Altisource Residential Corp
Form S-11/A
January 15, 2014
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As filed with the Securities and Exchange Commission on January 14, 2014

Registration No. 333-192422

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4

to

FORM S-11

FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933

OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

ALTISOURCE RESIDENTIAL CORPORATION

(Exact name of registrant as specified in its charter)

c/o Altisource Asset Management Corporation

402 Strand Street

Frederiksted, United States Virgin Islands 00840-3531

(340) 692-1055

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Stephen H. Gray, Esq.

General Counsel and Secretary

Altisource Residential Corporation

c/o Altisource Asset Management Corporation

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Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

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 ¨	Smaller reporting company x
		(Do not check if a smaller reporting company)	

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed maximum aggregate offering price (1)(2)	Amount of registration fee
Common Stock, $0.01 par value per share	$463,000,000	$59,635(3)

(1) Includes shares subject to the underwriters option to purchase additional shares.
(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
(3) $44,436 previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Commission acting pursuant to Section 8(a) may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale thereof is not permitted.

PRELIMINARY PROSPECTUS

SUBJECT TO COMPLETION, DATED JANUARY 14, 2014

12,500,000 Shares

Common Stock

$ per share

Altisource Residential Corporation is a Maryland corporation formed in 2012. On December 21, 2012, we separated from Altisource Portfolio Solutions, S.A., which we refer to as Altisource, and became a publicly traded company. We are focused on acquiring, owning and managing single-family rental properties throughout the United States. We acquire single-family rental properties primarily through the acquisition of sub-performing and non-performing loan portfolios. We conduct substantially all of our activities through our wholly owned subsidiary Altisource Residential, L.P., a Delaware limited partnership, which we refer to as our operating partnership. We are managed by Altisource Asset Management Corporation, which we refer to as AAMC or our Manager. We rely on AAMC for administering our business, providing portfolio management services and performing certain of our corporate governance functions.

We are offering 12,500,000 shares of our common stock as described in this prospectus. Our shares of common stock are listed on the New York Stock Exchange under the symbol RESI. On January 14, 2014, the last reported sales price for our common stock on the New York Stock Exchange was $32.15 per share.

We intend to elect and qualify to be taxed as a real estate investment trust for U.S. federal income tax purposes, or a REIT, beginning with our taxable year ended December 31, 2013. To assist us in qualifying as a REIT, stockholders are generally restricted from owning more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common or capital stock without the prior consent of our Board of Directors. See Description of Capital Stock Restrictions on Ownership and Transfer of Our Capital Stock.

We are an emerging growth company under the federal securities laws. Investing in our common stock involves risks. See Risk Factors beginning on page 14 for a discussion of the following and other risks:

- We have a limited operating history. If we are unable to implement our business strategy as planned, we will be materially and adversely affected;
- A significant portion of the residential mortgage loans that we acquire are, or may become, sub-performing or non-performing loans, which increases our risk of loss;
- Competition in identifying and acquiring single-family rental properties and related loans could adversely affect our ability to implement our business strategy, which could materially and adversely affect us;
- Our inability to promptly foreclose upon defaulted residential mortgage loans could increase our costs and/or diminish our expected return on investments;
- Fair values of our investments are imprecise and may materially and adversely affect our operating results and credit availability, which, in turn, would materially and adversely affect us;

AAMC utilizes analytical models and data in connection with the valuation of our investments, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks;
We intend to leverage our investments, which may materially and adversely affect our return on our investments and may reduce cash available for distribution to our stockholders;
We have conflicts of interest with our Manager and our service providers, and the Chairman and other members of our Board of Directors, as well as our management team, have, or could have in the future, conflicts of interest due to their respective relationships with these entities, and such conflicts may be resolved in a manner adverse to us; and
Failure to qualify as a REIT would have a material adverse effect on us.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds, Before Expenses, to Us[1]	$	$

(1) See Underwriting for information regarding expenses, including certain underwriters expenses, payable by us.
We have granted the underwriters the option to purchase up to 1,875,000 additional shares of our common stock from us on the same terms and conditions as set forth above, less the underwriting discount, within 30 days after the date of this prospectus.

Neither the Securities and Exchange Commission nor any state or other securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of common stock sold in this offering will be ready for delivery on or about , 2014.

Joint Book-Running Managers

Citigroup **Credit Suisse** **Deutsche Bank Securities** **J.P. Morgan** **Wells Fargo Securities**

Co-Managers

JMP Securities

Keefe, Bruyette & Woods

A Stifel Company

Piper Jaffray

Prospectus dated , 2014

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You should rely only on the information contained in this prospectus, or in any free writing prospectus prepared by us. We have not, and the underwriters have not, authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any free writing prospectus prepared by us is accurate only as of their respective dates or on the date or dates which are specified in these documents regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

Market, Industry and Other Data

Unless otherwise indicated, information contained in this prospectus concerning the sub-performing and non-performing residential mortgage loan markets, the residential real estate market, the housing market and the markets in which we operate, including our general expectations and market position, market opportunity and market size, is based on information from various sources, on assumptions that we have made that are based on those data and other similar sources and on our knowledge of those markets. These data involve a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. While we believe our market position, market opportunity and market size information included in this prospectus is generally reliable, such information is inherently imprecise.

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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, prior to the Reclassification, all references herein to common stock refer to the Class B common stock. See Description of Capital Stock.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It does not contain all of the information that you should consider before making a decision to invest in our common stock. You should read carefully the more detailed information set forth elsewhere in this prospectus, including under Risk Factors and in our consolidated financial statements and related notes.

Except where the context suggests otherwise, the terms Residential, RESI, company, we, us, and our refer to Altisource Residential Corporation, 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.

Our Company

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 we believe is a differentiated approach that strategically better positions us to take advantage of market opportunities compared to market participants 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 supply of single-family rental properties available for rental purposes. We believe we have an opportunity to acquire single-family rental properties through the acquisition of sub-performing and non-performing loan portfolios at attractive valuations relative to historical levels. We expect our integrated approach of acquiring sub-performing and non-performing residential mortgage loans and converting them to REO will enable us to compete more effectively for attractive investment opportunities. Furthermore, we believe that our access to Ocwen s servicing expertise 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.

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. 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 rental 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.

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On the separation date, we entered into long-term service agreements with Ocwen, a leading residential mortgage loan servicer, and Altisource, a leading provider of real estate and mortgage portfolio management, asset recovery and customer relationship management services. We believe that these service agreements will provide us with a competitive advantage in acquiring and resolving sub-performing and non-performing loans and in acquiring and managing single-family rental properties.

Our Manager and Our Service Providers

Under our asset management agreement with AAMC, which we refer to as the asset management agreement, AAMC administers our day-to-day business activities and operations. Among other services, AAMC provides us with a management team and appropriate support personnel who have substantial experience in acquiring and managing sub-performing and non-performing loans. We do not currently have any employees and do not expect to have any employees in the foreseeable future. Each of our executive officers is an employee or officer or both, of AAMC and is paid by AAMC. AAMC s management has significant corporate governance experience that we believe will enable us to manage our business and organizational structure efficiently. We are contractually required to reimburse AAMC for expenditures it incurs related to managing our business, which we refer to as expense reimbursement, and to pay AAMC an incentive management fee based on the amount of cash available for distribution to our stockholders, as more fully described under the section Our Manager and the Asset Management Agreement appearing elsewhere in this prospectus.

Our long-term service agreements with Ocwen and Altisource provide efficiency and predictability in certain major components of our cost structure. Although our overall costs will vary in different circumstances, we believe that our efforts will benefit from the efficiency and predictability provided by these agreements.

Ocwen specializes in providing high-quality servicing of non-conforming and delinquent residential mortgage loans that require a high-touch approach. Under our servicing agreement with Ocwen, Ocwen services our acquired residential mortgage loans and offers loan modification, assisted deed-in-lieu, assisted deed-for-lease and other loss mitigation programs to our borrowers.

Altisource has built a nationwide vendor network providing services in 208 major markets across the United States and is a leading provider of property inspection, preservation and disposition services. Altisource has qualified, contracted with and trained 48 general contractors and 260 property managers in these markets to provide property inspection, preservation and disposition services. Altisource s vendor contracts are in the form of continuing service agreements, and vendors are not engaged on a job-by-job basis. Under our master services agreement with Altisource, Altisource provides renovation management, lease management and property management services associated with the single-family rental properties we acquire or otherwise take title to in the future. Management of these services is directed by a 22 person Altisource team, and supplemental support is provided by the 302 employees of Altisource s national field services business.

In addition to the Ocwen servicing agreement and the Altisource master services agreement, we also have a trademark license agreement with Altisource that provides us with a non-exclusive, non-transferable, non-sublicensable, royalty free license to use the name Altisource. We also have a support services agreement with Altisource to provide services to us in such areas as human resources, vendor management operations, corporate services, risk management, quality assurance, consumer psychology, treasury, finance and accounting, legal, tax and compliance.

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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:

Market Opportunity

According to the Federal Reserve and Green Street Advisors Inc. (Green Street Advisors), debt outstanding on residential mortgage loans was approximately $10.8 trillion on 132.8 million households in the United States as of December 31, 2012, representing the largest consumer asset class and the second largest asset class outside of government debt securities. Secular and cyclical trends are prompting a significant realignment within the mortgage sector. This includes the increase in sales of residential mortgage assets by banks and other mortgage lenders due to elevated operating costs resulting from the new regulatory paradigm, higher delinquencies and impairments. In addition, we expect that dislocations in the residential mortgage loan origination market since 2008 and shifting demographic trends will drive strong demand for single-family rental properties. We believe that this realignment has created two distinct but related market opportunities for entities with the financial resources and nationwide operating infrastructure to acquire large portfolios of residential assets on a competitive basis relative to traditional regionally focused market constituents. Given our services agreements with Altisource, we have access to a national vendor network that we believe allows us to pursue attractive opportunities across the entire United States.

The Market Opportunity for Purchasing Sub-Performing and Non-Performing Residential Mortgage Loans

We expect to continue to acquire our single-family rental properties primarily through our acquisition of sub-performing and non-performing loan portfolios. We expect the supply of non-performing loans, sub-performing loans (defined as loans that are more than 60 days delinquent), properties in foreclosure and REO to increase over the next several years as banks and other mortgage lenders seek to dispose of their inventory, which has averaged approximately 5.0 million units over the last 5 years according to Green Street Advisors. We believe, for the following reasons, that acquiring single-family rental properties through this distressed loan channel is more attractive than other acquisition channels such as foreclosure auctions and other REO acquisitions.

First, 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

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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 and therefore a relatively lower cost to ultimately acquire single-family rental properties.

Second, by purchasing residential mortgage loans rather than the underlying property, sellers of the 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.

As a result of the foregoing, we believe we have a significant opportunity to operate in the single-family rental property market at a lower acquisition price and therefore a higher return relative to competitors that focus on direct purchases of single-family rental properties.

The Market Opportunity for Single-Family Rental Properties

According to Green Street Advisors, the U.S. rental market is large and diverse, with institutional-quality apartment buildings representing approximately 16.4 million units of the total U.S. rental housing stock of 39.6 million units, as of December 31, 2012. The remaining 23.2 million units consist of smaller apartment complexes and a mix of single-family homes, condominiums, townhomes, duplexes, triplexes and mobile homes, the vast majority of which are owned by relatively small scale investors. Single-unit, single-family rental properties in the United States, which are our primary focus, totaled 14.0 million units, or 11% of the total U.S. housing market, as of December 31, 2012, according to Green Street Advisors.

The origination of subprime and alternative residential mortgage loans has dramatically declined since 2008. Additionally, banks and other mortgage lenders have increased their credit standards and down payment requirements for originating new loans. The combination of these factors has resulted in a significant number of families that cannot qualify to obtain new residential mortgage loans due to their employment status, income level, impaired credit history or lack of savings. We believe that many homeowners displaced by foreclosure or who cannot afford to own will prefer to live in single-family rental properties with similar characteristics and amenities to owned homes. In addition, we believe that in certain demographic areas, new households are being formed at a rate that exceeds the new homes being added to the market, which is conducive for future demand of single-family rental properties. Based on the above factors, we believe that demand for single-family rental properties will either increase or at least remain relatively constant at these heightened levels in the near term and in the foreseeable future.

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 acquisition strategy, multifaceted loan resolution methodologies and access to an established, nationwide renovation, leasing and property management infrastructure provide us with multiple avenues of value creation and 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.

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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 for the reasons discussed above.

Multifaceted Loan Resolution Methodologies

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 at or near the estimated value of the underlying property, potentially generating attractive returns for us. We believe modification followed by refinancing 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. In certain circumstances, we may also consider selling these modified loans. 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 that we believe will generate long-term returns for our stockholders. If an REO property does not meet our investment criteria, we expect to engage in REO liquidation and short sale processes 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 in certain major components of our cost structure due to Altisource s capabilities and low costs, driven in part by its technology and global workforce. Altisource has developed a nationwide operating infrastructure consisting of technology, standardized and centrally managed processes and a back office organization that qualifies vendors, solicits the appropriate vendors to perform requested work, assigns the work to the vendor who accepts the offer, verifies the work is complete and pays the vendor. This 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;

- 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;

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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 and utilize a vendor network of 48 general contractors and three nationwide emergency vendors.

Our Financing Strategy

We intend to continue to finance our investments with leverage, the level of which may vary based upon the particular characteristics of our portfolio and on market conditions. To the extent available at the relevant time, our financing sources may include bank credit facilities, warehouse lines of credit, structured financing arrangements and repurchase agreements, among others. We may also seek to raise additional capital through public or private offerings of debt or equity securities, depending upon market conditions.

Our Strengths

Relationship with Ocwen and Proven Loan Resolution Methodologies

We intend to capitalize on the servicing capabilities of Ocwen, which we view as superior relative to other servicers in terms of cost, management experience, technology infrastructure and platform scalability. Ocwen services our acquired residential mortgage loan portfolios in accordance with the terms of their servicing agreement with us. Ocwen s servicing approach is focused on the psychological principles of influencing borrower behavior and uses non-linear optimization models for deciding the best resolution for a loan. Ocwen s use of artificial intelligence and scripting engines seeks to remove variability and human error from the process and provides scalability. Ocwen is a leader in its ability to convert loans that are 90 days or more past due to current status. Ocwen has successfully grown its servicing portfolio to approximately $435 billion as of September 30, 2013.

Importantly, by using Ocwen s servicing platform to modify as many loans as possible, we believe that more families may remain in their homes because of our efforts.

Relationship with Altisource and its Nationwide Property Management Infrastructure

We believe that we are strategically positioned to operate single-family rental properties across the United States at an attractive cost structure, largely due to Altisource s nationwide vendor network, which provides services in 208 major markets across the United States. In 2012, Altisource completed an average of more than 170,000 inspection, maintenance and repair orders per month. This infrastructure has been developed over many years at a significant cost that we believe would be difficult and expensive to replicate. We believe our existing relationship with Altisource gives us a distinct advantage as it allows us to bid on large attractive portfolios regardless of geography at an attractive cost structure.

Expertise of our Manager

Our senior management team and that of our Manager includes individuals with decades of experience in the real estate, mortgage and housing markets. Throughout their careers, these executives have managed various

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real estate-related businesses and executed structured real estate and financing transactions through multiple market cycles. We believe that AAMC s asset acquisition evaluation process, which includes using proprietary historical data to project the performance of residential mortgage loans, and the experience and judgment of AAMC s executive management team in identifying, assessing, valuing and acquiring new residential mortgage loans will help us to appropriately value the portfolios at the time of purchase.

Acquisitions of Portfolios of Residential Mortgage Loans

From our inception through December 31, 2013, we have acquired eight portfolios of residential mortgage loans for an aggregate purchase price of approximately $1.28 billion. The portfolios consisted of 9,181 residential mortgage loans, substantially all of which were non-performing, having an aggregate unpaid principal balance, or UPB, of approximately $2.34 billion and an aggregate market value of underlying properties of approximately $1.89 billion as of the respective cut-off dates for the transactions. The cut-off date for an acquisition is a date shortly before the closing used to identify the final loans being purchased and the related unpaid principal balance and other characteristics of the loans. One of the portfolios, having a UPB of approximately $121 million, was purchased from Ocwen, which had previously purchased this portfolio from CitiMortgage, Inc., an affiliate of Citigroup Global Markets Inc., or Citigroup , which is an underwriter in this offering. Three of these acquisitions, representing 3,954 loans with an aggregate UPB of approximately $1.12 billion and an aggregate market value of underlying properties of approximately $922 million, were completed after September 30, 2013, for an aggregate purchase price of $632.1 million using a combination of cash on hand and borrowings under our repurchase agreements. Therefore, these three acquisitions are not reflected in our results for the nine months ended September 30, 2013. Throughout this prospectus, all UPB 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.

The mortgage loans that were acquired include a portion of a portfolio that we agreed to acquire in November 2013. The remaining portion of this portfolio consists of approximately 4,200 mortgage loans with approximately $1.23 billion of UPB and approximately $981 million in aggregate market value of underlying properties with an aggregate purchase price of approximately $680 million. We are actively conducting secondary due diligence on the remainder of this portfolio. Subject to satisfactory due diligence results and final agreement on terms, we anticipate closing this remaining portion in the first quarter of 2014. There can be no assurance that we will acquire the remainder of this portfolio in whole or in part on a timely basis or at all.

In December 2013, we agreed in principle to acquire from the U.S. Department of Housing and Urban Development, which we refer to as 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. Pursuant to HUD requirements, we expect this transaction to be consummated in two separate settlements in the first quarter of 2014. There can be no assurance that we will acquire the HUD portfolio in whole or in part on a timely basis or at all.

For additional information on our portfolio, please see Business and Properties Current Portfolio.

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Recent Developments

Dividend

Our Board of Directors has declared a quarterly cash dividend of $0.25 per share of common stock, which was paid on December 20, 2013 to all stockholders of record as of the close of business on December 13, 2013.

Repurchase Agreements

In December 2013, we increased the maximum aggregate funding available under our repurchase agreements from $425.0 million to $750.0 million. As of January 13, 2014, an aggregate of $602.4 million was outstanding under our repurchase agreements.

NewSource Investment

On December 21, 2012, we entered into a subscription agreement to invest $18.0 million in the non-voting preferred stock of NewSource Reinsurance Company Ltd., which we refer to as NewSource, a title insurance and reinsurance company in Bermuda. AAMC simultaneously entered into a subscription agreement to invest $2.0 million to acquire 100% of the common stock and voting rights of NewSource. On October 17, 2013, we and AAMC invested the full amount of our respective subscriptions in NewSource, and on December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority, or BMA . We believe our investment in NewSource complements our business strategy because the acquisition of residential mortgage loans requires a detailed analysis of the chain of title and typically involves the purchase of title insurance to ensure clear and marketable title to each property.

Conflicts of Interest

Our asset management agreement with AAMC was not negotiated at arm s length and may not be on terms as favorable as we could have negotiated with an unaffiliated third party. Subject to the investment policy adopted by our Board of Directors, AAMC has significant discretion regarding the implementation of our business strategy. AAMC is not obligated to dedicate any specific personnel exclusively to us, nor are they or their personnel obligated to dedicate any specific portion of their time to the management of our business. Each of our executive officers is also an executive officer of AAMC and has interests in our relationship with AAMC that may be different than the interests of our stockholders. In particular, these individuals have a direct interest in the financial success of AAMC, which may encourage these individuals to support strategies in furtherance of the financial success of AAMC that adversely impact us. As a result of these relationships, these persons have conflicts of interest with respect to our agreements and arrangements with AAMC. Furthermore, AAMC is entitled to an incentive management fee from us under the asset management agreement based on the amount of cash available for distribution to our stockholders, which could cause it to take risks that could increase our cash available for distribution at the expense of other criteria, such as preservation of capital. Actions taken in that regard may fail to generate any returns. We also have conflicts of interest with our service providers, Ocwen and Altisource, and the Chairman and other members of our Board of Directors, as well as our management team, have, or could have in the future, conflicts of interest due to their relationships with AAMC and our service providers. Such conflicts may be resolved in a manner adverse to us. See Risk Factors Risks Related to Our Management and Our Relationship with AAMC, Altisource and Ocwen and Our Manager and the Asset Management Agreement Conflicts of Interest Relating to AAMC as our Manager.

REIT Qualification

We intend to elect and qualify to be taxed as a REIT under Sections 856 through 859 of the Internal Revenue Code of 1986, or the Code, beginning with our taxable year ended December 31, 2013 and we currently expect to maintain this status for the foreseeable future. Our qualification as a REIT depends upon our ability to meet on a continuing basis, through actual investment and operating results, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our common shares. We believe that we are organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our manner of operation enables us to meet the requirements for qualification and taxation as a REIT. As a REIT, we generally are not subject to U.S. federal income tax on our REIT taxable income we distribute to our stockholders.

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Even though we intend to elect to be taxed as a REIT, we will be subject to some U.S. federal, state and local taxes on our income or property. A portion of our business is expected to be conducted through, and a portion of our income is expected to be earned in, one or more taxable REIT subsidiaries, each of which we refer to as a TRS. In general, a TRS may hold assets and engage in activities that the REIT cannot hold, may choose not to hold to maintain REIT compliance and cannot engage in directly. Additionally, a TRS may engage in any real estate or non-real estate related business. A TRS is subject to U.S. federal, state and local corporate income taxes. To maintain our REIT election, at the end of each quarter no more than 25% of the value of a REIT s assets may consist of stock or securities of one or more TRSs. If our TRS generates net income, our TRS can declare dividends to us which will be included in our taxable income and necessitate a distribution to our stockholders. Conversely, if we retain earnings at the TRS level, no distribution is required, and we can increase stockholders equity of the consolidated entity. As discussed under Risk Factors Risks Related to Our Qualification as a REIT , the combination of the requirement to maintain no more than 25% of our assets in the TRS coupled with the effect of TRS dividends on our income tests creates compliance complexities for us in the maintenance of our qualified REIT status.

Exemption from Investment Company Act

We rely on the exception from the Investment Company Act of 1940, as amended, or the Investment Company Act, set forth in Section 3(c)(5)(C) of the Investment Company Act which excludes from the definition of investment company [a]ny person who is not engaged in the business of issuing redeemable securities, face-amount certificates of the installment type or periodic payment plan certificates, and who is primarily engaged in one or more of the following businesses (C) purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. The SEC Staff generally requires that, for the exception provided by Section 3(c)(5)(C) to be available, at least 55% of an entity s assets be comprised of mortgages and other liens on and interests in real estate, also known as qualifying interests, and at least another 25% of the entity s assets must be comprised of additional qualifying interests or real estate-type interests (with no more than 20% of the entity s assets comprised of miscellaneous assets). We believe that our $18.0 million investment in NewSource does not meet the definition of qualifying interest. Any significant acquisition by us of non-real estate assets without the acquisition of substantial real estate assets could cause us to meet the definitions of an investment company. If we are deemed to be an investment company, we could be required to dispose of our NewSource investment or a portion thereof, potentially at a loss, in order to qualify for the 3(c)(5)(C) exception. We may also be required to register as an investment company if we are unable to dispose of the disqualifying assets, which could have a material adverse effect on us. See Risk Factors Risks Related to Our Structure We could be materially and adversely affected if we are deemed to be an investment company under the Investment Company Act.

Summary Risk Factors

An investment in shares of our common stock involves various risks. You should consider carefully the risks discussed below and under Risk Factors before making a decision to invest in our common stock. If any of the following risks occur, our business, financial condition, liquidity, results of operations and prospects could be materially and adversely affected. In that case, the market price of our common stock could decline, and you may lose some or all of your investment.

- We have a limited operating history. If we are unable to implement our business strategy as planned, we will be materially and adversely affected;
- A significant portion of the residential mortgage loans that we acquire are, or may become, sub-performing or non-performing loans, which increases our risk of loss;
- Competition in identifying and acquiring single-family rental properties, whether directly or through sub-performing and non-performing loans, could adversely affect our ability to implement our business strategy, which could materially and adversely affect us;

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Our inability to promptly foreclose upon defaulted residential mortgage loans could increase our costs and/or diminish our expected return on investments;

Our revenue and expenses are not directly correlated, and, because a large percentage of our costs and expenses are fixed and some variable expenses may not decrease over time, we may not be able to adapt our cost structure to offset any declines in our revenue;

Fair values of our investments are imprecise and may materially and adversely affect our operating results and credit availability, which, in turn, would materially and adversely affect us;

AAMC utilizes analytical models and data in connection with the valuation of our investments, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks;

We intend to leverage our investments, which may materially and adversely affect our return on our investments and may reduce cash available for distribution to our stockholders;

We have conflicts of interest with our Manager and our service providers, and the Chairman and other members of our Board of Directors, as well as our management team, have, or could have in the future, conflicts of interest due to their respective relationships with these entities, and such conflicts may be resolved in a manner adverse to us;

Our Board of Directors has approved a very broad investment policy and guidelines for AAMC and will not review or approve each investment decision. We may change our investment policy and guidelines without stockholder consent, which may materially and adversely affect the market price of our common stock and our ability to make distributions to our stockholders;

We depend on AAMC as our Manager. We may not be able to retain our exclusive engagement of AAMC under certain circumstances, which could materially and adversely affect us. Termination of AAMC by us without cause is difficult and costly and our agreements with Ocwen and Altisource may simultaneously terminate or be terminated, as applicable;

Failure of Altisource or Ocwen to effectively perform its obligations under its agreement(s) with us could have a material adverse effect on us;

Failure to qualify as a REIT would have a material adverse effect on us;

Compliance with REIT requirements may cause us to forego otherwise attractive opportunities, which may hinder or delay our ability to implement our business strategy, which could materially and adversely affect us;

In the future, we could be required to sell assets, borrow funds or raise equity capital to fund our distributions or to make a portion of our distributions in the form of a taxable stock distribution;

Even if we qualify as a REIT, we may be subject to tax liabilities that could materially and adversely affect us;

We could be materially and adversely affected if we are deemed to be an investment company under the Investment Company Act; and

The availability and timing of cash distributions is uncertain.

Restrictions on Ownership and Transfer of Our Stock

Our Charter, with certain exceptions, authorizes our Board of Directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our Board of Directors, no person may own more than 9.8% in value or number of shares, whichever is more restrictive, of our outstanding shares of common or capital stock. A person that did not acquire more than 9.8% of our outstanding common or capital stock may become subject to our Charter restrictions if repurchases by us cause such person s holdings to exceed 9.8% of

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our outstanding common or capital stock. Any attempt to own or transfer shares of our common stock in excess of the ownership limit without the consent of our Board of Directors will be void or will result in those shares being transferred to a charitable trust, and the person who acquired such excess shares will not be entitled to any distributions thereon or to vote those excess shares. Our 9.8% ownership limitation may have the effect of delaying, deferring or preventing a change in control of us including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for our stockholders.

Corporate Information

We were incorporated in Maryland on July 19, 2012, and our operating partnership was formed on June 7, 2012, which we refer to in this prospectus as our Inception. Our principal executive office is located at c/o Altisource Asset Management Corporation, 402 Strand Street, Frederiksted, USVI 00840-3531. Our telephone number is (340) 692-1055. Our web address is www.altisourceresi.com. The information on or otherwise accessible through our website does not constitute a part of this prospectus or any other report or document we file with or furnish to the Securities and Exchange Commission.

The Offering

Common stock offered by us	12,500,000 shares (plus up to an additional 1,875,000 shares of our common stock that we may issue and sell upon the exercise of the underwriters option to purchase additional shares).
Common stock after this offering	54,815,998 shares of common stock (or 56,690,998 shares of common stock if the underwriters exercise their option to purchase additional shares in full).(1)
Use of proceeds	We will contribute the net proceeds of this offering to the operating partnership, which will use the net proceeds of this offering and cash on hand to purchase, together with borrowings under our repurchase agreements, additional sub-performing and non-performing residential mortgage loans (including our pending loan acquisitions), to pay servicing fees for our sub-performing and non-performing loan portfolios, to renovate the single-family rental properties we acquire, to pay rental and property management expenses, to pay fees and expenses to our Manager under the asset management agreement and for working capital. There can be no assurance as to our ability to deploy the net proceeds from this offering into our target assets (including our ability to purchase all or any portion of the pending loan acquisitions) or as to the timing of any deployment. See Use of Proceeds.
Distribution policy	We intend to make quarterly cash distributions to holders of our common stock consistent with maintaining our REIT qualification for U.S. federal income tax purposes. Any distributions we make to our stockholders will be at the sole discretion of our Board of Directors and will depend upon a number of factors, including our ability to successfully modify and refinance or sell distressed loans or convert them into performing single-family rental properties, and the timing thereof, and our historical and projected financial condition, liquidity and results of operations, any financing covenants, maintenance of our REIT qualification, applicable law and such other factors as our Board of Directors may deem relevant from time to time.
New York Stock Exchange symbol	RESI.
Ownership and transfer restrictions	We intend to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2013. To assist us in qualifying as a REIT, stockholders are generally restricted from owning more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common or capital stock without the prior consent of our Board of Directors. See Description of Capital Stock Restrictions on Ownership and Transfer of Our Capital Stock.
Risk factors	Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 14.

(1) Based on 42,315,998 shares of our common stock outstanding as of January 13, 2014 and assumes 12,500,000 shares of common stock are sold in this offering (or 14,375,000 if the underwriters exercise their option to purchase additional shares in full). Excludes 908,196 shares of our common stock subject to options issued under our option plans as part of our separation from Altisource. No additional shares of common stock are reserved for issuance under such plans. Also excludes 95,735 shares of common stock reserved for issuance under our Director Plan.

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Summary Financial Data

The following tables set forth our consolidated summary financial data for the periods presented. The summary statement of operations data for the period from June 7, 2012 (Inception) to December 31, 2012 and the summary balance sheet data as of December 31, 2012 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary statement of operations data for the nine months ended September 30, 2013 and the summary balance sheet data as of September 30, 2013 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Our unaudited consolidated financial statements have been prepared on the same basis as the audited financial statements and notes thereto and, in the opinion of our management, include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the information for the unaudited interim periods. Our historical results for prior interim periods are not necessarily indicative of results to be expected for a full year or for any future period.

You should read this data together with our consolidated financial statements and related notes included elsewhere in this prospectus and the information under Selected Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	June 7, 2012 (Inception) to December 31, 2012	Nine Months Ended September 30, 2013 (unaudited)
	(in thousands, except share and per share data)	
Statement of Operations Data:		
Rental revenues and net gain on investments:		
Rental revenues	$	$ 6
Net unrealized gain on mortgage loans		25,963
Net realized gain on mortgage loans		4,015
Total rental revenues and net gain on investments		29,984
Expenses:		
Residential rental property operating expenses		275
Real estate depreciation and amortization		4
Mortgage loan servicing costs		3,788
Interest expense		1,163
Related party general and administrative	42	4,474
General and administrative	47	2,690
Total expenses	89	12,394
Other income		362
Net income (loss)	$ (89)	$ 17,952
(Loss)/earnings per share of common stock basic:		
(Loss)/Earnings per basic share	$ (0.01)	$ 1.03
Weighted average common stock outstanding basic	7,810,708	17,484,598
(Loss)/Earnings per share of common stock diluted:		
(Loss)/Earnings per diluted share	$ (0.01)	$ 0.98
Weighted average common stock outstanding diluted	7,810,708	18,373,205
Dividend declared per common share	$	$ 0.10

	As of December 31, 2012	As of September 30, 2013 (unaudited)
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 100,005	$ 98,252
Mortgage loans	$	$ 641,903
Total assets	$ 100,011	$ 769,008
Total liabilities	$ 100	$ 343,954
Total stockholders equity	$ 99,911	$ 425,054

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus before making a decision to invest in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also adversely affect us. If any of the following risks actually occur, our business, financial condition, liquidity, results of operations and prospects could be materially adversely affected. In that case, the market price of our common stock could decline, and you may lose some or all of your investment.

Risks Related to Our Business

We have a limited operating history. If we are unable to implement our business strategy as planned, we will be materially and adversely affected.

We recently commenced operations and our business model is relatively untested. Businesses like ours that have a limited operating history present substantial business and financial risks and may suffer significant losses. We have not completed a full year operations as a stand-alone public company and as a result we cannot predict our results of operations, financial condition and cash flows. We generated a nominal amount of residential rental revenues in the nine months ended September 30, 2013. Our results for prior periods are not necessarily indicative of our results for any future period. In addition, we may not have sufficient additional capital to implement our business model. Moreover, we expect that it will take time to determine success from loan resolution efforts and it could take as long as 24 months, and in some cases longer, for a significant portion of loans in any given portfolio to be converted into single-family rental properties or an underlying property to be liquidated or sold. Accordingly, if we are not able to generate sufficient cash flows from our loan modification and refinancing or other activities, we may not have cash available for distribution to our stockholders for an extended period of time. There can be no assurance that our business will become profitable or if it becomes profitable that it will be sustainable. The earnings potential of our proposed business is unproven, and the absence of an operating history makes it difficult to evaluate our prospects. We may not be able to implement our business strategy as planned, which could materially and adversely affect us.

We are an early entrant in an emerging industry, and the long-term viability of our investment strategy on an institutional scale is unproven.

Large-scale institutional investment in single-family residential homes for rent is a relatively recent phenomenon that has emerged out of the mortgage and housing crisis that began in late 2007. Prior to that time, single-family rental homes were generally not viewed as viable assets for investment on a large scale by institutional investors. Consequently, the long-term viability of the single-family rental property investment strategy on an institutional scale has not yet been proven. As an early entrant in this emerging industry, we are subject to the risk that single-family rental properties may not prove to be a viable long-term investment strategy for a permanent capital vehicle on an institutional scale. If it turns out that this investment strategy is not a viable one, we would be materially and adversely affected and we may not be able to sustain the growth of our assets and our operations that we seek.

We may not be able to successfully operate our business or generate sufficient operating cash flows to make or sustain distributions to our stockholders.

There can be no assurance that we will be able to successfully operate our business or generate sufficient cash to make distributions to our stockholders. Our ability to make or sustain distributions to our stockholders depends on many factors, including the availability of attractive risk-adjusted investment opportunities that satisfy our investment strategy and our success in identifying and consummating such opportunities on favorable terms, the level and expected movement of home prices, the success of our loan resolution efforts, the ability of borrowers to refinance our loans with other lenders, our ability to sell modified loans on favorable terms, the

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length of time required to convert a distressed loan into a single-family rental property, the occupancy rates and rent levels of properties, the restoration, maintenance, marketing and other operating costs, the level and volatility of interest rates, the availability of short-term and long-term financing on favorable terms, conditions in the financial, real estate, housing and mortgage markets and the economy, as to which no assurance can be given. We cannot assure you that we will be able to make investments with attractive risk-adjusted returns or will not seek investments with greater risk to obtain the same level of returns or that the value of our investments in the future will not decline substantially. Existing and future government regulations may result in additional costs or delays, which could adversely affect the implementation of our investment strategy.

A significant portion of the residential mortgage loans that we acquire are, or may become, sub-performing or non-performing loans, which increases our risk of loss.

We acquire distressed residential mortgage loans where the borrower has failed to make timely payments of principal and/or interest. As part of the residential mortgage loan portfolios we purchase, we also may acquire performing loans that are or subsequently become sub-performing or non-performing. Under current market conditions, it is likely that many of these loans will have current loan-to-value ratios in excess of 100%, meaning the amount owed on the loan exceeds the value of the underlying real estate. Further, the borrowers on such loans may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due. Even though we typically pay less than the amount owed on these loans to acquire them, if actual results are different from our assumptions in determining the price for such loans, we may incur significant losses. There are no limits on the percentage of sub-performing or non-performing loans we may hold. Any loss we incur may be significant and could materially and adversely affect us.

Pursuant to customary provisions in the purchase agreements governing our loan acquisitions, we also generally have the right to cause the sellers to repurchase certain loans if they do not provide proper documentation to evidence ownership or first lien status with respect to such loans within a specified time period. Any delay or inability to obtain such documentation could adversely affect our ability to leverage such loans, and any such repurchases by the sellers would decrease the size of our portfolio.

Many of our assets may be 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 assets are carried if we are required to dispose of them.

The distressed residential mortgage loans we acquire are generally illiquid. Illiquidity may result from the absence of an established market for the distressed residential mortgage loans, as well as legal or contractual restrictions on their resale, refinancing or other disposition. Such restrictions would interfere with subsequent sales of such loans or adversely affect the terms that could be obtained upon any disposition thereof.

Residential mortgage loan modification and refinance programs, future legislative action, and other actions and changes may materially and adversely affect the supply of, value of, and the returns on, sub-performing and non-performing loans.

Our business model is dependent on the acquisition of a steady supply of sub-performing and non-performing loans, the success of our loan modification and other resolution efforts and the conversion of a significant portion of those loans to REO. The number of sub-performing and non-performing loans available for purchase may be reduced by uncertainty in the lending industry and the governmental sector and/or as a result of general economic improvement. Lenders may choose to delay foreclosure proceedings, renegotiate interest rates or refinance loans for borrowers who face foreclosure. In recent years, the federal government has instituted a number of programs aimed at assisting at-risk homeowners and reducing the number of properties going into foreclosure or going into non-performing status.

For example, the U.S. Government, through the Federal Reserve, the Federal Housing Administration (FHA) and the Federal Deposit Insurance Corporation (FDIC) has implemented a number of federal programs

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designed to assist homeowners, including (i) the Home Affordable Modification Program (HAMP), which provides homeowners with assistance in avoiding defaults on residential mortgage loans, (ii) the Hope for Homeowners Program (H4H Program), which allows certain distressed borrowers to refinance their residential mortgage loans into FHA-insured loans in order to avoid residential mortgage loan foreclosures and (iii) the Home Affordable Refinance Program which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments without new mortgage insurance, up to an unlimited loan-to-value ratio for fixed-rate mortgages. HAMP, the H4H Program and other loss mitigation programs may involve, among other things, the modification of residential mortgage loans to reduce the principal amount of the loans (through forbearance and/or forgiveness) and/or the rate of interest payable on the loans or to extend the payment terms of the loans. These loan modification programs, future legislative or regulatory actions, including possible amendments to the bankruptcy laws which result in the modification of outstanding residential mortgage loans as well as changes in the requirements necessary to qualify for refinancing residential mortgage loans, may materially and adversely affect the value of, and the returns on, our portfolio of sub-performing and non-performing loans.

Other governmental actions may affect our business by hindering the pace of foreclosures. In recent periods, there has been a backlog of foreclosures, due to a combination of volume constraints and legal actions, including those brought by the U.S. Department of Justice, or the DOJ, the Department of Housing and Urban Development, or HUD, State Attorneys General, the office of the Comptroller of the Currency, or the OCC, and the Federal Reserve Board against mortgage servicers alleging wrongful foreclosure practices. Financial institutions have also been subjected to regulatory restrictions and limitations on foreclosure activity by the FDIC. Legal claims brought or threatened by the DOJ, HUD and 49 State Attorneys General against residential mortgage servicers and an enforcement action threatened by the OCC against residential mortgage servicers have both produced large settlements. A portion of the funds from each settlement will be directed to homeowners seeking to avoid foreclosure through mortgage modifications, and servicers are required to adopt specified measures to reduce mortgage obligations in certain situations. It is expected that the settlements will help many homeowners avoid foreclosures that would otherwise have occurred in the near-term. It is also possible that other residential mortgage servicers will agree to similar settlements. These developments will reduce the number of homes in the process of foreclosure and decrease the supply of properties that meet our investment criteria.

In addition, the U.S. Congress and numerous state legislatures have considered, proposed or adopted legislation to constrain foreclosures, or may do so in the future. The Dodd-Frank Act also created the Consumer Financial Protection Bureau, which supervises and enforces federal consumer protection laws as they apply to banks, credit unions and other financial companies, including mortgage servicers. It remains uncertain as to whether any of these measures will have a significant impact on foreclosure volumes or what the timing of that impact would be. If foreclosure volumes were to decline significantly, we may experience difficulty in finding target assets at attractive prices, which will materially and adversely affect us. Also, the number of families seeking rental housing might be reduced by such legislation, reducing rental housing demand for properties in our markets.

We may be, or may become, subject to the regulation of various states, including licensing requirements and consumer protection statutes. Our failure to comply with any such laws, if applicable to us, would adversely affect our ability to implement our business strategy, which could materially and adversely affect us.

Certain jurisdictions require licenses to purchase, hold, enforce or sell residential mortgage loans. In the event that any such licensing requirement is applicable and we are not able to obtain such licenses in a timely manner or at all, our ability to implement our business strategy could be adversely affected, which could materially and adversely affect us.

Certain jurisdictions require a license to purchase, hold, enforce or sell residential mortgage loans. We currently do not hold any such licenses, and there is no assurance that we will be able to obtain them or, if obtained, that we will be able to maintain them. Our failure to obtain or maintain such licenses could restrict our ability to invest in loans in these jurisdictions if such licensing requirements are applicable. In lieu of obtaining

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such licenses, we may contribute our acquired sub-performing and non-performing residential mortgage loans to one or more wholly-owned trusts whose trustee is a national bank, which may be exempt from state licensing requirements, or the seller of such loans may continue to hold the loans on our behalf until we obtain the applicable state license. We intend to form one or more subsidiaries that will apply for certain state licenses. If these subsidiaries obtain the required licenses, any trust holding loans in the applicable jurisdictions may transfer such loans to such subsidiaries, resulting in these loans being held by a state-licensed entity. There can be no assurance that we will be able to obtain the requisite licenses in a timely manner or at all or in all necessary jurisdictions, or that the use of the trusts will reduce the requirement for licensing, any of which could limit our ability to invest in residential mortgage loans in the future and have a material adverse effect on us.

The supply of sub-performing and non-performing loans may decline over time as a result of higher credit standards for new loans and/or general economic improvement and the prices for sub-performing and non-performing loans may increase, which could materially and adversely affect us.

As a result of the economic crisis in 2008, there has been an increase in supply of sub-performing and non-performing loans available for sale. However, in response to the economic crisis, the origination of jumbo, subprime, Alt-A and second lien residential mortgage loans has dramatically declined as lenders have increased their standards of credit-worthiness in originating new loans and fewer homeowners may go into sub-performing or non-performing status on their residential mortgage loans. In addition, the prices at which sub-performing and non-performing loans can be acquired may increase due to the entry of new participants into the distressed loan marketplace or a lower supply of sub-performing and non-performing loans in the marketplace. For these reasons, along with the general improvement in the economy, the supply of sub-performing and non-performing residential mortgage loans that we may acquire may decline over time and could materially and adversely affect us.

Competition in identifying and acquiring single-family rental properties and related loans could adversely affect our ability to implement our business strategy, which could materially and adversely affect us.

We face competition from various sources for investment opportunities in sub-performing and non-performing loans including REITs, pension funds, insurance companies, hedge funds, other investment funds and companies, partnerships and developers. Some third-party competitors have substantially greater financial resources and access to capital than we do and may be able to accept more risk than we can. Competition from these companies may reduce the number of attractive sub-performing and non-performing loan investment opportunities available to us or increase the bargaining power of asset owners seeking to sell, which would increase the prices for sub-performing and non-performing loans. If such events occur, our ability to implement our business strategy could be adversely affected, which could materially and adversely affect us.

Given the existing competition, complexity of the market and requisite time needed to make such investments, no assurance can be given that we will be successful in acquiring investments that generate attractive risk-adjusted returns. Furthermore, there is no assurance that such investments, once acquired, will perform as expected.

We have not yet identified specific investments to be acquired with all of the net proceeds of this offering and, therefore, you will be unable to evaluate the allocation of the net proceeds from this offering or the economic merits of our future investments prior to making a decision to invest in our common stock.

Although we may use a portion of the proceeds from this offering, together with borrowings under our repurchase agreements, to acquire the pending loan acquisitions, we have not yet identified other investments to which we will allocate the net proceeds from this offering. In addition, there can be no assurance that we will complete any or all of the pending loan acquisitions. Until appropriate investments can be identified, we may invest the net proceeds of this offering in interest-bearing short-term investments, including money market accounts and/or U.S. treasury securities that are consistent with our intention to qualify as a REIT and maintain our exemption from registration under the Investment Company Act. These investments are expected to provide a lower net return than we will seek to achieve from investments in our target assets. Even if suitable investment

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opportunities are available, there can be no assurance that our due diligence processes will uncover all potential liabilities or weaknesses associated with any particular investment or that any such investment will be successful.

We cannot assure you that we will be able to identify additional assets that meet our investment objectives, that we will be successful in consummating any investment opportunities we identify or that one or more investments we may make using the net proceeds of this offering will generate revenue, income or cash flow. Our inability to do any of the foregoing could materially and adversely affect us.

Our inability to promptly foreclose upon defaulted residential mortgage loans could increase our costs and/or diminish our expected return on investments.

Our ability to promptly foreclose upon defaulted residential mortgage loans and, in certain cases, where appropriate, seek alternative resolutions for the underlying properties plays a critical role in our valuation of the assets in which we invest and our expected return on those investments. We expect the timeline to convert acquired loans into single-family rental properties will vary significantly by loan. Certain loans we acquire may already be in foreclosure proceedings, in which case conversion could be as soon as three to six months following acquisition, but in other cases conversion could take up to 24 months or longer. There are a variety of factors that may inhibit our ability, through Ocwen, to foreclose upon a residential mortgage loan and get access to the real property within the time frames we model as part of our valuation process. These factors include, without limitation: state foreclosure timelines and deferrals associated therewith (including with respect to litigation); unauthorized occupants living in the property; federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures and that serve to delay the foreclosure process; HAMP and similar programs that require specific procedures to be followed to explore the refinancing of a residential mortgage loan prior to the commencement of a foreclosure proceeding; and continued declines in real estate values and sustained high levels of unemployment that increase the number of foreclosures and place additional pressure on the already overburdened judicial and administrative systems.

In addition, certain issues, including robo-signing, have been identified throughout the mortgage industry that relate to affidavits used in connection with the residential mortgage loan foreclosure process. A substantial portion of our investments are, and in the future may be, sub-performing and non-performing residential mortgage loans, many of which are already subject to foreclosure proceedings at the time of purchase. There can be no assurance that similar practices have not been followed in connection with residential mortgage loans that are already subject to foreclosure proceedings at the time of purchase. To the extent we determine that any of the loans we acquire are impacted by these issues, we may be required to re-commence the foreclosure proceedings relating to such loans, thereby resulting in additional delay that could have the effect of increasing our costs and/or diminishing our expected return on our investments. The uncertainty surrounding these issues could also result in legal, regulatory or industry changes to the foreclosure process as a whole, any or all of which could lengthen the foreclosure process and negatively impact our business.

We may be materially and adversely affected by risks affecting borrowers or the single-family rental properties in which our investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions.

Our assets are not subject to any geographic, diversification or concentration limitations. Accordingly, our investment portfolio may be concentrated by geography, single-family rental property characteristics and/or borrower demographics, increasing the risk of loss to us if the particular concentration in our portfolio is subject to greater risks or undergoing adverse developments. In addition, adverse conditions in the areas where the properties securing or otherwise underlying our investments are located (including business layoffs or downsizing, industry slowdowns, changing demographics and other factors) and local real estate conditions (such as oversupply or reduced demand) may have an adverse effect on the value of our investments. As of December 31, 2013, approximately 14.1% of our portfolio by UPB was concentrated in Florida and approximately 26.8% of our portfolio by UPB was concentrated in California. A material decline in the demand

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for single-family housing or rentals in these or other areas where we own assets may materially and adversely affect us. Lack of diversification can increase the correlation of non-performance and foreclosure risks among our investments.

Short-term leases of residential property expose us more quickly to the effects of declining market rents.

We anticipate that a majority of our leases to tenants of single-family rental properties will be for a term of two years or less. As these leases permit the residents to leave at the end of the lease term without penalty, we anticipate our rental revenues will be affected by declines in market rents more quickly than if our leases were for longer terms. Short-term leases may result in high turnover, which involves costs such as restoring the properties, marketing costs and lower occupancy levels. Because we have a limited operating history, our tenant turnover rate and related cost estimates may be less accurate than if we had more operating data upon which to base these estimates.

We may be unable to secure funds for future tenant or other capital improvements, which could limit our ability to attract or replace tenants.

When we acquire or otherwise take title to single-family properties or when tenants fail to renew their leases or otherwise vacate their space, we generally will be required to expend funds for property restoration and leasing commissions in order to lease the property. If we have not established reserves for such expenditures, we will have to obtain financing from other sources, as to which no assurance can be given. We may also have future financing needs for other capital improvements to restore our properties. If we need to secure financing for capital improvements in the future but are unable to secure such financing or are unable to secure financing on favorable terms, we may be unable or unwilling to make capital improvements or we may be required or may choose to defer such improvements. If this happens, it may cause our properties to suffer from a greater risk of obsolescence or a decline in value, or a greater risk of decreased cash flow as a result of fewer potential tenants being attracted to the property or existing tenants not renewing their leases. If we do not have access to sufficient funding in the future, we may not be able to make necessary capital improvements to our properties, and our properties ability to generate revenue may be significantly impaired.

Our revenue and expenses are not directly correlated, and, because a large percentage of our costs and expenses are fixed and some variable expenses may not decrease over time, we may not be able to adapt our cost structure to offset any declines in our revenue.

Many of the expenses associated with our business, such as acquisition costs, restoration and maintenance costs, home owners association, or HOA, fees, personal and real property taxes, insurance, compensation and other general expenses are fixed and would not necessarily decrease proportionally with any decrease in revenue. Our assets also will likely require a significant amount of ongoing capital expenditure. Our expenses, including capital expenditures, will be affected by, among other things, any inflationary increases, and cost increases may exceed the rate of inflation in any given period. Certain expenses are recurring in nature, such as HOA fees, taxes, insurance and restoration and maintenance costs, and may not decrease on a per-unit basis as our portfolio grows through additional property acquisitions. By contrast, our revenue is affected by many factors beyond our control, such as the availability and price of alternative rental housing and economic conditions in our markets. As a result, we may not be able to fully, or even partially, offset any increase in our expenses with a corresponding increase in our revenues. In addition, state and local regulations may require us to maintain our properties, even if the cost of maintenance is greater than the value of the property or any potential benefit we may receive from renting the property.

Fair values of our investments are imprecise and may materially and adversely affect our operating results and credit availability, which, in turn, would materially and adversely affect us.

The values of our investments may not be readily determinable. We measure the fair value of our investments monthly, but the fair value at which our investments are recorded may not be an indication of their realizable value. Ultimate realization of the value of an investment depends to a great extent on economic and other conditions that are beyond our control. Further, fair value is only an estimate based on good faith judgment of the price at which an investment can be sold since market prices of investments can only be determined by negotiation between a willing buyer and seller. In certain cases, our estimation of the fair value of our investments includes inputs provided by third-party dealers and pricing services, and valuations of certain securities or other assets in which we invest are often difficult to obtain and are subject to judgments that may vary among market participants. Changes in the estimated fair values of our investments are directly charged or credited to earnings for the period. If we were to liquidate a particular investment, the realized value may be more than or less than the amount at which such investment was recorded. Accordingly, in either event, we could be materially and adversely affected by our determinations regarding the fair value of our investments, and such valuations may fluctuate over short periods of time.

We value the properties underlying our mortgage loans and recognize unrealized gains in each period when our mortgage loans are transferred to real estate owned. The fair value of these assets is estimated using broker price opinions provided by third-party brokers. Broker price opinions are subject to the judgments of the particular broker formed by visiting the property, assessing general home values in the area, reviewing comparable listings and reviewing comparable completed sales. These judgments may vary among brokers and may fluctuate over time based on housing market activities and the influx of additional comparable listings and sales. Our results could be materially and adversely affected if the judgments used by the brokers prove to be incorrect or inaccurate.

Challenges to the MERS ® System could materially and adversely affect us.

MERSCORP, Inc. is a privately held company that maintains an electronic registry, referred to as the MERS System, which tracks servicing rights and ownership of loans in the United States. Mortgage Electronic Registration Systems, Inc. (MERS), a wholly owned subsidiary of MERSCORP, Inc., can serve as a nominee for the owner of a residential mortgage loan and in that role initiate foreclosures and/or become the mortgagee of record for the loan in local land records. We may choose to use MERS as a nominee. The MERS System is widely used by participants in the mortgage finance industry.

Several legal challenges have been made disputing MERS s legal standing to initiate foreclosures and/or act as nominee in local land records. These challenges have focused public attention on MERS and on how loans are recorded in local land records. As a result, these challenges could negatively affect MERS s ability to serve as the mortgagee of record in some jurisdictions. In addition, where MERS is the mortgagee of record, it must execute assignments of mortgages, affidavits and other legal documents in connection with foreclosure proceedings. As a result, investigations by governmental authorities and others into the servicer foreclosure process deficiencies described under Our inability to promptly foreclose upon defaulted residential mortgage loans could increase our cost of doing business and/or diminish our expected return on investments may impact MERS. Failures by MERS to apply prudent and effective process controls and to comply with legal and other requirements in the foreclosure process could pose operational, reputational and legal risks that may materially and adversely affect us.

AAMC utilizes analytical models and data in connection with the valuation of our investments, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks.

Given the complexity of our investments and strategies, AAMC must rely heavily on models and data, including analytical models (both proprietary models developed by AAMC and those supplied by third parties) and information and data supplied by third parties. Models and data are used to value investments or potential investments and also in connection with performing due diligence on our investments. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on incorrect models and data, especially valuation models, we may be induced to buy certain investments at prices that are too high, to sell certain other investments at prices that are too low or to miss favorable opportunities altogether.

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If we cannot obtain financing, our growth may be limited.

To qualify as a REIT, we will be required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, each year to our stockholders. As a result, our ability to retain earnings to fund acquisitions, restorations or other capital expenditures will be limited. We use leverage as a component of our financing strategy in an effort to enhance our returns. We can provide no assurance that we will be able to timely access all funds available under our financing arrangements or obtain other debt or equity financing on favorable terms or at all.

Tightening credit markets may have an adverse effect on our ability to obtain financing on favorable terms, thereby increasing financing costs and/or requiring us to accept financing with increasing restrictions. Our long-term ability to grow through additional investments will be limited if we cannot obtain additional debt or equity financing.

We intend to leverage our investments, which may materially and adversely affect our return on our investments and may reduce cash available for distribution to our stockholders.

To the extent available, we intend to continue to leverage our investments through borrowings, the level of which may vary based on the particular characteristics of our investment portfolio and on market conditions. We have leveraged certain of our investments to date through our repurchase agreements. When we enter into any repurchase agreement, we sell securities or residential mortgage loans to lenders (*i.e*., repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same assets back to us at the end of the term of the transaction. Because the cash we receive from the lender when we initially sell the assets to the lender is less than the value of those assets (this difference is referred to as the haircut), if the lender defaults on its obligation to resell the same assets back to us we could incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the assets). In addition, repurchase agreements (including our current repurchase agreements) generally allow the counterparties, to varying degrees, to determine a new market value of the collateral to reflect current market conditions or for other reasons. If such counterparty determines that the value of the collateral has decreased, it may initiate a margin call and require us to either post additional collateral to cover such decrease or repay a portion of the outstanding borrowing. Should this occur, in order to obtain cash to satisfy a margin call, we may be required to liquidate assets at a disadvantageous time, which could cause us to incur further losses. In the event we are unable to satisfy a margin call, our counterparty may sell the collateral, which may result in significant losses to us.

Our repurchase agreements generally require us to comply with various financial covenants, including those relating to tangible net worth, profitability and our ratio of total liabilities to tangible net worth, and to maintain minimum amounts of cash or cash equivalents sufficient to maintain a specified liquidity position. We expect any future repurchase agreements will have similar provisions. In the event that we are unable to satisfy these requirements, we could be forced to sell additional investments at a loss which could materially and adversely affect us.

Our repurchase agreements to finance sub-performing and non-performing loans are likely to be complex and difficult to manage. In part, this is due to the fact that our residential mortgage loan portfolios and single-family rental properties that will collateralize these repurchase agreements do not produce consistent cash flows and require specific activities to be performed at specific points in time in order to preserve value. Our inability to comply with the terms and conditions of these agreements could materially and adversely impact us.

In addition, our outstanding repurchase agreements contain, and we expect any future repurchase agreements will contain, events of default (subject, in certain cases, to materiality thresholds and grace periods), including payment defaults, breaches of financial and other covenants and/or certain representations and warranties, cross-defaults, servicer termination events, guarantor defaults, bankruptcy or insolvency proceedings and other events of default customary for these types of agreements. The remedies for such events of default are also customary for these types of agreements and include the acceleration of the principal amount outstanding, requirements that we repurchase loans collateralizing the financing, the liquidation by the lender of the assets

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then subject to the agreements and the avoidance of other repurchase transactions with us. Because our financing agreements will typically contain cross-default provisions, a default that occurs under any one agreement could allow the lenders under our other agreements to also declare a default. Any losses we incur on our repurchase agreements could materially and adversely affect us.

We may in the future utilize other sources of borrowings, including bank credit facilities, warehouse lines of credit and structured financing arrangements, among others, each of which has similar risks to repurchase agreement financing, including, but not limited to, covenant compliance, events of default, acceleration and margin calls. The percentage of leverage we employ, which could increase substantially in the future, varies depending on assets in our portfolios, our available capital, our ability to obtain and access financing arrangements with lenders and the lenders and rating agencies estimate of the stability of our investment portfolio s cash flow. There can be no assurance that new sources of financing will be available to us in the future or that existing sources of financing will continue to be available to us.

Our governing documents contain no limitation on the amount of debt we may incur. Our return on our investments and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions increase the cost of our financing relative to the income that can be derived from the investments acquired. Our debt service payments will reduce cash flow available for distribution to stockholders. We may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to foreclosure or sale to satisfy the obligations.

If and when 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 if, and to the extent, available. Currently, there is not an active structured finance market. 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.

Our accounting and other management systems and resources may not be adequately prepared to meet the financial reporting and other requirements we are subject to as a stand-alone reporting public company.

We are subject to reporting and other obligations under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, we are required to maintain effective disclosure controls and procedures. To comply with these requirements, we may need to implement additional financial and management controls, reporting systems and procedures. We have incurred, and expect to incur, additional annual expenses for the purpose of addressing these requirements, and these expenses may be significant. If we are unable to implement additional controls, reporting systems, information technology systems and

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procedures in a timely and effective fashion, our ability to comply with our financial reporting requirements and other rules that apply to reporting companies under the Exchange Act could be impaired. Any failure to achieve and maintain effective internal controls could have a material adverse effect on us. In the future, we will also be required to comply with Section 404 of the Sarbanes-Oxley Act which will require annual management assessments of the effectiveness of our internal control over financial reporting and a report thereon by our independent registered public accounting firm. These reporting and other obligations may place significant demands on our management, administrative and operational resources, including accounting systems and resources.

Changes in global economic and capital market conditions, including periods of generally deteriorating occupancy and real estate industry fundamentals may materially and adversely affect us.

There are risks to the ownership of real estate and real estate related assets, including decreases in residential property values, changes in global, national, regional or local economic, demographic and real estate market conditions as well as other factors particular to the locations of our investments. A prolonged recession, such as the one experienced over the past few years, and a slow recovery could materially and adversely affect us as a result of, among other items, the following:

- joblessness or unemployment rates that adversely affect the local economy;
- an oversupply of or a reduced demand for single-family rental properties for rent;
- a decline in household formation or employment or lack of employment growth;
- the inability or unwillingness of residents to pay rent increases or fulfill their lease obligations;
- a decline in rental rate which may be accentuated since we expect to have rent terms of two years or less;
- rent control or rent stabilization laws or other laws regulating housing that could prevent us from raising rents to offset increases in operating costs;
- changes in interest rates, availability and terms of debt financing;
- inability of borrowers to refinance modified loans; and
- economic conditions that could cause an increase in our operating expenses such as increases in property taxes, utilities and routine maintenance.

These conditions could also adversely impact the financial condition and liquidity of the renters that will occupy our real estate properties and, as a result, their ability to pay rent to us.

A decrease in the demand for title insurance will adversely impact our investment in NewSource.

We have invested $18.0 million in the non-voting preferred stock of NewSource. The demand for title insurance-related services depends in large part on the volume of real estate transactions. The volume of these transactions historically has been influenced by such factors as mortgage interest rates, availability of financing and the overall state of the economy. When market conditions cause real estate activity to decline, the title insurance industry tends to be adversely affected. In addition, adverse change in the marketplace could lead to an increase in title claims that NewSource may be required to defend and/or pay. Thus, a decline of activity in the real estate market or an increase in title claims could adversely impact NewSource s ability to generate profits and pay the dividend on our preferred stock, and the value of our investment in NewSource could decline.

Inflation or deflation may adversely affect our results of operations and cash flows.

Increased inflation could have an adverse impact on interest rates, property management expenses and general and administrative expenses, as these costs could increase at a rate higher than our rental and other revenue. Conversely, deflation could lead to downward pressure on rents and other sources of income without an accompanying reduction in our expenses. Accordingly, inflation or deflation may adversely affect our results of operations and cash flows.

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Changes in applicable laws or noncompliance with applicable law could materially and adversely affect us.

As an owner of real estate, we are required to comply with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord-tenant laws and other laws generally applicable to business operations. Noncompliance with laws or regulations could expose us to liability.

Lower revenue growth or significant unanticipated expenditures may result from our need to comply with changes in (i) laws imposing remediation requirements and potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other residential landlord-tenant laws or (iii) other governmental rules and regulations or enforcement policies affecting the rehabilitation, use and operation of our single-family rental properties including changes to building codes and fire and life-safety codes.

In addition, NewSource has registered as a Class 3A Bermuda insurance company and is subject to regulation and supervision in Bermuda by the Bermuda Monetary Authority. Changes in Bermuda insurance statutes, regulations and policies could result in restrictions on NewSource s ability to pursue its business plans, issue reinsurance policies, distribute funds and execute its investment strategy. In addition, NewSource may become subject to regulation and supervision by insurance authorities in any other jurisdictions in which it operates. Failure to comply with or to obtain appropriate authorizations and/or exemptions under any applicable laws could result in restrictions on NewSource s ability to do business or certain activities that are regulated in one or more of the jurisdictions in which it operates and could subject NewSource to fines and other sanctions, which could have a material adverse effect on NewSource s business and its ability to pay the dividend on our preferred stock. As a result, the value of our investment in NewSource could decline.

Competition could limit our ability to lease single-family rental properties or increase or maintain rents.

Our single-family rental properties, when acquired, will compete with other housing alternatives to attract residents, including rental apartments, condominiums and other single-family homes available for rent as well as new and existing condominiums and single-family homes for sale. Our competitors single-family rental properties may be better quality, in a more desirable location or have leasing terms more favorable than we can provide. In addition, our ability to compete and generate favorable returns depends upon, among other factors, trends of the national and local economies, the financial condition and liquidity of current and prospective renters, availability and cost of capital, taxes and governmental regulations. Given our significant competition, we cannot assure you that we will be successful in acquiring or managing single-family rental properties that generate favorable returns.

If rents in our markets do not increase sufficiently to keep pace with rising costs of operations, our operating results and cash available for distribution will decline.

The success of our business model will substantially depend on conditions in the single-family rental property market in our geographic markets. Our asset acquisitions are premised on assumptions about, among other things, occupancy and rent levels. If those assumptions prove to be inaccurate, our operating results and cash available for distribution will be lower than expected, potentially materially. Rental rates and occupancy levels have benefited in recent periods from macroeconomic trends affecting the U.S. economy and residential real estate and mortgage markets in particular, including:

a tightening of credit that has made it more difficult to finance a home purchase, combined with efforts by consumers generally to reduce their exposure to credit;

economic and employment conditions that have increased foreclosure rates;

reduced real estate values that challenged the traditional notion that homeownership is a stable investment; and

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the unprecedented level of vacant housing comprising the REO by banks, government sponsored enterprise, or GSEs, and other mortgage lenders or guarantors.

If the current trend favoring renting rather than homeownership reverses, the single-family rental market could decline.

The single-family rental market is currently significantly larger than in historical periods. We do not expect the favorable trends in the single-family rental market to continue indefinitely. Eventually, a strengthening of the U.S. economy and job growth, together with the large supply of foreclosed single-family rental properties, the current availability of low residential mortgage rates and government sponsored programs promoting home ownership, may contribute to a stabilization or reversal of the current trend that favors renting rather than homeownership. In addition, we expect that as investors like us increasingly seek to capitalize on opportunities to purchase undervalued housing properties and convert them to productive uses, the supply of single-family rental properties will decrease and the competition for tenants will intensify. A softening of the rental property market in our markets would adversely affect our operating results and cash available for distribution, potentially materially.

We may incur significant costs in restoring our properties, and we may underestimate the costs or amount of time necessary to complete restorations.

Before renting a property, we plan to perform a detailed assessment through our relationship with Altisource, with an on-site review of the property, to identify the scope of restoration to be completed. Beyond customary repairs, we may undertake improvements designed to optimize overall property appeal and increase the value of the property when such improvements can be done cost effectively. To the extent properties are occupied, restorations may be postponed until the premises are vacated. We expect that nearly all of our properties will require some level of restoration immediately upon their acquisition or in the future following expiration of a lease or otherwise. We may acquire properties that we plan to extensively restore. In addition, in order to reposition properties in the rental market, we will be required to make ongoing capital improvements and may need to perform significant restorations and repairs from time to time. Consequently, we are exposed to the risks inherent in property restoration, including potential cost overruns, increases in labor and materials costs, delays by contractors in completing work, delays in the timing of receiving necessary work permits and certificates of occupancy and poor workmanship. If our assumptions regarding the cost or timing of restorations across our properties prove to be materially inaccurate, we could be materially and adversely affected.

Single-family rental properties that are subject to foreclosure or short-sales are subject to risks of theft, vandalism or other damage that could impair their value.

When a single-family rental property is subject to foreclosure, due to a default by the homeowner on mortgage obligations, or a homeowner seeks a short sale, due to the value of the property being substantially below the outstanding principal balance of the residential mortgage loan, it is possible that the homeowner may cease to maintain the property adequately, or that the property may be abandoned by the homeowner and become susceptible to theft or vandalism. Lack of maintenance, theft and vandalism can substantially impair the value of the property. To the extent we initiate foreclosure proceedings and are not able to thoroughly inspect each property before completing the foreclosure process or we are unable to rent the properties quickly after purchase and restoration, some of our properties could be impaired.

Contingent or unknown liabilities could materially and adversely affect us.

Our acquisition activities are subject to many risks. We may acquire properties that are subject to unknown or contingent liabilities, including liabilities for or with respect to liens attached to properties, unpaid real estate taxes, utilities or HOA charges for which a prior owner remains liable, clean-up or remediation of environmental conditions or code violations, claims of vendors or other persons dealing with the acquired properties and tax liabilities, among other things. In each case, our acquisition may be without any, or with only limited, recourse

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with respect to unknown or contingent liabilities or conditions. As a result, if any such liability were to arise relating to our properties, or if any adverse condition exists with respect to our properties that is in excess of our insurance coverage, we might have to pay substantial sums to settle or cure it, which could materially and adversely affect us. The properties we acquire may also be subject to covenants, conditions or restrictions that restrict the use or ownership of such properties, including prohibitions on leasing or requirements to obtain the approval of HOAs prior to leasing. We may not discover such restrictions during the acquisition process and such restrictions may adversely affect our ability to operate such properties as we intend.

The costs and amount of time necessary to secure possession and control of a newly acquired property may exceed our assumptions, which would delay our receipt of revenue from, and return on, the property.

Upon acquiring a property, we may have to evict occupants who are in unlawful possession before we can secure possession and control of the property. The holdover occupants may be the former owners or tenants of a property, or they may be squatters or others who are illegally in possession. Securing control and possession from these occupants can be both costly and time-consuming. If these costs and delays exceed our expectations, our financial performance may suffer because of the increased expenses incurred or the unexpected delays in turning the properties into revenue-producing rental properties.

Poor tenant selection and defaults by our tenants may materially and adversely affect us.

Our success will depend, in large part, upon our ability to attract and retain qualified tenants for our properties. This will depend, in turn, upon our ability to screen applicants, identify good tenants and avoid tenants who may default. We will inevitably make mistakes in our selection of tenants, and we may rent to tenants whose default on our leases or failure to comply with the terms of the lease or HOA regulations could materially and adversely affect us and the quality and value of our properties. For example, tenants may default on payment of rent, make unreasonable and repeated demands for service or improvements, make unsupported or unjustified complaints to regulatory or political authorities, make use of our properties for illegal purposes, damage or make unauthorized structural changes to our properties which may not be fully covered by security deposits, refuse to leave the property when the lease is terminated, engage in domestic violence or similar disturbances, disturb nearby residents with noise, trash, odors or eyesores, fail to comply with HOA regulations, sub-let to less desirable individuals in violation of our leases or permit unauthorized persons to live with them. In addition, defaulting tenants will often be effectively judgment-proof. The process of evicting a defaulting tenant from a family residence can be adversarial, protracted and costly. Furthermore, some tenants facing eviction may damage or destroy the property. Damage to our properties may significantly delay re-leasing after eviction, necessitate expensive repairs or impair the rental revenue or value of the property. In addition, we will incur turnover costs associated with re-leasing the properties, such as marketing expense and brokerage commissions, and will not collect revenue while the property is vacant. Although we will attempt to work with tenants to prevent such damage or destruction, there can be no assurance that we will be successful in all or most cases. Such tenants will not only cause us not to achieve our financial objectives for the properties in which they live, but may subject us to liability, and may damage our reputation with our other tenants and in the communities where we do business.

Eminent domain could lead to material losses on our investments.

It is possible that governmental authorities may exercise eminent domain to acquire land on which our properties are built in order to build roads or other infrastructure. Any such exercise of eminent domain would allow us to recover only the fair value of the affected properties, which we believe may be interpreted to be substantially less than the actual value of the property and not give effect to rental revenues generated from such property and accordingly could lead to material losses. Several cities are also exploring proposals to use eminent domain to acquire residential loans to assist borrowers to remain in their homes, potentially reducing the supply of single-family properties for sale in our markets.

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Difficulties in selling single-family rental properties could limit our flexibility.

Federal tax laws may limit our ability to earn a gain on the sale of our properties if we are found to have held or acquired the properties with the intent to resell, and this limitation may adversely affect our willingness to sell single-family rental properties under favorable conditions or if necessary for funding purposes. In addition, real estate can at times be difficult to sell quickly when desired at favorable prices. These potential difficulties in selling real estate in our markets may limit our ability to either sell properties that we deem unsuitable for rental or change or reduce the single-family rental properties in our portfolio promptly in response to changes in economic or other conditions.

A significant uninsured property or liability loss could have a material adverse effect on us.

We will carry commercial general liability insurance and property insurance with respect to our single-family rental properties on terms we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it economically impractical. If an uninsured property loss or a property loss in excess of insured limits were to occur, we could lose our capital invested in a single-family rental property or group of rental properties as well as the anticipated future revenues from such single-family rental property or group of properties. If an uninsured liability to a third party were to occur, we would incur the cost of defense and settlement with or court ordered damages to that third party. A significant uninsured property or liability loss could materially and adversely affect us.

A significant number of our single-family rental properties may be part of home owners associations. We and our renters will be subject to the rules and regulations of such home owners associations which may be arbitrary or restrictive and violations of such rules may subject us to additional fees and penalties and litigation which may be costly.

A significant number of our single-family rental properties, when acquired, may be subject to HOAs which are private entities that regulate the activities of and levy assessmen