Section 1: 10-Q (10-Q)

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from _______ to _______

Commission file number: 001-35449

Nationstar Mortgage Holdings Inc.
(Exact name of registrant as specified in its charter)

Delaware	**45-2156869**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8950 Cypress Waters Blvd, Coppell, TX	**75019**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (469) 549-2000

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-Accelerated Filer	☐	(Do not check if a smaller reporting company)	
		Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Number of shares of common stock, $0.01 par value, outstanding as of July 30, 2018 was 98,178,069.

NATIONSTAR MORTGAGE HOLDINGS INC.
QUARTERLY REPORT ON FORM 10-Q
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PART I. Financial Information

Item 1. Financial Statements

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
(millions of dollars)

	June 30, 2018	December 31, 2017
	(unaudited)	
Assets		
Cash and cash equivalents	**$ 185**	$ 215
Restricted cash	**310**	360
Mortgage servicing rights, $3,356 and $2,937 at fair value, respectively	**3,356**	2,941
Advances and other receivables, net of reserves of $294 and $284, respectively	**1,317**	1,706
Reverse mortgage interests, net of reserves of $117 and $115, respectively	**9,477**	9,984
Mortgage loans held for sale at fair value	**1,635**	1,891
Mortgage loans held for investment, net	**132**	139
Property and equipment, net of accumulated depreciation of $195 and $169, respectively	**123**	121
Derivative financial instruments at fair value	**62**	65
Other assets	**593**	614
Total assets	**$ 17,190**	$ 18,036
Liabilities and Stockholders' Equity		
Unsecured senior notes, net	**$ 1,815**	$ 1,874
Advance facilities, net	**516**	855
Warehouse facilities, net	**3,086**	3,285
Payables and accrued liabilities	**1,288**	1,234
MSR related liabilities - nonrecourse at fair value	**1,063**	1,006
Mortgage servicing liabilities	**27**	41
Derivative financial instruments at fair value	**9**	5
Other nonrecourse debt, net	**7,445**	8,014
Total liabilities	**15,249**	16,314
Commitments and contingencies (Note 15)		
Preferred stock at $0.01 par value - 300,000 thousand shares authorized, no shares issued and outstanding	**—**	—
Common stock at $0.01 par value - 1,000,000 thousand shares authorized, 109,915 thousand and 109,915 thousand shares issued, respectively	**1**	1
Additional paid-in-capital	**1,140**	1,131
Retained earnings	**949**	731
Treasury shares at cost, 11,752 thousand and 12,187 thousand shares, respectively	**(150)**	(148)
Total Nationstar stockholders' equity	**1,940**	1,715
Non-controlling interests	**1**	7
Total stockholders' equity	**1,941**	1,722
Total liabilities and stockholders' equity	**$ 17,190**	$ 18,036

See accompanying notes to the consolidated financial statements.

NATIONSTAR MORTGAGE HOLDINGS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(millions of dollars, except for earnings per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenues:				
Service related, net	**$ 317**	$ 213	**$ 781**	$ 496
Net gain on mortgage loans held for sale	**127**	167	**251**	311
Total revenues	**444**	380	**1,032**	807
Expenses:				
Salaries, wages and benefits	**177**	182	**357**	374
General and administrative	**162**	185	**346**	362
Total expenses	**339**	367	**703**	736
Other income (expenses):				
Interest income	**140**	139	**285**	278
Interest expense	**(164)**	(188)	**(335)**	(381)
Other income (expenses)	**(2)**	7	**6**	6
Total other income (expenses), net	**(26)**	(42)	**(44)**	(97)
Income before income tax expense (benefit)	**79**	(29)	**285**	(26)
Less: Income tax expense (benefit)	**21**	(10)	**67**	(9)
Net income (loss)	**58**	(19)	**218**	(17)
Less: Net income attributable to non-controlling interests	**—**	1	**—**	1
Net income (loss) attributable to Nationstar	**$ 58**	$ (20)	**$ 218**	$ (18)
Net income (loss) per common share attributable to Nationstar:				
Basic	**$ 0.59**	$ (0.20)	**$ 2.22**	$ (0.18)
Diluted	**$ 0.59**	$ (0.20)	**$ 2.20**	$ (0.18)
Weighted average shares of common stock outstanding (in thousands):				
Basic	**98,203**	97,752	**98,037**	97,672
Dilutive effect of stock awards	**927**	—	**1,086**	—
Diluted	**99,130**	97,752	**99,123**	97,672

See accompanying notes to the consolidated financial statements.

NATIONSTAR MORTGAGE HOLDINGS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Number of Shares Outstanding (in thousands)	Amount (millions of dollars)						
	Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Share Amount	Total Nationstar Stockholders' Equity	Non-controlling Interests	Total Equity
Balance at January 1, 2017	97,497	$ 1	$ 1,122	$ 701	$ (147)	$ 1,677	$ 6	$ 1,683
Shares issued / (surrendered) under incentive compensation plan	214	—	(4)	—	(1)	(5)	—	(5)
Share-based compensation	—	—	9	—	—	9	—	9
Dividends to non-controlling interests	—	—	(5)	—	—	(5)	—	(5)
Net income (loss)	—	—	—	(18)	—	(18)	1	(17)
Balance at June 30, 2017	97,711	$ 1	$ 1,122	$ 683	$ (148)	$ 1,658	$ 7	$ 1,665
Balance at January 1, 2018	**97,728**	**$ 1**	**$ 1,131**	**$ 731**	**$ (148)**	**$ 1,715**	**$ 7**	**$ 1,722**
Shares issued / (surrendered) under incentive compensation plan	**435**	**—**	**(4)**	**—**	**(2)**	**(6)**	**—**	**(6)**
Share-based compensation	**—**	**—**	**8**	**—**	**—**	**8**	**—**	**8**
Dividends to non-controlling interests	**—**	**—**	**5**	**—**	**—**	**5**	**(6)**	**(1)**
Net income	**—**	**—**	**—**	**218**	**—**	**218**	**—**	**218**
Balance at June 30, 2018	**98,163**	**$ 1**	**$ 1,140**	**$ 949**	**$ (150)**	**$ 1,940**	**$ 1**	**$ 1,941**

See accompanying notes to the consolidated financial statements.

NATIONSTAR MORTGAGE HOLDINGS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions of dollars)

	Six Months Ended June 30,	
	2018	**2017**
Operating Activities		
Net income (loss) attributable to Nationstar	**$ 218**	$ (18)
Adjustments to reconcile net income (loss) to net cash attributable to operating activities:		
Net income attributable to non-controlling interests	**—**	1
Net gain on mortgage loans held for sale	**(251)**	(311)
Reverse mortgage loan interest income	**(237)**	(233)
Gain on sale of assets	**(9)**	(8)
Provision for servicing reserves	**54**	59
Fair value changes and amortization/accretion of mortgage servicing rights/liabilities	**(155)**	233
Fair value changes in excess spread financing	**74**	15
Fair value changes in mortgage servicing rights financing liability	**6**	(14)
Amortization of premiums, net of discount accretion	**6**	27
Depreciation and amortization for property and equipment and intangible assets	**29**	29
Share-based compensation	**8**	9
Other loss	**2**	9
Repurchases of forward loan assets out of Ginnie Mae securitizations	**(475)**	(599)
Mortgage loans originated and purchased for sale, net of fees	**(10,639)**	(8,896)
Sales proceeds and loan payment proceeds for mortgage loans held for sale and held for investment	**11,500**	10,006
Excess tax deficiency from share-based compensation	**(1)**	(1)
Changes in assets and liabilities:		
Advances and other receivables	**355**	118
Reverse mortgage interests	**1,326**	769
Other assets	**10**	24
Payables and accrued liabilities	**48**	(348)
Net cash attributable to operating activities	**1,869**	871
Investing Activities		
Property and equipment additions, net of disposals	**(31)**	(25)
Purchase of forward mortgage servicing rights, net of liabilities incurred	**(123)**	(13)
Net payment related to acquisition of HECM related receivables	**(1)**	—
Proceeds on sale of forward and reverse mortgage servicing rights	**—**	(2)
Proceeds on sale of assets	**13**	16
Net cash attributable to investing activities	**(142)**	(24)

Continued on following page.

See accompanying notes to the consolidated financial statements.

NATIONSTAR MORTGAGE HOLDINGS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)
(millions of dollars)

	Six Months Ended June 30,	
	2018	**2017**
Financing Activities		
(Decrease) increase in warehouse facilities	**(199)**	100
Decrease in advance facilities	**(339)**	(214)
Proceeds from issuance of HECM securitizations	**443**	308
Repayment of HECM securitizations	**(423)**	(176)
Proceeds from issuance of participating interest financing in reverse mortgage interests	**184**	355
Repayment of participating interest financing in reverse mortgage interests	**(1,368)**	(1,260)
Issuance of excess spread financing	**70**	—
Repayment of excess spread financing	**(93)**	(109)
Repayment of nonrecourse debt – legacy assets	**(6)**	(9)
Repurchase of unsecured senior notes	**(62)**	(95)
Surrender of shares relating to stock vesting	**(6)**	(5)
Debt financing costs	**(7)**	(6)
Dividends to non-controlling interests	**(1)**	(5)
Net cash attributable to financing activities	**(1,807)**	(1,116)
Net decrease in cash, cash equivalents, and restricted cash	**(80)**	(269)
Cash, cash equivalents, and restricted cash - beginning of period	**575**	877
Cash, cash equivalents, and restricted cash - end of period[1]	**$ 495**	$ 608
Supplemental Disclosures of Cash Activities		
Cash paid for interest expense	**$ 373**	$ 399
Net cash paid for income taxes	**$ 36**	$ 70

[1] The following table provides a reconciliation of cash, cash equivalents and restricted cash to amount reported within the consolidated balance sheet.

	June 30,	
	2018	**2017**
Cash and cash equivalents	**$ 185**	$ 184
Restricted cash	**310**	424
Total cash, cash equivalents, and restricted cash	**$ 495**	$ 608

See accompanying notes to the consolidated financial statements.

NATIONSTAR MORTGAGE HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(millions of dollars, unless otherwise stated)

1. Nature of Business and Basis of Presentation

Nature of Business

Nationstar Mortgage Holdings Inc., a Delaware corporation, including its consolidated subsidiaries (collectively, "Nationstar", the "Company", "we", "us" or "our"), earns fees through the delivery of servicing, origination and transaction-based services related primarily to single-family residences throughout the United States.

Merger With WMIH Corp.

On February 12, 2018, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with WMIH Corp., a Delaware corporation ("WMIH"), and Wand Merger Corporation, a Delaware corporation and a wholly-owned subsidiary of WMIH ("Merger Sub"). On July 31, 2018, pursuant to the Merger Agreement, Merger Sub was merged with and into the Company (the “Merger”), with the Company continuing as a wholly-owned subsidiary of WMIH.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger (the "Effective Time") and as a result of the Merger, each share of the Company’s common stock issued and outstanding immediately prior to the Effective Time was converted into the right to receive, at the election of the holder of such share, (i) $18.00 per share in cash, without interest, or (ii) 12.7793 shares of validly issued, fully paid and nonassessable shares of WMIH common stock, par value $0.00001 per share ("WMIH Common Stock") (the "Merger Consideration"). The Merger Consideration was subject to automatic proration and adjustment pursuant to the Merger Agreement to ensure that the total amount of cash paid (excluding cash paid in lieu of fractional shares) equaled exactly $1,225,885,248.00. As a result of such automatic proration and adjustment based on the final election results, Company stockholders who made a valid election for cash consideration will receive cash for approximately 94% of their shares and will retain stock for approximately 6% of their shares. More specifically, for each share of Nationstar common stock held, $16.917371 in cash (approximately 94% of $18.00) and 0.7686 shares of common stock of WMIH (approximately 6% of 12.7793) will be distributed and Company stockholders who made a valid election for stock consideration (including those deemed to have made an election to receive stock consideration) will receive 12.7793 shares of common stock of WMIH for each share of Nationstar common stock held.

Pursuant to the Merger Agreement, immediately prior to the Effective Time, subject to certain exceptions, (i) each then-outstanding share of Nationstar restricted stock automatically vested in full and was converted into the right to receive the Merger Consideration, as elected by the holder thereof, and (ii) each then-outstanding Nationstar restricted stock unit, whether vested or unvested, was automatically vested in full, assumed by WMIH and converted into a WMIH restricted stock unit entitling the holder thereof to receive upon settlement the Merger Consideration, as elected by the holder, as described above with respect to shares of Nationstar restricted stock.

Basis of Presentation

The consolidated interim financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The interim consolidated financial statements are unaudited; however, in the opinion of management, all adjustments considered necessary for a fair presentation of the results of the interim periods have been included. Certain prior period amounts have been reclassified to conform to the current period presentation. Dollar amounts are reported in millions, except per share data and other key metrics, unless otherwise noted.

The Company evaluated subsequent events through the date these interim consolidated financial statements were issued.

The Company describes its significant accounting policies in Note 2 of the notes to the consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2017. During the six months ended June 30, 2018, no significant changes were made to those accounting policies.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and other entities in which the Company has a controlling financial interest, and those variable interest entities ("VIE") where the Company's wholly-owned subsidiaries are the primary beneficiaries. Assets and liabilities of VIEs and their respective results of operations are consolidated from the date that the Company became the primary beneficiary through the date the Company ceases to be the primary beneficiary. The Company applies the equity method of accounting to investments where it is able to exercise significant influence, but not control, over the policies and procedures of the entity and owns less than 50% of the voting interests. Investments in certain companies over which the Company does not exert significant influence are accounted for as cost method investments. Intercompany balances and transactions on consolidated entities have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates due to factors such as adverse changes in the economy, changes in interest rates, secondary market pricing for loans held for sale and derivatives, strength of underwriting and servicing practices, changes in prepayment assumptions, declines in home prices or discrete events adversely affecting specific borrowers, and such differences could be material.

Reclassification

Certain reclassifications have been made in the 2017 consolidated financial statements to conform to the 2018 presentation. Such reclassifications did not affect total revenues or net income. Refer to the Recent Accounting Guidance Adopted footnote for additional information regarding retrospective reclassifications related to Accounting Standards Update No. 2016-18 adopted in 2018.

Recent Accounting Guidance Adopted

Accounting Standards Update No. 2014-09, 2016-08, 2016-10, 2016-12 and 2016-20, collectively implemented as Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") Topic 606 ("ASC 606") *Revenue from Contracts with Customers,* provides guidance for revenue recognition. This ASC’s core principle requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. The standard also clarifies the principal versus agent considerations, providing the evaluation must focus on whether the entity has control of the goods or services before they are transferred to the customer. The new standard permits the use of either the modified retrospective or full retrospective transition method. The Company's revenue is generated from loan servicing, loan originations, and services provided by Xome. Servicing revenue is comprised of servicing fees and other ancillary fees in connection with the Company's servicing activities as well as fees earned under subservicing arrangements. Origination revenue is comprised of fee income earned at origination of a loan, interest income earned for the period the loans are held, and gain on sale on loans upon disposition of the loan. Xome's revenue is comprised of income earned from real estate exchange, real estate services and real estate software as a service. The Company has performed a review of the new guidance as compared to its current accounting policies, and evaluated all services rendered to its customers as well as underlying contracts to determine the impact of this standard to its revenue recognition process. The majority of services rendered by the Company in connection with originations and servicing are not within the scope of ASC 606. However, all revenues from Xome fall within the scope of ASC 606. Xome's operations are comprised of Exchange, Services and Software as a Service ("SaaS").

- Exchange is a national technology-enabled platform that manages and sells residential properties through its Xome.com platform. Revenue-generating activities include commission and buyer’s premium of winning bids on auctioned real estate owned ("REO") and short sale properties. Revenue is recognized when performance obligation is completed, which is at the closing of real estate transactions and transfer of ownership to the buyer.

- Services connects the major touch points of the real estate transactions process by providing title, escrow and collateral valuation services for purchase, refinance and default transactions. Major revenue-generating activities include title and escrow services, and valuation services. Revenue is recognized when performance obligation is completed, which is when services are rendered to customers.

- SaaS includes Company’s software as a service platform providing integrated technology, media and data solutions to mortgage servicers, originators and multiple listing service ("MLS") organizations and associations. Revenue-generating activities include software and platform system access and use, system implementation, software maintenance and support, data services and any additional customized enhancement. Revenue is recognized when performance obligation is completed, which is generally recognized on straight-line basis over the contractual terms. Additionally, any additional fees owed due to usage metrics in excess of the monthly minimum will be recognized each month under the usage-based royalties guidance of ASC 606.

Upon completion of its review of relevant contracts, the Company made a determination that there was no material impact to revenue recognition upon adoption of the new standard. Additionally, the Company identified and implemented changes to its accounting policies and practices, business processes, and controls to support the new revenue recognition standard. The Company adopted the standard on January 1, 2018 and there is no material impact recorded to revenue in 2018.

Accounting Standards Update No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), relates to the *Statement of Cash Flows (Topic 230)* and is intended to provide specific guidance to reduce diversity in practice. ASU 2016-15 addresses the following eight cash flow classification issues: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of life insurance claims, (5) proceeds from the settlement of corporate owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions and (8) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for annual reporting period beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The Company adopted ASU 2016-15 in the first quarter of 2018 and determined that the implementation of this standard has no impact on the Company's consolidated statement of cash flows.

Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash* (ASU 2016-18), requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 is effective for annual reporting period beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The Company adopted ASU 2016-18 in the first quarter of 2018 and retrospectively applied the guidance to all periods presented. As a result, the Company includes restricted cash with cash and cash equivalents when reconciling the beginning and end of period total amounts shown on the consolidated statements of cash flows, and the Company no longer presents changes in restricted cash as a component of financing activities.

Accounting Standards Update No. 2016-01*, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-1), ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Among other things, ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Furthermore, equity investments without readily determinable fair values are to be assessed for impairment using a quantitative approach. ASU 2016-01 is effective for interim period beginning after December 15, 2017, and requires a modified retrospective approach to adoption. The Company adopted ASU 2016-01 in the first quarter of 2018 and determined that the implementation of this standard has no significant impact on the Company's consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), No.2018-10, *Codification Improvements to Topic 842, Leases* (ASU 2018-10), and No. 2018-11, *Leases (Topic 842): Targeted Improvements* (ASU 2018-11), primarily impact lessee accounting by requiring the recognition of a right-of-use asset and a corresponding lease liability on the balance sheet for long-term lease agreements. ASU 2016-02 requires the recognition of a lease liability that is equal to the present value of all reasonably certain lease payments. The right-of-use asset will be based on the liability, subject to adjustment for initial direct costs. Lease agreements with terms 12 months or less are permitted to be excluded from the balance sheet. In general, leases will be amortized on a straight-line basis with the exception of finance lease agreements. ASU 2018-10 and ASU 2018-11 affect narrow aspects of the guidance issued in the amendments in ASU 2016-02. ASU 2018-11 specifically relieves companies of the requirement to present prior comparative years' result when they adopt ASU 2016-02 and gives companies the option to recognize the cumulative effect of applying ASU 2016-02 to lease assets and liabilities as an adjustment to the opening balance of retained earnings. ASU 2016-02, ASU 2018-10, and ASU 2018-11 are effective for the Company for its interim periods beginning after December 15, 2018, with early adoption permitted. The Company does not expect adoption of ASU 2016-02, ASU 2018-10, and ASU 2018-11 to have a material impact on its consolidated balance sheets and statements of operations based on the Company's preliminary analysis.

Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* (ASU 2016-13), requires expected credit losses for financial instruments held at the reporting date to be measured based on historical experience, current conditions and reasonable and supportable forecasts. The update eliminates the probable initial recognition threshold in current GAAP and instead reflects an entity's current estimate of all expected credit losses. Previously, when credit losses were measured under GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss. ASU 2016-13 is effective for interim periods beginning after December 15, 2019. The Company is currently evaluating the potential impact of ASU 2016-13 on its consolidated financial statements.

Accounting Standards Update No. 2017-04, *Simplifying the Test for Goodwill Impairment*, simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test under ASC Topic 350 *Intangibles - Goodwill and Other*. ASU 2017-04 is effective for the Company for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. ASU 2017-04 will be adopted prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the potential impact of ASU 2017-04 on its consolidated financial statements.

2. Mortgage Servicing Rights ("MSRs") and Related Liabilities

The following table sets forth the carrying value of Company's MSRs and the related liabilities.

MSRs and Related Liabilities	June 30, 2018	December 31, 2017
Mortgage servicing rights - fair value and amortized cost[1]	**$ 3,356**	$ 2,941
Mortgage servicing liabilities - amortized cost	**$ 27**	$ 41
Excess spread financing - fair value	**$ 1,047**	$ 996
Mortgage servicing rights financing - fair value	**16**	10
MSR related liabilities - nonrecourse at fair value	**$ 1,063**	$ 1,006

[1] Amount as of December 31, 2017 includes $4 of reverse MSRs at amortized cost. There were no reverse MSRs as of June 30, 2018.

Mortgage Servicing Rights
The Company owns and records at fair value the rights to service traditional residential mortgage ("forward") loans for others either as a result of purchase transactions or from the retained servicing associated with the sales and securitizations of loans originated. MSRs are comprised of servicing rights related to both agency and non-agency loans.

The following table sets forth the activities of forward MSRs.

MSRs - Fair Value	Six Months Ended June 30, 2018	2017
Fair value - beginning of period	**$ 2,937**	$ 3,160
Additions:		
Servicing retained from mortgage loans sold	**139**	103
Purchases of servicing rights	**132**	13
Dispositions:		
Sales of servicing assets[1]	**4**	2
Changes in fair value:		
Changes in valuation inputs or assumptions used in the valuation model	**283**	(74)
Other changes in fair value	**(139)**	(158)
Fair value - end of period	**$ 3,356**	$ 3,046

[1] Amounts are related to the sale of nonperforming loans which have a negative MSR.

From time to time, the Company sells its ownership interest in certain MSRs and is retained as the subservicer for the sold assets. The Company has evaluated the sale accounting requirements related to these transactions, including the Company's continued involvement as the subservicer, and concluded that these transactions qualify for sale accounting treatment.

MSRs measured at fair value are segregated between credit sensitive and interest sensitive pools. Credit sensitive pools are primarily impacted by borrower performance under specified repayment terms, which most directly impacts involuntary prepayments and delinquency rates. Interest sensitive pools are primarily impacted by changes in forecasted interest rates, which in turn impact voluntary prepayment speeds. The Company assesses whether acquired portfolios are more credit sensitive or interest sensitive in nature on the date of acquisition. Numerous factors are considered in making this assessment, including loan-to-value ratios, FICO scores, percentage of portfolio previously modified, portfolio seasoning and similar criteria. The determination between credit sensitive and interest sensitive for a pool is made at the date of acquisition and no subsequent changes are made.

Credit sensitive portfolios generally consist of higher delinquency, single-family non-conforming residential forward mortgage loans serviced for agency and non-agency investors. Interest sensitive portfolios generally consist of lower delinquency, single-family conforming residential forward mortgage loans for agency investors.

The following table provides a breakdown of credit sensitive and interest sensitive unpaid principal balance ("UPB") for the Company's forward MSRs.

MSRs - Sensitivity Pools	June 30, 2018		December 31, 2017	
	UPB	Fair Value	UPB	Fair Value
Credit sensitive	**$ 153,552**	**$ 1,695**	$ 167,605	$ 1,572
Interest sensitive	**124,553**	**1,661**	113,775	1,365
Total	**$ 278,105**	**$ 3,356**	$ 281,380	$ 2,937

The Company used the following key weighted-average inputs and assumptions in estimating the fair value of MSRs.

Credit Sensitive	June 30, 2018	December 31, 2017
Discount rate	**11.4%**	11.4%
Total prepayment speeds	**11.7%**	15.2%
Expected weighted-average life	**6.6 years**	5.7 years
Interest Sensitive		
Discount rate	**9.2%**	9.2%
Total prepayment speeds	**9.8%**	10.7%
Expected weighted-average life	**7.0 years**	6.7 years

The following table shows the hypothetical effect on the fair value of the MSRs when applying certain unfavorable variations of key assumptions to these assets for the dates indicated.

	Discount Rate		Total Prepayment Speeds	
MSRs - Hypothetical Sensitivities	**100 bps Adverse Change**	**200 bps Adverse Change**	**10% Adverse Change**	**20% Adverse Change**
June 30, 2018				
Mortgage servicing rights	**$ (130)**	**$ (251)**	**$ (119)**	**$ (231)**
December 31, 2017				
Mortgage servicing rights	$ (108)	$ (208)	$ (118)	$ (227)

These hypothetical sensitivities should be evaluated with care. The effect on fair value of a 10% variation in assumptions generally cannot be determined because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other assumptions constant. In reality, changes in one factor may lead to changes in other factors, which could impact the above hypothetical effects.

Mortgage Servicing Liabilities ("MSL") - Amortized Cost

The Company services and subservices certain Home Equity Conversion Mortgage ("HECM") reverse mortgage loans with an unpaid principal balance of $32,264 and $35,112 as of June 30, 2018 and December 31, 2017, respectively. Mortgage servicing liabilities had an ending balance of $27 and $41 as of June 30, 2018 and December 31, 2017, respectively. For the six months ended June 30, 2018, the Company accreted $11 of the MSL and recorded other MSL adjustments of $3. The fair value of MSL was $(5) and $34 as of June 30, 2018 and December 31, 2017, respectively. The fair value of MSL as of June 30, 2018 was primarily driven by net excess payments made to a government sponsored entity which will be reimbursed in the future. Based on management's assessment at June 30, 2018, no increased obligation was needed.

Excess Spread Financing - Fair Value

In order to finance the acquisition of certain MSRs on various loan pools ("Portfolios"), the Company has entered into sale and assignment agreements with a third-party associated with funds and accounts under management of BlackRock Financial Management Inc. ("BlackRock"), a third-party associated with funds and accounts under management of Värde Partners, Inc. ("Varde") and with certain affiliated entities formed and managed by New Residential Investment Corp. ("New Residential"), which is managed by an affiliate of Fortress Investment Group LLC ("Fortress"). The Company sold to such entities the right to receive a specified percentage of the excess cash flow generated from the Portfolios after receipt of a fixed base servicing fee per loan. Servicing fees associated with traditional MSRs can be segregated into a contractually specified base servicing fee component and an excess servicing fee. The base servicing fee, along with ancillary income, is designed to cover costs incurred to service the specified pool plus a reasonable profit margin. The remaining servicing fee is considered excess. The Company retains all the base servicing fee and ancillary revenues associated with servicing the Portfolios and retains a portion of the excess servicing fee. The Company continues to be the servicer of the Portfolios and provides all servicing and advancing functions.

Contemporaneous with the above, the Company entered into refinanced loan obligations with New Residential, BlackRock and Varde. Should the Company refinance any loan in the Portfolios, subject to certain limitations, it will be required to transfer the new loan or a replacement loan of similar economic characteristics into the Portfolios. The new or replacement loan will be governed by the same terms set forth in the sale and assignment agreement described above, which is the primary driver of the recapture rate assumption.

The range of key assumptions used in the Company's valuation of excess spread financing are as follows.

Excess Spread Financing	Prepayment Speeds	Average Life (Years)	Discount Rate	Recapture Rate
June 30, 2018				
Low	**6.0%**	**5.2**	**8.5%**	**8.2%**
High	**15.1%**	**8.1**	**14.0%**	**27.3%**
Weighted-average	**11.1%**	**6.5**	**10.6%**	**18.0%**
December 31, 2017				
Low	6.2%	4.4	8.5%	7.2%
High	21.2%	6.9	14.1%	30.0%
Weighted-average	13.7%	5.9	10.8%	18.7%

The following table shows the hypothetical effect on the excess spread financing fair value when applying certain unfavorable variations of key assumptions to these liabilities for the dates indicated.

Excess Spread Financing - Hypothetical Sensitivities	Discount Rate		Prepayment Speeds	
	100 bps Adverse Change	200 bps Adverse Change	10% Adverse Change	20% Adverse Change
June 30, 2018				
Excess spread financing	**$ 40**	**$ 83**	**$ 31**	**$ 64**
December 31, 2017				
Excess spread financing	$ 37	$ 78	$ 34	$ 71

As the cash flow assumptions utilized in determining the fair value amounts in the excess spread financing are based on the related cash flow assumptions utilized in the financed MSRs, any fair value changes recognized in the MSRs would inherently have an inverse impact on the carrying amount of the related excess spread financing. For example, while an increase in discount rates would negatively impact the value of the Company's MSRs, it would reduce the carrying value of the associated excess spread financing liability.

These hypothetical sensitivities should be evaluated with care. The effect on fair value of a 10% variation in assumptions generally cannot be determined because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other assumptions constant. In reality, changes in one factor may lead to changes in other factors, which could impact the above hypothetical effects. Also, a positive change in the above assumptions would not necessarily correlate with the corresponding decrease in the net carrying amount of the excess spread financing.

Mortgage Servicing Rights Financing - Fair Value

From December 2013 through June 2014, the Company entered into agreements to sell a contractually specified base servicing fee component of certain MSRs and servicing advances under specified terms to a joint venture capitalized by New Residential and certain unaffiliated third-party investors. The Company continues to be the named servicer and, for accounting purposes, ownership of the mortgage servicing rights continues to reside with the Company. Accordingly, the Company records the MSRs and a MSR financing liability associated with this transaction in its consolidated balance sheets. See Note 18. *Transactions with Affiliates* for additional information.

The following table sets forth the weighted average assumptions used in the valuation of the mortgage servicing rights financing liability.

Mortgage Servicing Rights Financing Assumptions	June 30, 2018	December 31, 2017
Advance financing rates	**4.1%**	3.5%
Annual advance recovery rates	**18.9%**	23.2%

The following table sets forth the items comprising revenues associated with servicing loan portfolios.

Servicing Revenue	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Contractually specified servicing fees[1]	**$ 245**	$ 253	**$ 495**	$ 508
Other service-related income[1][2]	**28**	46	**56**	86
Incentive and modification income[1]	**18**	21	**33**	43
Late fees[1]	**22**	22	**46**	46
Reverse servicing fees	**14**	13	**33**	27
Mark-to-market adjustments[2][3]	**19**	(84)	**171**	(116)
Counterparty revenue share[4]	**(50)**	(59)	**(95)**	(121)
Amortization, net of accretion[5]	**(48)**	(66)	**(96)**	(127)
Total servicing revenue	**$ 248**	$ 146	**$ 643**	$ 346

[1] Amounts include subservicing related revenues.

[2] In the fourth quarter of 2017, the Company reevaluated presentation of adjustments related to certain Ginnie Mae early buyout activities and reclassified $6 and $12 from other service-related income to mark-to-market adjustments for the three and six months ended June 30, 2017, respectively. Total servicing revenue was not affected by this reclassification adjustment.

[3] Mark-to-market ("MTM") includes fair value adjustments on MSR, excess spread financing and MSR financing liabilities. The amount of MSR MTM reflected is net of cumulative incurred losses related to advances and other receivables associated with inactive and liquidated loans that are no longer part of the MSR portfolio and these incurred losses have been transferred to reserves on advances and other receivables. These cumulative incurred losses totaled $22 and $22 for the three months ended June 30, 2018 and 2017, respectively, and $34 and $37 for the six months ended June 30, 2018 and 2017, respectively.

[4] Counterparty revenue share represents the excess servicing fee that the Company pays to the counterparties under the excess spread financing arrangements and the payments made associated with MSRs financing arrangements.

[5] Amortization is net of excess spread accretion of $37 and $40 for the three months ended June 30, 2018 and 2017, respectively and $67 and $82 for the six months ended June 30, 2018 and 2017, respectively.

3. Advances and Other Receivables, Net

Advances and other receivables, net consists of the following.

	June 30, 2018	December 31, 2017
Servicing advances	**$ 1,248**	$ 1,599
Receivables from agencies, investors and prior servicers	**363**	391
Reserves	**(294)**	(284)
Total advances and other receivables, net	**$ 1,317**	$ 1,706

The Company, as a loan servicer, is contractually responsible to advance funds on behalf of the borrower and investor primarily for loan principal and interest, property taxes and hazard insurance, and foreclosure costs. Advances are primarily recovered through reimbursement from the investor, proceeds from sale of loan collateral, or mortgage insurance claims. Reserves for advances and other receivables on loans transferred out of the MSR portfolio are established within advances and other receivables.

The Company estimates and records an asset for estimated recoveries to be collected from prior servicers for their respective portion of the losses associated with the underlying loans that were not serviced in accordance with established guidelines. Receivables from prior servicers totaled $136 and $134 for the Company's forward loan portfolio at June 30, 2018 and December 31, 2017, respectively.

The following table sets forth the activities of the reserves for advances and other receivables.

Reserves for Advances and Other Receivables	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Balance - beginning of period	**$ 277**	$ 208	**$ 284**	$ 184
Provision and other additions[(1)]	**38**	36	**60**	76
Write-offs	**(21)**	(8)	**(50)**	(24)
Balance - end of period	**$ 294**	$ 236	**$ 294**	$ 236

[(1)] A provision of $22 and $22 was recorded through the MTM adjustments in service related revenues for the three months ended June 30, 2018 and 2017, respectively, and $34 and $37 for the six months ended June 30, 2018 and 2017, respectively, for inactive and liquidated loans that are no longer part of the MSR portfolio. Other additions represent reclassifications of required reserves from other balance sheet accounts.

4. Reverse Mortgage Interests, Net

Reverse mortgage interests, net consists of the following.

	June 30, 2018	December 31, 2017
Participating interests in HECM mortgage-backed securities ("HMBS")	**$ 6,518**	$ 7,107
Other interests securitized	**908**	912
Unsecuritized interests	**2,168**	2,080
Reserves	**(117)**	(115)
Total reverse mortgage interests, net	**$ 9,477**	$ 9,984

Participating Interests in HMBS

Participating interests in HMBS consist of the Company's reverse mortgage interests in HECM loans which have been transferred to Ginnie Mae ("GNMA") and subsequently securitized through the issuance of HMBS. During the six months ended June 30, 2018 and 2017, a total of $174 and $338 in UPB were transferred to Ginnie Mae and securitized, respectively.

Other Interests Securitized

Other interests securitized consist of reverse mortgage interests that no longer meet HMBS program eligibility criteria and have been repurchased out of HMBS. These reverse mortgage interests have subsequently been transferred to private securitization trusts and are accounted for as a secured borrowing. During the six months ended June 30, 2018, a total of $443 UPB was securitized through Trust 2018-1 and a total of $284 UPB from Trust 2016-2 and Trust 2016-3 were called and debt extinguished. Refer to Other Nonrecourse Debt in Note 8, *Indebtedness* for additional information.

Unsecuritized Interests

Unsecuritized interests in reverse mortgages consists of the following.

	June 30, 2018	December 31, 2017
Repurchased HECM loans	**$ 1,749**	$ 1,662
HECM related receivables	**332**	311
Funded borrower draws not yet securitized	**62**	82
REO related receivables	**25**	25
Total unsecuritized interests	**$ 2,168**	$ 2,080

Unsecuritized interests include repurchased HECM loans for which the Company is required to repurchase from the HMBS pool when the outstanding principal balance of the HECM loan is equal to or greater than 98% of the maximum claim amount established at origination in accordance with HMBS program guidelines. The Company repurchased a total of $2,109 and $2,208 HECM loans out of Ginnie Mae HMBS securitizations during the six months ended June 30, 2018 and 2017, respectively, of which $444 and $550 were subsequently assigned to a third party in accordance with applicable servicing agreements, respectively. To the extent a loan is not subject to applicable servicing agreements and assigned to a third party, the loan is either subject to assignment to HUD, per contractual obligations with Ginnie Mae, liquidated via a payoff from the borrower, or liquidated via a foreclosure according to the terms of the underlying mortgage.

The Company also estimates and records an asset for probable recoveries from prior servicers for their respective portion of the losses associated with the underlying loans that were not serviced in accordance with established guidelines. Receivables from prior servicers totaled $36 and $22 for the Company's reverse loan portfolio at June 30, 2018 and December 31, 2017, respectively.

Purchase of Reverse Mortgage Servicing Rights and Interests

On December 1, 2016, the Company executed an asset purchase agreement with a large financial institution and acquired servicing rights and reverse mortgage interests. As part of the asset purchase agreement, the Company agreed to acquire remaining components of the reverse portfolio, primarily including servicing of whole HECM loans and REO advances upon receiving regulatory approval. In September 2017, the Company executed a mortgage servicing rights purchase agreement and a subservicing agreement to acquire servicing rights and subservicing contracts on the remaining reverse portfolio. In March 2018, the Company executed an asset purchase agreement to acquire reverse mortgage interests on the subservicing contracts acquired in September 2017 referenced above, acquiring $467 UPB of participating interests in HECM loans and $460 UPB of related HMBS obligations. The Company performed a relative fair value allocation upon the March 2018 acquisition, resulting in the aforementioned assets and liabilities in addition to $2 of HECM related receivables and $7 of purchase discount within unsecuritized interests. In addition, the Company paid net proceeds of $1 for the acquisition of these assets and assumption of related liabilities.

Reserves for Reverse Mortgage Interests

The Company records reserves related to reverse mortgage interests based on potential unrecoverable costs and loss exposures expected to be realized. Recoverability is determined based on the Company's ability to meet U.S. Department of Housing and Urban Development ("HUD") servicing guidelines and is viewed as two different categories of expenses: financial and operational. Financial exposures are defined as the cost of doing business related to servicing the HECM product and include potential unrecoverable costs primarily based on HUD claim guidelines related to recoverable expenses and unfavorable changes in the appraised value of the loan collateral. Operational exposures are defined as unrecoverable debenture interest curtailments imposed for missed Federal Housing Administration ("FHA") specified servicing timelines.

The activity of the reserves for reverse mortgage interests is set forth below.

	Three Months Ended June 30,		Six Months Ended June 30,	
Reserves for reverse mortgage interests	**2018**	**2017**	**2018**	**2017**
Balance - beginning of period	**$ 134**	$ 137	**$ 115**	$ 131
Provision (release), net	**(6)**	14	**20**	22
Write-offs	**(11)**	(2)	**(18)**	(4)
Balance - end of period	**$ 117**	$ 149	**$ 117**	$ 149

Reverse Mortgage Interest Income

The Company accrues interest income for its participating interest in reverse mortgages based on the stated rates underlying HECM loans and FHA guidelines. Total interest earned on the Company's reverse mortgage interests was $118 and $115 for the three months ended June 30, 2018 and 2017, respectively, and $237 and $233 for the six months ended June 30, 2018 and 2017, respectively.

In connection with previous reverse mortgage portfolio acquisitions, the Company recorded a purchase discount within unsecuritized interests. During the three and six months ended June 30, 2018, the Company accreted $6 and $12, respectively, of the purchase discount to interest income related to the above referenced transactions. There was $84 purchase discount remaining related to the above referenced transactions as of June 30, 2018.

5. Mortgage Loans Held for Sale and Investment

Mortgage Loans Held for Sale

The Company maintains a strategy of originating and purchasing residential mortgage loan products primarily for the purpose of selling to government-sponsored enterprises ("GSEs") or other third-party investors in the secondary market on a servicing-retained basis. The Company focuses on assisting customers currently in the Company's servicing portfolio with refinancing of loans or new home purchases. Generally, all newly originated mortgage loans held for sale are securitized and transferred to GSEs or delivered to third-party purchasers shortly after origination on a servicing-retained basis.

Mortgage loans held for sale are recorded at fair value as set forth below.

	June 30, 2018	December 31, 2017
Mortgage loans held for sale – UPB	**$ 1,586**	$ 1,837
Mark-to-market adjustment[1]	**49**	54
Total mortgage loans held for sale	**$ 1,635**	$ 1,891

[1] The mark-to-market adjustment is recorded in net gain on mortgage loans held for sale in the consolidated statements of operations.

The Company accrues interest income as earned and places loans on non-accrual status after any portion of principal or interest has been delinquent for more than 90 days. Accrued interest is recorded as interest income in the consolidated statements of operations.

The total UPB of mortgage loans held for sale on non-accrual status was as follows for the dates indicated.

	June 30, 2018		December 31, 2017	
Mortgage Loans Held for Sale - UPB	**UPB**	**Fair Value**	**UPB**	**Fair Value**
Non-accrual	**$ 57**	**$ 53**	$ 66	$ 64

From time to time, the Company exercises its right to repurchase individual delinquent loans in Ginnie Mae securitization pools to minimize interest spread losses, to re-pool into new Ginnie Mae securitizations, or to otherwise sell to third-party investors. During the six months ended June 30, 2018 and 2017, the Company repurchased $109 and $144 of delinquent Ginnie Mae loans, respectively, and securitized or sold to third-party investors $135 and $172 of previously repurchased loans, respectively. As of June 30, 2018 and 2017, $92 and $33 of the repurchased loans have re-performed and were held in accrual status, respectively, and remaining balances continue to be held under a nonaccrual status.

The total UPB of mortgage loans held for sale for which the Company has begun formal foreclosure proceedings was $40 and $51 as of June 30, 2018 and December 31, 2017, respectively.

The following table details a roll forward of the change in the account balance of mortgage loans held for sale.

Mortgage loans held for sale	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Balance - beginning of period	**$ 1,891**	$ 1,788
Mortgage loans originated and purchased, net of fees	**10,630**	8,887
Loans sold	**(11,377)**	(9,753)
Repurchase of loans out of Ginnie Mae securitizations	**475**	599
Transfer of mortgage loans held for sale to advances/accounts receivable, net related to claims[1]	**(6)**	(8)
Net transfer of mortgage loans held for sale from REO in other assets[2]	**12**	11
Changes in fair value	**1**	10
Other purchase-related activities[3]	**9**	9
Balance - end of period	**$ 1,635**	$ 1,543

[1] Amounts are comprised of claims made on certain government insured mortgage loans upon completion of the REO sale.

[2] Net amounts are comprised of REO in the sales process, which are transferred to other assets, and certain government insured mortgage REO, which are transferred from other assets upon completion of the sale so that the claims process can begin.

[3] Amounts are comprised primarily of non-Ginnie Mae loan purchases and buyouts.

For the six months ended June 30, 2018 and 2017, the Company received proceeds of $11,491 and $10,007, respectively, on the sale of mortgage loans held for sale, resulting in gains of $114 and $254, respectively.

The Company has the right to repurchase any individual loan in a Ginnie Mae securitization pool if that loan meets certain criteria, including being delinquent greater than 90 days. The majority of Ginnie Mae repurchased loans are repurchased solely with the intent to re-pool into new Ginnie Mae securitizations upon re-performance of the loan or to otherwise sell to third-party investors. Therefore, these loans are classified as held for sale. The amounts repurchased out of Ginnie Mae pools, as presented above, are primarily in connection with loan modifications and loan resolution activity as part of the Company's contractual obligations as the servicer of the loans.

Mortgage Loans Held for Investment, Net

The following sets forth the composition of mortgage loans held for investment, net.

	June 30, 2018	December 31, 2017
Mortgage loans held for investment, net – UPB	**$ 183**	$ 193
Transfer discount:		
Non-accretable	**(37)**	(41)
Accretable	**(13)**	(12)
Allowance for loan losses	**(1)**	(1)
Total mortgage loans held for investment, net	**$ 132**	$ 139

The changes in accretable yield discount on loans transferred to mortgage loans held for investment, net are set forth below.

	Six Months Ended June 30,	
Accretable Yield Discount	**2018**	**2017**
Balance - beginning of the period	**$ (12)**	$ (13)
Accretion	**1**	1
Reclassifications from non-accretable discount	**(2)**	(2)
Balance - end of the period	**$ (13)**	$ (14)

The Company may periodically modify the terms of any outstanding mortgage loans held for investment for loans that are either in default or in imminent default. Modifications often involve reduced payments by borrowers, modification of the original terms of the mortgage loans, forgiveness of debt and/or modified servicing advances. As a result of the volume of modification agreements entered into, the estimated average outstanding life in this pool of mortgage loans has been extended. The Company records interest income on the transferred loans on a level-yield method. To maintain a level-yield on these transferred loans over the estimated extended life, the Company reclassified to accretable yield discount approximately $2 and $2 of transfer discount designated as reserves for future loss, for the six months ended June 30, 2018 and 2017, respectively. No provision for reserves was required for the six months ended June 30, 2018 and 2017, respectively, as the fair value of the underlying collateral exceeded the carrying value of the loans, net of the non-accretable discount.

The total UPB of mortgage loans held for investment for which the Company has begun formal foreclosure proceedings was $19 and $22 as of June 30, 2018 and December 31, 2017, respectively.

6. Other Assets

Other assets consist of the following.

	June 30, 2018	December 31, 2017
Loans subject to repurchase right from Ginnie Mae	**$ 206**	$ 218
Accrued revenues	**128**	148
Goodwill	**71**	72
Prepaid expenses	**31**	27
Deposits	**21**	19
Real estate owned (REO), net	**18**	23
Intangible assets	**14**	19
Receivables from affiliates, net	**6**	6
Other	**98**	82
Total other assets	**$ 593**	$ 614

Loans Subject to Repurchase Right from Ginnie Mae
Forward loans are sold to Ginnie Mae in conjunction with the issuance of mortgage backed securities. The Company, as the issuer of the mortgage backed securities, has the unilateral right to repurchase any individual loan in a Ginnie Mae securitization pool if that loan meets certain criteria, including being delinquent greater than 90 days. Once the Company has the unilateral right to repurchase a delinquent loan, it has effectively regained control over the loan and recognizes these rights to the loan on its consolidated balance sheets and establishes a corresponding repurchase liability regardless of the Company’s intention to repurchase the loan.

Goodwill
In February 2018, the Company sold the software-based business of Xome's Real Estate Digital ("RED") business. In connection with the sale, the Company wrote off $1 goodwill.

Accrued Revenues
Accrued revenues are primarily comprised of service fees earned but not received based upon the terms of the Company's servicing and subservicing agreements.

REO, Net
REO, net includes $11 and $15 of REO-related receivables with government insurance at June 30, 2018 and December 31, 2017, respectively, limiting loss exposure to the Company.

Other
Other primarily includes tax receivables and non-advance related accounts receivable due from investors.

7. Derivative Financial Instruments

Derivative instruments utilized by the Company primarily include interest rate lock commitments ("IRLCs"), Loan Purchase Commitments ("LPCs"), forward Mortgage Backed Securities ("MBS") trades, Eurodollar and Treasury futures and interest rate swap agreements.

Associated with the Company's derivatives are $6 and $1 in collateral deposits on derivative instruments recorded in other assets on the Company's consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively. The Company does not offset fair value amounts recognized for derivative instruments with amounts collected and/or deposited on derivative instruments in its consolidated balance sheets.

The following table provides the outstanding notional balances, fair values of outstanding positions and recorded gains/(losses).

	Expiration Dates	Outstanding Notional	Fair Value	Recorded Gains / (Losses)
Six Months Ended June 30, 2018				
Assets				
Mortgage loans held for sale				
Loan sale commitments	**2018**	**$ 368**	**$ 7.2**	**$ 7.1**
Derivative financial instruments				
IRLCs	**2018**	**1,778**	**60.2**	**0.9**
Forward sales of MBS	**2018**	**568**	**0.4**	**(2.0)**
LPCs	**2018**	**271**	**1.7**	**0.8**
Treasury futures	**2018**	**35**	**0.1**	**(1.8)**
Eurodollar futures[1]	**2018-2021**	**22**	**—**	**—**
Liabilities				
Derivative financial instruments				
IRLCs[1]	**2018**	**1**	**—**	**—**
Forward sales of MBS	**2018**	**2,710**	**8.0**	**5.2**
LPCs	**2018**	**185**	**0.7**	**0.1**
Treasury futures[1]	**2018**	**63**	**—**	**(1.4)**
Eurodollar futures[1]	**2020-2021**	**6**	**—**	**—**
Year Ended December 31, 2017				
Assets				
Mortgage loans held for sale				
Loan sale commitments[1]	2018	$ 13	$ 0.1	$ —
Derivative financial instruments				
IRLCs	2018	2,065	59.3	(32.9)
Forward sales of MBS	2018	1,802	2.4	(36.9)
LPCs	2018	171	0.9	(1.0)
Treasury futures	2018	81	1.9	1.9
Eurodollar futures[1]	2018-2021	26	—	—
Interest rate swaps[1]	2018	—	—	(0.1)
Liabilities				
Derivative financial instruments				
IRLCs[1]	2018	7	—	1.1
Forward sales of MBS	2018	1,579	2.8	7.2
LPCs	2018	213	0.6	0.9
Treasury futures	2018	128	1.4	(1.4)
Eurodollar futures[1]	2018-2021	17	—	—
Interest rate swaps[1]	2018	—	—	0.1

[1] Fair values or recorded gains/(losses) of derivative instruments are less than $0.1 for the specified dates.

8. Indebtedness

Notes Payable

Advance Facilities	Interest Rate	Maturity Date	Collateral	Capacity Amount	June 30, 2018 Outstanding	June 30, 2018 Collateral Pledged	December 31, 2017 Outstanding	December 31, 2017 Collateral pledged
Nationstar agency advance receivables trust	LIBOR+2.0% to 2.6%	November 2019	Servicing advance receivables	$ 575	**$ 248**	**$ 292**	$ 416	$ 492
Nationstar mortgage advance receivable trust	LIBOR+1.4% to 6.5%	November 2018	Servicing advance receivables	500	**142**	**243**	230	287
Nationstar agency advance financing facility	LIBOR+1.0% to 7.4%	January 2019	Servicing advance receivables	150	**77**	**92**	102	117
MBS advance financing facility	LIBOR+2.5%	March 2019	Servicing advance receivables	130	**—**	**—**	63	64
MBS servicer advance facility (2014)	LIBOR+3.0%	October 2018	Servicing advance receivables	125	**49**	**139**	44	140
Advance facilities principal amount					**516**	**$ 766**	855	$ 1,100
Unamortized debt issuance costs					**—**		—	
Advance facilities, net					**$ 516**		$ 855	

Warehouse Facilities	Interest Rate	Maturity Date	Collateral	Capacity Amount	June 30, 2018 Outstanding	June 30, 2018 Collateral Pledged	December 31, 2017 Outstanding	December 31, 2017 Collateral pledged
$1,200 warehouse facility	LIBOR+1.9% to 3.8%	October 2018	Mortgage loans or MBS	$ 1,200	**$ 768**	**$ 836**	$ 889	$ 960
$1,000 warehouse facility	LIBOR+2.0% to 2.5%	September 2018	Mortgage loans or MBS	1,000	**289**	**297**	299	308
$950 warehouse facility	LIBOR+2.0% to 3.5%	November 2018	Mortgage loans or MBS	950	**632**	**705**	721	785
$600 warehouse facility	LIBOR+2.5%	February 2019	Mortgage loans or MBS	600	**354**	**379**	333	347
$500 warehouse facility	LIBOR+1.8% to 2.8%	September 2018	Mortgage loans or MBS	500	**198**	**202**	233	239
$500 warehouse facility	LIBOR+1.8% to 2.8%	November 2018	Mortgage loans or MBS	500	**288**	**318**	305	337
$500 warehouse facility	LIBOR+2.0% to 3.5%	April 2019	Mortgage loans or MBS	500	**312**	**338**	246	272
$300 warehouse facility	LIBOR+2.3%	January 2019	Mortgage loans or MBS	300	**109**	**135**	116	141
$200 warehouse facility	LIBOR+1.6%	April 2019	Mortgage loans or MBS	200	**34**	**35**	80	81
$200 warehouse facility	LIBOR+5.5% to 6.8%	June 2020	Mortgage loans or MBS	200	**100**	**195**	50	50
$150 warehouse facility	LIBOR+4.3%	September 2018	Mortgage loans or MBS	150	**—**	**94**	—	—
$50 warehouse facility	LIBOR+4.5%	August 2020	Mortgage loans or MBS	50	**—**	**48**	10	10
$40 warehouse facility	LIBOR+3.0%	November 2018	Mortgage loans or MBS	40	**3**	**5**	4	6
Warehouse facilities principal amount					**3,087**	**$ 3,587**	3,286	$ 3,536
Unamortized debt issuance costs					**(1)**		(1)	
Warehouse facilities, net					**$ 3,086**		$ 3,285	
Pledged Collateral:								
Mortgage loans, net					**$ 1,544**	**$ 1,431**	$ 1,852	$ 1,680
Reverse mortgage interests, net					**1,443**	**1,612**	1,434	1,575
MSR and other collateral					**100**	**544**	—	281

Unsecured Senior Notes

Unsecured senior notes consist of the following.

	June 30, 2018	December 31, 2017
$600 face value, 6.500% interest rate payable semi-annually, due July 2021	$ **595**	$ 595
$400 face value, 7.875% interest rate payable semi-annually, due October 2020	**394**	397
$475 face value, 6.500% interest rate payable semi-annually, due August 2018	**364**	364
$375 face value, 9.625% interest rate payable semi-annually, due May 2019	**266**	323
$300 face value, 6.500% interest rate payable semi-annually, due June 2022	**206**	206
Unsecured senior notes principal amount	**1,825**	1,885
Unamortized debt issuance costs	**(10)**	(11)
Unsecured senior notes, net	$ **1,815**	$ 1,874

The indentures for the unsecured senior notes contain various covenants and restrictions that limit the ability to incur additional indebtedness, pay dividends, make certain investments, create liens, consolidate, merge or sell substantially all of their assets or enter into certain transactions with affiliates. The indentures contain certain events of default, including (subject, in some cases, to customary cure periods and materiality thresholds) defaults based on (i) the failure to make payments under the indenture when due, (ii) breach of covenants, (iii) cross-defaults to certain other indebtedness, (iv) certain bankruptcy or insolvency events, (v) material judgments and (vi) invalidity of material guarantees.

The indentures for the unsecured senior notes provide that the Company may redeem all or a portion of the notes prior to certain fixed dates by paying a make-whole premium plus accrued and unpaid interest and additional interest, if any, to the redemption dates. In addition, the Company may redeem all or a portion of the unsecured senior notes at any time on or after certain fixed dates at the applicable redemption prices set forth in the indentures plus accrued and unpaid interest and additional interest, if any, to the redemption dates. The Company repurchased $44 and $47 in principal amount of outstanding notes during the three months ended June 30, 2018 and 2017 resulting in a loss of $1 and $1, respectively. The Company also repurchased $60 and $95 in principal amount of outstanding notes during the six months ended June 30, 2018 and 2017 resulting in a loss of $2 and $2.

Additionally, the indentures provide that on or before certain fixed dates, the Company may redeem up to 35% of the aggregate principal amount of the unsecured senior notes with the net proceeds of certain equity offerings at fixed redemption prices, plus accrued and unpaid interest and additional interest, if any, to the redemption dates, subject to compliance with certain conditions.

The ratios included in the indentures for the unsecured senior notes are incurrence-based compared to the customary ratio covenants that are often found in credit agreements that require a company to maintain a certain ratio.

As of June 30, 2018, the expected maturities of the Company's unsecured senior notes based on contractual maturities are as follows.

Year Ending December 31,	Amount
2018[1]	$ **364**
2019[2]	**266**
2020[1]	**394**
2021	**595**
2022	**206**
Unsecured senior notes principal amount	**1,825**
Unamortized debt issuance costs	**(10)**
Unsecured senior notes, net	$ **1,815**

[1] The entire remaining principal amount of this unsecured senior note plus accrued interests was subsequently paid off on August 1, 2018 in connection with the Merger.

[2] The entire remaining principal amount of this unsecured senior note plus accrued interests is expected to be paid off on August 15, 2018.

Other Nonrecourse Debt

Other nonrecourse debt consists of the following.

	Issue Date	Maturity Date	Class of Note	Securitized Amount	June 30, 2018 Outstanding	December 31, 2017 Outstanding
Participating interest financing[1]	—	—	—	$ —	**$ 6,590**	$ 7,173
Securitization of nonperforming HECM loans						
Trust 2016-2	June 2016	June 2026	A, M1, M2	—	**—**	94
Trust 2016-3	August 2016	August 2026	A, M1, M2	—	**—**	138
Trust 2017-1	May 2017	May 2027	A, M1, M2	207	**170**	213
Trust 2017-2	September 2017	September 2027	A, M1, M2	334	**291**	365
Trust 2018-1	March 2018	March 2028	A, M1, M2, M3, M4, M5	380	**369**	—
Nonrecourse debt - legacy assets	November 2009	October 2039	A	118	**36**	42
Other nonrecourse debt principal amount					**7,456**	8,025
Unamortized debt issuance costs and issuance discount					**(11)**	(11)
Other nonrecourse debt, net					**$ 7,445**	$ 8,014

[1] Amounts represent the Company's participating interest in GNMA HMBS securitized portfolios.

Participating Interest Financing

Participating interest financing represents the obligation of HMBS pools to third-party security holders. The Company issues HMBS in connection with the securitization of borrower draws and accrued interest on HECM loans. Proceeds are received in exchange for securitized advances on the HECM loan amounts transferred to GNMA, and the Company retains a beneficial interest (referred to as a "participating interest") in the securitization trust in which the HECM loans and HMBS obligations are held and assume both issuer and servicer responsibilities in accordance with GNMA HMBS program guidelines. Monthly cash flows generated from the HECM loans are used to service the HMBS obligations. The interest rate is based on the underlying HMBS rate with a range of 2.2% to 7.0%.

Securitizations of Nonperforming HECM Loans

From time to time, the Company securitizes its interests in non-performing reverse mortgages. The transactions provide investors with the ability to invest in a pool of both non-performing HECM loans secured by one-to-four-family residential properties and a pool of REO properties acquired through foreclosure of a deed in lieu of foreclosure in connection with HECM loans that are covered by FHA insurance. The transactions provide the Company with access to liquidity for the non-performing HECM loan portfolio, ongoing servicing fees, and potential residual returns. The transactions are structured as secured borrowings with the reverse mortgage loans included in the consolidated financial statements as reverse mortgage interests and the related financing included in other nonrecourse debt. Interest is accrued at a rate of 2.0% to 6.5% on the outstanding securitized notes and recorded as interest expense in consolidated statements of operations. The HECM securitizations are callable with expected weighted average lives of less than one to three years. The Company may re-securitize the previously called loans from earlier HECM securitizations to achieve a lower cost of funds.

Nonrecourse Debt – Legacy Assets
During November 2009, the Company completed the securitization of approximately $222 of Asset-Backed Securities ("ABS"), which was accounted for as a secured borrowing. This structure resulted in the Company carrying the securitized mortgage loans in its consolidated balance sheets and recognizing the asset-backed certificates acquired by third parties. The principal and interest on these notes are paid using the cash flows from the underlying mortgage loans, which serve as collateral for the debt. The interest rate paid on the outstanding securities is 7.5%, which is subject to an available funds cap. The total outstanding principal balance on the underlying mortgage loans serving as collateral for the debt was approximately $171 and $181 at June 30, 2018 and December 31, 2017, respectively. The carrying values on the outstanding loans was $36 and $42 at June 30, 2018 and December 31, 2017, respectively, and the carrying value of the nonrecourse debt was $31 and $37, respectively.

Financial Covenants
The Company's borrowing arrangements and credit facilities contain various financial covenants which primarily relate to required tangible net worth amounts, liquidity reserves, leverage requirements, and profitability requirements. As of June 30, 2018, the Company was in compliance with its financial covenants.

The Company is required to maintain a minimum tangible net worth of at least $682 as of each quarter-end related to its outstanding Master Repurchase Agreements on its outstanding repurchase facilities. As of June 30, 2018, the Company was in compliance with these minimum tangible net worth requirements.

9. Payables and Accrued Liabilities

Payables and accrued liabilities consist of the following.

	June 30, 2018	December 31, 2017
Payables to servicing and subservicing investors	**$ 557**	$ 516
Loans subject to repurchase from Ginnie Mae	**206**	218
Payables to GSEs and securitized trusts	**135**	92
Accounts payable and other accrued liabilities	**114**	99
Payable to insurance carriers and insurance cancellation reserves	**60**	61
Taxes	**58**	36
Accrued bonus and payroll	**52**	82
Accrued interest	**39**	62
Accrued legal expenses	**22**	25
Lease obligations	**20**	24
MSR purchases payable including advances	**16**	10
Repurchase reserves	**9**	9
Total payables and accrued liabilities	**$ 1,288**	$ 1,234

Payables to Servicing and Subservicing Investors and Payables to GSEs and Securitized Trusts
Payables to servicing and subservicing investors, GSEs and securitized trusts represent amounts due to investors, GSEs and securitized trusts in connection with loans serviced that are paid from collections of the underlying loans, insurance proceeds or proceeds from property disposal.

Loans Subject to Repurchase from Ginnie Mae
See Note 6, *Other Assets* for a description of assets and liabilities related to loans subject to repurchase from Ginnie Mae.

Accounts Payables and Other Accrued Liabilities
Accounts payables and other accrued liabilities are primarily comprised of liabilities related to various vendor and servicing activities.

Payables to Insurance Carriers and Insurance Cancellation Reserves
Payables to insurance carriers and insurance cancellation reserves consist of insurance premiums received from borrower payments awaiting disbursement to the insurance carrier and/or amounts due to third-party investors on liquidated loans.

Repurchase Reserves
The activity of the repurchase reserves is set forth below.

Repurchase Reserves	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	**2018**	2017
Balance - beginning of period	**$ 9**	$ 15	**$ 9**	$ 18
Provisions	**2**	1	**3**	3
Releases	**(2)**	(2)	**(3)**	(6)
Charge-offs	**—**	—	**—**	(1)
Balance - end of period	**$ 9**	$ 14	**$ 9**	$ 14

The provision for repurchases represents an estimate of losses to be incurred on the repurchase of loans or indemnification of purchaser's losses related to forward loans. Certain sale contracts and GSE standards require the Company to repurchase a loan or indemnify the purchaser or insurer for losses if a borrower fails to make initial loan payments or if the accompanying mortgage loan fails to meet certain customary representations and warranties, such as the manner of origination, the nature and extent of underwriting standards.

In the event of a breach of the representations and warranties, the Company may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. In addition, an investor may request that the Company refund a portion of the premium paid on the sale of mortgage loans if a loan is prepaid within a certain amount of time from the date of sale. The Company records a reserve for estimated losses associated with loan repurchases, purchaser indemnification and premium refunds. The provision for repurchase losses is charged against net gain on mortgage loans held for sale. A release of repurchase reserves is recorded when the Company's assessment reveals that previously recorded reserves are no longer needed.

A selling representation and warranty framework was introduced by the GSEs in 2013 and enhanced in 2014 that helps address concerns of loan sellers with respect to loan repurchase risk. Under the framework, a GSE will not exercise its remedies, including the issuance of repurchase requests, for breaches of certain selling representations and warranties if a mortgage meets certain eligibility requirements. For loans sold to GSEs on or after January 1, 2013, repurchase risk for Home Affordable Refinance Program ("HARP") loans is lowered if the borrower stays current on the loan for 12 months and representation and warranty risks are limited for non-HARP loans that stay current for 36 months.

The Company regularly evaluates the adequacy of repurchase reserves based on trends in repurchase and indemnification requests, actual loss experience, settlement negotiation, estimated future loss exposure and other relevant factors including economic conditions. Current loss rates have significantly declined attributable to stronger underwriting standards and due to the falloff of loans underwritten prior to mortgage loan crisis period prior to 2008. The Company believes its reserve balance as of June 30, 2018 is sufficient to cover loss exposure associated with repurchase contingencies.

10. Securitizations and Financings

Variable Interest Entities (VIE)
In the normal course of business, the Company enters into various types of on- and off-balance sheet transactions with special purpose entities ("SPE") determined to be VIEs, which primarily consist of securitization trusts established for a limited purpose. Generally, these SPEs are formed for the purpose of securitization transactions in which the Company transfers assets to an SPE, which then issues to investors various forms of debt obligations supported by those assets.

The Company has determined that the SPEs created in connection with the (i) Nationstar Home Equity Loan Trust 2009-A, (ii) Nationstar Mortgage Advance Receivables Trust (NMART), (iii) Nationstar Agency Advance Financing Trust (NAAFT) and (iv) Nationstar Advance Agency Receivables Trust (NAART) should be consolidated as the Company is the primary beneficiary of each of these entities. Also, the Company consolidated three reverse mortgage SPEs as it is the primary beneficiary of each of these entities. These SPEs include the Nationstar HECM Loan Trusts.

A summary of the assets and liabilities of the Company's transactions with VIEs included in the Company's consolidated financial statements is presented below for the dates indicated.

	June 30, 2018		December 31, 2017	
	Transfers Accounted for as Secured Borrowings	**Reverse Secured Borrowings**	**Transfers Accounted for as Secured Borrowings**	**Reverse Secured Borrowings**
Assets				
Restricted cash	**$ 87**	**$ 35**	$ 106	$ 26
Reverse mortgage interests, net	**—**	**7,379**	—	7,981
Advances and other receivables, net	**627**	**—**	896	—
Mortgage loans held for investment, net	**132**	**—**	138	—
Other assets	**—**	**—**	2	—
Total assets	**$ 846**	**$ 7,414**	$ 1,142	$ 8,007
Liabilities				
Advance facilities[1]	**$ 467**	**$ —**	$ 749	$ —
Payables and accrued liabilities	**1**	**—**	2	1
Participating interest financing[2]	**—**	**6,527**	—	7,107
HECM Securitizations (HMBS)				
Trust 2016-2	**—**	**—**	—	94
Trust 2016-3	**—**	**—**	—	138
Trust 2017-1	**—**	**170**	—	213
Trust 2017-2	**—**	**291**	—	365
Trust 2018-1	**—**	**369**	—	—
Nonrecourse debt–legacy assets	**31**	**—**	36	—
Total liabilities	**$ 499**	**$ 7,357**	$ 787	$ 7,918

[1] Advance facilities include the Nationstar agency advance financing facility and notes payable recorded by the Nationstar Mortgage Advance Receivable Trust, and the Nationstar Agency Advance Receivables Trust. Refer to Notes Payable in Note 8, *Indebtedness* for additional information.

[2] Participating interest financing excludes premiums.

The following table shows a summary of the outstanding collateral and certificate balances for securitization trusts for which the Company was the transferor, including any retained beneficial interests and MSRs, that were not consolidated by the Company for the dates indicated.

	June 30, 2018	December 31, 2017
Total collateral balances	**$ 2,012**	$ 2,291
Total certificate balances	**$ 1,956**	$ 2,129

The Company has not retained any variable interests in the unconsolidated securitization trusts that were outstanding as of June 30, 2018, and December 31, 2017, and therefore does not have a significant maximum exposure to loss related to these unconsolidated VIEs.

A summary of mortgage loans transferred by the Company to unconsolidated securitization trusts that are 60 days or more past due are presented below.

Principal Amount of Loans 60 Days or More Past Due	June 30, 2018	December 31, 2017
Unconsolidated securitization trusts	**$ 362**	$ 448

11. Stockholders' Equity

During the three and six months ended June 30, 2018, certain employees of the Company were granted 137 thousand and 1,071 thousand restricted stock units ("RSUs"). The RSUs generally vest in installments of 33.3%, 33.3% and 33.4% respectively on each of the first three anniversaries of the awards, provided that (i) the participant remains continuously employed with the Company during that time or (ii) the participant's employment has terminated by reason of retirement. In addition, upon death, disability or, generally a change in control of the Company, the unvested shares of an award will vest. The value of the RSUs is measured based on the market value of common stock of the Company on the grant date. The Company recognized $4 and $4 of expenses related to share-based awards during the three months ended June 30, 2018 and 2017, respectively, and $8 and $9 for the six months ended June 30, 2018 and 2017, respectively.

12. Income Taxes

The components of income tax expense (benefit) on continuing operations were as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Income tax expense (benefit)	**$ 21**	$ (10)	**$ 67**	$ (9)
Effective tax rate	**26.5%**	33.1%	**23.6%**	32.8%

For the three and six months ended June 30, 2018, the effective tax rate differed from the statutory federal rate of 21% primarily due to permanent differences including executive compensation disallowed under Internal Revenue Code Section 162(m) and nondeductible meals and entertainment expenses. The effective tax rate was favorably impacted by discrete adjustments recorded during the three and six months ended June 30, 2018. This includes adjustments in connection with the remediation of the Company’s uncertain tax position, nondeductible fines and penalties assessed, and other recurring adjustments, such as state tax expense and excess tax deficiency related to restricted share-based compensation.

For the three and six months ended June 30, 2017, the effective tax rate differed slightly from the statutory federal rate of 35% due to recurring items, such as state tax benefit offset by excess tax deficiency related to restricted share-based compensation recognized within income rather than shareholder’s equity under Accounting Standards Update No. 2016-09.

Impact of Tax Reform

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the “Tax Reform Act”) was enacted and it significantly revised the U.S. corporate income tax regime by lowering the U.S. corporate tax rate from 35% to 21%, imposing a one-time transition tax on deemed repatriated earnings of foreign subsidiaries, creating new taxes on certain foreign sourced earnings, as well as other changes. In the period ended December 31, 2017, the Company recorded a net tax benefit in connection with the Tax Reform Act and related matters primarily due to the remeasurement of deferred tax balances. During the three and six months ended June 30, 2018, no adjustments were made to the amounts recorded for the Tax Reform Act, including the remeasurement of existing deferred tax balances, the transition tax, uncertain tax positions, valuation allowance, and reassessment of permanently reinvested earnings, among others. The Company has not recorded any adjustments related to the new Global Intangible Low-Taxed Income (“GILTI”) tax and has not adopted an accounting policy regarding whether to record deferred tax on GILTI. However, the Company has included an estimate of the 2018 current GILTI impact on the tax provision for the period ended June 30, 2018. The Company will continue to refine its calculations as additional analysis is completed. These estimates may be adjusted as the Company continues to gain further clarification and guidance regarding tax accounting methods, state tax conformity to federal tax changes, impact of GILTI provisions, among others.

13. Fair Value Measurements

Fair value is a market-based measurement, not an entity-specific measurement and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a three-tiered fair value hierarchy has been established based on the level of observable inputs used in the measurement of fair value (e.g., Level 1 representing quoted prices for identical assets or liabilities in an active market; Level 2 representing values using observable inputs other than quoted prices included within Level 1; and Level 3 representing estimated values based on significant unobservable inputs).

The following describes the methods and assumptions used by the Company in estimating fair values:

Cash and Cash Equivalents, Restricted Cash (Level 1) – The carrying amount reported in the consolidated balance sheets approximates fair value.

Mortgage Loans Held for Sale (Level 2) – The Company originates mortgage loans in the U.S. that it intends to sell into Fannie Mae, Freddie Mac, and Ginnie Mae (collectively, the "Agencies") MBS. Additionally, the Company holds mortgage loans that it intends to sell into the secondary markets via whole loan sales or securitizations. The Company measures newly originated prime residential mortgage loans held for sale at fair value.

Mortgage loans held for sale are typically pooled together and sold into certain exit markets, depending upon underlying attributes of the loan, such as agency eligibility, product type, interest rate, and credit quality. Mortgage loans held for sale are valued on a recurring basis using a market approach by utilizing either: (i) the fair value of securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for similar loans, adjusted for credit risk and other individual loan characteristics. As these prices are derived from market observable inputs, the Company classifies these valuations as Level 2 in the fair value disclosures.

The Company may acquire mortgage loans held for sale from various securitization trusts for which it acts as servicer through the exercise of various clean-up call options as permitted through the respective pooling and servicing agreements. The Company has elected to account for these loans at the lower of cost or market. The Company classifies these valuations as Level 2 in the fair value disclosures.

The Company may also purchase loans out of a Ginnie Mae securitization pool if that loan meets certain criteria, including being delinquent greater than 90 days. The Company has elected to carry these loans at fair value. See Note 5, *Mortgage Loan Held for Sale and Investment* for more information.

Mortgage Loans Held for Investment, Net (Level 3) – The Company determines the fair value of loans held for investment, net based on the expected future cash flows discounted over the expected life of the loans at a rate commensurate with the risk of the estimated cash flows. Significant assumptions include expected prepayment speeds and discount rates. These internal inputs require the use of judgment by the Company and can have a significant impact on the determination of the loan's fair value. As these fair values are derived from internally developed valuation models, using unobservable inputs, the Company classifies these valuations as Level 3 in the fair value disclosures. See Note 5, *Mortgage Loan Held for Sale and Investment* for more information.

Mortgage Servicing Rights – Fair Value (Level 3) – The Company estimates the fair value of its forward MSRs on a recurring basis using a process that combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value. The cash flow assumptions and prepayment assumptions used in the model are based on various factors, with the key assumptions being mortgage prepayment speeds, discount rates, ancillary revenues and costs to service. These assumptions are generated and applied based on collateral stratifications including product type, remittance type, geography, delinquency and coupon dispersion. These assumptions require the use of judgment by the Company and can have a significant impact on the fair value of the MSRs. Quarterly, management obtains third-party valuations to assess the reasonableness of the fair value calculations provided by the internal cash flow model. Because of the nature of the valuation inputs, the Company classifies these valuations as Level 3 in the fair value disclosures. See Note 2, *Mortgage Servicing Rights and Related Liabilities* for more information.

Advances and Other Receivables, Net (Level 3) - Advances and other receivables, net are valued at their net realizable value after taking into consideration the reserves. Advances have no stated maturity. Their net realizable value approximates fair value as the net present value based on discounted cash flow is not materially different from the net realizable value.

Reverse Mortgage Interests, Net (Level 3) – The Company's reverse mortgage interests are primarily comprised of HECM loans that are insured by FHA and guaranteed by Ginnie Mae upon securitization. Fair value for active reverse mortgage loans is estimated based on pricing of the recent securitizations with similar attributes and characteristics, such as collateral values and prepayment speeds and adjusted as necessary for differences. The recent timing of these transactions allows the pricing to consider the current interest rate risk exposures. The fair value of inactive reverse mortgage loans is established based upon a discounted par value of the loan derived from the Company's historical loss factors experience on foreclosed loans.

Derivative Financial Instruments (Level 2) – The Company enters into a variety of derivative financial instruments as part of its hedging strategy and measures these instruments at fair value on a recurring basis in the consolidated balance sheets. The majority of these derivatives are exchange-traded or traded within highly active dealer markets. In order to determine the fair value of these instruments, the Company utilizes the exchange price or dealer market price for the particular derivative contract; therefore, these contracts are classified as Level 2. In addition, the Company enters into IRLCs and LPCs with prospective borrowers and other loan originators. These commitments are carried at fair value based on the fair value of underlying mortgage loans which are based on observable market data. The Company adjusts the outstanding IRLCs with prospective borrowers based on an expectation that it will be exercised and the loan will be funded. IRLCs and LPCs are recorded in derivative financial instruments in the consolidated balance sheets. These commitments are classified as Level 2 in the fair value disclosures, as the valuations are based on market observable inputs. The Company has entered into Eurodollar futures contracts as part of its hedging strategy. The futures contracts are measured at fair value on a recurring basis and classified as Level 2 in the fair value disclosures as the valuation is based on market observable data. See Note 7, *Derivative Financial Instruments* for more information.

Advance Facilities and Warehouse Facilities (Level 2) – As the underlying warehouse and advance finance facilities bear interest at a rate that is periodically adjusted based on a market index, the carrying amount reported on the consolidated balance sheets approximates fair value. See Note 8, *Indebtedness* for more information.

Unsecured Senior Notes (Level 1) – The fair value of unsecured senior notes, which are carried at amortized cost, is based on quoted market prices and is considered Level 1 from the market observable inputs used to determine fair value. See Note 8, *Indebtedness* for more information.

Nonrecourse Debt – Legacy Assets (Level 3) – The Company estimates fair value based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments. These prices are derived from a combination of internally developed valuation models and quoted market prices, and are classified as Level 3. See Note 8, *Indebtedness* for more information.

Excess Spread Financing (Level 3) – The Company estimates fair value on a recurring basis based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments. The cash flow assumptions and prepayment assumptions used in the model are based on various factors, with the key assumptions being mortgage prepayment speeds, average life, recapture rates and discount rate. As these prices are derived from a combination of internally developed valuation models and quoted market prices based on the value of the underlying MSRs, the Company classifies these valuations as Level 3 in the fair value disclosures. See Note 2, *Mortgage Servicing Rights and Related Liabilities* for more information.

Mortgage Servicing Rights Financing Liability (Level 3) - The Company estimates fair value on a recurring basis based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments. The cash flow assumptions and prepayment assumptions used in the model are based on various factors, with the key assumptions being advance financing rates and annual advance recovery rates. As these assumptions are derived from internally developed valuation models based on the value of the underlying MSRs, the Company classifies these valuations as Level 3 in the fair value disclosures. See Note 2, *Mortgage Servicing Rights and Related Liabilities* for more information.

Participating Interest Financing (Level 2) – The Company estimates the fair value using a market approach by utilizing the fair value of securities backed by similar participating interests in reverse mortgage loans. The Company classifies these valuations as Level 2 in the fair value disclosures. See Note 2, *Mortgage Servicing Rights and Related Liabilities*, and Note 8, *Indebtedness* for more information.

HECM Securitizations (Level 3) – The Company estimates fair value of the nonrecourse debt related to HECM securitization based on the present value of future expected discounted cash flows with the discount rate approximating that of similar financial instruments. As the prices are derived from both internal models and other observable inputs, the Company classifies this as Level 3 in the fair value disclosures. See Note 8, *Indebtedness* for more information.

The following table presents the estimated carrying amount and fair value of the Company's financial instruments and other assets and liabilities measured at fair value on a recurring basis.

	June 30, 2018							
			Recurring Fair Value Measurements					
	Total Fair Value		Level 1		Level 2		Level 3	
Assets								
Mortgage loans held for sale[1]	$	**1,635.2**	$	—	$	**1,635.2**	$	—
Mortgage servicing rights[1]		**3,355.7**		—		—		**3,355.7**
Derivative financial instruments								
IRLCs		**60.2**		—		**60.2**		—
Forward MBS trades		**0.4**		—		**0.4**		—
LPCs		**1.7**		—		**1.7**		—
Eurodollar futures[2]		—		—		—		—
Treasury futures		**0.1**		—		**0.1**		—
Total assets	$	**5,053.3**	$	—	$	**1,697.6**	$	**3,355.7**
Liabilities								
Derivative financial instruments								
IRLCs[2]	$	—	$	—	$	—	$	—
Forward MBS trades		**8.0**		—		**8.0**		—
LPCs		**0.7**		—		**0.7**		—
Eurodollar futures[2]		—		—		—		—
Treasury futures[2]		—		—		—		—
Mortgage servicing rights financing		**16.1**		—		—		**16.1**
Excess spread financing		**1,046.5**		—		—		**1,046.5**
Total liabilities	$	**1,071.3**	$	—	$	**8.7**	$	**1,062.6**

	December 31, 2017							
			Recurring Fair Value Measurements					
	Total Fair Value		Level 1		Level 2		Level 3	
Assets								
Mortgage loans held for sale[1]	$	1,890.8	$	—	$	1,890.8	$	—
Mortgage servicing rights[1]		2,937.4		—		—		2,937.4
Derivative financial instruments								
IRLCs		59.3		—		59.3		—
Forward MBS trades		2.4		—		2.4		—
LPCs		0.9		—		0.9		—
Eurodollar futures[2]		—		—		—		—
Treasury futures		1.9		—		1.9		—
Total assets	$	4,892.7	$	—	$	1,955.3	$	2,937.4
Liabilities								
Derivative financial instruments								
Forward MBS trades	$	2.8	$	—	$	2.8	$	—
LPCs		0.6		—		0.6		—
Eurodollar futures[2]		—		—		—		—
Treasury futures		1.4		—		1.4		—
Mortgage servicing rights financing		9.5		—		—		9.5
Excess spread financing		996.5		—		—		996.5
Total liabilities	$	1,010.8	$	—	$	4.8	$	1,006.0

[1] Based on the nature and risks of the underlying assets and liabilities, the fair value is presented for the aggregate account.
[2] Fair values of the underlying assets and liabilities are less than $0.1 for the specified dates.

The table below presents a reconciliation for all of the Company's Level 3 assets and liabilities measured at fair value on a recurring basis.

	Assets	Liabilities	
	Mortgage servicing rights	Excess spread financing	Mortgage servicing rights financing
Six Months Ended June 30, 2018			
Balance - beginning of period	**$ 2,937**	**$ 996**	**$ 10**
Total gains or losses included in earnings	**144**	**74**	**6**
Purchases, issuances, sales and settlements			
Purchases	**132**	**—**	**—**
Issuances	**139**	**70**	**—**
Sales	**4**	**—**	**—**
Settlements	**—**	**(93)**	**—**
Balance - end of period	**$ 3,356**	**$ 1,047**	**$ 16**

	Assets	Liabilities	
	Mortgage servicing rights	Excess spread financing	Mortgage servicing rights financing
Year Ended December 31, 2017			
Balance - beginning of period	$ 3,160	$ 1,214	$ 27
Total gains or losses included in earnings	(432)	12	(17)
Purchases, issuances, sales and settlements			
Purchases	66	—	—
Issuances	203	—	—
Sales	(60)	—	—
Settlements	—	(230)	—
Balance - end of period	$ 2,937	$ 996	$ 10

No transfers were made into or out of Level 3 fair value assets and liabilities for the six months ended June 30, 2018 or the year ended December 31, 2017, respectively.

The table below presents a summary of the estimated carrying amount and fair value of the Company's financial instruments.

	June 30, 2018			
	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
Financial assets				
Cash and cash equivalents	**$ 185**	**$ 185**	**$ —**	**$ —**
Restricted cash	**310**	**310**	**—**	**—**
Advances and other receivables, net	**1,317**	**—**	**—**	**1,317**
Reverse mortgage interests, net	**9,477**	**—**	**—**	**9,665**
Mortgage loans held for sale	**1,635**	**—**	**1,635**	**—**
Mortgage loans held for investment, net	**132**	**—**	**—**	**133**
Derivative financial instruments	**62**	**—**	**62**	**—**
Financial liabilities				
Unsecured senior notes	**1,815**	**1,832**	**—**	**—**
Advance facilities	**516**	**—**	**516**	**—**
Warehouse facilities	**3,086**	**—**	**3,086**	**—**
Mortgage servicing rights financing liability	**16**	**—**	**—**	**16**
Excess spread financing	**1,047**	**—**	**—**	**1,047**
Derivative financial instruments	**9**	**—**	**9**	**—**
Participating interest financing	**6,584**	**—**	**6,780**	**—**
HECM Securitization (HMBS)				
Trust 2017-1	**170**	**—**	**—**	**191**
Trust 2017-2	**291**	**—**	**—**	**309**
Trust 2018-1	**369**	**—**	**—**	**352**
Nonrecourse debt - legacy assets	**31**	**—**	**—**	**30**

	December 31, 2017			
	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
Financial assets				
Cash and cash equivalents	$ 215	$ 215	$ —	$ —
Restricted cash	360	360	—	—
Advances and other receivables, net	1,706	—	—	1,706
Reverse mortgage interests, net	9,984	—	—	10,164
Mortgage loans held for sale	1,891	—	1,891	—
Mortgage loans held for investment, net	139	—	—	139
Derivative financial instruments	65	—	65	—
Financial liabilities				
Unsecured senior notes	1,874	1,912	—	—
Advance facilities	855	—	855	—
Warehouse facilities	3,285	—	3,286	—
Mortgage servicing rights financing liability	10	—	—	10
Excess spread financing	996	—	—	996
Derivative financial instruments	5	—	5	—
Participating interest financing	7,167	—	7,353	—
HECM Securitization (HMBS)				
Trust 2016-2	94	—	—	112
Trust 2016-3	138	—	—	155
Trust 2017-1	213	—	—	225
Trust 2017-2	365	—	—	371
Nonrecourse debt - legacy assets	37	—	—	36

14. Capital Requirements

Certain of the Company's secondary market investors require minimum net worth ("capital") requirements, as specified in the respective selling and servicing agreements. In addition, these investors may require capital ratios in excess of the stated requirements to approve large servicing transfers. To the extent that these requirements are not met, the Company's secondary market investors may utilize a range of remedies ranging from sanctions, suspension or ultimately termination of the Company's selling and servicing agreements, which would prohibit the Company from further originating or securitizing these specific types of mortgage loans or being an approved servicer.

Among the Company's various capital requirements related to its outstanding selling and servicing agreements, the most restrictive of these requires the Company to maintain a minimum adjusted net worth balance of $779. As of June 30, 2018, the Company was in compliance with its selling and servicing capital requirements.

15. Commitments and Contingencies

Litigation and Regulatory Matters

The Company and its subsidiaries are routinely and currently involved in a significant number of legal proceedings concerning matters that arise in the ordinary course of business. The legal proceedings are at varying stages of adjudication, arbitration or investigation. These actions and proceedings are generally based on alleged violations of consumer protection, securities, employment, contract, tort, common law fraud and other numerous laws, including, without limitation, the Equal Credit Opportunity Act, Fair Debt Collection Practices Act, Fair Credit Reporting Act, Real Estate Settlement Procedures Act, National Housing Act, Homeowners Protection Act, Service Member's Civil Relief Act, Telephone Consumer Protection Act, Truth in Lending Act, Financial Institutions Reform, Recovery, and Enforcement Act of 1989, unfair, deceptive or abusive acts or practices in violation of the Dodd-Frank Act, the Securities Act of 1933, the Securities Exchange Act of 1934, the Home Mortgage Disclosure Act, Title 11 of the United States Code (aka the "Bankruptcy Code"), False Claims Act and Making Home Affordable loan modification programs.

In addition, along with others in its industry, the Company is subject to repurchase and indemnification claims and may continue to receive claims in the future, regarding alleged breaches of representations and warranties relating to the sale of mortgage loans, the placement of mortgage loans into securitization trusts or the servicing of mortgage loans securitizations. The Company is also subject to legal actions or proceedings related to loss sharing and indemnification provisions of its various acquisitions. Certain of the pending or threatened legal proceedings include claims for substantial compensatory, punitive and/or, statutory damages or claims for an indeterminate amount of damages.

The Company's business is also subject to extensive examinations, investigations and reviews by various federal, state and local regulatory and enforcement agencies. The Company has historically had a number of open investigations with various regulators or enforcement agencies and that trend continues. The Company is currently the subject of various regulatory or governmental investigations, subpoenas, examinations and inquiries related to its residential loan servicing and origination practices, bankruptcy and collections practices, its financial reporting and other aspects of its businesses. These matters include investigations by the Bureau of Consumer Financial Protection (the "BCFP"), the Securities and Exchange Commission, the Executive Office of the United States Trustees, the Office of the Special Inspector General for the Troubled Asset Relief Program, the Department of Justice, the Department of Housing and Urban Development, the multistate coalition of mortgage banking regulators and various State Attorneys General. These specific matters and other pending or potential future investigations, subpoenas, examinations or inquiries may lead to administrative, civil or criminal proceedings or settlements, and possibly result in remedies including fines, penalties, restitution, or alterations in the Company's business practices, and in additional expenses and collateral costs. Responding to these matters requires the Company to devote substantial legal and regulatory resources, resulting in higher costs and lower net cash flows.

For example, the Company continues to progress towards resolution of certain legacy regulatory matters involving regulatory examination findings for alleged violations of certain laws related to the Company's business practices. On April 24, 2018, the BCFP notified the Company that, in accordance with the BCFP's discretionary Notice and Opportunity to Respond and Advise (NORA) process, the BCFP's Office of Enforcement is considering whether to recommend that the BCFP take enforcement action against the Company, alleging violations of the Real Estate Settlement Procedures Act, the Consumer Financial Protection Act, and the Homeowners Protection Act, which stems from a 2014 examination. The purpose of a NORA letter is to provide a party being investigated an opportunity to present its position to the BCFP before an enforcement action may be recommended or commenced. The Company is continuing to cooperate with the BCFP. There can be no assurance that the BCFP will not seek to exercise its enforcement authority through settlement, administrative proceedings or litigation and seek injunctive relief, damages, restitution and civil monetary penalties, which could have a material adverse effect on the Company's business, reputation, financial condition and results of operations. However, the Company believes it is premature to predict the potential outcome or to estimate any potential financial impact in connection with any potential BCFP enforcement action. The Company has not recorded an accrual related to this matter as of June 30, 2018 as the Company does not believe a loss is probable. There is a reasonable possibility that a loss may be incurred; however, the possible loss or range of loss is not estimable.

The Company has also consulted with the SEC's Office of the Chief Accountant ("OCA") on certain accounting matters pertaining to the financial reporting and measurement of MSR assets, MSR-related servicing advances, and the MSR financing liability that arose as a result of 2013 and 2014 MSR financing liability transactions. The OCA consultation process was initiated in connection with an investigation by the Division of Enforcement that remains ongoing. Subsequently, the Company was informed by the OCA that it has completed its review. No material adjustments to the Company's consolidated financial position, results of operations, or its cash flows for the current or prior periods resulted from the OCA consultation process.

In addition, the Company is a defendant in a class action proceeding originally filed in state court in March 2012, and then removed to the United States District Court for the Eastern District of Washington under the caption Laura Zamora Jordan v. Nationstar Mortgage LLC. The suit was filed on behalf of a class of Washington borrowers and challenges property preservation measures the Company took, as loan servicer, after the borrowers defaulted and the Company's vendors determined that the borrowers had vacated or abandoned their properties. The case raises claims for (i) common law trespass, (ii) statutory trespass, and (iii) violation of Washington's Consumer Protection Act, and seeks recovery of actual, statutory, and treble damages, as well as attorneys' fees and litigation costs. On July 25, 2018, the Company entered into a settlement agreement to resolve this matter. The parties are currently seeking approval of the settlement from the court. The Company is pursuing reimbursement of the settlement payment from the owners of the loans it serviced, but there can be no assurance that the Company would prevail with any claims for reimbursement.

The Company is a defendant in a proceeding filed on January 2, 2018 in the U.S. District Court for the Northern District of California under the caption Collateral Analytics LLC v. Nationstar Mortgage LLC et al. The plaintiff alleges that the Company misappropriated plaintiff's intellectual property for the purpose of replicating plaintiff's products. The case raises federal and state law claims for misappropriation of trade secrets and breach of contract and seeks an award of actual damages, unjust enrichment, lost profits and/or a reasonable royalty, exemplary damages and injunctive relief preventing further misuse or disclosure of plaintiff's intellectual property. The Company believes it has meritorious defenses and will vigorously defend itself in this matter.

The Company is also a defendant in a proceeding filed on October 23, 2015 in the U.S. District Court for the Central District of California under the caption Alfred Zaklit and Jessy Zaklit, individually and on behalf of all others similarly situated v. Nationstar Mortgage LLC et al. The plaintiff alleges that the Company improperly recorded telephone calls without the knowledge or consent of borrowers in violation of the California Penal Code. The court, on July 24, 2017, certified a class comprised of California borrowers who, from October 2014 to May 2016, participated in outbound telephone conversations with the Company's employees who recorded the conversations without first informing the borrowers that the conversations were being recorded. The class seeks statutory damages and attorney's fees. The Company believes it has meritorious defenses and will continue to vigorously defend itself in this matter.

On May 8, 2018, a purported class action lawsuit styled as Franchi v. Nationstar Mortgage Holdings Inc., et al., was filed in the United States District Court for the Northern District of Texas naming Nationstar, WMIH Corp., Wand Merger Corporation and the individual members of the Nationstar board of directors as defendants. The complaint alleged that the defendants violated the Exchange Act by disseminating a false and misleading registration statement. In order to, among other things, eliminate the burden, inconvenience, expense, risk, and disruption of continued litigation, on June 26, 2018, the plaintiff and the defendants (together, the “Parties”) entered into a memorandum of understanding (the “MOU”) to resolve the claims asserted by the plaintiff without the defendants admitting any wrongdoing or conceding the materiality of any supplemental disclosures. Pursuant to the MOU, the Parties agreed that the defendants would cause to be made certain supplemental disclosures set forth in an 8-K filed with the SEC on June 26, 2018. The MOU further specifies that, within five (5) business days of the closing of the Merger, the Parties will file a stipulation of dismissal of the purported class action lawsuit. That stipulation will dismiss plaintiff’s individual claims with prejudice, and dismiss the claims purportedly asserted on behalf of a putative class of Nationstar shareholders without prejudice. The MOU did not affect the timing of the Merger or the amount or form of consideration to be paid in the Merger.

The Company seeks to resolve all claims, demands, litigation and regulatory and governmental matters in the manner management believes is in the best interest of the Company and contests liability, allegations of wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter. The Company has entered into agreements with a number of entities and regulatory agencies that toll applicable limitations periods with respect to their claims.

On at least a quarterly basis, the Company assesses its liabilities and contingencies in connection with outstanding legal and regulatory and governmental proceedings utilizing the latest information available. Where available information indicates that it is probable, a liability has been incurred, and the Company can reasonably estimate the amount of the loss, an accrued liability is established. The actual costs of resolving these proceedings may be substantially higher or lower than the amounts accrued.

As a litigation or regulatory matter develops, the Company, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is both probable and estimable. If, at the time of evaluation, the loss contingency is not both probable and reasonably estimable, the matter will continue to be monitored for further developments that would make such loss contingency both probable and reasonably estimable. Once the matter is deemed to be both probable and reasonably estimable, the Company will establish an accrued liability and record a corresponding amount to litigation related expense. The Company will continue to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established. Litigation related expense, which includes legal settlements and the fees paid to external legal service providers, of $3 and $7 for the three and six months ended June 30, 2018, respectively, and $10 and $19 for the three and six months ended June 30, 2017, respectively, was included in general and administrative expenses on the consolidated statements of operations.

For a number of matters for which a loss is probable or reasonably possible in future periods, whether in excess of a related accrued liability or where there is no accrued liability, the Company may be able to estimate a range of possible loss. In determining whether it is possible to provide an estimate of loss or range of possible loss, the Company reviews and evaluates its material litigation and regulatory matters on an ongoing basis, in conjunction with any outside counsel handling the matter. For those matters for which an estimate is possible, management currently believes the aggregate range of reasonably possible loss is $22 to $53 in excess of the accrued liability (if any) related to those matters as of June 30, 2018. This estimated range of possible loss is based upon currently available information and is subject to significant judgment, numerous assumptions and known and unknown uncertainties. The matters underlying the estimated range will change from time to time, and actual results may vary substantially from the current estimate. Those matters for which an estimate is not possible are not included within the estimated range. Therefore, this estimated range of possible loss represents what management believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum loss exposure and the Company cannot provide assurance that its litigations reserves will not need to be adjusted in the future. Thus, the Company's exposure and ultimate losses may be higher, possibly significantly so, than the amounts accrued or this aggregate amount.

In the Company's experience, legal proceedings are inherently unpredictable. One or more of the following factors frequently contribute to this inherent unpredictability: the proceeding is in its early stages; the damages sought are unspecified, unsupported or uncertain; it is unclear whether a case brought as a class action will be allowed to proceed on that basis or, if permitted to proceed as a class action, how the class will be defined; the other party is seeking relief other than or in addition to compensatory damages (including, in the case of regulatory and governmental investigations and inquiries, the possibility of fines and penalties); the matter presents meaningful legal uncertainties, including novel issues of law; the Company has not engaged in meaningful settlement discussions; discovery has not started or is not complete; there are significant facts in dispute; predicting possible outcomes depends on making assumptions about future decisions of courts or regulatory bodies or the behavior of other parties; and there are a large number of parties named as defendants (including where it is uncertain how damages or liability, if any, will be shared among multiple defendants). Generally, the less progress that has been made in the proceedings or the broader the range of potential results, the harder it is for the Company to estimate losses or ranges of losses that it is reasonably possible the Company could incur.

Based on current knowledge, and after consultation with counsel, management believes that the current legal accrued liability, within payables and accrued liabilities, is appropriate, and the amount of any incremental liability arising from these matters is not expected to have a material adverse effect on the consolidated financial condition of the Company, although the outcome of such proceedings could be material to the Company’s operating results and cash flows for a particular period depending, on among other things, the level of the Company’s revenues or income for such period. However, in the event of significant developments on existing cases, it is possible that the ultimate resolution, if unfavorable, may be material to the Company’s consolidated financial statements.

Other Loss Contingencies

As part of the Company's ongoing operations, it acquires servicing rights of forward and reverse mortgage loan portfolios that are subject to indemnification based on the representations and warranties of the seller. From time to time, the Company will seek recovery under these representations and warranties for incurred costs. The Company believes all balances sought from sellers recorded in advances and other receivables and reverse mortgage interests represent valid claims. However, the Company acknowledges that the claims process can be a prolonged due to the required time to perfect claims at the loan level. Because of the required time to perfect or remediate these claims, management relies on the sufficiency of documentation supporting the claim, current negotiations with the counterparty and other evidence to evaluate whether a reserve is required for non-recoverable balances. In the absence of successful negotiations with the seller, all amounts claimed may not be recovered. Balances may be written-off and charged against earnings when management identifies amounts where recoverability from the seller is not likely. As of June 30, 2018, the Company believes all recorded balances for which recovery is sought from the seller are valid claims and no evidence suggests additional reserves are warranted at this time.

Loan and Other Commitments

The Company enters into IRLCs with prospective borrowers whereby the Company commits to lend a certain loan amount under specific terms and interest rates to the borrower. The Company also enters into LPCs with prospective sellers. These loan commitments are treated as derivatives and are carried at fair value. See Note 7, *Derivative Financial Instruments* for more information.

The Company has certain reverse MSRs and reverse mortgage loans related to approximately $32,264 and $34,635 of UPB in reverse mortgage loans as of June 30, 2018 and December 31, 2017, respectively. As servicer for these reverse mortgage loans, among other things, the Company is obligated to fund borrowers' draws to the loan customers as required in accordance with the loan agreement. As of June 30, 2018 and December 31, 2017, the Company’s maximum unfunded advance obligation to fund borrower draws related to these MSRs and loans was approximately $3,426 and $3,713, respectively. Upon funding any portion of these draws, the Company expects to securitize and sell the advances in transactions that will be accounted for as secured borrowings.

16. Business Segment Reporting

The Company's segments are based upon the Company's organizational structure, which focuses primarily on the services offered. Corporate functional expenses are allocated to individual segments based on the actual cost of services performed based on direct resource utilization, estimate of percentage use for shared services or headcount percentage for certain functions. Facility costs are allocated to individual segments based on cost per headcount for specific facilities utilized. Group insurance costs are allocated to individual segments based on global cost per headcount. Non-Allocated corporate expenses include the administrative costs of executive management and other corporate functions that are not directly attributable to our operating segments. Revenues generated on inter-segment services performed are valued based on similar services provided to external parties.

The following tables present financial information by segment.

	Three Months Ended June 30, 2018						
	Servicing	**Originations**	**Xome**	**Eliminations**	**Total Operating Segments**	**Corporate and Other**	**Consolidated**
Revenues							
Service related, net	$ 248	$ 17	$ 62	$ (11)	$ 316	$ 1	$ 317
Net gain on mortgage loans held for sale	—	116	—	11	127	—	127
Total revenues	248	133	62	—	443	1	444
Total Expenses	166	102	52	—	320	19	339
Other income (expenses)							
Interest income	121	17	—	—	138	2	140
Interest expense	(115)	(16)	—	—	(131)	(33)	(164)
Other	—	—	—	—	—	(2)	(2)
Total Other Income (expenses), net	6	1	—	—	7	(33)	(26)
Income (loss) before income tax expense (benefit)	$ 88	$ 32	$ 10	$ —	$ 130	$ (51)	$ 79
Depreciation and amortization for property and equipment and intangible assets	$ 6	$ 3	$ 3	$ —	$ 12	$ 2	$ 14
Total assets	$ 14,640	$ 4,794	$ 423	$ (3,538)	$ 16,319	$ 871	$ 17,190

	Three Months Ended June 30, 2017						
	Servicing	Originations	Xome	Eliminations	Total Operating Segments	Corporate and Other	Consolidated
Revenues							
Service related, net	$ 146	$ 15	$ 76	$ (24)	$ 213	$ —	$ 213
Net gain on mortgage loans held for sale	—	143	—	24	167	—	167
Total revenues	146	158	76	—	380	—	380
Total Expenses	173	103	67	—	343	24	367
Other income (expenses)							
Interest income	123	11	—	—	134	5	139
Interest expense	(138)	(13)	—	—	(151)	(37)	(188)
Other	—	—	8	—	8	(1)	7
Total Other Income (expenses), net	(15)	(2)	8	—	(9)	(33)	(42)
Income (loss) before income tax expense (benefit)	$ (42)	$ 53	$ 17	$ —	$ 28	$ (57)	$ (29)
Depreciation and amortization for property and equipment and intangible assets	$ 5	$ 3	$ 3	$ —	$ 11	$ 4	$ 15
Total assets	$ 15,482	$ 4,447	$ 369	$ (2,694)	$ 17,604	$ 673	$ 18,277

	Six Months Ended June 30, 2018						
	Servicing	Originations	Xome	Eliminations	Total Operating Segments	Corporate and Other	Consolidated
Revenues							
Service related, net	**$ 643**	**$ 32**	**$ 127**	**$ (22)**	**$ 780**	**$ 1**	**$ 781**
Net gain on mortgage loans held for sale	**—**	**229**	**—**	**22**	**251**	**—**	**251**
Total revenues	**643**	**261**	**127**	**—**	**1,031**	**1**	**1,032**
Total expenses	**348**	**211**	**104**	**—**	**663**	**40**	**703**
Other income (expenses)							
Interest income	**247**	**32**	**—**	**—**	**279**	**6**	**285**
Interest expense	**(233)**	**(31)**	**—**	**—**	**(264)**	**(71)**	**(335)**
Other	**(1)**	**—**	**9**	**—**	**8**	**(2)**	**6**
Total other income (expenses), net	**13**	**1**	**9**	**—**	**23**	**(67)**	**(44)**
Income (loss) before income tax expense (benefit)	**$ 308**	**$ 51**	**$ 32**	**$ —**	**$ 391**	**$ (106)**	**$ 285**
Depreciation and amortization for property and equipment and intangible assets	**$ 13**	**$ 6**	**$ 6**	**$ —**	**$ 25**	**$ 4**	**$ 29**
Total assets	**$ 14,640**	**$ 4,794**	**$ 423**	**$ (3,538)**	**$ 16,319**	**$ 871**	**$ 17,190**

	Six Months Ended June 30, 2017						
	Servicing	Originations	Xome	Eliminations	Total Operating Segments	Corporate and Other	Consolidated
Revenues							
Service related, net	$ 346	$ 31	$ 161	$ (43)	$ 495	$ 1	$ 496
Net gain on mortgage loans held for sale	—	268	—	43	311	—	311
Total revenues	346	299	161	—	806	1	807
Total expenses	328	220	139	—	687	49	736
Other income (expenses)							
Interest income	243	25	—	—	268	10	278
Interest expense	(277)	(26)	—	—	(303)	(78)	(381)
Other	—	—	8	—	8	(2)	6
Total other income (expenses), net	(34)	(1)	8	—	(27)	(70)	(97)
Income (loss) before income tax expense (benefit)	$ (16)	$ 78	$ 30	$ —	$ 92	$ (118)	$ (26)
Depreciation and amortization for property and equipment and intangible assets	$ 10	$ 5	$ 7	$ —	$ 22	$ 7	$ 29
Total assets	$ 15,482	$ 4,447	$ 369	$ (2,694)	$ 17,604	$ 673	$ 18,277

17. Guarantor Financial Statement Information

As of June 30, 2018, Nationstar Mortgage LLC and Nationstar Capital Corporation[1] (collectively, the "Issuer"), both wholly-owned subsidiaries of the Company, have issued unsecured senior notes with outstanding aggregate principal amount of $1,825, which mature on various dates through June 2022. The unsecured senior notes are unconditionally guaranteed, jointly and severally, by all of Nationstar Mortgage LLC's existing and future domestic subsidiaries other than its securitization and certain finance subsidiaries, certain other restricted subsidiaries, excluded restricted subsidiaries and subsidiaries that in the future Nationstar Mortgage LLC designates as unrestricted subsidiaries. All guarantor subsidiaries are 100% owned by Nationstar Mortgage LLC. The Company and its two direct wholly-owned subsidiaries are guarantors of the unsecured senior notes as well. Presented below are the condensed consolidating financial statements of the Company, Nationstar Mortgage LLC and the guarantor subsidiaries for the periods indicated.

In the condensed consolidating financial statements presented below, the Company allocates income tax expense to Nationstar Mortgage LLC as if it were a separate tax payer entity pursuant to ASC 740, Income Taxes.

[1] Nationstar Capital Corporation has no assets, operations or liabilities other than being a co-obligor of the unsecured senior notes.

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATING BALANCE SHEET
JUNE 30, 2018

	Nationstar	Issuer[1]	Guarantor (Subsidiaries of Issuer)	Non-Guarantor (Subsidiaries of Issuer)	Eliminations	Consolidated
Assets						
Cash and cash equivalents	$ —	$ 166	$ 1	$ 18	$ —	$ 185
Restricted cash	—	187	—	123	—	310
Mortgage servicing rights	—	3,319	—	37	—	3,356
Advances and other receivables, net	—	1,317	—	—	—	1,317
Reverse mortgage interests, net	—	8,615	—	862	—	9,477
Mortgage loans held for sale at fair value	—	1,635	—	—	—	1,635
Mortgage loans held for investment, net	—	—	—	132	—	132
Property and equipment, net	—	106	—	17	—	123
Derivative financial instruments at fair value	—	62	—	—	—	62
Other assets	—	466	192	573	(638)	593
Investment in subsidiaries	2,070	574	—	—	(2,644)	—
Total assets	$ 2,070	$ 16,447	$ 193	$ 1,762	$ (3,282)	$ 17,190
Liabilities and Stockholders' Equity						
Unsecured senior notes, net	$ —	$ 1,815	$ —	$ —	$ —	$ 1,815
Advance facilities, net	—	49	—	467	—	516
Warehouse facilities, net	—	3,086	—	—	—	3,086
Payables and accrued liabilities	—	1,255	1	32	—	1,288
MSR related liabilities - nonrecourse at fair value	—	1,043	—	20	—	1,063
Mortgage servicing liabilities	—	27	—	—	—	27
Derivative financial instruments at fair value	—	9	—	—	—	9
Other nonrecourse debt, net	—	6,584	—	861	—	7,445
Payables to affiliates	129	509	—	—	(638)	—
Total liabilities	129	14,377	1	1,380	(638)	15,249
Total stockholders' equity	1,941	2,070	192	382	(2,644)	1,941
Total liabilities and stockholders' equity	$ 2,070	$ 16,447	$ 193	$ 1,762	$ (3,282)	$ 17,190

[1] Issuer balances exclude the balances of its guarantor and non-guarantor subsidiaries, as previously described.

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATING STATEMENT OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2018

	Nationstar	Issuer[1]	Guarantor (Subsidiaries of Issuer)	Non-Guarantor (Subsidiaries of Issuer)	Eliminations	Consolidated
Revenues:						
Service related, net	$ —	$ 247	$ 7	$ 63	$ —	$ 317
Net gain on mortgage loans held for sale	—	127	—	—	—	127
Total revenues	—	374	7	63	—	444
Expenses:						
Salaries, wages benefits	—	149	1	27	—	177
General and administrative	—	134	—	28	—	162
Total expenses	—	283	1	55	—	339
Other income (expenses):						
Interest income	—	127	—	13	—	140
Interest expense	—	(153)	—	(11)	—	(164)
Other income (expenses)	—	(3)	—	1	—	(2)
Gain (loss) from subsidiaries	58	18	—	—	(76)	—
Total other income (expenses), net	58	(11)	—	3	(76)	(26)
Income (loss) before income tax expense (benefit)	58	80	6	11	(76)	79
Less: Income tax expense (benefit)	—	22	—	(1)	—	21
Net income (loss)	58	58	6	12	(76)	58
Less: Net income attributable to non-controlling interests	—	—	—	—	—	—
Net income (loss) attributable to Nationstar	$ 58	$ 58	$ 6	$ 12	$ (76)	$ 58

[1] Issuer activities exclude the activities of its guarantor and non-guarantor subsidiaries, as previously described.

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATING STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2018

	Nationstar	Issuer[1]	Guarantor (Subsidiaries of Issuer)	Non-Guarantor (Subsidiaries of Issuer)	Eliminations	Consolidated
Revenues:						
Service related, net	$ —	$ 637	$ 13	$ 131	$ —	$ 781
Net gain on mortgage loans held for sale	—	251	—	—	—	251
Total revenues	—	888	13	131	—	1,032
Expenses:						
Salaries, wages benefits	—	301	2	54	—	357
General and administrative	—	290	1	55	—	346
Total expenses	—	591	3	109	—	703
Other income (expenses):						
Interest income	—	258	—	27	—	285
Interest expense	—	(315)	—	(20)	—	(335)
Other income (expense)	—	(4)	—	10	—	6
Gain (loss) from subsidiaries	218	50	—	—	(268)	—
Total other income (expenses), net	218	(11)	—	17	(268)	(44)
Income (loss) before income tax expense (benefit)	218	286	10	39	(268)	285
Less: income tax expense (benefit)	—	68	—	(1)	—	67
Net income (loss)	218	218	10	40	(268)	218
Less: net loss attributable to noncontrolling interests	—	—	—	—	—	—
Net income (loss) attributable to Nationstar	$ 218	$ 218	$ 10	$ 40	$ (268)	$ 218

[1] Issuer activities exclude the activities of its guarantor and non-guarantor subsidiaries, as previously described.

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2018

	Nationstar	Issuer[1]	Guarantor (Subsidiaries of Issuer)	Non-Guarantor (Subsidiaries of Issuer)	Eliminations	Consolidated
Operating Activities						
Net income (loss) attributable to Nationstar	$ 218	$ 218	$ 10	$ 40	$ (268)	$ 218
Adjustments to reconcile net income (loss) to net cash attributable to operating activities:						
(Gain) loss from subsidiaries	(218)	(50)	—	—	268	—
Net gain on mortgage loans held for sale	—	(251)	—	—	—	(251)
Reverse mortgage loan interest income	—	(237)	—	—	—	(237)
Gain on sale of assets	—	—	—	(9)	—	(9)
Provision for servicing reserves	—	54	—	—	—	54
Fair value changes and amortization of mortgage servicing rights	—	(155)	—	—	—	(155)
Fair value changes in excess spread financing	—	73	—	1	—	74
Fair value changes in mortgage servicing rights financing liability	—	6	—	—	—	6
Amortization of premiums, net of discount accretion	—	9	—	(3)	—	6
Depreciation and amortization for property and equipment and intangible assets	—	23	—	6	—	29
Share-based compensation	—	7	—	1	—	8
Other (gain) loss	—	3	—	(1)	—	2
Repurchases of forward loans assets out of Ginnie Mae securitizations	—	(475)	—	—	—	(475)
Mortgage loans originated and purchased for sale, net of fees	—	(10,639)	—	—	—	(10,639)
Sales proceeds and loan payment proceeds for mortgage loans held for sale and held for investment	—	11,490	—	10	—	11,500
Excess tax deficiency from share-based compensation	—	(1)	—	—	—	(1)
Changes in assets and liabilities:						
Advances and other receivables	—	355	—	—	—	355
Reverse mortgage interests	—	1,314	—	12	—	1,326
Other assets	6	(188)	(10)	202	—	10
Payables and accrued liabilities	—	52	—	(4)	—	48
Net cash attributable to operating activities	6	1,608	—	255	—	1,869

[1] Issuer activities exclude the activities of its guarantor and non-guarantor subsidiaries, as previously described.

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2018
(Continued)

	Nationstar	Issuer[1]	Guarantor (Subsidiaries of Issuer)	Non-Guarantor (Subsidiaries of Issuer)	Eliminations	Consolidated
Investing Activities						
Property and equipment additions, net of disposals	—	(27)	—	(4)	—	(31)
Purchase of forward mortgage servicing rights, net of liabilities incurred	—	(117)	—	(6)	—	(123)
Net payment related to acquisition of HECM related receivables	—	(1)	—	—	—	(1)
Proceeds on sale of assets	—	—	—	13	—	13
Net cash attributable to investing activities	—	(145)	—	3	—	(142)
Financing Activities						
Decrease in warehouse facilities	—	(199)	—	—	—	(199)
Decrease in advance facilities	—	(57)	—	(282)	—	(339)
Proceeds from issuance of HECM securitizations	—	—	—	443	—	443
Repayment of HECM securitizations	—	—	—	(423)	—	(423)
Proceeds from issuance of participating interest financing in reverse mortgage interests	—	184	—	—	—	184
Repayment of participating interest financing in reverse mortgage interests	—	(1,368)	—	—	—	(1,368)
Issuance of excess spread financing	—	70	—	—	—	70
Repayment of excess spread financing	—	(93)	—	—	—	(93)
Repayment of nonrecourse debt - legacy assets	—	—	—	(6)	—	(6)
Repurchase of unsecured senior notes	—	(62)	—	—	—	(62)
Surrender of shares relating to stock vesting	(6)	—	—	—	—	(6)
Debt financing costs	—	(7)	—	—	—	(7)
Dividends to non-controlling interests	—	(1)	—	—	—	(1)
Net cash attributable to financing activities	(6)	(1,533)	—	(268)	—	(1,807)
Net decrease in cash, cash equivalents, and restricted cash	—	(70)	—	(10)	—	(80)
Cash, cash equivalents, and restricted cash - beginning of period	—	423	1	151	—	575
Cash, cash equivalents, and restricted cash - end of period	$ —	$ 353	$ 1	$ 141	$ —	$ 495

[1] Issuer activities exclude the activities of its guarantor and non-guarantor subsidiaries, as previously described.

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2017

	Nationstar	Issuer[1]	Guarantor (Subsidiaries of Issuer)	Non-Guarantor (Subsidiaries of Issuer)	Eliminations	Consolidated
Assets						
Cash and cash equivalents	$ —	$ 195	$ 1	$ 19	$ —	$ 215
Restricted cash	—	228	—	132	—	360
Mortgage servicing rights	—	2,910	—	31	—	2,941
Advances and other receivables, net	—	1,706	—	—	—	1,706
Reverse mortgage interests, net	—	9,110	—	874	—	9,984
Mortgage loans held for sale at fair value	—	1,891	—	—	—	1,891
Mortgage loans held for investment, net	—	1	—	138	—	139
Property and equipment, net	—	102	—	19	—	121
Derivative financial instruments at fair value	—	65	—	—	—	65
Other assets	—	520	182	779	(867)	614
Investment in subsidiaries	1,846	522	—	—	(2,368)	—
Total assets	$ 1,846	$ 17,250	$ 183	$ 1,992	$ (3,235)	$ 18,036
Liabilities and Stockholders' Equity						
Unsecured senior notes, net	$ —	$ 1,874	$ —	$ —	$ —	$ 1,874
Advance facilities, net	—	106	—	749	—	855
Warehouse facilities, net	—	3,285	—	—	—	3,285
Payables and accrued liabilities	—	1,197	1	36	—	1,234
MSR related liabilities - nonrecourse at fair value	—	987	—	19	—	1,006
Mortgage servicing liabilities	—	41	—	—	—	41
Derivative financial instruments, at fair value	—	5	—	—	—	5
Other nonrecourse debt, net	—	7,167	—	847	—	8,014
Payables to affiliates	124	742	—	1	(867)	—
Total liabilities	124	15,404	1	1,652	(867)	16,314
Total stockholders' equity	1,722	1,846	182	340	(2,368)	1,722
Total liabilities and stockholders' equity	$ 1,846	$ 17,250	$ 183	$ 1,992	$ (3,235)	$ 18,036

[1] Issuer balances exclude the balances of its guarantor and non-guarantor subsidiaries, as previously described.

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATING STATEMENT OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2017

	Nationstar	Issuer[(1)]	Guarantor (Subsidiaries of Issuer)	Non-Guarantor (Subsidiaries of Issuer)	Eliminations	Consolidated
Revenues:						
Service related, net	$ —	$ 131	$ 9	$ 73	$ —	$ 213
Net gain on mortgage loans held for sale	—	167	—	—	—	167
Total revenues	—	298	9	73	—	380
Expenses:						
Salaries, wages and benefits	—	145	1	36	—	182
General and administrative	—	145	5	35	—	185
Total expenses	—	290	6	71	—	367
Other income (expenses):						
Interest income	—	124	—	15	—	139
Interest expense	—	(174)	—	(14)	—	(188)
Other expenses	—	(1)	—	8	—	7
Gain (loss) from subsidiaries	(20)	14	—	—	6	—
Total other income (expenses), net	(20)	(37)	—	9	6	(42)
Income (loss) before income tax expense (benefit)	(20)	(29)	3	11	6	(29)
Less: Income tax benefit	—	(10)	—	—	—	(10)
Net income (loss)	(20)	(19)	3	11	6	(19)
Less: Net income attributable to non-controlling interests	—	1	—	—	—	1
Net income (loss) attributable to Nationstar	$ (20)	$ (20)	$ 3	$ 11	$ 6	$ (20)

(1) Issuer activities exclude the activities of its guarantor and non-guarantor subsidiaries, as previously described.

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATING STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2017

	Nationstar	Issuer[1]	Guarantor (Subsidiaries of Issuer)	Non-Guarantor (Subsidiaries of Issuer)	Eliminations	Consolidated
Revenues:						
Service related, net	$ —	$ 316	$ 14	$ 166	$ —	$ 496
Net gain on mortgage loans held for sale	—	310	—	1	—	311
Total Revenues	—	626	14	167	—	807
Expenses:						
Salaries, wages and benefits	—	298	2	74	—	374
General and administrative	—	280	7	75	—	362
Total expenses	—	578	9	149	—	736
Other income (expenses):						
Interest income	—	251	—	27	—	278
Interest expense	—	(352)	—	(29)	—	(381)
Other expense	—	(2)	—	8	—	6
Gain (loss) from subsidiaries	(18)	29	—	—	(11)	—
Total other income (expenses), net	(18)	(74)	—	6	(11)	(97)
Income (loss) before taxes	(18)	(26)	5	24	(11)	(26)
Income tax benefit	—	(9)	—	—	—	(9)
Net income (loss)	(18)	(17)	5	24	(11)	(17)
Less: net income attributable to non-controlling interests	—	1	—	—	—	1
Net income (loss) attributable to Nationstar	$ (18)	$ (18)	$ 5	$ 24	$ (11)	$ (18)

[1] Issuer activities exclude the activities of its guarantor and non-guarantor subsidiaries, as previously described.

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2017

	Nationstar	Issuer[1]	Guarantor (Subsidiaries of Issuer)	Non-Guarantor (Subsidiaries of Issuer)	Eliminations	Consolidated
Operating Activities						
Net income (loss) attributable to Nationstar	$ (18)	$ (18)	$ 5	$ 24	$ (11)	$ (18)
Adjustments to reconcile net income (loss) to net cash attributable to operating activities:						
Net income attributable to non-controlling interests	—	1	—	—	—	1
(Gain) loss from subsidiaries	18	(29)	—	—	11	—
Net gain on mortgage loans held for sale	—	(310)	—	(1)	—	(311)
Reverse mortgage loan interest income	—	(233)	—	—	—	(233)
(Gain) loss on sale of assets	—	—	—	(8)	—	(8)
Provision for servicing reserves	—	59	—	—	—	59
Fair value changes and amortization of mortgage servicing rights	—	233	—	—	—	233
Fair value changes in excess spread financing	—	16	—	(1)	—	15
Fair value changes in mortgage servicing rights financing liability	—	(14)	—	—	—	(14)
Amortization of premiums, net of discount accretion	—	(4,271)	—	4,298	—	27
Depreciation and amortization for property and equipment and intangible assets	—	21	—	8	—	29
Share-based compensation	—	6	—	3	—	9
Other loss	—	9	—	—	—	9
Repurchases of forward loans assets out of Ginnie Mae securitizations	—	(599)	—	—	—	(599)
Mortgage loans originated and purchased for sale, net of fees	—	(8,896)	—	—	—	(8,896)
Sale proceeds and loan payment proceeds for mortgage loans held for sale and held for investment	—	14,290	—	(4,284)	—	10,006
Excess tax benefit from share-based compensation	—	(1)	—	—	—	(1)
Changes in assets and liabilities:						
Advances and other receivables	—	118	—	—	—	118
Reverse mortgage interests	—	926	—	(157)	—	769
Other assets	5	(164)	(6)	189	—	24
Payables and accrued liabilities	—	(337)	—	(11)	—	(348)
Net cash attributable to operating activities	5	807	(1)	60	—	871

[1] Issuer activities exclude the activities of its guarantor and non-guarantor subsidiaries, as previously described.

NATIONSTAR MORTGAGE HOLDINGS INC.
CONSOLIDATING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2017
(Continued)

	Nationstar	Issuer[(1)]	Guarantor (Subsidiaries of Issuer)	Non-Guarantor (Subsidiaries of Issuer)	Eliminations	Consolidated
Investing Activities						
Property and equipment additions, net of disposals	—	(23)	—	(2)	—	(25)
Purchase of forward mortgage servicing rights, net of liabilities incurred	—	(6)	—	(7)	—	(13)
Proceeds on sale of forward and reverse mortgage servicing rights	—	(2)	—	—	—	(2)
Proceeds on sale of assets	—	16	—	—	—	16
Net cash attributable to investing activities	—	(15)	—	(9)	—	(24)
Financing Activities						
Increase in warehouse facilities	—	100	—	—	—	100
Decrease in advance facilities	—	(76)	—	(138)	—	(214)
Proceeds from issuance of HECM securitizations	—	—	—	308	—	308
Repayment of HECM securitizations	—	(1)	—	(175)	—	(176)
Proceeds from issuance of participating interest financing in reverse mortgage interests	—	355	—	—	—	355
Repayment of participating interest financing in reverse mortgage interests	—	(1,260)	—	—	—	(1,260)
Repayment of excess spread financing	—	(109)	—	—	—	(109)
Repayment of nonrecourse debt - legacy assets	—	—	—	(9)	—	(9)
Repurchase of unsecured senior notes	—	(95)	—	—	—	(95)
Surrender of shares relating to stock vesting	(5)	—	—	—	—	(5)
Debt financing costs	—	(6)	—	—	—	(6)
Dividends to non-controlling interests	—	(5)	—	—	—	(5)
Net cash attributable to financing activities	(5)	(1,097)	—	(14)	—	(1,116)
Net increase (decrease) in cash, cash equivalents, and restricted cash	—	(305)	(1)	37	—	(269)
Cash, cash equivalents, and restricted cash - beginning of period	—	612	2	263	—	877
Cash, cash equivalents, and restricted cash - end of period	$ —	$ 307	$ 1	$ 300	$ —	$ 608

[(1)] Issuer activities exclude the activities of its guarantor and non-guarantor subsidiaries, as previously described.

18. Transactions with Affiliates

The Company enters into arrangements with Fortress, its subsidiaries managed funds, or affiliates for purposes of financing the Company's MSR acquisitions and performing services as a subservicer. An affiliate of Fortress holds a majority of the outstanding common shares of the Company. The following summarizes the transactions with affiliates of Fortress.

New Residential Investment Corp. ("New Residential")

Excess Spread Financing

The Company has entered into several agreements with certain entities managed by New Residential, in which New Residential and/or certain funds managed by Fortress own an interest (each a "New Residential Entity"). The Company sold to the related New Residential Entity the right to receive a portion of the excess cash flow generated from certain acquired MSRs after a receipt of a fixed base servicing fee per loan. The Company, as the servicer of the loans, retains all ancillary revenues and the remaining portion of the excess cash flow after payment of the fixed base servicing fee and also provides all advancing functions for the portfolio. The related New Residential Entity does not have prior or ongoing obligations associated with these MSR portfolios. Should the Company refinance any loan in such portfolios, subject to certain limitations, the Company will be required to transfer the new loan or a replacement loan of similar economic characteristics into the portfolios. The new or replacement loan will be governed by the same terms set forth in the agreements described above.

The fair value of the outstanding liability related to these agreements was $843 and $857 at June 30, 2018 and December 31, 2017, respectively. For the three months ended June 30, 2018 and 2017, Nationstar fees paid to New Residential Entity totaled $52 and $63, respectively. Fees paid to New Residential Entity totaled $105 and $127 during the six months ended June 30, 2018 and 2017, respectively, which are recorded as a reduction to servicing fee revenue, net.

Mortgage Servicing Rights Financing

From December 2013 through June 2014, the Company entered into agreements to sell a contractually specified base fee component of certain MSRs and servicing advances under specified terms to a joint venture capitalized by New Residential and certain unaffiliated third-parties. The Company continues to be the named servicer and, for accounting purposes, ownership of the mortgage servicing rights continues to reside with the Company. Accordingly, the Company accounts for the MSRs and the related MSRs financing liability on its consolidated balance sheets. The Company will continue to sell future servicing advances to New Residential.

The fair value of the outstanding liability related to the sale agreement was $16 and $10 at June 30, 2018 and December 31, 2017, respectively. The Company did not enter into any additional supplemental agreements with these affiliates in 2018 and 2017.

Subservicing and Servicing

In January 2017, the Company entered into a subservicing agreement with a subsidiary of New Residential. The boarding of loans related to this subservicing agreement was completed during the fourth quarter of 2017, with the Company boarding a total UPB of $105 billion. The Company earned $18 and $6 of subservicing fees and other subservicing revenues during the three months ended June 30, 2018 and 2017, respectively, and $37 and $6 during the six months ended June 30, 2018 and 2017, respectively.

In May 2014, the Company entered into a servicing arrangement with New Residential whereby the Company will service residential mortgage loans acquired by New Residential and/or its various affiliates and trust entities. For the three months ended June 30, 2018 and 2017, Nationstar recognized revenue of $2 and $6 related to these servicing arrangements, respectively. For the six months ended June 30, 2018 and 2017, the Company recognized revenue of $3 and $8 related to these servicing arrangements, respectively. The Company acted as servicer or master servicer for New Residential related to the collapse of certain securitization trusts pursuant the exercise by New Residential of its clean up call rights. The Company earned revenue of $0.2 and $0.4 for these administration services during the three months ended June 30, 2018 and 2017, respectively. The Company earned revenue of $0.4 and $1 for these administration services during the six months ended June 30, 2018 and 2017, respectively.

19. Subsequent Events

On August 1, 2018, the Company purchased a mortgage solutions business for cash consideration of approximately $35. Under the agreement, the Company has agreed to make potential earnout payments based on revenue retention targets and certain types of new business.

CAUTIONS REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the U.S. federal securities laws. These forward-looking statements include, without limitation, statements concerning plans, objectives, goals, projections, strategies, core initiatives, future events or performance, and underlying assumptions and other statements, which are not statements of historical facts. When used in this discussion, the words "anticipate," "appears," "believe," "foresee," "intend," "should," "expect," "estimate," "project," "plan," "may," "could," "will," "are likely" and similar expressions are intended to identify forward-looking statements. These statements involve predictions of our future financial condition, performance, plans and strategies, and are thus dependent on a number of factors including, without limitation, assumptions and data that may be imprecise or incorrect. Specific factors that may impact performance or other predictions of future actions have, in many but not all cases, been identified in connection with specific forward-looking statements. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances and we are under no obligation to and express disclaim any obligation to, update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

A number of important factors exist that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- our ability to maintain or grow the size of our servicing portfolio;
- our ability to maintain or grow our originations volume;
- our ability to recapture voluntary prepayments related to our existing servicing portfolio;
- our shift in the mix of our servicing portfolio to subservicing, which is highly concentrated;
- delays in our ability to collect or be reimbursed for servicing advances;
- our ability to obtain sufficient capital to operate our business;
- changes in prevailing interest rates;
- our ability to finance and recover costs of our reverse servicing operations;
- our ability to successfully implement our strategic initiatives;
- changes in our business relationships or changes in servicing guidelines with Fannie Mae, Freddie Mac and Ginnie Mae;
- Xome's ability to compete in highly competitive markets;
- our ability to pay down debt;
- legal and regulatory examinations and enforcement investigations and proceedings, compliance requirements and related costs;
- our ability to prevent cyber intrusions and mitigate cyber risks; and
- loss of our licenses.

These factors should not be considered exhaustive and should be read with the other cautionary statements that are included or incorporated by reference. All of the factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond our control. New factors emerge from time to time, and it is not possible for our management to predict all such factors or to assess the effect of each such new factor on our business. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and any of these statements included herein may prove to be inaccurate. Given the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved. Please refer to Item 1A, *Risk Factors* and Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations* sections included in our Annual Report on Form 10-K for the year ended December 31, 2017 for further information on these and other risk factors affecting us.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Management's discussion and analysis of financial condition and results of operations ("MD&A") should be read in conjunction with the accompanying unaudited consolidated financial statements and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017. The following discussion contains, in addition to the historical information, forward-looking statements that include risks, assumptions and uncertainties that could cause actual results to differ materially from those anticipated by such statements.

Dollar amounts are reported in millions, except per share data and other key metrics, unless otherwise noted.

OVERVIEW

With our 3.2 million customers, we are an integrated servicer, originator and provider of transaction-based services for residential mortgages in the United States. Our operations are conducted through three segments: Servicing, Originations and Xome. Our Servicing segment performs activities for originated and purchased loans, and acts as a subservicer for certain clients that own the underlying servicing rights. Our Originations segment originates, purchases and sells mortgage loans. Our Servicing and Originations segments principally operate through our Mr. Cooper® trade name. Our Xome segment offers technology and data enhanced solutions to home buyers, home sellers, real estate professionals, and companies engaged in the servicing and origination of mortgage loans.

Our success depends on working with customers, investors and GSEs to deliver quality services and solutions that foster and preserve home ownership. We continue to demonstrate our emergence as a leader in the residential mortgage marketplace not only through the expansion of our serviced portfolios, but also through our customer-first focus.

Our Servicing segment posted $88 income before taxes and ended the second quarter with $498 billion UPB. We boarded $20 billion UPB in the second quarter of 2018, and anticipate boarding an estimated $66 billion UPB, consisting of both forward MSR and subservicing, in the second half of year. Our Originations segment continues to grow in our correspondent and direct-to-consumer channels through an increased focus on new customers and purchase transactions. We funded over 25,000 loans totaling approximately $5.5 billion which was the highest quarterly volume in the past 18 quarters. The Originations segment also continues to expand product offerings to attract existing and new customers. Xome continues to win third-party business. Third-party listings accounted for over 35% of total default property sales in the second quarter of 2018.

On February 12, 2018, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with WMIH Corp., a Delaware corporation ("WMIH"), and Wand Merger Corporation, a Delaware corporation and a wholly-owned subsidiary of WMIH ("Merger Sub"). On July 31, 2018, pursuant to the Merger Agreement, Merger Sub was merged with and into us (the "Merger"), with us continuing as a wholly-owned subsidiary of WMIH.

Second Quarter 2018 Highlights

Major highlights for the second quarter of 2018 include:

- Boarded $20,200 UPB comprised of $14,220 UPB of forward MSR and $5,980 UPB of subservicing
- Provided 14,715 solutions to our mortgage servicing customers, reflecting our continued commitment to foster and preserve homeownership
- Improved delinquency rate, measured as loans that are 60 or more days behind in payment, to 2.8%, the lowest in our history
- Funded 25,315 loans totaling $5,543, which included $2,552 related to retaining customers from our servicing portfolio
- Achieved recapture rate of 21.8% for 2018
- Sold 3,112 properties and completed 117,093 Xome service orders
- Repurchased $44 unsecured senior notes during the quarter

Liquidity and Capital Resources

We recorded cash and cash equivalents on hand of $185 as of June 30, 2018 compared to $215 as of December 31, 2017. Total stockholders' equity was $1,941 as of June 30, 2018 compared to $1,722 as of December 31, 2017. During the six months ended June 30, 2018, operating activities provided cash totaling $1,869. The decrease in cash balance in 2018 is primarily due to the reduction in borrowings on our advance facilities, repurchase of unsecured senior notes and other nonrecourse debt in an effort to reduce interest costs. Generally, these facilities can be increased or decreased to align with our cash requirements. We continue to maintain a capital position with ratios exceeding current regulatory guidelines and believe we have sufficient liquidity to conduct our business. We closely monitor our liquidity position and ongoing funding requirements, and regularly monitor and project cash flow to minimize liquidity risk.

In recent years, we have pursued a capital-light strategy, including the sale of advances, excess financing and the expansion of our subservicing portfolio. The execution on this strategy has allowed us to add incremental margin to servicing with limited capital investment. The combination of subservicing, as well as the continuing improvement in portfolio performance, is expected to raise our return on equity and assets and deliver improving cash flows.

Our operating cash flow is primarily impacted by the receipt of servicing fees, changes in our servicing advance balances, the level of new loan production and the timing of sales and securitizations of forward and reverse mortgage loans. To the extent we sell MSRs, we accelerate the recovery of the related advances. Operating efficiencies have served to mitigate and limit losses incurred in the servicing of our portfolios, and responsive cost containment measures have allowed us to quickly adjust cost structures with changes in revenue volumes.

We have sufficient borrowing capacity to support our operations. As of June 30, 2018, total available borrowing capacity is $7,670, of which $4,067 is unused.

RESULTS OF OPERATIONS

Consolidated and Segment Results

Table 1. Consolidated Operations	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	**2018**	2017
Revenues - operational[1]	**$ 425**	$ 464	**$ 861**	$ 923
Revenues - Mark-to-market[1]	**19**	(84)	**171**	(116)
Total revenues	**444**	380	**1,032**	807
Expenses	**339**	367	**703**	736
Other income (expenses), net	**(26)**	(42)	**(44)**	(97)
Income before income tax expense	**79**	(29)	**285**	(26)
Less: Income tax expense	**21**	(10)	**67**	(9)
Net income	**58**	(19)	**218**	(17)
Less: Income attributable to non-controlling interests	**—**	1	**—**	1
Net income attributable to Nationstar	**$ 58**	$ (20)	**$ 218**	$ (18)
Effective tax rate	**26.5%**	33.1%	**23.6%**	32.8%
Income (loss) before income tax expense by operating and non-operating segments:				
Servicing	**$ 88**	$ (42)	**$ 308**	$ (16)
Originations	**32**	53	**51**	78
Xome	**10**	17	**32**	30
Corporate and other	**(51)**	(57)	**(106)**	(118)
Consolidated income before income tax expense	**$ 79**	$ (29)	**$ 285**	$ (26)

[1] In the fourth quarter of 2017, we reevaluated presentation of adjustments related to certain GNMA early buyout activities and reclassified $6 and $12 from operational revenues to mark-to-market revenues in the three and six months ended June 30, 2017, respectively. Net income was not affected by this reclassification adjustment.

During the three and six months ended June 30, 2018, income before income tax increased compared to the same periods in 2017 due to higher total revenues primarily driven by favorable MTM revenue adjustments associated with the rising interest rate environment. The favorable MTM revenue adjustments were partially offset by a decrease in operational revenues. Operational revenue was down due to a shift in mix to subservicing volume in Servicing and increased correspondent volume in Originations.

Consolidated expenses decreased during the three and six months ended June 30, 2018 compared to the same periods in 2017 primarily due to increased productivity and cost reduction initiatives in our Originations segment and volume declines in Xome, partially offset by increases in Servicing expense. Servicing expenses increased primarily due to the significant expansion of the servicing portfolio in the second half of 2017 and an increase in reserve provision for potential losses associated with claims, reverse mortgage interests, and other receivables.

Consolidated other income (expenses), net improved during the three and six months ended June 30, 2018 compared to the same periods in 2017. The improvement is primarily due to a decline in interest expense in our Servicing segment in 2018 as a result of lower MSR financing related interest expense and improved banking relationships.

Income before tax significantly increased during the three and six months ended June 30, 2018 compared to the same periods in 2017, resulting in an increase in income tax expense. The effective tax rate declined to 26.5% and 23.6% in the three and six months ended June 30, 2018 from 33.1% and 32.8% in the same periods in 2017, respectively. The decrease in the effective tax rate in 2018 was primarily due to the impact of the Tax Reform Act that was enacted on December 22, 2017, which reduced the U.S. corporate income tax rate from 35% to 21%. The decreased rate in 2018 is also attributable to the tax effect of permanent differences and discrete tax items, including an income tax benefit related to actions taken by us to remediate the uncertain tax position.

Segment Results

The Company's segments are based upon the Company's organizational structure, which focuses primarily on the services offered. Corporate functional expenses are allocated to individual segments based on the actual cost of services performed based on direct resource utilization, estimate of percentage use for shared services or headcount percentage for certain functions. Facility costs are allocated to individual segments based on cost per headcount for specific facilities utilized. Group insurance costs are allocated to individual segments based on global cost per headcount. Non-allocated corporate expenses include the administrative costs of executive management and other corporate functions that are not directly attributable to our operating segments. Revenues generated on inter-segment services performed are valued based on similar services provided to external parties.

Servicing Segment

We service both forward and reverse mortgage loan portfolios. Our forward loan portfolios include loans for which we own the legal title to the servicing rights and loans where we act as the subservicer for which title to the servicing rights is owned by third parties. Our Mr. Cooper® and Champion Mortgage® brands together service approximately 3.2 million customers with an outstanding principal balance of approximately $498 billion. As of June 30, 2018, the outstanding principal balance consisted of approximately $465 billion in forward loan portfolios, of which $187 billion was subservicing, and $32 billion in reverse servicing.

Forward MSR - Servicing revenues related to forward MSR portfolios include base, incentive and other servicing fees. Forward MSR portfolios are recorded at fair value, and revenues are adjusted to reflect the change in fair value each period. Fair value consists of both credit sensitive MSRs, primarily acquired through bulk acquisitions, and interest rate sensitive MSRs, primarily acquired through flow transactions generated from our origination activities. For MSRs marked at fair value that are interest rate sensitive, servicing values are typically correlated to interest rates such that when interest rates rise, the value of the servicing portfolio increases primarily as a result of expected lower prepayments. The value of credit sensitive MSRs are less influenced by movement in interest rates and more influenced by changes in loan performance factors which impact involuntary prepayment speeds and delinquency rates.

Subservicing - Subservicing revenues are earned and recognized as the services are delivered. Subservicing consists of forward residential mortgage loans we service on behalf of others who are MSR or mortgage owners. We have limited advance obligations and no subservicing assets are recorded in our consolidated financial statements as the value of the servicing rights and the related obligations are not considered in excess of or less than customary fees that would be received for such services.

Reverse Servicing - Although we do not originate reverse mortgage loans, we service acquired reverse mortgage portfolios. A MSR or MSL is recorded for acquired servicing rights associated with unsecuritized portfolios. We also service reverse mortgage portfolios that have been securitized. The total amounts of the securitized loan assets and related financing liabilities are recorded within the consolidated financial statements as reverse mortgage interests and nonrecourse debt because the securitization transactions do not qualify for sale accounting treatment. Reverse MSRs and MSLs are recorded at fair value upon acquisition and carried at amortized cost in subsequent periods. We earn servicing fee income on all reverse mortgages. Fees associated with reverse MSRs and MSLs are recorded to servicing revenue, whereas fees associated with reverse mortgage interests are recorded to interest income. The interest income accrued for reverse mortgage HECM loans and the interest expense accrued for the respective HMBS are recorded in other income (expense). Accretion of the discounted purchase price on certain portfolios is recorded to other income (expense).

The following table sets forth the results of operations for the Servicing segment.

Table 2. Servicing Operations	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Revenues				
Operational[1]	**$ 277**	$ 296	**$ 568**	$ 589
Amortization	**(48)**	(66)	**(96)**	(127)
Mark-to-market[1]	**19**	(84)	**171**	(116)
Total revenues	**248**	146	**643**	346
Expenses	**166**	173	**348**	328
Total other income (expenses), net	**6**	(15)	**13**	(34)
Income before income tax expense	**$ 88**	$ (42)	**$ 308**	$ (16)

[1] In the fourth quarter of 2017, we reevaluated presentation of adjustments related to certain GNMA early buyout activities and reclassified $6 and $12 from operational revenues to mark-to-market revenues in the three and six months ended June 30, 2017, respectively. Income before income tax expense was not affected by this reclassification adjustment.

For the three and six months ended June 30, 2018, total revenues increased compared to the same periods in 2017 due to favorable mark-to-market revenues. The change in the mark-to-market revenue for the three and six months ended June 30, 2018 was primarily due to the higher interest rate environment when compared to the same periods in 2017. The decrease in operational revenues for the three and six months ended June 30, 2018 was primarily due to lower average MSR UPB as of June 30, 2018 compared to June 30, 2017, resulting in a decrease in base servicing fees and other ancillary revenues. Partially offsetting this decrease in base servicing fees and other ancillary revenues was an increase in subservicing fees due to the significant growth of the subservicing portfolio as of June 30, 2018 compared to June 30, 2017. Amortization for the three and six months ended June 30, 2018 decreased due to a decrease in MSR holdings and lower prepayments compared to the same periods in 2017. Other income (expense), net, increased for the three and six months ended June 30, 2018 primarily due to a decline in interest expense related to MSR financing, lower compensating interest expense, and an increase in interest income from rising interest rates.

Expenses for the three months ended June 30, 2018 decreased compared to the same period in 2017 primarily due to our continued cost saving initiatives. Expenses for the six months ended June 30, 2018 increased from the comparable period in 2017 primarily due to the increase in reserve provisions for potential losses associated with claims, reverse mortgage interests, and other receivables during the first quarter of 2018.

The following table provides a rollforward of our forward servicing portfolio UPB, including loans subserviced for others.

Table 3. Forward Servicing and Subservicing Portfolio UPB Rollforward	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Balance - beginning of period	**$ 466,401**	$ 431,825	**$ 473,256**	$ 434,295
Additions:				
Originations	**5,545**	4,256	**10,633**	9,154
Acquisitions	**14,655**	47,513	**20,804**	60,826
Deductions:				
Dispositions	**(1,739)**	(424)	**(1,793)**	(2,105)
Principal reductions and other	**(4,724)**	(4,342)	**(9,659)**	(7,974)
Voluntary reductions[1]	**(13,166)**	(14,839)	**(24,829)**	(27,930)
Involuntary reductions[2]	**(1,478)**	(1,931)	**(2,823)**	(4,093)
Net changes in loans serviced by others	**(96)**	(185)	**(191)**	(300)
Balance - end of period	**$ 465,398**	$ 461,873	**$ 465,398**	$ 461,873

[1] Voluntary reductions are related to loan payoffs by customers.
[2] Involuntary reductions refer to loan chargeoffs.

During the three and six months ended June 30, 2018, our forward servicing and subservicing portfolio UPB decreased primarily due to loan run-off and reductions out-pacing the boarding of loans generated from Originations and acquisitions.

The following table provides the composition of revenues for the Servicing segment.

Table 4. Servicing - Revenues	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	Amounts	bps[1]	Amounts	bps[1]	Amounts	bps[1]	Amounts	bps[1]
Forward MSR Operational Revenue								
Base servicing fees	**$ 214**	**17**	$ 229	19	**$ 433**	**17**	$ 464	19
Modification fees[2]	**13**	**1**	12	—	**20**	**1**	28	1
Incentive fees[2]	**4**	**—**	8	—	**11**	**—**	13	1
Late payment fees[2]	**19**	**2**	20	2	**39**	**2**	44	2
Other ancillary revenues[2][3]	**26**	**2**	44	4	**53**	**2**	82	3
Total forward MSR operational revenue	**276**	**22**	313	25	**556**	**22**	631	26
Base subservicing fees and other subservicing revenue[2]	**37**	**3**	29	3	**74**	**3**	52	2
Reverse servicing fees	**14**	**1**	13	1	**33**	**1**	27	1
Total servicing fee revenue	**327**	**26**	355	29	**663**	**26**	710	29
Amortization								
Forward MSR amortization	**(84)**	**(7)**	(105)	(8)	**(162)**	**(7)**	(207)	(8)
Excess spread accretion	**36**	**3**	40	3	**66**	**3**	82	3
Reverse MSR amortization	**—**	**—**	(1)	—	**—**	**—**	(2)	—
Total amortization	**(48)**	**(4)**	(66)	(5)	**(96)**	**(4)**	(127)	(5)
MSR financing liability costs	**(14)**	**(1)**	(19)	(2)	**(29)**	**(1)**	(39)	(2)
Excess spread costs - principal	**(36)**	**(2)**	(40)	(3)	**(66)**	**(2)**	(82)	(3)
Total operational revenue	**229**	**19**	230	19	**472**	**19**	462	19
Mark-to-Market Adjustments								
MSR MTM[3][4]	**25**	**2**	(108)	(9)	**251**	**10**	(114)	(5)
Excess spread / financing MTM	**(6)**	**—**	24	2	**(80)**	**(3)**	(2)	—
Total MTM adjustments	**19**	**2**	(84)	(7)	**171**	**7**	(116)	(5)
Total revenues - Servicing	**$ 248**	**21**	$ 146	12	**$ 643**	**26**	$ 346	14

[1] Calculated basis points ("bps") are as follows: Annualized $ amount/Total average UPB X 10000.

[2] Certain ancillary and other non-base fees related to subservicing operations are separately presented as other subservicing revenues.

[3] In the fourth quarter of 2017, we reevaluated presentation of adjustments related to certain GNMA early buyout activities and reclassified $6 and $12 from other ancillary revenues to MSR MTM in the three and six months ended June 30, 2017, respectively. Total revenues were not affected by this reclassification adjustment.

[4] The amount of MSR MTM includes $22 and $22 associated with inactive and liquidated loans that are no longer part of the MSR portfolio for the three months ended June 30, 2018 and 2017, respectively, and $34 and $37 for the six months ended June 30, 2018 and 2017, respectively. These amounts were transferred to reserves on advances and other receivables during the first two quarters of 2018 and 2017, respectively.

Forward - Due to the decline of the forward MSR portfolio's UPB, base servicing fee revenue decreased in the three and six months ended June 30, 2018 as compared to the same periods in 2017. Servicing fees per total average UPB declined to 17 bps in the three and six months ended June 30, 2018 from 19 bps in the same periods in 2017. The decrease in bps was primarily due to the increase in the total average UPB driven by the growth in our subservicing portfolio. The improvement in delinquency rates as of June 30, 2018 also contributed to the decrease in modification fees, late payment fees and other ancillary.

MSR prepayment and scheduled amortization decreased in the three and six months ended June 30, 2018 as compared to the same periods in 2017, primarily due to lower MSR holdings and lower prepayments as a result of a higher interest rate environment.

Total MTM adjustments improved in the three and six months ended June 30, 2018 as compared to the same periods in 2017 primarily due to the higher interest environment.

Subservicing - Subservicing fees increased in the three and six months ended June 30, 2018 as compared to the same periods in 2017, due to growth of $50 billion in the average UPB of subserviced portfolios in 2018. A significant subservicing contract was executed in the first quarter of 2017, resulting in the total boarding of $105 billion UPB in subserviced loans during 2017, of which $69 billion UPB was boarded in the second half of 2017. In addition, $47 billion UPB was deboarded in the fourth quarter of 2017 in connection with the termination of a subservicing agreement.

Reverse - Reverse servicing fees on reverse mortgage portfolios increased in the three and six months ended June 30, 2018 as compared to the same periods in 2017 primarily due to the incremental recognition of additional consideration associated with the acquisition of servicing rights related to $9,305 UPB of Fannie Mae reverse mortgage loans in December 2016.

Table 5. Servicing Portfolio - Unpaid Principal Balances	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Average UPB:				
Forward MSRs	**$ 277,297**	$ 302,243	**$ 279,504**	$ 306,513
Subservicing and other[1]	**187,068**	154,704	**187,663**	137,931
Reverse portfolio	**32,873**	36,868	**33,651**	37,639
Total average UPB	**$ 497,238**	$ 493,815	**$ 500,818**	$ 482,083

	June 30,	
	2018	2017
Ending UPB:		
Forward MSRs		
Agency	**$ 206,017**	$ 217,964
Non-agency	**72,088**	78,380
Total Forward MSRs	**278,105**	296,344
Subservicing and other[1]		
Agency	**178,236**	156,597
Non-agency	**9,057**	8,932
Total subservicing and other	**187,293**	165,529
Reverse loans		
MSL[2]	**22,777**	25,712
Securitized loans	**9,487**	10,589
Total reverse portfolio serviced	**32,264**	36,301
Total ending UPB	**$ 497,662**	$ 498,174

[1] Subservicing and other includes (i) loans we service for others, (ii) residential mortgage loans originated but have yet to be sold, and (iii) agency REO balances for which we own the mortgage servicing rights.
[2] MSL UPB as of June 30, 2017 includes reverse MSR UPB of $9,874.

Key Metrics

The table below presents the number of modifications and workout units with our serviced portfolios.

Table 6. Forward Loan Modifications and Workout Units	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Home Affordable Modification Program ("HAMP") modifications	**9**	2,243	**31**	6,575
Non-HAMP modifications	**7,547**	5,505	**13,382**	11,320
Workouts[1]	**7,159**	7,274	**21,252**	14,879
Total modification and workout units	**14,715**	15,022	**34,665**	32,774

[1] Workout units in 2017 were updated to include payment deferral modifications.

Total modifications and workouts during the three months ended June 30, 2018 decreased compared to the same period in 2017 primarily due to decreasing delinquency and the decline in HAMP modification program, which has expired. Total modifications and workouts during the six months ended June 30, 2018 increased compared to the same period in 2017 primarily due to a higher volume of payment deferral modifications and repayment plans.

The table below summarizes the overall performance of the forward servicing and subservicing portfolio.

Table 7. Key Performance Metrics - Forward Servicing and Subservicing Portfolio[1]	**June 30,**	
	2018	**2017**
Loan count	**2,970,692**	2,815,303
Average loan amount[2]	**$ 156,688**	$ 164,087
Average coupon - credit sensitive[3]	**4.8%**	4.7%
Average coupon - interest sensitive[3]	**4.2%**	4.2%
60+ delinquent (% of loans)[4]	**2.8%**	3.5%
90+ delinquent (% of loans)[4]	**2.5%**	3.2%
120+ delinquent (% of loans)[4]	**2.3%**	2.9%
Total prepayment speed (12 month constant pre-payment rate)	**12.1%**	14.2%

[1] Characteristics and key performance metrics of our servicing portfolio excludes UPB and loan counts acquired but not yet boarded and currently serviced by others.

[2] Average loan amount is presented in whole dollar amounts.

[3] The weighted average coupon amounts for our credit and interest sensitive pools presented in the table above are only reflective of our owned forward MSR portfolio that is reported at fair value.

[4] Loan delinquency is based on the current contractual due date of the loan. In the case of a completed loan modification, delinquency is based on the modified due date of the loan.

Delinquency is a significant assumption in determining the mark-to-market adjustment and is a key indicator of MSR portfolio performance. Delinquent loans contribute to lower MSR values due to higher costs to service loans and increased carrying costs of advances. We continue to experience decreasing delinquency rates in the six months ended June 30, 2018, which preserves the value of our MSRs.

Servicer Ratings

We participate in ratings reviews with nationally recognized ratings agencies for its mortgage servicing operations. The attainment of favorable ratings is important to maintaining strong relationships with our customers and compliance with provisions in servicing and debt agreements. The table below sets forth our most recent ratings for its servicing operations as of June 30, 2018.

Table 8. Servicer Ratings	**Fitch**	**Moody's**	**S&P**
Rating date	*August 2017*	*June 2017*	*January & February 2018*
Residential	RPS2-	Not Rated	Above Average
Master Servicer	RMS2+	SQ2-	Above Average
Special Servicer	RSS2-	Not Rated	Above Average
Subprime Servicer	RPS2-	Not Rated	Above Average

Fitch Rating Scale of 1 (Highest Performance) to 5 (Low/No Proficiency)

Moody's Rating Scale of SQ1 (Strong Ability/Stability) to SQ5 (Weak Ability/Stability)

S&P's Rating Scale of Strong to Weak

In February 2018, Standard and Poor's Global Ratings ("S&P") affirmed our above average ranking as a residential primary, subprime, and special servicer. The rankings reflect our experienced management team with extensive industry experience, improved internal control environment, appropriate oversight within critical areas, such as compliant and vendor management, default, and servicing acquisitions, our experience in boarding loans, our controlled default compliance management processes with appropriate emphasis on customer, as well as onshore customer-facing functions which we believe has resulted in improved borrower satisfaction. The rankings of our outlooks are stable as we continue to grow our portfolio at a moderate pace and have a sufficient financial position. We made improvements that will help ensure our operational environment remains sound while we continue to be competitive in the mortgage servicing industry.

In January 2018, S&P affirmed our above average ranking as a residential master servicer. The assessment is based on our seasoned management team with substantive industry knowledge, well-documented and formatted policies and procedures, good internal controls, as well as an efficient and stable platform with a market position as one of the largest residential mortgage master servicers as measured by portfolio size. The ranking of our outlook is stable as we continue to perform as an overall effective residential mortgage master servicer and have a sufficient financial position. We have been growing our servicing portfolio in a challenging environment and continue to enhance our systems and processes to accommodate new portfolio and client requirements.

Servicing Expenses

The table below summarizes expenses in the Servicing segment.

Table 9. Servicing - Expenses	**Three Months Ended June 30,**				**Six Months Ended June 30,**			
	2018		**2017**		**2018**		**2017**	
	Amounts	**bps**	**Amounts**	**bps**	**Amounts**	**bps**	**Amounts**	**bps**
Salaries, wages and benefits	**$ 74**	**6**	$ 73	6	**$ 150**	**6**	$ 142	6
General and administrative								
Servicing support fees	**35**	**3**	38	3	**62**	**2**	71	3
Corporate and other general and administrative expenses	**32**	**2**	33	3	**63**	**3**	66	2
Foreclosure and other liquidation related expenses	**19**	**2**	24	2	**60**	**2**	39	2
Depreciation and amortization	**6**	**—**	5	—	**13**	**1**	10	—
Total general and administrative expenses	**92**	**7**	100	8	**198**	**8**	186	7
Total expenses - Servicing	**$ 166**	**13**	$ 173	14	**$ 348**	**14**	$ 328	13

Total expenses decreased in the three months ended June 30, 2018 compared to the same period in 2017 primarily due to lower foreclosure and other liquidation related expenses and servicing support fees. Foreclosure and other liquidation related expenses and servicing support fees decreased in the three months ended June 30, 2018 as a result of cost containment measures, as well as lower reserve requirements related to our reverse mortgage portfolio.

Total expenses increased in the six months ended June 30, 2018 compared to the same period in 2017 primarily due to an increase in foreclosure and other liquidation related expenses and salaries, wages and benefits. Foreclosure and other liquidation related expenses increased in the six months ended June 30, 2018 primarily due to an increase in reserves provision in the first quarter of 2018 related to our reverse mortgage portfolio. Salaries, wages and benefits expenses increased in the six months ended June 30, 2018 due to the significant expansion of the servicing portfolio in the second half of 2017. Additionally, in the third quarter of 2017, we launched our own reverse servicing system and terminated our existing contract with a subservicer. As a result, we increased staff to perform tasks previously performed or outsourced by the subservicer. Though salaries, wages and benefits increased in 2018, it remained stable when measured in bps of UPB due to improved portfolio performance.

Table 10. Servicing - Other Income (Expenses), Net	**Three Months Ended June 30,**				**Six Months Ended June 30,**			
	2018		**2017**		**2018**		**2017**	
	Amounts	**bps**	**Amounts**	**bps**	**Amounts**	**bps**	**Amounts**	**bps**
Reverse mortgage interest income	**$ 118**	**10**	$ 115	9	**$ 237**	**10**	$ 233	10
Other interest income	**3**	**—**	8	1	**10**	**—**	10	—
Interest income	**121**	**10**	123	10	**247**	**10**	243	10
Reverse mortgage interest expense	**(95)**	**(8)**	(99)	(8)	**(191)**	**(7)**	(198)	(8)
Advance interest expense	**(12)**	**(1)**	(9)	(1)	**(17)**	**(1)**	(18)	(1)
Other interest expense	**(8)**	**(1)**	(30)	(2)	**(25)**	**(1)**	(61)	(2)
Interest expense	**(115)**	**(10)**	(138)	(11)	**(233)**	**(9)**	(277)	(11)
Other expense	**—**	**—**	—	—	**(1)**	**—**	—	—
Total other income (expenses), net - Servicing	**$ 6**	**—**	$ (15)	(1)	**$ 13**	**1**	$ (34)	(1)
Weighted average cost - advance facilities	**4.0%**		3.1%		**3.9%**		3.1%	
Weighted average cost - excess spread financing	**8.8%**		8.9%		**8.9%**		8.9%	

Total other income (expenses), net improved in the three and six months ended June 30, 2018 as compared to the same periods in 2017 primarily due to a decrease in other interest expense. The decrease in other interest expense is primarily a result of a decrease in interest expense related to MSR financing, lower compensating interest expense and improved banking relationships.

Serviced Portfolio and Liabilities

Table 11. Serviced Portfolios and Related Liabilities	June 30, 2018			December 31, 2017		
	UPB	Carrying Amount	Weighted Avg. Coupon	UPB	Carrying Amount	Weighted Avg. Coupon
Forward MSRs - fair value						
Agency	**$ 206,017**	**$ 2,647**	**4.5%**	$ 202,868	$ 2,251	4.5%
Non-agency	**72,088**	**709**	**4.7%**	78,512	686	4.6%
Total Forward MSRs - fair value	**278,105**	**3,356**	**4.5%**	281,380	2,937	4.5%
Subservicing and other[1]						
Agency	**178,236**	**N/A**	**N/A**	183,519	N/A	N/A
Non-agency	**9,057**	**N/A**	**N/A**	8,357	N/A	N/A
Total subservicing and other	**187,293**	**N/A**	**N/A**	191,876	N/A	N/A
Reverse portfolio - amortized cost						
MSL[2]	**22,777**	**(27)**	**N/A**	25,124	(37)	N/A
Securitized loans	**9,487**	**9,477**	**N/A**	9,988	9,984	N/A
Total reverse portfolio serviced	**32,264**	**9,450**	**N/A**	35,112	9,947	N/A
Total servicing portfolio unpaid principal balance	**$ 497,662**	**$ 12,806**	**N/A**	$ 508,368	$ 12,884	N/A

[1] Subservicing and other amounts include loans we service for others, residential mortgage loans originated but have yet to be sold, and agency REO balances for which we own the mortgage servicing rights.

[2] MSL UPB as of December 31, 2017 include reverse MSR UPB of $9,395. Carrying value as of December 31, 2017 is net of reverse MSR carrying amount of $4.

We assess whether acquired portfolios are more credit sensitive or interest sensitive in nature on the date of the acquisition. We consider numerous factors in making this assessment, with the primary factors consisting of the overall portfolio delinquency characteristics, portfolio seasoning and residential mortgage loan composition. Interest rate sensitive portfolios typically consist of single-family conforming residential forward mortgage loans serviced for GSEs or other third-party investors. Credit sensitive portfolio primarily consists of higher delinquency single-family non-conforming residential forward mortgage loans in private-label securitizations.

Table 12. Fair Value MSR Valuation	June 30, 2018			December 31, 2017		
	UPB	Carrying Amount	bps	UPB	Carrying Amount	bps
MSRs - fair value						
Credit sensitive	**$ 153,552**	**$ 1,695**	**110**	$ 167,605	$ 1,572	94
Interest sensitive - agency	**124,553**	**1,661**	**133**	113,775	1,365	120
Total MSRs - fair value	**$ 278,105**	**$ 3,356**	**121**	$ 281,380	$ 2,937	104

As of June 30, 2018, when measuring the fair value of the portfolio as a basis point of the unpaid principal balance, our credit sensitive pool increased in value by 16 bps compared to December 31, 2017 due to lower delinquency and foreclosure rates, and lower forecasted prepayment speeds. The fair value of our interest sensitive portfolio increased by 13 bps at June 30, 2018 compared to December 31, 2017 due to decreased forecasted prepayment speeds resulting in longer weighted-average lives for MSRs.

The following table provides information on the fair value of our owned forward MSR portfolio.

Table 13. MSRs - Fair Value, Roll Forward	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Fair value - beginning of period	**$ 3,194**	$ 3,168	**$ 2,937**	$ 3,160
Additions:				
Servicing retained from mortgage loans sold	**71**	44	**139**	103
Purchases of servicing rights	**113**	8	**132**	13
Dispositions:				
Sales of servicing rights[1]	**4**	2	**4**	2
Changes in fair value:				
Due to changes in valuation inputs or assumptions used in the valuation model:				
Credit sensitive	**11**	(46)	**192**	(9)
Interest sensitive	**33**	(42)	**91**	(65)
Other changes in fair value:				
Scheduled principal payments	**(19)**	(20)	**(38)**	(42)
Disposition of negative MSRs and other[2]	**14**	15	**23**	48
Prepayments				
Voluntary prepayments				
Credit sensitive	**(31)**	(45)	**(61)**	(89)
Interest sensitive	**(25)**	(27)	**(46)**	(50)
Involuntary prepayments				
Credit sensitive	**(5)**	(7)	**(10)**	(16)
Interest sensitive	**(4)**	(4)	**(7)**	(9)
Fair value - end of period	**$ 3,356**	$ 3,046	**$ 3,356**	$ 3,046

[1] Amounts are related to the cost to dispose of negative MSR associated with nonperforming loan portfolios.

[2] Amounts primarily represent negative fair values reclassified from the MSR asset to reserves as underlying loans are removed from the MSR and other reclassification adjustments.

The following table sets forth the weighted average assumptions in estimating the fair value of MSRs.

Table 14. MSRs - Fair Value	June 30,	
	2018	**2017**
Credit Sensitive MSRs		
Discount rate	**11.4%**	11.4%
Weighted average prepayment speeds	**11.7%**	15.8%
Weighted average life of loans	**6.6 years**	5.9 years
Interest Sensitive MSRs		
Discount rate	**9.2%**	9.2%
Weighted average prepayment speeds	**9.8%**	11.3%
Weighted average life of loans	**7.0 years**	6.5 years

Discount rate for credit sensitive and interest sensitive MSRs remained consistent as of June 30, 2018 compared to the same period in 2017. Weighted average lives increased for both credit sensitive and interest sensitive MSRs due to the decline in prepayment speeds, which is attributable to net market interest rate increase period over period.

The discount rate used to determine the present value of estimated future net servicing income, is based on the required rate of return market investors would expect for an asset with similar risk characteristics. The discount rate is determined through review of recent market transactions as well as comparing the discount rate to those utilized by third-party valuation specialists.

Total prepayment speeds represent the annual rate at which borrowers are forecasted to repay their mortgage loan principal, which includes estimates for both voluntary and involuntary borrower liquidations. The expected weighted-average life represents the total years we expect to service the MSR.

Excess Spread Financing

As further disclosed in Note 2. *Mortgage Servicing Rights and Related Liabilities* and Note 18. *Transactions with Affiliates*, we have entered into sale and assignment agreements treated as financing arrangements whereby the acquirer has the right to receive a specified percentage of the excess cash flow generated from an MSR.

The servicing fees associated with a MSR can be segregated into (i) a base servicing fee and (ii) an excess servicing fee. The base servicing fee, along with ancillary income and other revenues, is designed to cover costs incurred to service the specified pool plus a reasonable margin. The remaining servicing fee is considered excess. We sell a percentage of the excess fee as a method for efficiently financing acquired MSRs. Excess spread financings are presently applicable only to acquired MSRs and originated pools of loans; however, they can be entered into at any time for both acquired and originated MSRs. These financings have been provided by affiliated companies including New Residential and certain funds managed by Fortress Investment Group, and third-parties associated with funds and accounts under management of BlackRock Financial Management, Inc and Värde Partners, Inc.

Excess spread financings are recorded at fair value, and the impact of fair value adjustments on future revenues and capital resources varies primarily due to (i) prepayment speeds and (ii) our ability to recapture prepayments through the origination platform. In Note 2. *Mortgage Servicing Rights and Related Liabilities*, the range of assumptions and sensitivities related to the measurement of the excess spread financing liability as of June 30, 2018 and December 31, 2017 is disclosed.

The following table sets forth the change in the excess spread liability and the related key weighted average assumptions.

Table 15. Excess Spread Financing	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Fair value - beginning of period	**$ 1,001**	$ 1,181	**$ 996**	$ 1,214
Additions:				
New financings	**70**	—	**70**	—
Deductions:				
Repayments of debt	**(2)**	—	**(2)**	—
Settlements of principal balances	**(46)**	(50)	**(91)**	(108)
Fair value changes:				
Credit Sensitive	**20**	(3)	**66**	17
Interest Sensitive	**4**	(7)	**8**	(2)
Fair value - end of period	**$ 1,047**	$ 1,121	**$ 1,047**	$ 1,121

	June 30,	
Key Assumptions	**2018**	**2017**
Weighted average prepayment speeds	**11.1%**	14.3%
Weighted average life of loans	**6.5 years**	6.1 years
Discount rate	**10.6%**	10.8%
Credit Sensitive		
Mortgage prepayment speeds	**11.4%**	14.9%
Average life of mortgage loans	**6.5 years**	6.0 years
Discount rate	**11.1%**	11.1%
Interest Sensitive		
Mortgage prepayment speeds	**9.9%**	11.5%
Average life of mortgage loans	**6.8 years**	6.3 years
Discount rate	**9.0%**	9.0%

In conjunction with the excess spread financing servicing acquisition structure, we also entered into several sale agreements whereby we sold the right to repayment on outstanding private-label servicing advances and sold the right to receive a portion of the base fee component on the related MSRs as financing cost. These financings are recorded at fair value and the change in fair value is recorded against servicing revenue and interest imputed on the outstanding liability is recorded as interest expense.

Table 16. MSRs Financing Liability - Rollforward	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Fair value - beginning of period	**$ 34**	$ 28	**$ 10**	$ 27
Changes in fair value:[1]				
Changes in valuation inputs or assumptions used in the valuation model	**(14)**	(16)	**11**	(15)
Other changes in fair value	**(4)**	1	**(5)**	1
Fair value - end of period	**$ 16**	$ 13	**$ 16**	$ 13

	June 30,	
	2018	**2017**
Weighted Average Assumptions		
Advance financing rates	**4.1%**	3.4%
Annual advance recovery rates	**18.9%**	26.0%

[1] The changes in fair value related to our MSRs financing liability primarily relate to both scheduled and unscheduled principal payments reflected in the underlying MSRs and changes in the fair value model assumptions.

We estimate fair value of the MSR financing liability based on the present value of future expected discounted cash flows with the discount rate approximating current market value for similar financial instruments. The cash flow assumptions and prepayment assumptions used in the model are based on various factors, with the key assumptions being advance financing rates and annual advance recovery rates.

The following table provides an overview of our forward servicing portfolio and amounts that have been transferred to our co-invest partners for the periods indicated.

Table 17. Leveraged Portfolio Characteristics	**June 30,**	
	2018	**2017**
Owned forward servicing portfolio - unencumbered	**$ 91,619**	$ 78,178
Owned forward servicing portfolio - encumbered	**186,486**	218,166
Subserviced forward servicing portfolio and other	**187,293**	165,529
Total unpaid principal balance	**$ 465,398**	$ 461,873

The encumbered forward servicing portfolio consists of residential mortgage loans included within our excess spread financing transactions and MSR financing liability. Subserviced and other amounts include (1) loans serviced for others, (2) residential mortgage loans originated but not yet sold, and (3) agency REO balances for which we own the mortgage servicing rights. The increase in subserviced forward servicing portfolio and other was primarily due to the addition of subserviced portfolios during 2017.

Reverse - MSLs and Participating Interests - Amortized Cost

The table below provides detail of the characteristics and key performance metrics of the reverse servicing portfolio, which is included in MSLs and participating interests in reverse mortgages. Such assets are recorded at amortized cost.

Table 18. Reverse - Mortgage Portfolio Characteristics	June 30, 2018	December 31, 2017
Loan count	**205,438**	212,415
Ending unpaid principal balance	**$ 32,264**	$ 35,112
Average loan amount[1]	**$ 157,050**	$ 165,299
Average coupon	**4.2%**	3.8%
Average borrower age	**79**	79

[1] Average loan amount is presented in whole dollar amounts.

From time to time, we acquire servicing rights and participating interests in reverse mortgage portfolios. Reverse mortgage loans, known as HECMs, provide seniors 62 and older with a loan upon which draws can be made periodically. The draws are secured by the equity in the borrower's home. For acquired servicing rights, a MSR or MSL is established on the acquisition date at fair value, as applicable, based on the proceeds paid or received to service the reverse portfolio.

Each quarter, we accrete the MSL to service related revenue, net as the respective portfolios run-off. The MSL is assessed for increased obligation based on its fair value, using a variety of assumptions, with the primary assumption being discount rates, prepayment speeds and the borrower life expectancy. The MSLs are stratified based on predominant risk characteristics of the underlying serviced loans. Impairment, if any, represent the excess of amortized cost of an individual stratum over its estimated fair value and is recognized through an increase in valuation allowance. Based on our assessment, no impairment was required for reverse MSLs as of June 30, 2018.

Originations Segment

Our Originations segment comprises both direct-to-consumer and correspondent lending.

Our direct-to-consumer lending channel originates first-lien conventional and government-insured loans. Our direct-to-consumer strategy relies on call centers, our website and our mobile app to interact with customers. Our primary focus is to assist customers currently in our servicing portfolio with a refinance or home purchase. Through this process, we increase our originations margin by reducing marketing and other costs to acquire customers, as well as replenish our servicing portfolio.

Our correspondent lending channel acquires newly originated residential mortgage loans that have been underwritten to investor guidelines. This includes both conventional and government-insured loans that qualify for inclusion in securitizations that are guaranteed by the GSEs. Our correspondent lending channel enables us to replenish servicing portfolio run-off typically at better return thresholds than traditional bulk or flow acquisitions.

To mitigate credit risk, we typically sell loans within 30 to 60 days of origination while retaining the associated servicing rights. Servicing rights can be retained, sold (servicing released) or be given back to the investor (or a portion of the servicing rights) depending on the subservicing or co-invest agreements.

Table 19. Originations - Operations	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	**$ 133**	$ 158	**$ 261**	$ 299
Expenses	**102**	103	**211**	220
Other income (expenses), net	**1**	(2)	**1**	(1)
Income before income tax expense	**$ 32**	$ 53	**$ 51**	$ 78
Income before taxes margin	**24.1%**	33.5%	**19.5%**	26.1%

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	**$ 133**	$ 158	**$ 261**	$ 299
Pull through adjusted lock volume	**$ 5,440**	$ 4,200	**$ 10,302**	$ 8,008
Revenue basis points[(1)]	**2.44%**	3.76%	**2.53%**	3.73%
Expenses	**$ 102**	$ 103	**$ 211**	$ 220
Funded volume	**$ 5,543**	$ 4,254	**$ 10,630**	$ 8,887
Expenses basis points[(2)]	**1.84%**	2.42%	**1.98%**	2.48%
Margin	**0.60%**	1.34%	**0.55%**	1.25%

[(1)] Calculated on pull-through adjusted lock volume as revenue is recognized at the time of loan lock.
[(2)] Calculated on funded volume as expenses are incurred based on closing of the loan.

Income before income tax expense decreased for the three and six months ended June 30, 2018 as compared to the same periods in 2017 primarily due to a decline in revenues. The decline in revenues for the three and six months ended June 30, 2018 is primarily due to lower margins from a shift in product mix. Revenue basis points for 2018 over 2017 declined primarily due to higher correspondent mix. Expense basis points in 2018 declined over 2017 due to increased productivity and cost reduction initiatives. Net margin in 2018 declined due to the reduction in revenue basis points.

Gain on Mortgage Loans Held for Sale

Gain on mortgage loans held for sale represents the realized gains and losses on loan sales and settled derivatives. The gain on mortgage loans held for sale is a function of the volume and margin of our originations activity and is impacted by fluctuations in interest rates.

Net Gain on Mortgage Loans Held for Sale

The net gain on mortgage loans held for sale includes gain on mortgage loans held for sale as well as capitalized servicing rights and mark-to-market adjustments on mortgage loans held for sale and related derivative financial instruments. We recognize the fair value of the interest rate lock commitments ("IRLC"), including the fair value of the related servicing rights, at the time we commit to originate or purchase a loan at specified terms. Loan origination costs are recognized as the obligations are incurred, which typically aligns with the date of loan funding for direct-to-consumer originations and the date of loan purchase for correspondent lending.

Revenues, including net gain on mortgage loans held for sale, for our Originations segment are set forth in the table below.

Table 20. Originations - Revenues	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Service related, net - Originations	**$ 17**	$ 15	**$ 32**	$ 31
Net gain on mortgage loans held for sale				
Gain on loans originated and sold	**45**	106	**101**	204
Fair value adjustment on loans held for sale	**6**	(10)	**1**	10
Mark-to-market on locks and commitments[1]	**3**	(10)	**2**	(22)
Mark-to-market on derivative/hedges	**(6)**	16	**(8)**	(24)
Capitalized servicing rights	**69**	40	**134**	97
Provision of repurchase reserves, net of release	**(1)**	1	**(1)**	3
Total net gain on mortgage loans held for sale	**116**	143	**229**	268
Total revenues - Originations	**$ 133**	$ 158	**$ 261**	$ 299
Key Metrics				
Consumer direct lock pull through adjusted volume[2]	**$ 2,552**	$ 2,769	**$ 5,294**	$ 5,463
Other locked pull through adjusted volume[2]	**2,888**	1,431	**5,008**	2,545
Total pull through adjusted volume	**$ 5,440**	$ 4,200	**$ 10,302**	$ 8,008
Funded volume	**$ 5,543**	$ 4,254	**$ 10,630**	$ 8,887
Funded HARP volume	**$ 324**	$ 937	**$ 760**	$ 2,160
Recapture percentage	**21.8%**	24.2%	**24.3%**	28.0%
Purchase percentage of funded volume	**51.3%**	28.6%	**45.8%**	24.2%
Value of capitalized servicing	**126 bps**	96 bps	**125 bps**	106 bps

[1] Mark-to-market on locks and commitments includes our fair value mark-to-market adjustments on IRLCs.
[2] Pull through adjusted volume represents the expected funding from locks taken during the period.

During the three and six months ended June 30, 2018, total revenues decreased compared to the same periods in 2017 primarily driven by a decrease in margins. Higher correspondent mix in 2018 resulted in lower margin which led to the decrease in gain on loans originated and sold.

The HARP program was extended to December 31, 2018, which will allow us to continue to serve qualified homeowners with the opportunity to refinance their mortgage.

Table 21. Originations - Expenses	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Salaries, wages and benefits	**$ 61**	$ 59	**$ 127**	$ 129
General and administrative				
Loan origination expenses	**13**	13	**27**	33
Corporate and other general and administrative expenses	**12**	14	**23**	26
Marketing and professional service fee	**13**	14	**28**	27
Depreciation and amortization	**3**	3	**6**	5
Total general and administrative	**41**	44	**84**	91
Total expenses - Originations	**$ 102**	$ 103	**$ 211**	$ 220

Total expenses remained comparable for the three months ended June 30, 2018 compared to the same periods in 2017.

For the six months ended June 30, 2018 when compared to the same periods in 2017 expense declined $9 or 4%. The reduction in expenses were primarily attributed to lower volume, cost reduction initiatives and improved efficiencies in the direct-to-consumer channel offset by volume growth in the correspondent channel.

Table 22. Originations - Other Income (Expenses), Net	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Interest income	**$ 17**	$ 11	**$ 32**	$ 25
Interest expense	**(16)**	(13)	**(31)**	(26)
Total other income, net - Originations	**$ 1**	$ (2)	**$ 1**	$ (1)
Weighted average note rate - mortgage loans held for sale	**4.7%**	4.2%	**4.5%**	4.2%
Weighted average cost of funds (excluding facility fees)	**4.4%**	3.5%	**4.2%**	3.4%

Interest income primarily relates to mortgage loans held for sale. Interest expense is associated with the warehouse facilities utilized to originate new loans.

Other income, net improved for the three and six months ended June 30, 2018 compared to the same periods in 2017. Interest income increased due to higher funded volume and higher average market rates partially offset by an increase in interest expense driven by higher cost of funds from an increase in the interest rate index.

The following table sets forth activity of the outstanding repurchase reserves associated with the sale of originated loans.

Table 23. Repurchase Reserves	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Repurchase reserves - beginning of period	**$ 9**	$ 15	**$ 9**	$ 18
Provisions	**2**	1	**3**	3
Releases	**(2)**	(2)	**(3)**	(6)
Charge-offs	**—**	—	**—**	(1)
Repurchase reserves - end of period	**$ 9**	$ 14	**$ 9**	$ 14

Certain sale contracts and GSE standards require us to repurchase a loan or indemnify the purchaser or insurer for losses if a borrower fails to make initial loan payments or if the accompanying mortgage loan fails to meet certain customary representations and warranties, such as the manner of origination, the nature and extent of underwriting standards.

We provide certain representations and warranties on the sale of mortgage loans. In the event of a breach of the representations and warranties, we may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. In addition, an investor may request that we refund a portion of the premium paid on the sale of mortgage loans if a loan is prepaid within a certain amount of time from the date of sale. We record a reserve for estimated losses associated with loan repurchases, purchaser indemnification and premium refunds. The provision for repurchase losses is charged against gain on mortgage loans held for sale. We regularly evaluate the appropriateness of this repurchase reserve based on trends in repurchase and indemnification requests, actual loss experience, settlement negotiations, estimated future loss exposure, and other relevant factors including economic conditions. As a result of year-over-year improvements in loss rates attributable to stronger underwriting standards and due to the fall-off of losses associated with the mortgage loan crisis period prior to 2008, current loss rates have significantly declined. We have determined that previously estimated losses are not expected to occur and have updated our analysis for reserves, resulting in an overall reduction of reserve balances as repurchase liabilities expire with loss rates below provisioned levels. We believe our reserve balance as of June 30, 2018 is sufficient to cover future loss exposure associated with repurchase contingencies on our loan portfolio.

Xome Segment

Our Xome segment is a leading provider of technology and data-enhanced solutions to home buyers, home sellers, real estate professionals and companies engaged in the origination and/or servicing of mortgage loans. Xome seeks to transform the real estate experience by making the challenge of buying or selling a home less complex and increasing transparency through the partnering of both online and offline components of the transaction cycle. The result provides customers a more streamlined and cohesive real estate environment. Xome is comprised of three revenue types categorized as Exchange, Services and Software as a Service ("SaaS").

Exchange revenue is comprised of real estate disposition services. The Xome.com auction platform leverages our proprietary auction technology designed to increase transparency, reduce fraud risk and provide better execution for property sales. Success of this platform is evidenced by generally higher sales price and lower average days to sell compared to traditional property sales. During the three and six months ended June 30, 2018, we added five and seven new Exchange clients, respectively.

Services revenue is comprised of title, escrow, valuation and field services related to real estate purchases, refinance and default transactions. We continue to serve existing third-party customers and capture refinance and default transactions generated by our Servicing and Originations segments. Today, significant opportunities still exist with respect to penetration of current and new customers. During the three and six months ended June 30, 2018, we added six and ten new Services clients, respectively.

SaaS revenue includes sales of our SaaS platform providing integrated technology, media and data solutions to mortgage servicers, originators and multiple listing service ("MLS") organizations and associations and commissions earned from our retail property sale business. In February 2018, Xome sold the software-based business of its Real Estate Digital ("RED") business but retained RED's reDataVault proprietary offering, which is home to Xome's MLS data. Within our Xome platform, we intend to enhance the home buying and selling experience through smart investments in innovative technology and a sharp focus on customer service by making the home buying and selling transaction experience simpler, more transparent and more accessible for all market participants. Our Xome platform is accessible through a combination of a web-based platform and easy to use mobile apps, giving customers instant access to over 95% of all active MLS listings in the United States. Our platform allows users to search among distressed and non-distressed real estate listings on a single website - a significant advantage over our competitors' platforms which generally support either distressed or non-distressed listings, but not both. Our website 4salebyowner.com is our entry into the "Do It Yourself" ("DIY") real estate sales market of approximately 600,000 properties annually. Our value proposition to home buyers and sellers is to empower them to transact as they want, either through a traditional sales channel or through our proprietary auction technology, which leverages an artificial intelligence enabled listing, bidding and selling strategies and full-service brokerage support. Our goal is to grow this platform into an industry leading DIY solution for home buyers and sellers.

Table 24. Xome - Operations	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Revenues	**$ 62**	$ 76	**$ 127**	$ 161
Expenses	**52**	67	**104**	139
Other income (expenses), net	**—**	8	**9**	8
Income before income tax expense	**$ 10**	$ 17	**$ 32**	$ 30
Income before taxes margin - Xome	**16.1%**	22.4%	**25.2%**	18.6%

Income before income tax expense decreased for the three months ended June 30, 2018 as compared to the same period in 2017 primarily due to the $8 pre-tax gain in connection with the sale of Xome's retail title division in June 2017. Income before income tax expense increased for the six months ended June 30, 2018 as compared to the same period in 2017. Decreases in revenue for the three and six months ended June 30, 2018 were offset by decreases in compensation related expenses due to a decline in headcount and direct vendor costs as a result of decline in order volumes.

Table 25. Xome - Revenues	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Exchange	**$ 27**	$ 27	**$ 53**	$ 58
Services	**30**	41	**63**	88
SaaS	**5**	8	**11**	15
Total revenues - Xome	**$ 62**	$ 76	**$ 127**	$ 161
Key Metrics				
Property listings sold	**3,112**	3,074	**5,992**	6,488
REO listings at period end	**3,619**	4,174	**3,619**	4,174
Xome services completed orders	**117,093**	107,220	**228,432**	226,970
Percentage of revenue earned from third party customers[1]	**28.0%**	21.6%	**27.5%**	23.8%

[1] Due to the sale of the retail title division in June 2017 and RED in February 2018, the percentage of revenue earned from third party customers for the three and six months ended June 30, 2017 exclude the impact of the retail title division's operations and the RED sold operations. The percentage for the three and six months ended June 30, 2018 excludes the impact of the RED sold operations.

Exchange revenues remained flat for the three months ended June 30, 2018 and decreased for the six months ended June 30, 2018 as compared to the same periods in 2017, primarily due to lower property listings sold in the first quarter of 2018. The reduction in sales volume in 2018 was primarily due to a decrease in REO property listings as our sales outflow outpaced our referral inflow. Despite the overall decline in revenue, we continue to make progress in diversifying our customer base. For the six months ended June 30, 2018, the percentage of referral inflow on default property listings and revenue earned from third-party customers increased by 17% to 37% and 10% to 14%, respectively.

Services revenues decreased for the three and six months ended June 30, 2018 as compared to the same periods in 2017, primarily due to the sale of our retail title division in June 2017 despite an increase in service completed orders. The divergence between the decline in revenue and increase in orders was due to product mix. During both the three and six months ended June 30, 2018, Xome completed approximately 50% greater uninsured title product orders. Uninsured title orders generally have a lower per unit revenue than the majority of the service orders completed. In addition to growth in uninsured title product orders, collateral valuation service orders and associated revenues increased for both internal and third-party customers. These increases were partially offset by a decline in order volume and lower revenue in our national title division.

SaaS revenues decreased three and six months ended June 30, 2018 as compared to the same periods in 2017, primarily due to the sale of RED in February 2018. This decline was partially offset by growth in revenues associated with our DIY solution described above.

Table 26. Xome - Expenses	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Salaries, wages and benefits	**$ 25**	$ 34	**$ 49**	$ 71
General and administrative				
Operational expenses	**24**	28	**49**	59
Depreciation and amortization	**3**	3	**6**	7
Loss on impairment of assets	**—**	2	**—**	2
Total general and administrative	**27**	33	**55**	68
Total expenses - Xome	**$ 52**	$ 67	**$ 104**	$ 139

Salaries, wages and benefits expenses decreased for the three and six months ended June 30, 2018 as compared to the same periods in 2017, primarily driven by the sale of our retail title division in June 2017 and the sale of RED in February 2018. A decrease in acquisition-related compensation and reduction in corporate headcount also contributed to the decrease in salaries and related benefits expenses. Operational expenses decreased for the three and six months ended June 30, 2018 as compared to the same periods in 2017, driven primarily by a decline in direct vendor costs. In addition, we recorded an impairment charge of $2 in 2017 related to software and hardware for technology assets no longer being developed.

Corporate and Other

Table 27. Corporate and Other - Operations	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	**$ 1**	$ —	**$ 1**	$ 1
Expenses	**19**	24	**40**	49
Other income (expenses), net	**(33)**	(33)	**(67)**	(70)
Loss before income tax benefit	**$ (51)**	$ (57)	**$ (106)**	$ (118)

Our Corporate and Other segment records interest expense on our unsecured senior notes and other corporate debt, income or loss from our legacy portfolio consisting of non-prime and nonconforming residential mortgage loans and corporate expenses that are not directly attributable to our operating segments. The legacy portfolio consists of loans that were transferred to a securitization trust in 2009 that was structured as a secured borrowing. The securitized loans are recorded as mortgage loans on our consolidated balance sheets and the asset backed certificates acquired by third parties are recorded as nonrecourse debt.

Non-allocated corporate expenses include the administrative costs of executive management and other corporate functions that are not directly attributable to our operating segments.

Table 28. Legacy Portfolio	June 30, 2018	December 31, 2017
Performing - UPB	**$ 145**	$ 153
Nonperforming (90+ delinquency) - UPB	**37**	39
REO - estimated fair value	**2**	1
Total legacy portfolio	**$ 184**	$ 193

Table 29. Corporate and Other - Expenses	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Salaries, wages and benefits	**$ 17**	$ 16	**$ 31**	$ 30
General and administrative				
Operational expenses	**—**	4	**5**	12
Depreciation and amortization	**2**	4	**4**	7
Total general and administrative	**2**	8	**9**	19
Total expenses - Corporate and Other	**$ 19**	$ 24	**$ 40**	$ 49

Total expenses decreased in the three and six months ended June 30, 2018 as compared to the same periods in 2017, primarily due to lower operational expenses. The decrease in expenses was driven by cost containment initiatives across corporate functions, which included savings in risk, compliance and legal functions.

Table 30. Corporate and Other - Other Income (Expenses), Net	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income, legacy portfolio	**$ 3**	$ 5	**$ 6**	$ 10
Interest expense, legacy portfolio	**(1)**	(1)	**(2)**	(3)
Interest expense on unsecured senior notes	**(31)**	(36)	**(66)**	(73)
Other interest, net	**(2)**	—	**(3)**	(2)
Total interest expense	**(34)**	(37)	**(71)**	(78)
Other income (expense)	**(2)**	(1)	**(2)**	(2)
Other income (expenses), net - Corporate and Other	**$ (33)**	$ (33)	**$ (67)**	$ (70)
Weighted average cost - unsecured senior notes	**7.3%**	7.4%	**7.3%**	7.4%

Other income (expenses), net for the Corporate and Other segment consists of interest expense on our unsecured senior notes, the interest income and expense from our legacy portfolio, and other interest related to a revolving facility used for general corporate purposes. Total other income (expenses), net remained consisted in the three months ended June 30, 2018 as compared to the same period in 2017. Total other income (expenses), net improved in the six months ended June 30, 2018 compared to the same period in 2017 as a result of lower interest expense on unsecured senior notes. Interest expense on unsecured senior notes decreased in the three and six months ended June 30, 2018 compared to the same periods in 2017 due to repurchases of debt.

Changes in Financial Position

Table 31. Assets	June 30, 2018	December 31, 2017	% Change
Cash and cash equivalents	**$ 185**	$ 215	(14.0)%
Mortgage servicing rights	**3,356**	2,941	14.1 %
Advances and other receivables, net	**1,317**	1,706	(22.8)%
Reverse mortgage interests, net	**9,477**	9,984	(5.1)%
Mortgage loans held for sale at fair value	**1,635**	1,891	(13.5)%
Other	**1,220**	1,299	(6.1)%
Total assets	**$ 17,190**	$ 18,036	(4.7)%

Total assets as of June 30, 2018 decreased by $846 or 4.7% compared with December 31, 2017 primarily due to the decrease in advances and other receivables, reverse mortgage interests, net and mortgage loans held for sale. Cash and cash equivalents decreased $30 primarily due to a strategic decision to utilize cash and cash equivalents to reduce overall interest expense through the repurchase of unsecured senior notes and other nonrecourse debt. Advances and other receivables decreased $389 primarily due to stronger recoveries of escrow advances in 2018. Mortgage loans held for sale decreased $256 due to settlement of loans exceeded originations during the first half of 2018. Reverse mortgage interests, net decreased $507 due to the collection on participating interests in HMBS and repayments of HECM loans. These declines in assets were partially offset by the increase in mortgage servicing rights. Mortgage servicing rights went up in 2018 primarily due to favorable fair value adjustments driven by rising interest rates.

Table 32. Liabilities and Stockholders' Equity	June 30, 2018	December 31, 2017	% Change
Unsecured senior notes, net	**$ 1,815**	$ 1,874	(3.1)%
Advance facilities, net	**516**	855	(39.6)%
Warehouse facilities, net	**3,086**	3,285	(6.1)%
MSR related liabilities - nonrecourse at fair value	**1,063**	1,006	5.7 %
Other nonrecourse debt, net	**7,445**	8,014	(7.1)%
Other liabilities	**1,324**	1,280	3.4 %
Total liabilities	**15,249**	16,314	(6.5)%
Total stockholders' equity attributable to Nationstar	**1,940**	1,715	13.1 %
Noncontrolling interest	**1**	7	(85.7)%
Total liabilities and stockholders' equity	**$ 17,190**	$ 18,036	(4.7)%

Stockholders' equity at June 30, 2018 increased by $225 or 13.1% compared with December 31, 2017 primarily due to net income earned in the first half of 2018. Within liabilities, the advance facilities decreased by $339 as the portfolio balance declined due to the repayments of advances along with the decision to use cash balances to reduce borrowings. Warehouse facilities decreased by $199 primarily due to repayment from proceeds of issuance of the HECM securitization that happened in the first quarter of 2018. Other nonrecourse debt decreased by $569 primarily due to the collection on participating interests in HMBS and repayments of HECM loans.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources and Uses of Cash

Our primary sources of funds for liquidity include: (i) servicing fees and ancillary revenues; (ii) payments received from sale or securitization of loans; (iii) payments from the liquidation or securitization of our outstanding participating interests in reverse mortgage loans; (iv) advance and warehouse facilities, other secured borrowings and the unsecured senior notes; and (v) payments received in connection with the sale of advance receivables and excess spread.

Our primary uses of funds for liquidity include: (i) funding of servicing advances; (ii) originations of loans; (iii) payment of interest expenses; (iv) payment of operating expenses; (v) repayment of borrowings and repurchases or redemptions of outstanding indebtedness; (vi) payments for acquisitions of MSRs; (vii) scheduled and unscheduled draws on our serviced reverse residential mortgage loans; and (viii) payment of our marketing and technology expenses.

Our business is subject to extensive regulation, investigations and reviews by various federal, state and local regulatory and enforcement agencies. We are also subject to various legal proceedings in the ordinary course of our business. Addressing these regulations, reviews and legal proceedings and implementing any resulting remedial measures may require us to devote substantial resources to legal and regulatory compliance or to make other changes to our business practices, resulting in higher costs which may adversely affect our cash flows.

We believe that our cash flows from operating activities, as well as capacity with existing facilities, provide adequate resources to fund our anticipated ongoing cash requirements. We rely on these facilities to fund operating activities. As the facilities mature, we anticipate renewal of these facilities will be achieved. Future debt maturities will be funded with cash and cash equivalents, cash flow from operating activities and, if necessary, future access to capital markets. We continue to optimize the use of balance sheet cash to avoid unnecessary interest carrying costs.

We service and subservice reverse mortgage loan portfolios with a UPB of $32,264 as of June 30, 2018, which includes $22,777 of net reverse MSLs and $9,487 of reverse mortgage interests. Reverse mortgages provide seniors with the ability to monetize the equity in their homes in a lump sum, line of credit or monthly draws. The unpaid principal balance of the loan is accreted for borrower draws and other costs such as mortgage insurance premiums, property taxes and insurance. Recovery of advances and draws related to reverse MSRs is generally recovered over a two to three month period from the investor. However, for reverse assets recorded as a loan, the repayment of loan balances and collection of servicing fees occurs upon the payoff or other liquidation of the loan. We securitize our holdings in reverse mortgage loans in order to finance subsequent borrower draws and loan related costs.

Cash Flows

The table below presents the major sources and uses of cash flow for operating activities.

Table 33. Operating Cash Flow	**Six Months Ended June 30,**	
	2018	**2017**
Originations net sales activities	**$ 386**	$ 511
Cash provided by operating profits and changes in working capital and other assets	**1,483**	360
Net cash attributable to operating activities	**$ 1,869**	$ 871

Cash generated from originations net sales activities was $386 during the six months ended June 30, 2018 compared to $511 in the same period in 2017. The decrease was primarily due to a higher funding of $1,743 for loan origination activities driven by higher correspondent loan volumes. The increase in funding was partially offset by a decrease in proceeds of $1,494 on the sales of previously originated loans.

Cash generated from other operating activities and from changes in working capital and other assets during the six months ended June 30, 2018 increased when compared to the same period in 2017. The increase is primarily due to a decrease of $396 in cash used to pay down payables and accrued liabilities and an increase of $237 in collection of advances and other receivables.

Table 34. Investing Cash Flows	**Six Months Ended June 30,**	
	2018	**2017**
Purchase of forward mortgage servicing rights, net of liabilities incurred	**$ (123)**	$ (13)
Proceeds on sale of assets	**13**	16
Other	**(32)**	(27)
Net cash attributable to investing activities	**$ (142)**	$ (24)

Our investing activities used $142 and $24 of cash during the six months ended June 30, 2018 and 2017, respectively. The change in investing activities is primarily due to the increase of $110 in purchases of forward mortgage servicing rights and an increase of $6 in property and equipment additions, net of disposals. Although we continue to seek to acquire servicing portfolios at advantageous pricing, the amounts and timing of these opportunities is not of a consistent frequency and can result in cash flows variability between periods.

Table 35. Financing Cash Flow

	Six Months Ended June 30,	
	2018	**2017**
Decrease in advance facilities	**$ (339)**	$ (214)
Changes in warehouse facilities	**(199)**	100
Payment of senior unsecured notes and nonrecourse debt	**(75)**	(110)
Issuance of excess spread financing	**70**	—
Repayment of excess spread financing	**(93)**	(109)
Decrease in participating interest financing in reverse mortgage interests	**(1,184)**	(905)
HECM securitizations	**20**	132
Other	**(7)**	(10)
Net cash attributable to financing activities	**$ (1,807)**	$ (1,116)

Our financing activities used $1,807 cash during the six months ended June 30, 2018, a decrease of $691 when compared with $1,116 in the same period in 2017. The decrease is primarily due to proceeds from HECM securitizations, a portion of which were used to pay down participating interest financings. During the six months ended June 30, 2018, we issued HMBS under a new trust for total proceeds of $443. Proceeds from the securitization less scheduled pay downs and amounts incurred to settle the collapsed trusts resulted in net cash inflow of $20. Partially offsetting the improvements in financing costs was cash used to pay down advance facilities and warehouse facilities. Advance facilities declined by $339 in 2018, consistent with recoveries in advance balances. Payment of warehouse facilities increased in 2018 when compared with same period in 2017 primarily due to proceeds from HECM securitizations being used to pay down the facilities, which did not occur in the same period in 2017.

Capital Resources

Capital Structure and Debt

We require access to external financing resources from time to time depending on our cash requirements, assessments of current and anticipated market conditions and after-tax cost of capital. If needed, we believe additional capital could be raised through a combination of issuances of equity, corporate indebtedness, asset-backed acquisition financing and/or cash from operations. Our access to capital markets can be impacted by factors outside our control, including economic conditions.

<u>*Financial Covenants*</u>
Our advance and warehouse facilities contain various financial covenants which primarily relate to required tangible net worth amounts, liquidity reserves, leverage requirements, and profitability requirements. As of June 30, 2018, we were in compliance with our financial covenants on our borrowing arrangements and credit facilities.

<u>*Seller/Servicer Financial Requirements*</u>
The Federal Housing Finance Agency minimum financial requirements for Fannie Mae and Freddie Mac Seller/Servicers are set forth below.

Minimum Net Worth

- Base of $2.5 plus 25 basis points of UPB for total loans serviced.
- Tangible Net Worth comprises total equity less goodwill, intangible assets, affiliate receivables and certain pledged assets.

Minimum Capital Ratio

- Tangible Net Worth/Total Assets greater than 6%.

Minimum Liquidity

- 3.5 basis points of total Agency servicing (Fannie Mae, Freddie Mac, Ginnie Mae) plus,
- Incremental 200 basis points of total nonperforming Agency, measured as 90+ delinquencies, servicing in excess of 6% of the total Agency servicing UPB,
- Allowable assets for liquidity may include: cash and cash equivalents (unrestricted), available for sale or held for trading investment grade securities (e.g., Agency MBS, Obligations of GSEs, US Treasury Obligations); and unused/available portion of committed servicing advance lines.

In addition, Fannie Mae or Freddie Mac may require capital ratios in excess of stated requirements. Refer to Financial Covenants in Note 8, *Indebtedness* and Note 14, *Capital Requirement*s for additional information. As of June 30, 2018, we were in compliance with our seller/servicer financial requirements.

Table 36. Debt	**June 30, 2018**	**December 31, 2017**
Advance facilities, net	**$ 516**	$ 855
Warehouse facilities, net	**3,086**	3,285
Unsecured senior notes, net	**1,815**	1,874

<u>*Advance Facilities*</u>
Our servicing agreements impose on us various rights and obligations that affect our liquidity. Among the most significant of these obligations is the requirement that we advance our own funds to meet contractual principal and interest payments for certain investors and to pay taxes, insurance, foreclosure costs and various other items that are required to preserve the assets being serviced. Delinquency rates and prepayment speeds affect the size of servicing advance balances along with stop advance policies. As part of our normal course of business, we borrow money to fund servicing advances. We rely upon several counterparties to provide us with financing facilities to fund a portion of our servicing advances. Pursuant to the terms of our agreements, New Residential has the obligation to fund future advances on the private-label securitized loans subject to the agreements.

Warehouse Facilities
Loan origination activities generally require short-term liquidity in excess of amounts generated by our operations. The loans we originate are financed through several warehouse lines on a short-term basis. We typically hold the loans for approximately 30 days and then sell or place the loans in government securitizations in order to repay the borrowings under the warehouse lines. Our ability to fund current operations depends upon our ability to secure these types of short-term financings on acceptable terms and to renew or replace the financings as they expire.

As a servicer for reverse mortgage loans, among other things, we are required to fund borrower draws on the loans. We typically pool borrower draws for approximately 30 days before including them in a HMBS securitization. At June 30, 2018, unsecuritized borrower draws totaled $413 and our maximum unfunded advance obligation related to these reverse mortgage loans was $3,426.

Unsecured Senior Notes
From 2010 through 2013, we completed offerings of unsecured senior notes, which mature on various dated through June 2022. We pay interest semi-annually to the holders of these notes at interest rates ranging from 6.5% to 9.625%.

Table 37. Contractual Maturities - Unsecured Senior Notes

As of June 30, 2018, the expected maturities of our unsecured senior notes based on contractual maturities are presented below.

Year Ending December 31,	Amount
2018[1]	$ **364**
2019[2]	**266**
2020[1]	**394**
2021	**595**
2022	**206**
Unsecured senior notes principal amount	**1,825**
Unamortized debt issuance costs	**(10)**
Unsecured senior notes, net	$ **1,815**

[1] The entire remaining principal amount of this unsecured senior note plus accrued interests was subsequently paid off on August 1, 2018 in connection with the Merger.
[2] The entire remaining principal amount of this unsecured senior note plus accrued interests is expected to be paid off on August 15, 2018.

Contractual Obligations

As of June 30, 2018, no material changes to our outstanding contractual obligations were made from the amounts previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

CRITICAL ACCOUNTING POLICIES

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, we have identified the following policies that, due to the judgment, estimates and assumptions inherent in those policies, are critical to an understanding of our consolidated financial statements. These policies relate to fair value measurements, particularly those determined to be Level 3 as discussed in Note 13, *Fair Value Measurements*, and valuation and reserves for deferred tax assets. We believe that the judgment, estimates and assumptions used in the preparation of our consolidated financial statements are appropriate given the factual circumstances at the time. However, given the sensitivity of our consolidated financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in our results of operations or financial condition. Fair value measurements considered to be Level 3 representing estimated values based on significant unobservable inputs include (i) the valuation of MSRs, (ii) the valuation of excess spread financing and (iii) the valuation of the mortgage servicing rights financing liability. For further information on our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes to our critical accounting policies since December 31, 2017.

Recent Accounting Developments

See Note 1, *Nature of Business and Basis of Presentation*, in the Consolidated Financial Statements which is incorporated herein for details of recently issued accounting pronouncements and the expected impact on our consolidated financial statements.

Impact of Inflation and Changing Prices

Our consolidated financial statements and notes thereto presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Further, interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Variable Interest Entities and Off-Balance Sheet Arrangements

See Note 10, *Securitizations and Financings*, in the Consolidated Financial Statements in Item 1, *Financial Statements,* which is incorporated herein for a summary of our transactions with VIEs and unconsolidated balances details of their impact on our consolidated financial statements.

Derivatives

See Note 7, *Derivative Financial Instruments*, in the Consolidated Financial Statements in Item 1, *Financial Statements,* which is incorporated herein for a summary of our derivative transactions.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

Refer to the discussion of market risks included in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017. There has been no material change in the types of market risks faced by us since December 31, 2017.

We assess our market risk based on changes in interest rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential impact on fair values based on hypothetical changes (increases and decreases) in interest rates. We use a duration-based model in determining the impact of interest rate shifts on our loan portfolio, certain other interest-bearing liabilities measured at fair value and interest rate derivatives portfolios. The primary assumption used in these models is that an increase or decrease in the benchmark interest rate produces a parallel shift in the yield curve across all maturities.

We utilize a discounted cash flow analysis to determine the fair value of MSRs and the impact of parallel interest rate shifts on MSRs. The primary assumptions in this model are prepayment speeds and market discount rates. However, this analysis ignores the impact of interest rate changes on certain material variables, such as the benefit or detriment on the value of future loan originations, non-parallel shifts in the spread relationships between MBS, swaps and U.S. Treasury rates and changes in primary and secondary mortgage market spreads. For mortgage loans, IRLCs and forward delivery commitments on MBS, we rely on a model in determining the impact of interest rate shifts. In addition, for IRLCs, the borrower's propensity to close their mortgage loans under the commitment is used as a primary assumption.

Our total market risk is influenced by a wide variety of factors including market volatility and the liquidity of the markets. There are certain limitations inherent in the sensitivity analysis presented, including the necessity to conduct the analysis based on a single point in time and the inability to include the complex market reactions that normally would arise from the market shifts modeled.

We use market rates on our instruments to perform the sensitivity analysis. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in fair value may not be linear. We believe that on the whole our estimated net changes to the fair value of our assets and liabilities at June 30, 2018 are within acceptable ranges based on the materiality of our financial statements.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of June 30, 2018.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2018, our disclosure controls and procedures are effective. Disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the three months ended June 30, 2018, no changes in our internal control over financial reporting occurred that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

PART II – OTHER INFORMATION

Item 1. ***Legal Proceedings***

From time to time, we are party to numerous legal proceedings that have arisen in the normal course of conducting business. These actions and proceedings are generally based on alleged violations of consumer protection, securities, employment, contract, tort, common law fraud and other laws. In addition, in the ordinary course of business we and our subsidiaries can be and are involved in governmental and regulatory examinations, information gathering requests, investigations and proceedings.

We are a state licensed, non-bank mortgage lender and servicer. Our business is subject to extensive examinations, investigations and reviews by various federal, state and local regulatory and enforcement agencies. We have historically had and continue to have a number of open investigations with various regulators or enforcement agencies.

We continue to receive regulatory and governmental investigations, subpoenas, examinations and other inquiries. We are currently the subject of various regulatory or governmental investigations, subpoenas, examinations and inquiries related to our residential loan servicing and origination practices, bankruptcy and collections practices, financial reporting and other aspects of our businesses. These matters include investigations by the Bureau of Consumer Financial Protection (the "BCFP"), the Securities and Exchange Commission, the Executive Office of the United States Trustees, the Department of Justice, the Office of the Special Inspector General for the Troubled Asset Relief Program, the U.S. Department of Housing and Urban Development, the multi-state coalition of mortgage banking regulators and various State Attorneys General. These specific matters and other pending or potential future investigations, subpoenas, examinations or inquiries may lead to administrative, civil or criminal proceedings or settlements and possibly result in remedies including fines, penalties, restitution, or alterations in our business practices and in additional expenses and collateral costs. We are cooperating fully in these matters.

For example, we continue to progress towards resolution of certain legacy regulatory matters involving regulatory examination findings for alleged violations of certain laws related to our business practices. On April 24, 2018, the BCFP notified us that, in accordance with the BCFP’s discretionary Notice and Opportunity to Respond and Advise (NORA) process, the BCFP’s Office of Enforcement is considering whether to recommend that the BCFP take enforcement action against us, alleging violations of the Real Estate Settlement Procedures Act, the Consumer Financial Protection Act, and the Homeowners Protection Act, which stems from a 2014 examination. The purpose of a NORA letter is to provide a party being investigated an opportunity to present its position to the BCFP before an enforcement action may be recommended or commenced. We are continuing to cooperate with the BCFP. There can be no assurance that the BCFP will not seek to exercise its enforcement authority through settlement, administrative proceedings or litigation and seek injunctive relief, damages, restitution and civil monetary penalties, which could have a material adverse effect on our business, reputation, financial condition and results of operations. However, we believe it is premature to predict the potential outcome or to estimate any potential financial impact in connection with any potential BCFP enforcement action. We have not recorded an accrual related to this matter as of June 30, 2018 as we do not believe a loss is probable. There is a reasonable possibility that a loss may be incurred; however, the possible loss or range of loss is not estimable.

In addition, we are a defendant in a class action proceeding originally filed in state court in March 2012, and then removed to the United States District Court for the Eastern District of Washington under the caption Laura Zamora Jordan v. Nationstar Mortgage LLC. The suit was filed on behalf of a class of Washington borrowers and challenges property preservation measures we took, as loan servicer, after the borrowers defaulted and our vendors determined that the borrowers had vacated or abandoned their properties. The case raises claims for (i) common law trespass, (ii) statutory trespass, and (iii) violation of Washington’s Consumer Protection Act, and seeks recovery of actual, statutory, and treble damages, as well as attorneys’ fees and litigation costs. On July 25, 2018, we entered into a settlement agreement to resolve this matter. The parties are currently seeking approval of the settlement from the court.

We are a defendant in a proceeding filed on January 2, 2018 in the U.S. District Court for the Northern District of California under the caption Collateral Analytics LLC v. Nationstar Mortgage LLC et al. The plaintiff alleges that we and certain affiliated entities misappropriated plaintiff's intellectual property for the purpose of replicating plaintiff's products. The case raises federal and state law claims for misappropriation of trade secrets and breach of contract and seeks an award of actual damages, unjust enrichment, lost profits and/or a reasonable royalty, exemplary damages and injunctive relief preventing further misuse or disclosure of plaintiff's intellectual property. We believe we have meritorious defenses and will vigorously defend ourselves in this matter.

We are also a defendant in a proceeding filed on October 23, 2015 in the U.S. District Court for the Central District of California under the caption Alfred Zaklit and Jessy Zaklit, individually and on behalf of all others similarly situated v. Nationstar Mortgage LLC et al. The plaintiff alleges that we improperly recorded telephone calls without the knowledge or consent of borrowers in violation of the California Penal Code. The court, on July 24, 2017, certified a class comprised of California borrowers who, from October 2014 to May 2016, participated in outbound telephone conversations with our employees who recorded the conversations without first informing the borrowers that the conversations were being recorded. The class seeks statutory damages and attorney's fees. We believe we have meritorious defenses and will continue to vigorously defend ourselves in this matter.

On May 8, 2018, a purported class action lawsuit styled as Franchi v. Nationstar Mortgage Holdings Inc., et al., was filed in the United States District Court for the Northern District of Texas naming Nationstar, WMIH Corp., Wand Merger Corporation and the individual members of the Nationstar board of directors as defendants. The complaint alleged that the defendants violated the Exchange Act by disseminating a false and misleading registration statement. In order to, among other things, eliminate the burden, inconvenience, expense, risk, and disruption of continued litigation, on June 26, 2018, the plaintiff and the defendants (together, the "Parties") entered into a memorandum of understanding (the "MOU") to resolve the claims asserted by the plaintiff without the defendants admitting any wrongdoing or conceding the materiality of any supplemental disclosures. Pursuant to the MOU, the Parties agreed that the defendants would cause to be made certain supplemental disclosures set forth in an 8-K filed with the SEC on June 26, 2018. The MOU further specifies that, within five (5) business days of the closing of the Merger, the Parties will file a stipulation of dismissal of the purported class action lawsuit. That stipulation will dismiss plaintiff's individual claims with prejudice, and dismiss the claims purportedly asserted on behalf of a putative class of Nationstar shareholders without prejudice. The MOU will not affect the timing of the Merger or the amount or form of consideration to be paid in the Merger.

Responding to these matters requires us to devote substantial legal and regulatory resources, resulting in higher costs and lower net cash flows. Adverse results in any of these matters could further increase our operating expenses and reduce our revenues, require us to change business practices and limit our ability to grow and otherwise materially and adversely affect our business, reputation, financial condition or results of operation.

Item 1A. *Risk Factors*

There have been no material changes or additions to the risk factors previously disclosed under "Risk Factors" included in our Annual Report on Form 10-K filed for the year ended December 31, 2017.

Item 2. *Issuer Purchases of Equity Securities*

(in thousands except Average Price Paid per Share)

Period	(a) Total Number of Shares (or Units) Purchased (in thousands)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs[1] (in thousands)	(d) Maximum Number (or Appropriate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Program (in millions)
April 1 - 30, 2018	—	$ —	—	$ —
May 1 - 31, 2018	—	$ —	—	$ —
June 1 - 30, 2018	73 [1]	$ 17.94	—	$ —
Total	73		—	

[1] In the second quarter of 2018, approximately 73 thousand shares of common stock were surrendered at an average price of $17.94 per share to us by certain employees in an amount equal to the amount of tax withheld to satisfy minimum statutory tax requirements in connection with the vesting of restricted shares. As of the date of this report, we have no publicly announced plans or programs to repurchase our common stock.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

		Incorporated by Reference				
Exhibit Number	**Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed or Furnished Herewith**
4.1	Second Supplemental Indenture, dated as of June 21, 2018, by and among Nationstar Mortgage LLC, Nationstar Capital Corporation, the guarantors thereto and Wells Fargo Bank, National Association, as trustee	8-K	001-35449	4.1	06/22/2018	
4.2	First Supplemental Indenture, dated as of June 21, 2018, by and among Nationstar Mortgage LLC, Nationstar Capital Corporation, the guarantors thereto and Wells Fargo Bank, National Association, as trustee	8-K	001-35449	4.2	06/22/2018	
10.1	Amendment Number Six, dated as of May 29, 2018 to the Second Amended and Restated Master Repurchase Agreement, dated January 29, 2016, among Barclays Bank PLC, as purchaser and agent, Sutton Funding LLC, as a purchaser, and Nationstar Mortgage LLC, as seller					X
31.1	Certification by Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification by Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

SIGNATURES

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

NATIONSTAR MORTGAGE HOLDINGS INC.

August 3, 2018	/s/ Jay Bray
Date	**Jay Bray** **Chief Executive Officer** **(Principal Executive Officer)**
August 3, 2018	/s/ Amar R. Patel
Date	**Amar R. Patel** **Chief Financial Officer** **(Principal Financial and Accounting Officer)**

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Section 2: EX-10.1 (EXHIBIT 10.1)

Exhibit 10.1

AMENDMENT NUMBER SIX
to the
SECOND AMENDED AND RESTATED
MASTER REPURCHASE AGREEMENT
dated as of January 29, 2016
between
BARCLAYS BANK PLC
and
NATIONSTAR MORTGAGE LLC

This AMENDMENT NUMBER SIX (this "Amendment") is made as of this 29th day of May, 2018, by and between Barclays Bank PLC ("Purchaser" and "Agent") and Nationstar Mortgage LLC ("Seller"), to that certain Second Amended and Restated Master Repurchase Agreement, dated as of January 29, 2016 (as amended by that certain Amendment Number One to the Second Amended and Restated Master Repurchase Agreement, dated as of June 24, 2016, Amendment Number Two to the Second Amended and Restated Master Repurchase Agreement, dated as of October 17, 2016, Amendment Number Three to the Second Amended and Restated Master Repurchase Agreement, dated as of October 31, 2016, Amendment Number Four to the Second Amended and Restated Master Repurchase Agreement, dated as of October 30, 2017, and Amendment Number Five to the Second Amended and Restated Master Repurchase Agreement, dated as of March 22, 2018, and as further amended, restated, supplemented or otherwise modified from time to time, the "Repurchase Agreement"), by and among Seller, Agent and Purchaser.

WHEREAS, Purchaser, Agent and Seller have agreed to amend the Repurchase Agreement as more particularly set forth herein;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and for the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Amendments. Effective as of the Effective Date, the Repurchase Agreement is hereby amended as follows:

(a) Section 2(a) of the Repurchase Agreement is hereby amended by deleting the defined term "Special Loan" in its

entirety and replacing it with the following:

"Special Loan" means a (i) Fannie Mae Non-Traditional Loan or (ii) New Construction One-Time Close Loan.

(b) Section 2(a) of the Repurchase Agreement is hereby amended by adding the following defined term "New Construction One-Time Close Loan" in its proper alphabetical sequence:

"New Construction One-Time Close Loan" means a Ginnie Mae Mortgage Loan, Fannie Mae Mortgage Loan or Freddie Mac Mortgage Loan that is in Strict Compliance with the eligibility requirements of the Ginnie Mae Program, Fannie Mae Program or Freddie Mac

Program, as applicable, created to serve borrowers to single-close construction-to-permanent financing transactions, as such program may be amended, supplemented or otherwise modified, from time to time.

SECTION 2. Fees and Expenses. Seller agrees to pay to Purchaser all fees and out of pocket expenses incurred by Purchaser and Agent in connection with this Amendment, including all reasonable fees and out of pocket costs and expenses of the legal counsel to Purchaser and Agent incurred in connection with this Amendment, in accordance with Section 23 (a) of the Repurchase Agreement.

SECTION 3. Defined Terms. Any terms capitalized but not otherwise defined herein should have the respective meanings set forth in the Repurchase Agreement.

SECTION 4. Conditions to Effectiveness of this Amendment. This Amendment shall become effective on the day (the "Effective Date") when Seller shall have paid or delivered, as applicable, to Purchaser all of the following fees, expenses, documents and instruments, each of which shall be in form and substance acceptable to Purchaser:

(a) all accrued and unpaid fees and expenses owed to Purchaser in accordance with the Facility Documents, in each case, in immediately available funds, and without deduction, set-off or counterclaim;

(b) a copy of this Amendment duly executed by each of the parties hereto;

(c) a copy of the Amendment Number Four to the Pricing Side Letter, dated as of the date hereof, duly executed by each of the parties thereto; and

(d) any other documents reasonably requested by Purchaser or Agent on or prior to the date hereof.

SECTION 5. Limited Effect. Except as amended hereby, the Repurchase Agreement shall continue in full force and effect in accordance with its terms. Reference to this Amendment need not be made in the Repurchase Agreement or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Repurchase Agreement, any reference in any of such items to the Repurchase Agreement being sufficient to refer to the Repurchase Agreement as amended hereby.

SECTION 6. Representations. In order to induce Purchaser and Agent to execute and deliver this Amendment, Seller hereby represents to Purchaser and Agent that as of the date hereof, (i) Seller is in full compliance with all of the terms and conditions of the Program Documents and remains bound by the terms thereof, and (ii) no Default or Event of Default has occurred and is continuing under the Program Documents.

SECTION 7. Governing Law. This Amendment and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the laws of the State of New York,

without regard to principles of conflict of laws (other than Sections 5-1401 and 5-1402 of the New York General Obligations Law which shall be applicable).

SECTION 8. Counterparts. For the purpose of facilitating the execution of this Amendment, and for other purposes, this Amendment may be executed simultaneously in any number of counterparts. Each counterpart shall be deemed to be an original, and all such counterparts shall constitute one and the same instrument. The parties intend that faxed signatures and electronically imaged signatures such as .pdf files shall constitute original signatures and are binding on all parties. The original documents shall be promptly delivered, if requested.

[REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, Purchaser, Agent and Seller have caused their names to be duly signed to this Amendment by their respective officers thereunto duly authorized, all as of the date first above written.

BARCLAYS BANK PLC,
as Purchaser and Agent

By: /s/ Ellen Kierman
Name: Ellen Kierman
Title: Director

NATIONSTAR MORTGAGE LLC,
as Seller

By: /s/ Jeffrey Neufeld
Name: Jeffrey Neufeld
Title: Senior Vice President & Treasurer

Signature Page to Amendment No. 6 to Second A&R MRA

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Section 3: EX-31.1 (CEO - 302 CERTIFICATION)

Exhibit 31.1

Certification Pursuant to Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jay Bray, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2018 of Nationstar Mortgage Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial

reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

  a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2018
/s/ Jay Bray

Jay Bray
Chief Executive Officer

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Section 4: EX-31.2 (CFO - 302 CERTIFICATION)

Exhibit 31.2

Certification Pursuant to Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Amar Patel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2018 of Nationstar Mortgage Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2018
/s/ Amar R. Patel

Amar R. Patel
Chief Financial Officer

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Section 5: EX-32.1 (CEO - 906 CERTIFICATION)

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Nationstar Mortgage Holdings Inc. (the “Company”) on Form 10-Q for the three and six months ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jay Bray, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2018

/s/ Jay Bray

Jay Bray
Chief Executive Officer

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Section 6: EX-32.2 (CFO - 906 CERTIFICATION)

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Nationstar Mortgage Holdings Inc. (the “Company”) on Form 10-Q for the three and six months ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Amar Patel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2018

/s/ Amar R. Patel

Amar R. Patel
Chief Financial Officer

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