newcastle Group immediately following the Distribution Date that relates to any member of the New Residential Group or the New Residential Assets and (ii) New Residential shall afford to any member of the Newcastle Group and their authorized accountants, counsel and other designated representatives reasonable access during normal business hours to, or, at the Newcastle Group's expense, provide copies of, all books, records, Contracts, instruments, data, documents and other information in the possession or under the control of any member of the New Residential Group immediately following the Distribution Date that relates to any member of the Newcastle Group or the Newcastle Assets; provided, however, that in the event that New Residential or Newcastle, as applicable, determine that any such provision of or access to any information in response to a request under this Section 8.1(a) would be commercially detrimental in any material respect, violate any Law or agreement or waive any attorney-client privilege, the work product doctrine or other applicable privilege, the Parties shall take all reasonable measures to permit compliance with such request in a manner that avoids any such harm or consequence; provided, further, that to the extent specific information- or knowledge-sharing provisions are contained in any of the Ancillary Agreements, such other provisions (and not this Section 8.1(a)) shall govern; provided, further, that the Period shall be extended with respect to requests related to any third party litigation or other dispute filed prior to the end of such period until such litigation or dispute is finally resolved.

(b) A request for information under Section 8.1(a) may be made: (i) to comply with reporting, disclosure, filing or other requirements imposed on the requesting party (including under applicable securities laws) by a Governmental Authority having jurisdiction over such requesting party, (ii) for use in any other judicial, regulatory, administrative or other proceeding or in order to satisfy audit, accounting, claims defense, regulatory filings, litigation or other similar requirements (other than in connection with any action, suit or proceeding in which any member of a Group is adverse to any member of the other Group), (iii) for use in compensation, benefit or welfare plan administration or other bona fide business purposes, or (iv) to comply with any obligations under this Agreement or any Ancillary Agreement.

(c) Without limiting the generality of Section 8.1(a), until the end of the first full fiscal year following the Distribution Date (and for a reasonable period of time thereafter as required for any party to prepare consolidated financial statements or complete a financial statement audit for the fiscal year during which the Distribution Date occurs), New Residential shall use its commercially reasonable efforts to cooperate with any requests from any member of the Newcastle Group pursuant to Section 8.1(a) and Newcastle shall use its commercially reasonable efforts to cooperate with any requests from any member of the New Residential Group pursuant to Section 8.1(a), in each case to enable the requesting Party to meet its timetable for dissemination of its earnings releases and financial statements and to enable such requesting party's auditors to timely complete their audit of the annual financial statements and review of the quarterly financial statements.

Section 8.2 Ownership of Information. Any information owned by any Person that is provided pursuant to Section 8.1(a) shall be deemed to remain the property of the providing Person. Unless specifically set forth herein, nothing contained in this Agreement shall be construed to grant or confer rights of license or otherwise to the requesting Person with respect to any such information.

Section 8.3 Compensation for Providing Information. A Person requesting information pursuant to Section 8.1(a) agrees to reimburse the providing Person for the reasonable expenses, if any, of gathering and copying such information, to the extent that such expenses are incurred for the benefit of the requesting Person.

Section 8.4 Retention of Records. To facilitate the exchange of information pursuant to this Article VIII after the Distribution Date, for a period of three (3) years following the Distribution Date, except as otherwise required or agreed in writing, the Parties agree to use commercially reasonable efforts to retain, or cause to be retained, all information in their, or any member of their Group's, respective possession or control on the Distribution Date in accordance with the policies and procedures of Newcastle as in effect on the Distribution Date.

Section 8.5 Limitation of Liability. No Person required to provide information under this Article VIII shall have any Liability (a) if any historical information provided pursuant to this Article VIII is found to be inaccurate, in the absence of gross negligence or willful misconduct by such Person, or (b) if any information is lost or destroyed despite using commercially reasonable efforts to comply with the provisions of Section 8.4.

Section 8.6 Production of Witnesses. At all times from and after the Distribution Date, upon reasonable request:

(a) New Residential shall use commercially reasonable efforts to make available, or cause to be made available, to any member of the Newcastle Group, the directors, officers, employees and agents of any member of the New Residential Group as witnesses to the extent that the same may reasonably be required by the requesting party (giving consideration to business demands of such directors, officers, employees and agents) in connection with any legal, administrative or other proceeding in which the requesting party may from time to time be involved, except in the case of any action, suit or proceeding in which any member of the New Residential Group is adverse to any member of the Newcastle Group; and

(b) Newcastle shall use commercially reasonable efforts to make available, or cause to be made available, to any member of the New Residential Group, the directors, officers, employees and agents of any member of the Newcastle Group as witnesses to the extent that the same may reasonably be required by the requesting party (giving consideration to business demands of such directors, officers, employees and agents) in connection with any legal, administrative or other proceeding in which the requesting party may from time to time be involved, except in the case of any action, suit or proceeding in which any member of the Newcastle Group is adverse to any member of the New Residential Group.

Section 8.7 Confidentiality.

(a) New Residential (on behalf of itself and each other member of its Group) and Newcastle (on behalf of itself and each other member of its Group) shall hold, and shall cause each of their respective Affiliates to hold, and each of the foregoing shall cause their respective directors, officers, employees, agents, consultants and advisors to hold, in strict confidence, and not to disclose or release or use, for any purpose other than as expressly permitted pursuant to this Agreement or the Ancillary Agreements, if any, any and all Confidential Information concerning any member of the other Group without the prior written consent of such member of the other Group; provided, that each Party and the members of its Group may disclose, or may permit disclosure of, such Confidential Information (i) to other members of their Group and their respective auditors, attorneys, financial advisors, bankers and other appropriate consultants and advisors (including the Manager) who have a need to know such information for purposes of performing services for a member of such Group and who are informed of their obligation to hold such information confidential to the same extent as is applicable to the Parties and in respect of whose failure to comply with such obligations, such Party will be responsible, (ii) if it or any of its Affiliates are required or compelled to disclose any such Confidential Information by judicial or administrative process or by other requirements of Law or stock exchange rule, or (iii) as necessary in order to permit such Party to prepare and disclose its financial statements, or other disclosures required by Law or such applicable stock exchange. Notwithstanding the foregoing, in the event that any demand or request for disclosure of Confidential Information is made pursuant to the foregoing clause (ii) above, the Party requested to disclose Confidential Information concerning a member of the other Group, shall promptly notify such member of the other Group of the existence of such request or demand and, to the extent commercially practicable, shall provide such member of the other Group thirty (30) days (or such lesser period as is commercially practicable) to seek an appropriate protective order or other remedy, which the Parties will cooperate in obtaining. In the event that such appropriate protective order or other remedy is not obtained, the Party that is required to disclose Confidential Information about a member of the Group shall furnish, or cause to be furnished, only that portion of the Confidential Information that is legally required to be disclosed and shall use commercially reasonable efforts to ensure that confidential treatment is accorded such information.

(b) Notwithstanding anything to the contrary set forth herein, the Parties shall be deemed to have satisfied their obligations hereunder with respect to Confidential Information of any member of the other Group if they exercise the same degree of care (but no less than a reasonable degree of care) as they exercise to preserve confidentiality for their own similar Confidential Information.

(c) Upon the written request of a Party or a member of its Group, the other Party shall take, and shall cause the applicable members of its Group to take, reasonable steps to promptly (i) deliver to the requesting Person all original copies of Confidential Information (whether written or electronic) concerning the requesting Person or any member of its Group that is in the possession of the other Party or any member of its Group and (ii) if specifically requested by the requesting Person, destroy any copies of such Confidential Information (including any extracts therefrom), unless such delivery or destruction would violate any Law; provided, that the other Party shall not be obligated to destroy Confidential Information that is required by or relates to the business of the other Party or any member of its Group. Upon the written request of the requesting Person, the other Party shall, or shall cause another member of its Group to cause, its duly authorized officers to certify in writing to the requesting party that the requirements of the preceding sentence have been satisfied in full.

Section 8.8 Privileged Matters.

(a) Pre-Distribution Services. The Parties recognize that legal and other professional services that have been and will be provided prior to the Effective Time have been and will be rendered for the collective benefit of the Parties and their Affiliates, and that each of the Parties should be deemed to be the client with respect to such pre-Distribution services for the purposes of asserting all privileges that may be asserted under applicable Law.

(b) Post-Distribution Services. The Parties recognize that legal and other professional services will be provided following the Effective Time that will be rendered solely for the benefit of New Residential and its Affiliates or Newcastle and its Affiliates, as the case may be. With respect to such post-Distribution services, the Parties agree as follows:

(i) Newcastle shall be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the Newcastle Assets, whether or not the privileged information is in the possession of or under the control of Newcastle or New Residential. Newcastle shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the subject matter of any claims constituting Newcastle Liabilities, now pending or which may be asserted in the future, in any lawsuits or other proceedings initiated by or against any member of the Newcastle Group, whether or not the privileged information is in the possession of or under the control of Newcastle or New Residential; and

(ii) New Residential shall be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the New Residential Assets, whether or not the privileged information is in the possession of or under the control of Newcastle or New Residential. New Residential shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the subject matter of any claims constituting New Residential Liabilities, now pending or which may be asserted in the future, in any lawsuits or other proceedings initiated by or against any member of the New Residential Group, whether or not the privileged information is in the possession of or under the control of Newcastle or New Residential.

(c) The Parties agree that they shall have a shared privilege, with equal right to assert or waive, subject to the restrictions in this Section 8.8, with respect to all privileges not allocated pursuant to the terms of Section 8.8(b). New Residential may not waive, and shall cause each other member of the New Residential Group not to waive, any privilege that could be asserted by a member of the Newcastle Group under any applicable Law, and in which a member of the Newcastle Group has a shared privilege, without the consent of Newcastle, which consent shall not be unreasonably withheld, conditioned or delayed or as provided in Section 8.8(d) or Section 8.8(e) below. Newcastle may not waive, and shall cause each other member of the Newcastle Group not to waive, any privilege that could be asserted by a member of the New Residential Group under any applicable Law, and in which a member of the New Residential

Group has a shared privilege, without the consent of New Residential, which consent shall not be unreasonably withheld, conditioned or delayed or as provided in Section 8.8(d) or Section 8.8(e) below.

(d) In the event of any litigation or dispute between or among New Residential and Newcastle, or any members of their respective Groups, the Parties may waive a privilege in which a member of the other Group has a shared privilege, without obtaining the consent from any other party; provided, that such waiver of a shared privilege shall be effective only as to the use of information with respect to the litigation or dispute between the relevant Parties and/or the applicable members of their respective Groups, and shall not operate as a waiver of the shared privilege with respect to third parties.

(e) If a dispute arises between or among New Residential and Newcastle, or any members of their respective Groups, regarding whether a privilege should be waived to protect or advance the interest of a party, each Party agrees that it shall negotiate in good faith, shall endeavor to minimize any prejudice to the rights of such party and shall not unreasonably withhold consent to any request for waiver by such party. Each Party agrees that it will not withhold consent to waiver for any purpose except to protect its own legitimate interests or the legitimate interests of any other member of its Group.

(f) Upon receipt by either Party, or by any member of its Group, of any subpoena, discovery or other request which requires the production or disclosure of information which such Party knows is subject to a shared privilege or as to which a member of the other Group has the sole right hereunder to assert or waive a privilege, or if either Party obtains knowledge that any of its or any other member of its Group's current or former directors, officers, agents or employees have received any subpoena, discovery or other requests which requires the production or disclosure of such privileged information, such Party shall promptly notify the other Party of the existence of the request and shall provide the other Party a reasonable opportunity to review the information and to assert any rights it or they may have under this Section 8.8 or otherwise to prevent the production or disclosure of such privileged information.

(g) The access to information being granted pursuant to Section 8.1, the agreement to provide witnesses and individuals pursuant to Section 8.6 hereof, and the transfer of privileged information between and among the Parties and the members of their respective Groups pursuant to this Agreement shall not be deemed a waiver of any privilege that has been or may be asserted under this Agreement, any of the Ancillary Agreements or otherwise.

Section 8.9 Financial Information Certifications. The Parties agree to cooperate with each other in such manner as is necessary to enable the principal executive officer or officers, principal financial officer or officers and controller or controllers of each of the Parties to make the certifications required of them under Sections 302, 404 and 906 of the Sarbanes-Oxley Act of 2002.

ARTICLE IX

MUTUAL RELEASES; INDEMNIFICATION

Section 9.1 Release of Pre-Distribution Claims.

(a) Except as provided in Section 9.1(d), effective as of the Effective Time, New Residential does hereby, for itself and each other member of the New Residential Group, release and forever discharge each Newcastle Indemnitee, from any and all Liabilities whatsoever to any member of the New Residential Group, whether at law or in equity (including any right of contribution), whether arising under any Contract, by operation of Law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed at or before the Effective Time, including in connection with the Transactions.

(b) Except as provided in Section 9.1(d), effective as of the Effective Time, Newcastle does hereby, for itself and each other member of the Newcastle Group, release and forever discharge each New Residential Indemnitee from any and all Liabilities whatsoever to any member of the Newcastle Group, whether at law or in equity (including any right of contribution), whether arising under any Contract, by operation of Law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed at or before the Effective Time, including in connection with the Transactions.

(c) The Parties expressly understand and acknowledge that it is possible that unknown losses or claims exist or might come to exist or that present losses may have been underestimated in amount, severity, or both. Accordingly, the Parties are deemed expressly to understand provisions and principles of law such as Section 1542 of the Civil Code of the State of California (as well as any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar or comparable to Section 1542), which Section provides: **A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.** The Parties are hereby deemed to agree that the provisions of Section 1542 and all similar federal or state laws, rights, rules, or legal principles of California or any other jurisdiction that may be applicable herein, are hereby knowingly and voluntarily waived and relinquished with respect to the releases in Section 9.1(a) and Section 9.1(b).

(d) Nothing contained in Section 9.1(a) or Section 9.1(b) shall impair any right of any Person to enforce this Agreement, any Ancillary Agreement or any agreements, arrangements, commitments or understandings that are specified in, or contemplated to continue pursuant to, this Agreement or any Ancillary Agreement. Without limiting the foregoing, nothing contained in Section 9.1(a) or Section 9.1(b) shall release any Person from:

(i) any Liability, contingent or otherwise, assumed by, or allocated to, such Person in accordance with this Agreement or any Ancillary Agreement;

(ii) any Liability that such Person may have with respect to indemnification or contribution pursuant to this Agreement or any Ancillary Agreement for claims brought by third Persons, which Liability shall be governed by the provisions of this Article IX and, if applicable, the appropriate provisions of the Ancillary Agreements, if any;

(iii) any unpaid accounts payable or receivable arising from or relating to the sale, provision, or receipt of goods, payment for goods, property or services purchased, obtained or used in the ordinary course of business by any member of the Newcastle Group from any member of the New Residential Group, or by any member of the New Residential Group from any member of the Newcastle Group from and after the Effective Time; or

(iv) any Liability the release of which would result in the release of any Person other than an Indemnitee;provided, that the Parties agree not to bring suit, or permit any other member of their respective Group to bring suit, against any Indemnitee with respect to such Liability.

(e) New Residential shall not make, and shall not permit any other member of the New Residential Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or indemnification, against any Newcastle Indemnitee with respect to any Liabilities released pursuant to Section 9.1(a). Newcastle shall not make, and shall not permit any member of the Newcastle Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against any New Residential Indemnitee with respect to any Liabilities released pursuant to Section 9.1(b).

Section 9.2 Indemnification by New Residential. Except as provided in Section 9.4 and Section 9.5, New Residential shall, and, in the case of Section 9.2(a) or Section 9.2(b), shall in addition cause each Appropriate Member of the New Residential Group to, indemnify, defend and hold harmless, the Newcastle Indemnitees from and against any and all Losses of the Newcastle Indemnitees relating to, arising out of or resulting from any of the following (without duplication):

(a) any New Residential Liability, including the failure of any member of the New Residential Group or any other Person to pay, perform or otherwise promptly discharge any New Residential Liabilities in accordance with their respective terms, whether prior to, at or after the Effective Time;

(b) any breach by any member of the New Residential Group of any provision of this Agreement or of any of the Ancillary Agreements, subject to any limitations of liability provisions and other provisions applicable to any such breach set forth therein; and

(c) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the Registration Statement or the Information Statement other than information that relates solely to the Newcastle Assets;

in each case, regardless of when or where the loss, claim, accident, occurrence, event or happening giving rise to the Loss took place, or whether any such loss, claim, accident, occurrence, event or happening is known or unknown, or reported or unreported and regardless of whether such loss, claim, accident, occurrence, event or happening giving rise to the Loss existed prior to, on or after the Distribution Date or relates to, arises out of or results from actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to, on or after the Distribution Date. As used in this Section 9.2, "Appropriate Member of the New Residential Group" means the member or members of the New Residential Group, if any, whose acts, conduct or omissions or failures to act caused, gave rise to or resulted in the Loss from and against which indemnity is provided.

Section 9.3 Indemnification by Newcastle. Except as provided in Section 9.4 and Section 9.5, Newcastle shall, and, in the case of Section 9.3(a) or Section 9.3(b), shall in addition cause each Appropriate Member of the Newcastle Group to, indemnify, defend and hold harmless the New Residential Indemnitees from and against any and all Losses of the New Residential Indemnitees relating to, arising out of or resulting from any of the following (without duplication):

(a) any Newcastle Liability, including the failure of any member of the Newcastle Group or any other Person to pay, perform or otherwise promptly discharge any Newcastle Liabilities in accordance with their respective terms, whether prior to, at or after the Effective Time;

(b) any breach by any member of the Newcastle Group of any provision of this Agreement or of any of the Ancillary Agreements, subject to any limitations of liability provisions and other provisions applicable to any such breach set forth therein; and

(c) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, solely with respect to information contained in the Registration Statement or the Information Statement that relates solely to the Newcastle Assets;

in each case, regardless of when or where the loss, claim, accident, occurrence, event or happening giving rise to the Loss took place, or whether any such loss, claim, accident, occurrence, event or happening is known or unknown, or reported or unreported and regardless of whether such loss, claim, accident, occurrence, event or happening giving rise to the Loss existed prior to, on or after the Distribution Date or relates to, arises out of or results from actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to, on or after the Distribution Date. As used in this Section 9.3, "Appropriate Member of the Newcastle Group" means the member or members of the Newcastle Group, if any, whose acts, conduct or omissions or failures to act caused, gave rise to or resulted in the Loss from and against which indemnity is provided.

Section 9.4 Procedures for Indemnification.

(a) An Indemnitee shall give notice of any matter that such Indemnitee has determined has given or would reasonably be expected to give rise to a right of indemnification under this Agreement or any Ancillary Agreement (other than a Third-Party Claim which shall be governed by Section 9.4(b)) to any Party that is or may be required pursuant to this Agreement or any Ancillary Agreement to make such indemnification (the "Indemnifying Party") promptly (and in any event within fifteen (15) days) after making such a determination. Such notice shall state the amount of the Loss claimed, if known, and method of computation thereof, and containing a reference to the provisions of this Agreement or the applicable Ancillary Agreement in respect of which such right of indemnification is claimed by such Indemnitee; provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations except and solely to the extent the Indemnifying Party shall have been materially prejudiced as a result of such failure.

(b) If a claim or demand is made against an Indemnitee by any Person who is not a Party to this Agreement or an Affiliate of a Party (a "Third-Party Claim") as to which such Indemnitee is or reasonably expects to be entitled to indemnification pursuant to this Agreement, such Indemnitee shall notify the Indemnifying Party in writing, and in reasonable detail, of the Third-Party Claim promptly (and in any event within thirty (30) days) after receipt by such Indemnitee of written notice of the Third-Party Claim; provided, however, that the failure to provide notice of any such Third-Party Claim pursuant to this sentence shall not release the Indemnifying Party from any of its obligations except and solely to the extent the Indemnifying Party shall have been materially prejudiced as a result of such failure (except that the Indemnifying Party or Parties shall not be liable for any expenses incurred by the Indemnitee in defending such Third-Party Claim during the period in which the Indemnitee failed to give such notice). Thereafter, the Indemnitee shall deliver to the Indemnifying Party, promptly (and in any event within ten (10) days) after the Indemnitee's receipt thereof, copies of all notices and documents (including court papers) received by the Indemnitee relating to the Third-Party Claim.

(c) An Indemnifying Party shall be entitled (but shall not be required) to assume, control the defense of, and settle any Third-Party Claim, at such Indemnifying Party's own cost and expense and by such Indemnifying Party's own counsel, which counsel must be reasonably acceptable to the Indemnitee, if it gives written notice of its intention to do so (including a statement that the Indemnitee is entitled to indemnification under this Article IX) to the applicable Indemnitees within thirty (30) days of the receipt of notice from such Indemnitees of the Third-Party Claim (failure of the Indemnifying Party to respond within such thirty (30) day period shall be deemed to be an election by the Indemnifying Party not to assume the defense for such Third-Party Claim). After a notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third-Party Claim, such Indemnitee shall have the right to employ separate counsel and to participate in (but not control) the defense, compromise or settlement thereof, at its own expense and, in any event, shall reasonably cooperate with the Indemnifying Party in such defense and make available to the Indemnifying Party all witnesses and information in such Indemnitee's possession or under such Indemnitee's control relating thereto as are reasonably required by the Indemnifying Party; provided, however, that such access shall not require the Indemnitee to disclose any information the disclosure of which would, in the good faith judgment of the Indemnitee, result in the loss of any existing privilege with respect to such information or violate any applicable Law.

(d) Notwithstanding anything to the contrary in this Section 9.4, in the event that (i) an Indemnifying Party elects not to assume the defense of a Third-Party Claim, (ii) there exists a conflict of interest or potential conflict of interest between the Indemnifying Party and the Indemnitee, (iii) any Third-Party Claim seeks an order, injunction or other equitable relief or relief for other than money damages against the Indemnitee, (iv) the Indemnitee's exposure to Liability in connection with such Third-Party Claim is reasonably expected to exceed the Indemnifying Party's exposure in respect of such Third-Party Claim taking into account the indemnification obligations hereunder, or (v) the Person making such Third-Party Claim is a Governmental Authority with regulatory authority over the Indemnitee or any of its material Assets, such Indemnitee shall be entitled to control the defense of such Third-Party Claim, at the Indemnifying Party's expense, with counsel of such Indemnitee's choosing (such counsel to be reasonably acceptable to the Indemnifying Party). If the Indemnitee is conducting the defense against any such Third-Party Claim, the Indemnifying Party shall reasonably cooperate with the Indemnitee in such defense and make available to the Indemnitee all witnesses and information in such Indemnifying Party's possession or under such Indemnifying Party's control relating thereto as are reasonably required by the Indemnitee; provided, however, that such access shall not require the Indemnifying Party to disclose any information the disclosure of which would, in the good faith judgment of the Indemnifying Party, result in the loss of any existing privilege with respect to such information or violate any applicable Law.

(e) Unless the Indemnifying Party has failed to assume the defense of the Third-Party Claim in accordance with the terms of this Agreement, no Indemnitee may settle or compromise any Third-Party Claim without the consent of the Indemnifying Party (not to be unreasonably withheld, conditioned or delayed). If an Indemnifying Party has failed to assume the defense of the Third-Party Claim, it shall not be a defense to any obligation to pay any amount in respect of such Third-Party Claim that the Indemnifying Party was not consulted in the defense thereof, that such Indemnifying Party's views or opinions as to the conduct of such defense were not accepted or adopted, that such Indemnifying Party does not approve of the quality or manner of the defense thereof or that such Third-Party Claim was incurred by reason of a settlement rather than by a judgment or other determination of liability.

(f) In the case of a Third-Party Claim, no Indemnifying Party shall consent to entry of any judgment or enter into any settlement of the Third-Party Claim without the consent (not to be unreasonably withheld, conditioned or delayed) of the Indemnitee if the effect thereof is to permit any injunction, declaratory judgment, other order or other non-monetary relief to be entered, directly or indirectly, against any Indemnitee, does not release the Indemnitee from all liabilities and obligations with respect to such Third-Party Claim or includes an admission of guilt or liability on behalf of the Indemnitee.

(g) Absent fraud or intentional misconduct by an Indemnifying Party, the indemnification provisions of this Article IX shall be the sole and exclusive remedy of an Indemnitee for any monetary or compensatory damages or Losses resulting from any breach of this Agreement or any Ancillary Agreement, and each Indemnitee expressly waives and relinquishes any and all rights, claims or remedies such Person may have with respect to the foregoing other than under this Article IX against any Indemnifying Party.

(h) Notwithstanding anything to the contrary in this Agreement, in the event that counsel or independent accountants for a Protected REIT determine that there exists a material risk that any indemnification payments due under this Agreement would be treated as Nonqualifying Income upon the payment of such amounts to the relevant Indemnitee, the amount paid to the Indemnitee pursuant to this Agreement in any tax year shall not exceed the maximum amount that can be paid to the Indemnitee in such year without causing the Protected REIT to fail to meet the REIT Requirements for any tax year, determined as if the payment of such amount were Nonqualifying Income as determined by such counsel or independent accountants to the Protected REIT. If the amount payable for any tax year under the preceding sentence is less than the amount which the relevant Indemnifying Party would otherwise be obligated to pay to the relevant Indemnitee pursuant to this Agreement (the "Expense Amount"), then: (1) the Indemnifying Party shall place the Expense Amount into an escrow account (the "Escrow Account") using an escrow agent and agreement reasonably acceptable to the Indemnitee and shall not release any portion thereof to the Indemnitee, and the Indemnitee shall not be entitled to any such amount, unless and until the Indemnitee delivers to the Indemnifying Party, at the sole option of the relevant Protected REIT, (i) an opinion (an "Expense Amount Tax Opinion") of the Protected REIT's tax counsel to the effect that such amount, if and to the extent paid, would not constitute Nonqualifying Income, (ii) a letter (an "Expense Amount Accountant's Letter") from the Protected REIT's independent accountants indicating the maximum amount that can be paid at that time to the Indemnitee without causing the Protected REIT to fail to meet the REIT Requirements for any relevant taxable year, or (iii) a private letter ruling issued by the IRS to the Protected REIT indicating that the receipt of any Expense Amount hereunder will not cause the Protected REIT to fail to satisfy the REIT Requirements (a "REIT Qualification Ruling" and, collectively with an Expense Amount Tax Opinion and an Expense Amount Accountant's Letter, a "Release Document"); and (2) pending the delivery of a Release Document by the Indemnitee to the Indemnifying Party, the Indemnitee shall have the right, but not the obligation, to borrow the Expense Amount from the Escrow Account pursuant to a loan agreement (an "Indemnity Loan Agreement") reasonably acceptable to the Indemnitee that (i) requires the Indemnifying Party to lend the Indemnitee immediately available cash proceeds in an amount equal to the Expense Amount (an "Indemnity Loan"), and (ii) provides for (A) a commercially reasonable interest rate and commercially reasonable covenants, taking into account the credit standing and profile of the Indemnitee or any guarantor of the Indemnitee, including the Protected REIT, at the time of such loan, and (B) a 15 year maturity with no periodic amortization.

Section 9.5 Indemnification Obligations Net of Insurance Proceeds. The Parties intend that any Loss subject to indemnification or reimbursement pursuant to this Article IX (an "Indemnifiable Loss") will be net of Insurance Proceeds that actually reduce the amount of the Loss. Accordingly, the amount which an Indemnifying Party is required to pay to any Indemnitee will be reduced by any Insurance Proceeds actually recovered by or on behalf of the Indemnitee in reduction of the related Loss. If an Indemnitee receives a payment (an "Indemnity Payment") required by this Agreement from an Indemnifying Party in respect of any Loss and subsequently receives Insurance Proceeds, the Indemnitee will pay to the Indemnifying Party an amount equal to the excess of the Indemnity Payments received over the amount of the

Indemnity Payments that would have been due if the Insurance Proceeds recovery had been received, realized or recovered before the Indemnity Payments were made. The Indemnitee shall use and cause its Affiliates to use commercially reasonable efforts to recover any Insurance Proceeds to which the Indemnitee is entitled with respect to any Indemnifiable Loss. The existence of a claim by an Indemnitee for insurance or against a third party in respect of any Indemnifiable Loss shall not, however, delay any payment pursuant to the indemnification provisions contained in this Article IX and otherwise determined to be due and owing by an Indemnifying Party; rather, the Indemnifying Party shall make payment in full of such amount so determined to be due and owing by it against a concurrent written assignment by the Indemnitee to the Indemnifying Party of the portion of the claim of the Indemnitee for such insurance or against such third party equal to the amount of such payment. The Indemnitee shall use and cause its Affiliates to use commercially reasonable efforts to assist the Indemnifying Party in recovering or to recover on behalf of the Indemnifying Party, any Insurance Proceeds to which the Indemnifying Party is entitled with respect to any Indemnifiable Loss as a result of such assignment. The Indemnitee shall make available to the Indemnifying Party and its counsel all employees, books and records, communications, documents, items or matters within its knowledge, possession or control that are necessary, appropriate or reasonably deemed relevant by the Indemnifying Party with respect to the recovery of such Insurance Proceeds; provided, however, that nothing in this sentence shall be deemed to require a Party to make available books and records, communications, documents or items which (i) in such Party's good faith judgment could result in a waiver of any privilege even if the Parties cooperated to protect such privilege as contemplated by this Agreement or (ii) such Party is not permitted to make available because of any Law or any confidentiality obligation to a third party, in which case such Party shall use commercially reasonable efforts to seek a waiver of or other relief from such confidentiality restriction. Unless the Indemnifying Party has made payment in full of any Indemnifiable Loss, such Indemnifying Party shall use and cause its Affiliates to use commercially reasonable efforts to recover any Insurance Proceeds to which it or such Affiliate is entitled with respect to any Indemnifiable Loss.

Section 9.6 Indemnification Obligations Net of Taxes. The Parties intend that any Indemnifiable Loss will be net of Taxes. Accordingly, the amount which an Indemnifying Party is required to pay to an Indemnitee will be adjusted to reflect any tax benefit to the Indemnitee from the underlying Loss and to reflect any Taxes imposed upon the Indemnitee as a result of the receipt of such payment. Such an adjustment will first be made at the time that the Indemnity Payment is made and will further be made, as appropriate, to take into account any change in the liability of the Indemnitee for Taxes that occurs in connection with the final resolution of an audit by a Taxing Authority. For purposes of this Section 9.6, the value of any tax benefit to the Indemnitee from the underlying Loss shall be an amount equal to the product of (a) the amount of any present or future deduction allowed or allowable to the Indemnitee by the Code, or other applicable Law, as a result of such Loss and (b) the highest statutory rate applicable under Section 11 of the Code, or other applicable Law. To the extent permitted by Law, the Parties will treat any Indemnity Payment paid pursuant to this Agreement as a capital contribution made by Newcastle to New Residential or as a distribution made by New Residential to Newcastle, as the case may be, on the date of this Agreement.

Section 9.7 Contribution. If the indemnification provided for in this Article IX is unavailable to an Indemnitee in respect of any Indemnifiable Loss, then the Indemnifying

Party, in lieu of indemnifying such Indemnitee, shall contribute to the Losses paid or payable by such Indemnitee as a result of such Indemnifiable Loss in such proportion as is appropriate to reflect the relative fault of New Residential and each other member of the New Residential Group, on the one hand, and Newcastle and each other member of the Newcastle Group, on the other hand, in connection with the circumstances which resulted in such Indemnifiable Loss.

Section 9.8 Remedies Cumulative. The remedies provided in this Article IX shall be cumulative and, subject to the provisions of Article X, shall not preclude assertion by any Indemnitee of any other rights or the seeking of any and all other remedies against any Indemnifying Party.

Section 9.9 Survival of Indemnities. The rights and obligations of each of the Parties and their respective Indemnitees under this Article IX shall survive the Distribution Date indefinitely, unless a specific survival or other applicable period is expressly set forth herein, and shall survive the sale or other transfer by any Party or any of its Subsidiaries of any Assets or businesses or the assignment by it of any Liabilities.

Section 9.10 Limitation of Liability. EXCEPT TO THE EXTENT SPECIFICALLY PROVIDED IN ANY ANCILLARY AGREEMENT, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY EXEMPLARY, PUNITIVE, SPECIAL, INDIRECT, CONSEQUENTIAL, REMOTE OR SPECULATIVE DAMAGES (INCLUDING IN RESPECT OF LOST PROFITS OR REVENUES), HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF ANY PROVISION OF THIS AGREEMENT, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

ARTICLE X

DISPUTE RESOLUTION

Section 10.1 Appointed Representative. Each Party shall appoint a representative who shall be responsible for administering the dispute resolution provisions in Section 10.2 (each, an "Appointed Representative"). Each Appointed Representative shall have the authority to resolve any Agreement Disputes on behalf of the Party appointing such representative.

Section 10.2 Negotiation and Dispute Resolution.

(a) Except as otherwise provided in this Agreement or in any Ancillary Agreement, in the event of a controversy, dispute or claim arising out of, in connection with, or in relation to the interpretation, performance, nonperformance, validity, termination or breach of this Agreement or any Ancillary Agreement or otherwise arising out of, or in any way related to this Agreement or any Ancillary Agreement or any of the transactions contemplated hereby or thereby (each, an "Agreement Dispute"), the Appointed Representatives shall negotiate in good faith for thirty (30) days to settle any such Agreement Dispute.

(b) Nothing said or disclosed, nor any document produced, in the course of any negotiations, conferences and discussions in connection with efforts to settle an

Agreement Dispute that is not otherwise independently discoverable shall be offered or received as evidence or used for impeachment or for any other purpose, but shall be considered as to have been disclosed for settlement purposes.

(c) If a satisfactory resolution of any Agreement Dispute is not achieved by the Appointed Representatives within thirty (30) days, each Party will be entitled to refer the dispute to arbitration in accordance with Section 10.3.

Section 10.3 Arbitration.

(a) If a satisfactory resolution of any Agreement Dispute is not achieved by the Appointed Representatives within thirty (30) days, such Agreement Dispute shall be resolved, at the request of either Party, by arbitration administered by the CPR under its Arbitration Rules (the "CPR Rules"), conducted in New York, New York. There shall be three arbitrators. Each Party shall appoint one arbitrator. The two Party-appointed arbitrators shall agree on a third arbitrator who will chair the arbitral tribunal. Any arbitrator not appointed within a reasonable time shall be appointed in accordance with the CPR Rules. Any controversy concerning whether an Agreement Dispute is an arbitrable Agreement Dispute, whether arbitration has been waived, whether an assignee of this Agreement is bound to arbitrate, or as to the interpretation or enforceability of this Section 10.3 will be determined by the arbitrators. In resolving any Agreement Dispute, the Parties intend that the arbitrators apply the substantive laws of the State of New York, without regard to any choice of law principles thereof that would mandate the application of the laws of another jurisdiction. The Parties intend that the provisions to arbitrate set forth herein be valid, enforceable and irrevocable, and any award rendered by the arbitrators shall be final and binding on the Parties. The Parties agree to comply with any award made in any such arbitration proceedings and agree to enforcement of or entry of judgment upon such award, in any court of competent jurisdiction, including any New York State or federal court. The arbitrators shall be entitled, if appropriate, to award monetary damages and other remedies, subject to the provisions of Section 9.10. The Parties will use commercially reasonable efforts to encourage the arbitrators to resolve any arbitration related to any Agreement Dispute as promptly as practicable. Except as required by applicable Law, including disclosure or reporting requirements, the arbitrators and the Parties shall maintain the confidentiality of all information, records, reports, or other documents obtained in the course of the arbitration, and of all awards, orders, or other arbitral decisions rendered by the arbitrators.

(b) The arbitrators may consolidate arbitration under this Agreement with any arbitration arising under or relating to any of the Ancillary Agreements if the subjects of the Agreement Disputes thereunder arise out of or relate essentially to the same set of facts or transactions. Such consolidated arbitration will be determined by the arbitrators appointed for the arbitration proceeding that was commenced first in time.

(c) Unless otherwise agreed in writing, the Parties will continue to provide service and honor all other commitments under this Agreement and each Ancillary Agreement during the course of dispute resolution pursuant to the provisions of this Article X with respect to all matters not subject to such dispute resolution.

ARTICLE XI

TERMINATION

Section 11.1 Termination. Upon written notice, this Agreement and each of the Ancillary Agreements, if any, may be terminated at any time prior to the Effective Time by and in the sole discretion of Newcastle without the approval of any other Party.

Section 11.2 Effect of Termination. In the event of termination pursuant to Section 11.1, neither Party shall have any Liability of any kind to the other Party.

ARTICLE XII

MISCELLANEOUS

Section 12.1 Further Assurances. Subject to the limitations or other provisions of this Agreement, (a) each Party shall, and shall cause the other members of its Group to, use commercially reasonable efforts (subject to, and in accordance with applicable Law) to take promptly, or cause to be taken promptly, all actions, and to do promptly, or cause to be done promptly, and to assist and cooperate with the other Party in doing, all things reasonably necessary, proper or advisable to consummate and make effective the Transactions and to carry out the intent and purposes of this Agreement, including using commercially reasonable efforts to obtain satisfaction of the conditions precedent in Article V within its reasonable control and to perform all covenants and agreements herein applicable to such Party or any member of its Group and (b) neither Party will, nor will either Party allow any other member of its Group to, without the prior written consent of the other Party, take any action which would reasonably be expected to prevent or materially impede, interfere with or delay any of the Transactions. Without limiting the generality of the foregoing, where the cooperation of third parties, such as insurers or trustees, would be necessary in order for a Party to completely fulfill its obligations under this Agreement, such Party shall use commercially reasonable efforts to cause such third parties to provide such cooperation.

Section 12.2 Payment of Expenses. All costs and expenses incurred and directly related to the Transactions shall: (i) to the extent incurred and payable on or prior to the Distribution Date, be paid by Newcastle; and (ii) to the extent arising and payable following the Distribution Date, be paid by the Party incurring such cost or expense.

Section 12.3 Amendments and Waivers.

(a) Subject to Section 11.1, this Agreement may not be amended except by an agreement in writing signed by both Parties.

(b) Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the Party entitled to the benefit thereof and any such waiver shall be validly and sufficiently given for the purposes of this Agreement if it is in writing signed by an authorized representative of such Party. No delay or failure in exercising any right, power or remedy hereunder shall affect or operate as a waiver thereof; nor shall any single or partial exercise thereof or any abandonment or discontinuance of steps to enforce such a right, power or remedy preclude any further exercise thereof or of any other right, power or remedy. The rights and remedies hereunder are cumulative and not exclusive of any rights or remedies that either Party would otherwise have.

Section 12.4 Entire Agreement. This Agreement, the Ancillary Agreements, if any, and the Exhibits and Schedules referenced herein and therein and attached hereto or thereto, constitute the entire agreement and understanding between the Parties with respect to the subject matter hereof and supersede all prior negotiations, agreements, commitments, writings, courses of dealing and understandings with respect to the subject matter hereof.

Section 12.5 Survival of Agreements. Except as otherwise expressly contemplated by this Agreement, all covenants and agreements of the Parties contained in this Agreement shall survive the Effective Time and remain in full force and effect in accordance with their applicable terms.

Section 12.6 Third Party Beneficiaries. Except (a) as provided in Article IX relating to Indemnitees and for the release of any Person provided under Section 9.1, (b) as provided in Section 7.1 relating to insured persons and (c) as provided in Section 8.1(a), this Agreement is solely for the benefit of the Parties and should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, cause of action or other right in excess of those existing without reference to this Agreement.

Section 12.7 Notices. All notices, requests, permissions, waivers and other communications hereunder shall be in writing and shall be deemed to have been duly given (a) five (5) Business Days following sending by registered or certified mail, postage prepaid, (b) when sent, if sent by facsimile, (c) when delivered, if delivered personally to the intended recipient, and (d) one (1) Business Day following sending by overnight delivery via a national courier service and, in each case, addressed to a Party at the following address for such Party:

(a) If to Newcastle:

Newcastle Investment Corp.
c/o Fortress Investment Group
1345 Avenue of the Americas
New York, New York 10105
Attention: Randal A. Nardone, Secretary
Fax: (212) 798-6120

(b) If to New Residential:

New Residential Investment Corp.
c/o FIG LLC
1345 Avenue of the Americas
New York, New York 10105
Attention: Cameron MacDougall, Secretary
Fax: (212) 798-6075

Section 12.8 Counterparts; Electronic Delivery. This Agreement may be executed in multiple counterparts, each of which when executed shall be deemed to be an original, but all of which together shall constitute one and the same agreement. Execution and delivery of this Agreement or any other documents pursuant to this Agreement by facsimile or other electronic means shall be deemed to be, and shall have the same legal effect as, execution by an original signature and delivery in person.

Section 12.9 Severability. If any term or other provision of this Agreement or the Exhibits and Schedules attached hereto or thereto is determined by a nonappealable decision by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the Transactions is not affected in any manner materially adverse to either Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the court, administrative agency or arbitrator shall interpret this Agreement so as to affect the original intent of the Parties as closely as possible in an acceptable manner to the end that the Transactions are fulfilled to the fullest extent possible. If any sentence in this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only as broad as is enforceable.

Section 12.10 Assignability; Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Parties and their successors and permitted assigns; provided, however, that the rights and obligations of each Party under this Agreement shall not be assignable, in whole or in part, directly or indirectly, whether by operation of law or otherwise, by such Party without the prior written consent of the other Party (such consent not to be unreasonably withheld, conditioned or delayed) and any attempt to assign any rights or obligations under this Agreement without such consent shall be null and void. Notwithstanding the foregoing, either Party may assign its rights and obligations under this Agreement to any of their respective Affiliates provided that no such assignment shall release such assigning Party from any liability or obligation under this Agreement.

Section 12.11 Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the substantive laws of the State of New York, without regard to any conflicts of law provisions thereof that would result in the application of the laws of any other jurisdiction.

Section 12.12 Construction. This Agreement shall be construed as if jointly drafted by the Parties and no rule of construction or strict interpretation shall be applied against either Party. The Parties represent that this Agreement is entered into with full consideration of any and all rights which the Parties may have. The Parties have relied upon their own knowledge and judgment. The Parties have had access to independent legal advice, have conducted such investigations they thought appropriate, and have consulted with such other independent advisors as they deemed appropriate regarding this Agreement and their rights and asserted rights in connection therewith. The Parties are not relying upon any representations or statements made by the other Party, or such other Party's employees, agents, representatives or attorneys, regarding this Agreement, except to the extent such representations are expressly set forth or incorporated in this Agreement. The Parties are not relying upon a legal duty, if one exists, on the part of the other Party (or such other Party's employees, agents, representatives or attorneys) to disclose any information in connection with the execution of this Agreement or their preparation, it being expressly understood that neither Party shall ever assert any failure to disclose information on the part of the other Party as a ground for challenging this Agreement.

Section 12.13 Performance. Each Party shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any Subsidiary or Affiliate of such Party.

Section 12.14 Title and Headings. Titles and headings to Sections and Articles are inserted for the convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

Section 12.15 Exhibits and Schedules. The Exhibits and Schedules attached hereto are incorporated herein by reference and shall be construed with and as an integral part of this Agreement to the same extent as if the same had been set forth verbatim herein.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective officers as of the date first set forth above.

NEWCASTLE INVESTMENT CORP.

By: /s/ Brian Sigman

Name: Brian Sigman
Title: Chief Financial Officer

NEW RESIDENTIAL INVESTMENT CORP.

By: /s/ Cameron MacDougall

Name: Cameron MacDougall
Title: Secretary

[Signature Page to Separation and Distribution Agreement]

Exhibit A

New Residential Subsidiaries

Subsidiary	State/Country of Incorporation/Formation
1. NIC MSR I LLC	Delaware
2. NIC MSR II LLC	Delaware
3. NIC MSR III LLC	Delaware
4. NIC RMBS LLC	Delaware
5. NIC MSR IV LLC	Delaware
6. NIC MSR V LLC	Delaware
7. NIC MSR VI LLC	Delaware
8. NIC MSR VII LLC	Delaware
9. RC FH LLC	Delaware
10. RC FN LLC	Delaware
11. RC PLS LLC	Delaware
12. RC GN LLC	Delaware
13. NIC MSR VIII LLC	Delaware
14. NIC MSR IX FH LLC	Delaware
15. NIC MSR X FN LLC	Delaware
16. NIC MSR XI GN LLC	Delaware
17. NIC MSR XII PLS LLC	Delaware
18. NIC VIII Parent LLC	Delaware
19. NIC IX Parent LLC	Delaware
20. NIC X Parent LLC	Delaware
21. NIC XI Parent LLC	Delaware
22. NIC XII Parent LLC	Delaware
23. MSR VIII Holdings LLC	Delaware
24. MSR IX Holdings LLC	Delaware
25. MSR X Holdings LLC	Delaware
26. MSR XI Holdings LLC	Delaware
27. MSR XII Holdings LLC	Delaware
28. MSR VIII LLC	Delaware
29. MSR IX LLC	Delaware
30. MSR X LLC	Delaware
31. MSR XI LLC	Delaware
32. MSR XII LLC	Delaware
33. MSR Admin Parent LLC	Delaware
34. MSR Admin LLC	Delaware
35. NIC MSR XIII PLS 2 LLC	Delaware
36. MSR XIII Parent LLC	Delaware
37. MSR XIII Holdings LLC	Delaware
38. MSR XIII LLC	Delaware
39. MSR IX Trust	Delaware

40. MSR X Trust	Delaware
41. NIC MSR XIV TBW FH LLC	Delaware
42. MSR XIV Parent LLC	Delaware
43. MSR XIV Holdings LLC	Delaware
44. MSR XIV LLC	Delaware
45. NIC Reverse Loan LLC	Delaware
46. Reverse TRS LLC	Delaware
47. NRZ Consumer LLC	Delaware
48. NRZ SC America LLC	Delaware
49. NRZ SC Credit Limited	Delaware
50. NRZ SC Finance I LLC	Delaware
51. NRZ SC Finance II LLC	Delaware
52. NRZ SC Finance III LLC	Delaware
53. NRZ SC Finance IV LLC	Delaware
54. NRZ SC Finance V LLC	Delaware
55. NRZ SC Credit Limited	Delaware

Schedules:

Section 1.1	Assets of New Residential other than Equity of Subsidiaries
Section 1.2	Potential Liabilities
Section 2.2(b)	Intercompany Agreements
Section 2.3	Intercompany Accounts
Section 3.8	Repurchase Agreements
Section 3.9	Vendor Services Agreements

Exhibit 10.1

AMENDED AND RESTATED
MANAGEMENT AND ADVISORY AGREEMENT

dated as of April 25, 2013

among

NEWCASTLE INVESTMENT CORP.

and

FIG LLC

TABLE OF CONTENTS

AMENDED AND RESTATED
MANAGEMENT AND ADVISORY AGREEMENT

THIS AMENDED AND RESTATED MANAGEMENT AND ADVISORY AGREEMENT, is made as of April 25, 2013 (the "Agreement") by and among NEWCASTLE INVESTMENT CORP., a Maryland corporation (the "Company"), and FIG LLC, a Delaware limited liability company (together with its permitted assignees, the "Manager").

W I T N E S S E T H :

WHEREAS, the Company and the Manager entered into that certain Management and Advisory Agreement, dated as of June 6, 2002 (the "Original Management Agreement"), as amended on March 4, 2003 and June 23, 2003; and

WHEREAS, the Company and the Manager desire to amend and restate the Original Management Agreement in its entirety on the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the mutual agreements herein set forth, the parties hereto agree as follows:

I. The Original Management Agreement is hereby modified so that all of the terms and conditions of the aforesaid Original Management Agreement shall be restated in their entirety as set forth herein.

II. This Agreement shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and assigns, and shall be deemed to be effective as of the date hereof.

III. Any reference in any other document executed in connection with the Original Management Agreement or this Agreement to the Original Management Agreement shall be deemed to refer to this Agreement.

NOW THEREFORE, IN CONSIDERATION OF THE MUTUAL AGREEMENTS HEREIN SET FORTH, THE PARTIES HERETO AGREE AS FOLLOWS:

SECTION 1. DEFINITIONS. The following terms have the meanings assigned them:

(a) "Agreement" means this Management and Advisory Agreement, as amended from time to time.

(b) "Board of Directors" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended.

(d) "Common Share" means a share of capital stock of the Company now or hereafter authorized as common voting stock of the Company.

(e) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(f) "Funds from Operations" is as defined by the National Association of Real Estate Investment Trusts and means net income (computed in accordance with GAAP) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships and joint ventures.

(g) "Governing Instruments" means, with regard to any entity, the articles of incorporation and bylaws in the case of a corporation, certificate of limited partnership (if applicable) and the partnership agreement in the case of a general or limited partnership or the articles of formation and the operating agreement in the case of a limited liability company.

(h) "Independent Directors" means the members of the Board of Directors who are not officers or employees of the Manager.

(i) "Investments" means the investments of the Company.

(j) "Junior Share" means a share of capital stock of the Company now or hereafter authorized or reclassified that has dividend rights, or rights upon liquidation, winding up and dissolution, that are inferior or junior to the REIT Shares.

(k) "Preferred Share" means a share of capital stock of the Company now or hereafter authorized or reclassified that has dividend rights, or rights upon liquidation, winding up and dissolution, that are superior or prior to the REIT Shares.

(l) "Prospectus" means the prospectus of the Company relating to the Company's initial public offering of common stock.

(m) "Real Estate Securities" and "credit sensitive real estate-related securities" have the respective meanings ascribed to such terms in the Prospectus.

(n) "REIT Share" means a share of the Company's Common Shares, par value $.01 per share. Where relevant in this Agreement, "REIT Shares" includes shares of the Company's Common Shares, par value $.01 per share, issued upon conversion of Preferred Shares or Junior Shares.

(o) "Subsidiary" means any subsidiary of the Company and any partnership, the general partner of which is the Company or any subsidiary of the Company and any limited liability company, the managing member of which is the Company or any subsidiary of the Company.

SECTION 2. APPOINTMENT AND DUTIES OF THE MANAGER.

(a) The Company hereby appoints the Manager to manage the assets of the Company subject to the further terms and conditions set forth in this Agreement and the Manager hereby agrees to use its commercially reasonable efforts to perform each of the duties set forth herein. The appointment of the Manager shall be exclusive to the Manager except to the extent that the Manager otherwise agrees, in its sole and absolute discretion, and except to the extent that the Manager elects, pursuant to the terms of this Agreement, to cause the duties of the Manager hereunder to be provided by third parties.

(b) The Manager, in its capacity as manager of the assets and the day-to-day operations of the Company, at all times will be subject to the supervision of the Company's Board of Directors and will have only such functions and authority as the Company may delegate to it including, without limitation, the functions and authority identified herein and delegated to the Manager hereby. The Manager will be responsible for the day-to-day operations of the Company and will perform (or cause to be performed) such services and activities relating to the assets and operations of the Company as may be appropriate, including, without limitation:

(i) serving as the Company's consultant with respect to the periodic review of the investment criteria and parameters for Investments, borrowings and operations, any modifications to which shall be approved by a majority of the independent members of the Board of Directors (such policy guidelines as are in effect on the date hereof, as the same may be modified with such approval, the "Guidelines") and other policies for approval by the Board of Directors;

(ii) investigation, analysis and selection of investment opportunities;

(iii) with respect to prospective investments by the Company and dispositions of Investments, conducting negotiations with real estate brokers, sellers and purchasers and their respective agents and representatives, investment bankers and owners of privately and publicly held real estate companies;

(iv) engaging and supervising, on behalf of the Company and at the Company's expense, independent contractors which provide real estate brokerage, investment banking and leasing services, mortgage brokerage, securities brokerage and other financial services and such other services as may be required relating to the Investments;

(v) negotiating on behalf of the Company for the sale, exchange or other disposition of any Investments;

(vi) coordinating and managing operations of any joint venture or co-investment interests held by the Company and conducting all matters with the joint venture or co-investment partners;

(vii) coordinating and supervising, on behalf of the Company and at the Company's expense, all property managers, leasing agents and developers for the administration, leasing, management and/or development of any of the Investments;

(viii) providing executive and administrative personnel, office space and office services required in rendering services to the Company;

(ix) administering the day-to-day operations of the Company and performing and supervising the performance of such other administrative functions necessary in the management of the Company as may be agreed upon by the Manager and the Board of Directors, including, without limitation, the collection of revenues and the payment of the Company's debts and obligations and maintenance of appropriate computer services to perform such administrative functions;

(x) communicating on behalf of the Company with the holders of any equity or debt securities of the Company as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;

(xi) counseling the Company in connection with policy decisions to be made by the Board of Directors;

(xii) evaluating and recommending to the Board of Directors modifications to the hedging strategies in effect on the date hereof and engaging in hedging activities on behalf of the Company, consistent with such strategies, as so modified from time to time, with the Company's status as a real estate investment trust, and with the Guidelines;

(xiii) counseling the Company regarding the maintenance of its status as a real estate investment trust and monitoring compliance with the various real estate investment trust qualification tests and other rules set out in the Code and Treasury Regulations thereunder;

(xiv) counseling the Company regarding the maintenance of its exemption from the Investment Company Act and monitoring compliance with the requirements for maintaining an exemption from that Act;

(xv) assisting the Company in developing criteria for asset purchase commitments that are specifically tailored to the Company's investment objectives and making available to the Company its knowledge and experience with respect to mortgage loans, real estate, real estate securities and other real estate-related assets;

(xvi) representing and making recommendations to the Company in connection with the purchase and finance, and commitment to purchase and finance, of mortgage loans (including on a portfolio basis), real estate, real estate securities and other real estate-related assets, and in connection with the sale and commitment to sell such assets;

(xvii) monitoring the operating performance of the Investments and providing periodic reports with respect thereto to the Board of Directors, including comparative information with respect to such operating and performance and budgeted or projected operating results;

(xviii) investing and re-investing any moneys and securities of the Company (including investing in short-term Investments pending investment in Investments, payment of fees, costs and expenses, or payments of dividends or distributions to stockholders and partners of the Company) and advising the Company as to its capital structure and capital raising;

(xix) causing the Company to retain qualified accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations and compliance with the provisions of the Code applicable to real estate investment trusts and to conduct quarterly compliance reviews with respect thereto;

(xx) causing the Company to qualify to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;

(xxi) assisting the Company in complying with all regulatory requirements applicable to the Company in respect of its business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents required under the Exchange Act;

(xxii) taking all necessary actions to enable the Company to make required tax filings and reports, including soliciting stockholders for required information to the extent provided by the provisions of the Code applicable to real estate investment trusts;

(xxiii) handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which the Company may be involved or to which the Company may be subject arising out of the Company's day-to-day operations, subject to such limitations or parameters as may be imposed from time to time by the Board of Directors;

(xxiv) using commercially reasonable efforts to cause expenses incurred by or on behalf of the Company to be reasonable or customary and within any budgeted parameters or expense guidelines set by the Board of Directors from time to time;

(xxv) performing such other services as may be required from time to time for management and other activities relating to the assets of the Company as the Board of Directors shall reasonably request or the Manager shall deem appropriate under the particular circumstances; and

(xxvi) using commercially reasonable efforts to cause the Company to comply with all applicable laws.

Without limiting the foregoing, the Manager will perform portfolio management services (the "Portfolio Management Services") on behalf of the Company with respect to the Investments. Such services will include, but not be limited to, consulting with the Company on the purchase and sale of, and other investment opportunities in connection with, the Company's portfolio of assets; the collection of information and the submission of reports pertaining to the Company's assets, interest rates and general economic conditions; periodic review and evaluation of the performance of the Company's portfolio of assets; acting as liaison between the Company and banking, mortgage banking, investment banking and other parties with respect to the purchase, financing and disposition of assets; and other customary functions related to portfolio management. Additionally, the Manager will perform monitoring services (the "Monitoring Services") on behalf of the Company with respect to any loan servicing activities provided by third parties. Such Monitoring Services will include, but not be limited to, negotiating servicing agreements; acting as a liaison between the servicers of the assets and the Company; review of servicers' delinquency, foreclosure and other reports on assets; supervising claims filed under any insurance policies; and enforcing the obligation of any servicer to repurchase assets.

(c) The Manager may enter into agreements with other parties, including its affiliates, for the purpose of engaging one or more property and/or asset managers for and on behalf, and at the sole cost and expense, of the Company to provide property management, asset management, leasing, development and/or similar services to the Company (including, without limitation, Portfolio Management Services and Monitoring Services) with respect to the Investments, pursuant to property management agreement(s) and/or asset management agreement(s) with terms which are then customary for agreements regarding the management of assets similar in type, quality and value to the assets of the Company; provided, that (i) any such agreements entered into with affiliates of the Manager shall be (A) on terms no more favorable to such affiliate then would be obtained from a third party on an arms'-length basis and (B) to the extent the same do not fall within the provisions of the Guidelines, approved by a majority of the independent members of the Board of Directors, (ii) with respect to Portfolio Management Services, (A) any such agreements shall be subject to the Company's prior written approval and (B) the Manager shall remain liable for the performance of such Portfolio Management Services, and (iii) with respect to Monitoring Services, any such agreements shall be subject to the Company's prior written approval.

(d) The Manager may retain, for and on behalf, and at the sole cost and expense, of the Company, such services of accountants, legal counsel, appraisers, insurers, brokers, transfer agents, registrars, developers, investment banks, financial advisors, banks and other lenders and others as the Manager deems necessary or advisable in connection with the management and operations of the Company. Notwithstanding anything contained herein to the contrary, the Manager shall have the right to cause any such services to be rendered by its employees or affiliates. The Company shall pay or reimburse the Manager or its affiliates performing such services for the cost thereof; provided, that such costs and reimbursements are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis; and provided, further, that such costs shall not be reimbursed in excess of $500,000 per annum.

(e) As frequently as the Manager may deem necessary or advisable, or at the direction of the Board of Directors, the Manager shall, at the sole cost and expense of the Company, prepare, or cause to be prepared, with respect to any Investment (i) an appraisal prepared by an independent real estate appraiser, (ii) reports and information on the Company's operations and asset performance and (iii) other information reasonably requested by the Company.

(f) The Manager shall prepare, or cause to be prepared, at the sole cost and expense of the Company, all reports, financial or otherwise, with respect to the Company reasonably required by the Board of Directors in order for the Company to comply with its Governing Instruments or any other materials required to be filed with any governmental body or agency, and shall prepare, or cause to be prepared, all materials and data necessary to complete such reports and other materials including, without limitation, an annual audit of the Company's books of account by a nationally recognized independent accounting firm.

(g) The Manager shall prepare regular reports for the Board of Directors to enable the Board of Directors to review the Company's acquisitions, portfolio composition and characteristics, credit quality, performance and compliance with the Guidelines and policies approved by the Board of Directors.

(h) Notwithstanding anything contained in this Agreement to the contrary, except to the extent that the payment of additional moneys is proven by the Company to have been required as a direct result of the Manager's acts or omissions which result in the right of the Company to terminate this Agreement pursuant to Section 15 of this Agreement, the Manager shall not be required to expend money ("Excess Funds") in excess of that contained in any applicable Company Account (as herein defined) or otherwise made available by the Company to be expended by the Manager hereunder. Failure of the Manager to expend Excess Funds out-of-pocket shall not give rise or be a contributing factor to the right of the Company under Section 13(a) of this Agreement to terminate this Agreement due to the Manager's unsatisfactory performance.

(i) In performing its duties under this Section 2, the Manager shall be entitled to rely reasonably on qualified experts hired by the Manager.

SECTION 3. DEVOTION OF TIME; ADDITIONAL ACTIVITIES.

(a) The Manager will provide a dedicated management team, including a President, a Chief Financial Officer and a Chief Operating Officer of the Company, to provide the management services to be provided by the Manager to the Company hereunder, the members of which team shall have as their primary responsibility the management of the Company and shall devote such of their time to the management of the Company as the Board of Directors reasonably deems necessary and appropriate, commensurate with the level of activity of the Company from time to time.

(b) Except to the extent set forth in clauses (a) and (b) above, nothing herein shall prevent the Manager or any of its affiliates or any of the officers and employees of any of the foregoing from engaging in other businesses or from rendering services of any kind to any other person or entity, including investment in, or advisory service to others investing in, any type of real estate or real estate-related investment, including investments which meet the principal investment objectives of the Company.

(c) Managers, members, partners, officers, employees and agents of the Manager or affiliates of the Manager may serve as directors, officers, employees, agents, nominees or signatories for the Company or any Subsidiary, to the extent permitted by their Governing Instruments, as from time to time amended, or by any resolutions duly adopted by the Board of Directors pursuant to the Company's Governing Instruments. When executing documents or otherwise acting in such capacities for the Company, such persons shall use their respective titles in the Company.

SECTION 4. AGENCY. The Manager shall act as agent of the Company in making, acquiring, financing and disposing of Investments, disbursing and collecting the Company's funds, paying the debts and fulfilling the obligations of the Company, supervising the performance of professionals engaged by or on behalf of the Company and handling, prosecuting and settling any claims of or against the Company, the Board of Directors, holders of the Company's securities or the Company's representatives or properties.

SECTION 5. BANK ACCOUNTS. At the direction of the Board of Directors, the Manager may establish and maintain one or more bank accounts in the name of the Company or any Subsidiary (any such account, a "Company Account"), and may collect and deposit funds into any such Company Account or Company Accounts, and disburse funds from any such Company Account or Company Accounts, under such terms and conditions as the Board of Directors may approve; and the Manager shall from time to time render appropriate accountings of such collections and payments to the Board of Directors and, upon request, to the auditors of the Company or any Subsidiary.

SECTION 6. RECORDS; CONFIDENTIALITY.

The Manager shall maintain appropriate books of accounts and records relating to services performed under this Agreement, and such books of account and records shall be accessible for inspection by representatives of the Company or any Subsidiary at any time during normal business hours upon one (1) business day's advance written notice. The Manager shall keep confidential any and all information obtained in connection with the services rendered under this Agreement and shall not disclose any such information to nonaffiliated third parties except with the prior written consent of the Board of Directors.

SECTION 7. OBLIGATIONS OF MANAGER; RESTRICTIONS.

(a) The Manager shall require each seller or transferor of investment assets to the Company to make such representations and warranties regarding such assets as may, in the judgment of the Manager, be necessary and appropriate. In addition, the Manager shall take such other action as it deems necessary or appropriate with regard to the protection of the Investments.

(b) The Manager shall refrain from any action that, in its sole judgment made in good faith, (i) is not in compliance with the Guidelines or (ii) would adversely affect the status of the Company as a real estate investment trust under the Code or that, in its sole judgment made in good faith, would violate any law, rule or regulation of any governmental body or agency having jurisdiction over the Company or any Subsidiary or that would otherwise not be permitted by such entity's Governing Instruments. If the Manager is ordered to take any such action by the Board of Directors, the Manager shall promptly notify the Board of Directors of the Manager's judgment that such action would adversely affect such status or violate any such law, rule or regulation or the Governing Instruments. Notwithstanding the foregoing, the Manager, its directors, officers, stockholders and employees shall not be liable to the Company or any Subsidiary, the Board of Directors, or the Company's or any Subsidiary's stockholders or partners for any act or omission by the Manager, its directors, officers, stockholders or employees except as provided in Section 11 of this Agreement.

(c) The Manager shall not (i) consummate any transaction which would involve the acquisition by the Company of property in which the Manager or any affiliate thereof has an ownership interest or the sale by the Company of property to the Manager or any affiliate thereof, or (ii) under circumstances where the Manager is subject to an actual or potential conflict of interest because it manages both the Company and another Person (not an Affiliate of the Company) with which the Company has a contractual relationship, take any action constituting the granting to such Person of a waiver, forebearance or other relief, or the enforcement against such Person of remedies, under or with respect to the applicable contract, unless such transaction or action, as the case may be and in each case, is approved by a majority of the Independent Directors.

(d) The Company shall not invest in joint ventures with the Manager or any affiliate thereof, unless (i) such Investment is made in accordance with the Guidelines and (ii) such Investment is approved in advance by a majority of the Independent Directors.

(e) The Board of Directors periodically reviews the Guidelines and the Company's portfolio of Investments. If a majority of the Independent Directors determine in their periodic review of transactions that a particular transaction does not comply with the Guidelines, then a majority of the Independent Directors will consider what corrective action, if any, can be taken. If the transaction involved the acquisition of an asset from the Manager or an affiliate of the Manager that was not approved in advance by a majority of the Independent Directors, then the Manager may be required to repurchase the asset at the purchase price (plus closing costs) to the Company.

(f) The Manager shall at all times during the term of this Agreement (including the Initial Term and any renewal term) maintain a tangible net worth equal to or greater than $1,000,000. Additionally, during such period the Manager shall maintain "errors and omissions" insurance coverage and other insurance coverage which is customarily carried by property and asset and investment managers performing functions similar to those of the Manager under this Agreement with respect to assets similar to the assets of the Company, in an amount which is comparable to that customarily maintained by other managers or servicers of similar assets.

SECTION 8. COMPENSATION.

(a) During the term of this Agreement, as the same may be extended from time to time, the Manager will receive an annual management fee (the "Management Fee") equal to 1.50% of the Company's "Gross Equity." The Management Fee shall be calculated and paid monthly in arrears based upon the weighted daily average of the Gross Equity of the Company for such month. The term "Gross Equity" for any period means (A) the sum of (i) the "Total Equity," plus (ii) the value of contributions made by partners other than the Company, from time to time, to the capital of any Subsidiary (reduced proportionately in the case of a Subsidiary to the extent that the Company owns, directly or indirectly, less than 100% of the equity interests in such Subsidiary), less (B) any capital dividends or capital distributions made by the Company to its stockholders or, without duplication, by any Subsidiary to its stockholders, partners or other equity holders. As used herein, the term "Total Equity" shall mean (i) the equity transferred from Newcastle Investment Holdings Corp. at the inception of the Company, plus (ii) the amount of accumulated depreciation on the real estate assets transferred (as directly or indirectly held assets) to the Company (items (i) and (ii) thus representing the gross equity transferred to the Company at inception), plus (iii) the total net proceeds to the Company from any common or preferred equity capital heretofore or hereafter raised by the Company or any Subsidiary of the Company (exclusive, with respect to any Subsidiary, of capital of such Subsidiary consisting of a capital contribution or other form of capital investment made by the Company or another Subsidiary of the Company).

(b) The Manager shall compute each installment of the Management Fee within 15 days after the end of the calendar month with respect to which such installment is payable. A copy of the computations made by the Manager to calculate such installment shall thereafter, for informational purposes only and subject in any event to Section 13(a) of this Agreement, promptly be delivered to the Board of Directors and, upon such delivery, payment of such installment of the Management Fee shown therein shall be due and payable no later than the earlier to occur of (i) the date which is 20 days after the end of the calendar month with respect to which such installment is payable and (ii) the date which is two (2) business days after the date of delivery to the Board of Directors of such computations.

(c) The Management Fee is subject to adjustment pursuant to and in accordance with the provisions of Section 13(a) of this Agreement.

(d) The Board of Directors may, by written notice to the Manager delivered ten (10) days prior to the date on which any payment of the Incentive Compensation is payable, request that the Manager accept all or a portion of such payment in the form of issued shares of common stock in Newcastle Investment Corp., which notice shall specify the amount of the payment of the Incentive Compensation, the amount thereof which the Company intends to pay in cash, if any, and the amount thereof which the Company intends to pay in the form of such shares of common stock of Newcastle Investment Corp. in the number of such shares as determined by the Board of Directors. Within five (5) days following receipt of said notice, the Manager shall notify the Company in writing, such election to be made by the Manager in its sole discretion, whether it will accept such portion of such payment in the form of such shares and in such number of such shares.

(e) In addition to the Management Fee otherwise payable hereunder, the Company shall pay the Manager annual incentive compensation on a cumulative, but not compounding, basis, in an amount equal to the product of (A) 25% of the dollar amount by which (1)(a) the Funds from Operations (before such payment) of the Company, per REIT Share (based on the weighted average number of REIT Shares outstanding), plus (b) gains (or losses) from debt restructuring and gains (or losses) from sales of property per REIT Share (based on the weighted average number of REIT Shares outstanding), exceed (2) an amount equal to (a) the weighted average of the book value per REIT Share of the net assets transferred to the Company on or prior to July 12, 2002 by Newcastle Investment Holdings Corp. and the prices per REIT Share at any subsequent offerings by the Company (adjusted for any prior capital dividends or capital distributions) multiplied by (b) a simple interest rate of ten percent (10%) per annum multiplied by (B) the weighted average number of REIT Shares outstanding during such period. The obligation of the Company to pay the Incentive Compensation shall survive the expiration or earlier termination of this Agreement, subject to Section 16(b).

SECTION 9. EXPENSES OF THE COMPANY. The Company shall pay all of its expenses and shall reimburse the Manager for documented expenses of the Manager incurred on its behalf (collectively, the "Expenses"). Expenses include all costs and expenses which are expressly designated elsewhere in this Agreement as the Company's, together with the following:

(a) expenses in connection with the issuance and transaction costs incident to the acquisitions, disposition and financing of Investments;

(b) travel and other out-of-pocket expenses incurred by managers, officers, employees and agents of the Manager in connection with the purchase, financing, refinancing, sale or other disposition of an Investment;

(c) costs of legal, accounting, tax, auditing, administrative and other similar services rendered for the Company by providers retained by the Manager or, if provided by the Manager's employees, in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis;

(d) the compensation and expenses of the Independent Directors and the cost of liability insurance to indemnify the Company's directors and officers;

(e) compensation and expenses of the Company's custodian and transfer agent, if any;

(f) costs associated with the establishment and maintenance of any credit facilities and other indebtedness of the Company (including commitment fees, legal fees, closing and other costs) or any securities offerings of the Company;

(g) costs associated with any computer software or hardware that is used solely for the Company;

(h) costs and expenses incurred in contracting with third parties, including affiliates of the Manager, for the servicing and special servicing of assets of the Company;

(i) all other costs and expenses relating to the Company's business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing and disposing of Investments, including appraisal, reporting, audit and legal fees;

(j) all insurance costs incurred in connection with the operation of the Company's business except for the costs attributable to the insurance that the Manager elects to carry for itself and its employees;

(k) expenses relating to any office or office facilities maintained for the Company or Investments separate from the office or offices of the Manager;

(l) expenses connected with the payments of interest, dividends or distributions in cash or any other form made or caused to be made by the Board of Directors to or on account of the holders of securities of the Company or its Subsidiaries, including, without limitation, in connection with any dividend reinvestment plan;

(m) expenses connected with communications to holders of securities of the Company or its Subsidiaries and other bookkeeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of governmental bodies or agencies, including, without limitation, all costs of preparing and filing required reports with the Securities and Exchange Commission, the costs payable by the Company to any transfer agent and registrar in connection with the listing and/or trading of the Company's stock on any exchange, the fees payable by the Company to any such exchange in connection with its listing, costs of preparing, printing and mailing the Company's annual report to its shareholders and proxy materials with respect to any meeting of the shareholders of the Company; and

(n) all other expenses actually incurred by the Manager which are reasonably necessary for the performance by the Manager of its duties and functions under this Agreement.

(o) Without regard to the amount of compensation received under this Agreement by the Manager, the Manager shall bear the following expenses: (i) wages and salaries of the Manager's officers and employees; (ii) rent attributable to the space occupied by the Manager; and (iii) all other "overhead" expenses of the Manager.

SECTION 10. CALCULATIONS OF EXPENSES. The Manager shall prepare a statement documenting the Expenses of the Company and the Expenses incurred by the Manager on behalf of the Company during each calendar month, and shall deliver such statement to the Company within 20 days after the end of each calendar month. Expenses incurred by the Manager on behalf of the Company shall be reimbursed monthly to the Manager on the first business day of the month immediately following the date of delivery of such statement.

SECTION 11. LIMITS OF MANAGER RESPONSIBILITY; INDEMNIFICATION. (a) The Manager assumes no responsibility under this Agreement other than to render the services called for under this Agreement in good faith and shall not be responsible for any action of the Board of Directors in following or declining to follow any advice or recommendations of the Manager, including as set forth in Section 7(b) of this Agreement. The Manager, its members, managers, officers and employees will not be liable to the Company or any Subsidiary, to the Board of Directors, or the Company's or any Subsidiary's stockholders or partners for any acts or omissions by the Manager, its members, managers, officers or employees, pursuant to or in accordance with this Agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of the Manager's duties under this Agreement. The Company shall, to the full extent lawful, reimburse, indemnify and hold the Manager, its members, managers, officers and employees and each other Person, if any, controlling the Manager (each, an "Indemnified Party"), harmless of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including attorneys' fees) in respect of or arising from any acts or omissions of such Indemnified Party made in good faith in the performance of the Manager's duties under this Agreement and not constituting such Indemnified Party's bad faith, willful misconduct, gross negligence or reckless disregard of the Manager's duties under this Agreement.

(b) The Manager shall, to the full extent lawful, reimburse, indemnify and hold the Company, its shareholders, directors, officers and employees and each other Person, if any, controlling the Company (each, a "Company Indemnified Party"), harmless of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including attorneys' fees) in respect of or arising from the Manager's bad faith, willful misconduct, gross negligence or reckless disregard of its duties under this Agreement.

SECTION 12. NO JOINT VENTURE. Nothing in this Agreement shall be construed to make the Company and the Manager partners or joint venturers or impose any liability as such on either of them.

SECTION 13. TERM; TERMINATION.

(a) Until this Agreement is terminated in accordance with its terms, this Agreement shall be in effect until the date that is one (1) years after the date hereof, and thereafter on each anniversary of such date deemed renewed automatically each year for an additional one-year period unless (i) a majority consisting of at least two-thirds of the Independent Directors or a simple majority of the holders of outstanding shares of Common Stock of the Company, agree that there has been unsatisfactory performance that is materially detrimental to the Company or (ii) a simple majority of the Independent Directors agree that the Management Fee payable to the Manager is unfair; provided, that the Company shall not have the right to terminate this

Agreement under clause (ii) foregoing if the Manager agrees to continue to provide the services under this Agreement at a fee that the Independent Directors have determined to be fair. If the Company elects not to renew this Agreement at the expiration of the original term or any such one-year extension term as set forth above, the Company shall deliver to the Manager prior written notice (the "Termination Notice") of the Company's intention not to renew this Agreement based upon the terms set forth in this Section 13(a) of this Agreement not less than 60 days prior to the expiration of the then existing term. If the Company so elects not to renew this Agreement, the Company shall designate the date (the "Effective Termination Date"), not less than 60 days from the date of the notice, on which the Manager shall cease to provide services under this Agreement and this Agreement shall terminate on such date; provided, however, that in the event that such Termination Notice is given in connection with a determination that the compensation payable to the Manager is unfair, the Manager shall have the right to renegotiate the Management Fee by delivering to the Company, no fewer than forty-five (45) days prior to the prospective Effective Termination Date, written notice (any such notice, a "Notice of Proposal to Negotiate") of its intention to renegotiate its compensation under this Agreement. Thereupon, the Company and the Manager shall endeavor to negotiate in good faith the revised compensation payable to the Manager under this Agreement. Provided that the Manager and the Company agree to a revised Management Fee (or other compensation structure) within 45 days following the receipt of the Notice of Proposal to Negotiate, the Termination Notice shall be deemed of no force and effect and this Agreement shall continue in full force and effect on the terms stated in this Agreement, except that the Management Fee shall be the revised Management Fee (or other compensation structure) then agreed upon by the parties to this Agreement. The Company and the Manager agree to execute and deliver an amendment to this Agreement setting forth such revised Management Fee promptly upon reaching an agreement regarding same. In the event that the Company and the Manager are unable to agree to a revised Management Fee during such 30 day period, this Agreement shall terminate, such termination to be effective on the date which is the later of (A) ten (10) days following the end of such 30 day period and (B) the Effective Termination Date originally set forth in the Termination Notice.

(b) In the event that this Agreement is terminated in accordance with the provisions of Section 13(a) of this Agreement, the Company shall pay to the Manager, on the date on which such termination is effective, a termination fee (the "Termination Fee") equal to the amount of the Management Fee earned by the Manager during the period consisting of the twelve (12) full, consecutive calendar months immediately preceding such termination. The obligation of the Company to pay the Termination Fee shall survive the termination of this Agreement.

(c) No later than sixty (60) days prior to the anniversary date of this Agreement of any year during the Term, the Manager may deliver written notice to the Company informing it of the Manager's intention not to renew the Term, whereupon the Term of this Agreement shall not be renewed and extended and this Agreement shall terminate effective on the anniversary of the Closing Date next following the delivery of such notice.

(d) If this Agreement is terminated pursuant to this Section 13, such termination shall be without any further liability or obligation of either party to the other, except as provided in Section 13(b) and Section 16 of this Agreement. In addition, Section 11 of this Agreement shall survive termination of this Agreement.

SECTION 14. ASSIGNMENT.

(a) Except as set forth in Section 14(b) of this Agreement, this Agreement shall terminate automatically in the event of its assignment, in whole or in part, by the Manager, unless such assignment is consented to in writing by the Company with the consent of a majority of the Independent Directors; provided, however, that no such consent shall be required in the case of an assignment by the Manager to an entity whose day-to-day business and operations are managed and supervised by any two (2) or more of the Messrs. Wesley R. Edens, Robert I. Kauffman, Randal A. Nardone and Erik P. Nygaard (collectively, the "Principals"), one of whom must be Mr. Edens. Any such permitted assignment shall bind the assignee under this Agreement in the same manner as the Manager is bound, and the Manager shall be liable to the Company for all errors or omissions of the assignee under any such assignment. In addition, the assignee shall execute and deliver to the Company a counterpart of this Agreement naming such assignee as Manager. This Agreement shall not be assigned by the Company without the prior written consent of the Manager, except in the case of assignment by the Company to another real estate investment trust or other organization which is a successor (by merger, consolidation or purchase of assets) to the Company, in which case such successor organization shall be bound under this Agreement and by the terms of such assignment in the same manner as the Company is bound under this Agreement.

(b) Notwithstanding any provision of this Agreement, the Manager may subcontract and assign any or all of its responsibilities under Sections 2(b), 2(c) and 2(d) of this Agreement to any of its affiliates in accordance with the terms of this Agreement applicable to any such subcontract or assignment, and the Company hereby consents to any such assignment and subcontracting. In addition, provided that the Manager provides prior written notice to the Company for informational purposes only, nothing contained in this Agreement shall preclude any pledge, hypothecation or other transfer of any amounts payable to the Manager under this Agreement.

SECTION 15. TERMINATION FOR CAUSE.

(a) The Company may terminate this Agreement effective upon sixty (60) days prior written notice of termination from the Company to the Manager, without payment of any Termination Fee, if any act of fraud, misappropriation of funds, or embezzlement against the Company or other willful violation of this Agreement by the Manager in its corporate capacity (as distinguished from the acts of any employees of the Manager which are taken without the complicity of any of the Principals) under this Agreement or in the event of any gross negligence on the part of the Manager in the performance of its duties under this Agreement.

(b) The Manager may terminate this Agreement effective upon sixty (60) days prior written notice of termination to the Company in the event that the Company shall default in the performance or observance of any material term, condition or covenant contained in this Agreement and such default shall continue for a period of 30 days after written notice thereof specifying such default and requesting that the same be remedied in such 30 day period.

SECTION 16. ACTION UPON TERMINATION. (a) From and after the effective date of termination of this Agreement, pursuant to Sections 13, 14, or 15 of this Agreement, the

Manager shall not be entitled to compensation for further services under this Agreement, but shall be paid all compensation accruing to the date of termination and, if terminated pursuant to Section 13 or Section 15(b), the applicable Termination Fee. Upon such termination, the Manager shall forthwith:

(i) after deducting any accrued compensation and reimbursement for its expenses to which it is then entitled, pay over to the Company or a Subsidiary all money collected and held for the account of the Company or a Subsidiary pursuant to this Agreement;

(ii) deliver to the Board of Directors a full accounting, including a statement showing all payments collected by it and a statement of all money held by it, covering the period following the date of the last accounting furnished to the Board of Directors with respect to the Company or a Subsidiary; and

(iii) deliver to the Board of Directors all property and documents of the Company or any Subsidiary then in the custody of the Manager.

(b) In the event that this Agreement is terminated, the Company shall have the option, to be exercised by written notice to the Manager within ten (10) days following such termination, to purchase from the Manager the right of the Manager to receive the Incentive Compensation. In exchange therefor the Company will be obligated to pay the Manager a cash purchase price (the "Cash Price") equal to the amount of the Incentive Compensation that would be paid to the Manager if all of the Company's assets were sold for cash at their then current fair market value (taking into account, among other things, expected future performance of the underlying investments, the "Fair Market Value"). In the event that the Company does not elect to exercise such option to purchase the Incentive Compensation, the Manager shall have the right to require the Company to do so at the Cash Price by delivering to the Company written notice within twenty (20) days following such termination. The Fair Market Value shall be determined by independent appraisal to be conducted by a nationally recognized appraisal firm mutually agreed upon by the Company and the Manager. If the Company and the Manager are unable to agree upon an appraisal firm, then each of the Company and the Manager shall choose an independent appraisal firm to conduct an appraisal. In such event, (i) if the appraisals prepared by the two appraisers so selected are the same or differ by an amount that does not exceed 20% of the higher of the two appraisals, the Fair Market Value will be deemed to be the average of such appraisals, and (ii) if the two appraisals differ by more than 20% of the higher of the two appraisals, the two appraisers together shall select a third nationally recognized appraisal firm to conduct an appraisal. If the two appraisers are unable to agree as to the identity of such third appraiser, either of the Manager and the Company may request that the American Arbitration Association ("AAA") select the third appraiser, which shall then be selected by the AAA. The Fair Market Value will then be deemed to be the amount determined by such third appraiser, but in no event less than the lower or more than the higher of the first two appraisals made under this Section 16(b).

SECTION 17. RELEASE OF MONEY OR OTHER PROPERTY UPON WRITTEN REQUEST. The Manager agrees that any money or other property of the Company or Subsidiary held by the Manager under this Agreement shall be held by the Manager as custodian for the Company or Subsidiary, and the Manager's records shall be appropriately marked clearly to reflect the ownership of such money or other property by the Company or such Subsidiary. Upon the receipt by the Manager of a written request signed by a duly authorized officer of the Company requesting the Manager to release to the Company or any Subsidiary any money or other property then held by the Manager for the account of the Company or any Subsidiary under this Agreement, the Manager shall release such money or other property to the Company or any Subsidiary within a reasonable period of time, but in no event later than sixty (60) days following such request. The Manager shall not be liable to the Company, any Subsidiary, the Independent Directors, or the Company's or a Subsidiary's stockholders or partners for any acts performed or omissions to act by the Company or any Subsidiary in connection with the money or other property released to the Company or any Subsidiary in accordance with the first sentence of this Section 17. The Company and any Subsidiary shall indemnify the Manager and its members, managers, officers and employees against any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever, which arise in connection with the Manager's release of such money or other property to the Company or any Subsidiary in accordance with the terms of this Section 17. Indemnification pursuant to this provision shall be in addition to any right of the Manager to indemnification under Section 11 of this Agreement.

SECTION 18. NOTICES. Unless expressly provided otherwise in this Agreement, all notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered against receipt or upon actual receipt of (i) personal delivery, (ii) delivery by reputable overnight courier, (iii) delivery by facsimile transmission against answerback, (iv) delivery by registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

(a) If to the Company:

Newcastle Investment Corp.
c/o Fortress Investment Group LLC
1345 Avenue of the Americas
46th Floor
New York, New York 10105
Attention: Mr. Randal A. Nardone

(b) If to the Manager:

FIG LLC
1345 Avenue of the Americas
46th Floor
New York, New York 10105
Attention: Mr. Randal A. Nardone

Either party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 18 for the giving of notice.

SECTION 19. BINDING NATURE OF AGREEMENT; SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns as provided in this Agreement.

SECTION 20. ENTIRE AGREEMENT. This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter of this Agreement, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter of this Agreement. The express terms of this Agreement control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms of this Agreement. This Agreement may not be modified or amended other than by an agreement in writing.

SECTION 21. CONTROLLING LAW. This Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State of New York, notwithstanding any New York or other conflict-of-law provisions to the contrary.

SECTION 22. INDULGENCES, NOT WAIVERS. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

SECTION 23. TITLES NOT TO AFFECT INTERPRETATION. The titles of paragraphs and subparagraphs contained in this Agreement are for convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation of this Agreement.

SECTION 24. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts of this Agreement, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

SECTION 25. PROVISIONS SEPARABLE. The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

SECTION 26. GENDER. Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

COMPANY:

NEWCASTLE INVESTMENT CORP.,
a Maryland corporation

By: /s/ Randal A. Nardone

Name: Randal A. Nardone
Its: Secretary

MANAGER:

FIG LLC, a Delaware limited liability company

By: /s/ Randal A. Nardone

Name: Randal A. Nardone
Its: Chief Operating Officer and Secretary

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kenneth M. Riis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Newcastle Investment Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 3, 2013

/s/ Kenneth M. Riis
Kenneth M. Riis
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brian C. Sigman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Newcastle Investment Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 3, 2013

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

EXHIBIT 32.1

CERTIFICATION OF CEO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Newcastle Investment Corp. (the "Company") for the quarterly period ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kenneth M. Riis, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth M. Riis
Kenneth M. Riis
Chief Executive Officer
May 3, 2013

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

**CERTIFICATION OF CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Newcastle Investment Corp. (the “Company”) for the quarterly period ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Brian C. Sigman, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian Sigman
Brian C. Sigman
Chief Financial Officer
May 3, 2013

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.