

Altisource Residential Corp
Form 10-K
February 20, 2014
[Table of Contents](#)

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

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**
OR

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

COMMISSION FILE NUMBER: 001-35657

(Exact name of registrant as specified in its charter)

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MARYLAND **46-0633510**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
c/o Altisource Asset Management Corporation

402 Strand Street

Frederiksted, United States Virgin Islands 00840-3531

(Address of principal executive office)

(340) 692-1055

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)	(Name of exchange on which registered)
Common stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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The aggregate market value of common stock held by non-affiliates of the registrant was \$384.8 million, based on the closing share price as reported on the New York Stock Exchange on June 28, 2013 and the assumption that all directors and executive officers of the registrant and their families are affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of February 13, 2014, 56,807,162 shares of our common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be filed subsequent to the date hereof with the Commission pursuant to Regulation 14A in connection with the registrant's 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2013.

Table of Contents

Altisource Residential Corporation

December 31, 2013

Table of Contents

<u>Part I</u>	1
<u>Item 1. Business.</u>	1
<u>Item 1A. Risk Factors.</u>	17
<u>Item 1B. Unresolved Staff Comments.</u>	37
<u>Item 2. Properties.</u>	38
<u>Item 3. Legal Proceedings.</u>	40
<u>Item 4. Mine Safety Disclosures.</u>	40
<u>Part II</u>	40
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u>	40
<u>Item 6. Selected Financial Data.</u>	43
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	43
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk.</u>	54
<u>Item 8. Consolidated Financial Statements and Supplementary Data.</u>	55
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.</u>	55
<u>Item 9A. Controls and Procedures.</u>	55
<u>Item 9B. Other Information.</u>	56
<u>Part III</u>	56
<u>Item 10. Directors, Executive Officers and Corporate Governance.</u>	56
<u>Item 11. Executive Compensation.</u>	56
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	56
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence.</u>	57
<u>Item 14. Principal Accountant Fees and Services.</u>	57
<u>Part IV</u>	57
<u>Item 15. Exhibits.</u>	57

Table of Contents

Except where the context suggests otherwise, the terms Residential, RESI, company, we, us, and our refer to Altisource Residential Corp, a Maryland corporation, and its consolidated subsidiaries; and operating partnership refers to Altisource Residential, L.P., a Delaware limited partnership, the subsidiary through which we conduct our business. Our Manager or AAMC refers to Altisource Asset Management Corporation, a United States Virgin Islands corporation, our external manager, and its consolidated subsidiaries. Altisource refers to Altisource Portfolio Solutions S.A., a Luxembourg corporation, and its consolidated subsidiaries. Ocwen refers to Ocwen Financial Corporation, a Florida corporation, and its consolidated subsidiaries.

Special note on forward-looking statements

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

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

our ability to implement our business strategy;

our ability to make distributions to our stockholders;

the impact of changes to the supply of, value of and the returns on sub-performing and non-performing residential mortgage loans;

our ability to convert loans to single-family rental properties generating attractive returns;

our ability to predict our costs;

our ability to effectively compete with our competitors;

our ability to apply the proceeds from financing activities to target assets in a timely manner;

changes in interest rates and the market value of the collateral underlying our sub-performing and non-performing loan portfolios or acquired single-family properties;

our ability to obtain and access financing arrangements on favorable terms, or at all;

our ability to retain our exclusive engagement of AAMC;

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the failure of Altisource to effectively perform its obligations under various agreements with us;

the failure of Ocwen to effectively perform its servicing obligations under the Ocwen servicing agreement;

our failure to qualify or maintain qualification as a real estate investment trust or REIT;

our failure to maintain our exemption from registration under the Investment Company Act;

the impact of adverse real estate, mortgage or housing markets;

the impact of adverse legislative or regulatory tax changes; and

general economic and market conditions.

While forward-looking statements reflect our good faith beliefs, assumptions and expectations, they are not guarantees of future performance. Such forward-looking statements speak only as of their respective dates, and we assume no obligation to update them to reflect changes in underlying assumptions or factors, new information or otherwise, except to the extent required by applicable laws. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements contained herein, please refer to the section Item 1A. Risk Factors.

Table of Contents

Part I

Reclassification and Renaming of Our Common Stock

On April 4, 2013, we reclassified our previously authorized Class A common stock into Class B common stock and renamed our Class B common stock the common stock (the Reclassification). Prior to the Reclassification, no Class A common stock was outstanding. Unless otherwise indicated, all references herein to common stock for periods prior to the Reclassification refer to our Class B common stock.

Item 1. Business.

Overview

Altisource Residential Corporation is a Maryland corporation formed in 2012 that is organized and operated in a manner intended to qualify as a REIT. Residential is focused on acquiring, owning and managing single-family rental properties throughout the United States. We acquire our single-family rental properties primarily through the acquisition of sub-performing and non-performing loan portfolios, which is a differentiated approach that we believe strategically positions us to take advantage of market opportunities better than market participants that are solely focused on real estate-owned, or REO, acquisitions. We conduct substantially all of our activities through our wholly owned subsidiary Altisource Residential, L.P. We intend to elect and qualify to be taxed as a REIT, beginning with our taxable year ended December 31, 2013, and we currently expect to maintain this status for the foreseeable future.

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

On December 21, 2012, which we refer to as the separation date, we separated from Altisource and became a stand-alone publicly traded company through the contribution to us by Altisource of \$100 million of equity capital and the distribution of our shares of common stock to the stockholders of Altisource. On the separation date, we entered into long-term service agreements with Ocwen, a leading residential mortgage loan servicer, and with Altisource, a leading provider of real estate and mortgage portfolio management, asset recovery and customer relationship management services. We believe that our access to Ocwen's servicing expertise and multifaceted resolution methodologies helps us maximize the value of our loan portfolios and provides us with a competitive advantage over other companies with a similar focus. We also believe that our relationship with Altisource and access to its nationwide vendor network will enable us to competitively bid on large sub-performing or non-performing residential mortgage loan portfolios with assets dispersed throughout the United States.

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

Our Business Strategy

Overview

We believe our business model provides us with operating capabilities that are difficult to replicate and positions us to capitalize on the substantial market opportunities described above. Specifically, we believe our differentiated acquisition strategy focused on acquiring non-performing mortgage loans, our multifaceted loan resolution methodologies through Ocwen and our access to an established, nationwide renovation and property management infrastructure provide us with multiple avenues of value creation that will help us to achieve our business objective of generating attractive risk-adjusted returns for our stockholders primarily through dividends and secondarily through capital appreciation.

Table of Contents

Acquisition Strategy

We expect to continue to acquire single-family rental properties primarily through our acquisition of sub-performing and non-performing loan portfolios. Based on the experience of AAMC's management team, we believe that this distressed loan channel gives us a cost advantage over other acquisition channels such as foreclosure auctions and REO acquisitions because:

we believe there are fewer participants in the sub-performing and non-performing loan marketplace than in the foreclosure auction and other REO acquisition channels due to the large size of portfolios offered for sale on an all or none basis and the required operational infrastructure involved in servicing loans and managing single-family rental properties across various states. We believe the relatively lower level of competition for sub-performing and non-performing loans, combined with growing supply, provides buyers with the opportunity for a higher discount rate relative to the foreclosure auction and other REO acquisition channels resulting in a relatively lower cost to ultimately acquire single-family rental properties; and

we believe that we will be able to purchase residential mortgage loans at a lower price than REO properties because sellers of such loans will be able to avoid paying the costs typically associated with home sales, such as broker commissions and closing costs of up to 10% of gross proceeds of the sale. We believe this will motivate the sellers to accept a lower price for the sub-performing and non-performing loans than they would if selling REO.

Multifaceted Loan Resolution Methodologies

We believe that our 15-year servicing agreement with Ocwen will allow us to acquire a high volume of non-performing mortgage loans due to Ocwen's established distressed mortgage loan servicing techniques and platforms. Through our relationship with Ocwen, we employ various loan resolution methodologies with respect to our residential mortgage loans, including loan modification, collateral resolution and collateral disposition. To help us achieve our business objective, we intend to focus on (1) converting a portion of our sub-performing and non-performing loans to performing status and (2) managing the foreclosure process and timelines with respect to the remainder of those loans.

Our preferred resolution methodology is to modify the sub-performing and non-performing loans. Once successfully modified, we expect that borrowers will typically refinance these loans with other lenders or we will sell the modified loans after establishing a payment history at or near the estimated value of the underlying property, potentially generating attractive returns for us. We believe modification followed by refinancing or sale generates near-term cash flows, provides the highest possible economic outcome for us and is a socially responsible business strategy because it keeps more families in their homes. We expect a majority of our residential mortgage loans will enter into foreclosure, ultimately becoming REO that we can convert into single-family rental properties which we believe will generate long-term returns for our stockholders. If an REO property does not meet our rental investment criteria, we expect to engage in REO liquidation to dispose of the property and generate cash for reinvestment in other acquisitions. We believe that the optionality provided by our multifaceted resolution approach will enable us to bid on large portfolios in an effective manner as all loans may not be amenable to a single resolution strategy.

Established Nationwide Property Management Infrastructure

We believe that our 15-year master services agreement with Altisource will allow us to operate and manage single-family rental properties with efficiency and predictability. This efficiency and predictability is driven by Altisource's technology and global workforce. Altisource has developed a nationwide operating infrastructure consisting of technology, standardized and centrally managed processes. It also has a global back office organization that qualifies vendors, solicits the appropriate vendors to perform requested work, assigns the work to the vendor with the best possible combination of cost and delivery capabilities, verifies that the vendor's work is complete and pays the vendor. This technology and organizational infrastructure allows Altisource to provide services throughout the United States, which we believe provides us with the following competitive advantages:

our management of single-family rental properties using Altisource's nationwide vendor network is not dependent upon scale; accordingly, unlike many of our competitors, we do not require a critical size of single-family rental properties in a geographic area to attain operating efficiencies;

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sub-performing and non-performing loan portfolios typically contain properties that are geographically dispersed, requiring a cost-effective nationwide property management system; because of our arrangement with Altisource, we believe we are positioned to bid effectively on portfolios with large geographic dispersion;

Altisource's rental marketing strategy is specifically designed to advertise listings across popular industry-focused websites, utilizing their high organic and paid search rankings to generate large volumes of prospective tenants;

Table of Contents

our contracted relationships with nationwide manufacturers and material suppliers, negotiated by Altisource, enable the ordering and delivery management of flooring, appliances, paint, fixtures and lighting for all renovation and unit turn work (i.e. work associated with turnover from one tenant to the next);

Altisource has developed a proprietary inspection and estimating application utilized by third-party inspection vendors to identify required renovation work and prepare detailed scopes of work to provide a consistent end product. In addition, this application catalogs major HVAC systems, appliances and construction materials, enabling more accurate forecasting of long term maintenance requirements; and

Altisource's ongoing tenant management services are coordinated through an internal 24x7 customer service center. The following illustration provides the structure of the services provided to us by AAMC under the asset management agreement, Altisource under the master services agreement and Ocwen under the servicing agreement:

Although the Ocwen servicing agreement and Altisource master services agreement are not exclusive arrangements, we believe that these relationships provide us with significant competitive advantages with respect to acquiring and maintaining sub-performing and non-performing loans and single-family rental properties. We expect to hold single-family rental property assets over the long-term with a focus on developing brand and franchise value. We also believe that the forecasted growth for the single-family rental marketplace, in combination with our projected asset management and acquisition costs and our ability to acquire assets nationwide, provides us with a significant opportunity to establish ourselves as a leading, externally-managed residential REIT.

Current Portfolio

On February 14, 2013, we acquired a portfolio of residential mortgage loans, substantially all of which were non-performing, consisting of an aggregate of 460 mortgage loans with approximately \$121 million of unpaid principal balance, or UPB, and approximately \$94 million in aggregate market value of underlying properties. The portfolio was purchased from Ocwen, and the mortgage loans were originated by an entity unrelated to the seller.

On March 21, 2013, we acquired a portfolio of residential mortgage loans, substantially all of which were non-performing, consisting of an aggregate of 230 mortgage loans with approximately \$56 million of UPB and approximately \$39 million in aggregate market value of underlying properties. The portfolio was purchased from six separate trusts managed by Invesco Advisers, Inc. and the mortgage loans were originated by an entity unrelated to the sellers.

On April 5, 2013, we acquired a portfolio of residential mortgage loans, substantially all of which were non-performing, consisting of an aggregate of 720 mortgage loans with approximately \$172 million of UPB and approximately \$122 million in aggregate market value of underlying properties. The portfolio was purchased from Protium Master Grantor Trust and the mortgage loans were originated by an entity unrelated to the seller.

On August 26, 2013, we acquired a portfolio of residential mortgage loans, substantially all of which were non-performing, consisting of an aggregate of 292 mortgage loans with approximately \$82 million of UPB and approximately \$67 million in aggregate market value of underlying properties. The portfolio was purchased from several separate trusts managed by Servertis REO, LLC, and the mortgage loans were originated by entities unrelated to the seller.

Table of Contents

In August and September 2013, we acquired a portfolio of residential mortgage loans, substantially all of which were non-performing, consisting of an aggregate of 1,978 residential mortgage loans with approximately \$310 million in UPB and approximately \$241 million in aggregate market value of underlying properties. The portfolio was acquired from the U.S. Department of Housing and Urban Development, which we refer to as HUD, and the mortgage loans were originated by various entities unrelated to the seller.

In September and October 2013, we acquired a portfolio of residential mortgage loans, substantially all of which were non-performing, consisting of an aggregate of 2,647 mortgage loans with approximately \$821 million of UPB and approximately \$702 million in aggregate market value of underlying properties. The portfolio was purchased from Bank of America, National Association and certain of its affiliated entities and the mortgage loans were originated by various entities related and unrelated to the sellers.

In November 2013, we agreed in principle to acquire a portfolio of residential mortgage loans, substantially all of which were non-performing, consisting of an aggregate of approximately 6,500 mortgage loans with approximately \$1.92 billion of UPB and approximately \$1.54 billion in aggregate market value of underlying properties. On December 24, we completed the first closing under this agreement, consisting of 2,204 mortgage loans, substantially all of which were non-performing, with approximately \$657 million of UPB and approximately \$530 million in aggregate market value of underlying properties. On January 31, 2014, we purchased the remaining loans under this agreement, consisting of 3,421 mortgage loans with approximately \$988 million of UPB and approximately \$792 million in aggregate market value of underlying properties. The portfolio was purchased from Bank of America, National Association and certain of its affiliated entities, and the mortgage loans were originated by various entities related and unrelated to the sellers.

On December 31, 2013, we executed an agreement to acquire a portfolio of residential mortgage loans, substantially all of which were non-performing, consisting of an aggregate of 650 mortgage loans with approximately \$121 million of UPB and approximately \$94 million in aggregate market value of underlying properties. Pursuant to the terms of the agreement, the acquisition was completed on January 2, 2014, the payment date for the transaction. The portfolio was purchased from several affiliates of Bayview Loan Servicing, LLC, and the mortgage loans were originated by entities both related and unrelated to the sellers.

In December 2013, we agreed to acquire from HUD a portfolio of residential mortgage loans, substantially all of which were non-performing, consisting of an aggregate of 164 mortgage loans with approximately \$19 million of UPB and approximately \$18 million in aggregate market value of underlying properties for an aggregate purchase price of approximately \$11 million. In accordance with HUD's requirement that its sales settle in two separate closings, we consummated the first closing of this transaction on January 28, 2014, consisting of 66 mortgage loans with \$7 million of UPB and \$7 million in aggregate market value of underlying properties. We expect to close the remaining portion of the HUD portfolio in the first quarter of 2014. There can be no assurance that we will acquire the remainder of the HUD portfolio in whole or in part on a timely basis or at all.

Throughout this annual report, all unpaid principal balance and market value amounts for the portfolios we have acquired are provided as of the applicable cut-off date for each transaction unless otherwise indicated. We refer to the assets underlying our completed acquisitions through December 31, 2013 as our Current Portfolio. The assets underlying our acquisitions completed after December 31, 2013 are not included in our Current Portfolio.

Our mortgage loans become REO properties when we have obtained title to the property through completion of the foreclosure process. Additionally, some of the portfolios we purchase may, from time to time, contain a small number of residential mortgage loans that have already been converted to REO. As of December 31, 2013, we had 262 REO properties. The aggregate fair value of these 262 REO properties as of December 31, 2013 was approximately \$37.1 million, or less than 3% of the total fair value of our Current Portfolio.

As of December 31, 2013, 14 of these 262 REO properties had been rented and were occupied by tenants, 11 were being listed for rent and 18 were in varying stages of lease preparation. With respect to the remaining 219 REO properties, we were in the process of determining whether 203 of these properties meet our rental profile, and 16 were being held for sale. If the REO property meets our rental profile we determine the extent of renovations that are needed to generate an optimal rent and maintain consistency of renovation specifications for future branding. If we determine that the REO property will not meet our rental profile, we list the property for sale, in some instances after renovations are made to optimize the sale proceeds.

Table of Contents

The remainder of our Current Portfolio consists of a diversified pool of residential mortgage loans with the underlying single-family properties located across the United States. The aggregate purchase price of our Current Portfolio for acquisitions completed through December 31, 2013 was 67.9% of the aggregate market value, as determined by the most recent broker price opinion (BPO) provided to us by the applicable seller for each property in the respective portfolio as of its cut-off date. We cannot assure you that the BPOs accurately reflected the actual market value of the related property at the purported time or accurately reflect such market value today.

The table and chart below do not include the 4,137 mortgage loans that we acquired from Bayview, HUD and Bank of America subsequent to December 31, 2013 with an aggregate of \$1.1 billion in UPB and aggregate of \$892 million of market value of underlying properties. The following table sets forth a summary of the residential mortgage loans in our Current Portfolio as of December 31, 2013 (\$ in thousands):

Location	Loan count	Carrying value (1)	UPB	Market value of underlying properties (2)	Weighted average market LTV (3)
Alabama	56	\$ 4,994	\$ 8,100	\$ 6,678	226.1%
Alaska	1	132	197	185	106.3%
Arizona	177	30,738	47,552	38,541	137.1%
Arkansas	44	3,266	5,517	4,568	147.2%
California	1,270	384,956	561,761	507,276	125.4%
Colorado	69	11,273	14,911	14,272	113.5%
Connecticut	73	9,604	20,186	16,351	148.7%
Delaware	32	4,441	7,360	6,320	127.7%
Dist. of Columbia	25	5,687	7,555	8,102	109.8%
Florida	1,342	150,246	297,037	208,875	163.5%
Georgia	263	25,487	46,239	33,700	156.7%
Hawaii	31	8,186	14,457	14,282	106.3%
Idaho	22	2,769	4,239	3,662	125.0%
Illinois	381	40,988	88,529	63,253	186.1%
Indiana	203	15,843	25,897	22,281	130.5%
Iowa	4	203	364	280	137.0%
Kansas	21	1,542	2,254	1,941	127.3%
Kentucky	83	6,815	10,476	9,640	115.9%
Louisiana	13	1,493	2,329	2,551	103.5%
Maine	17	2,070	3,397	3,457	106.2%
Maryland	344	47,332	95,584	70,316	154.2%
Massachusetts	196	29,576	52,941	47,041	123.7%
Michigan	108	10,594	17,715	13,760	178.4%
Minnesota	63	7,892	13,116	10,525	139.6%
Mississippi	21	1,609	2,668	2,266	136.4%
Missouri	76	4,358	8,716	6,376	183.9%
Montana	4	455	711	650	115.5%
Nebraska					