New Residential Investment Corp.
Form 424B5
February 19, 2019
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The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has become effective under the Securities Act of 1933. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-213058

Subject to Completion, dated February 19, 2019

Preliminary Prospectus Supplement
(To Prospectus dated August 10, 2016)

40,297,096 Shares

New Residential Investment Corp.
Common Stock

We are offering 40,000,000 shares of our common stock, $0.01 par value per share and FIG LLC (our Manager or the Selling Stockholder) is offering 297,096 shares of our common stock by this prospectus supplement and the accompanying prospectus. All of the shares of our common stock being sold by the Selling Stockholder will be acquired through the exercise of outstanding options (the Option Shares) concurrently with this offering. We will not receive any proceeds from the sale of the Option Shares by the Selling Stockholder.

Our common stock is listed on the New York Stock Exchange (the NYSE) under the symbol NRZ. On February 15, 2019, the last reported sale price of our common stock was $17.12 per share.

Investing in our common stock involves a high degree of risk. Before making a decision to invest in our common stock, you should read the discussion of material risks of investing in our common stock in Risk Factors beginning on page S-12 of this prospectus supplement and in the Risk Factors sections of our Annual Report on Form 10-K for the year ended December 31, 2018, which has been filed with the Securities and Exchange Commission (the SEC) and is incorporated by reference in this prospectus supplement and the accompanying prospectus.

Neither the SEC nor any state or other securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The underwriters have agreed to purchase our common stock from us and from the Selling Stockholder at a price of $ per share, which will result in approximately $ million of proceeds to us and approximately $ million of proceeds to the Selling Stockholder, before expenses. The underwriters may offer our common stock in transactions on the NYSE, in the over-the-counter market or through negotiated transactions at market prices or at negotiated prices. See Underwriting.

We have also granted the underwriters an option to purchase up to an additional 6,000,000 shares of our common stock, within 30 days after the date of this prospectus supplement.

The underwriters are offering the shares of our common stock as set forth under Underwriting. Delivery of the shares of our common stock will be made on or about , 2019.

Joint Book-Running Managers

Morgan Stanley	**Credit Suisse**	**J.P. Morgan**

The date of this prospectus supplement is , 2019.

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You should rely only on the information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated herein and therein by reference. We and the Selling Stockholder have not, and the underwriters have not, authorized anyone to provide you with additional or different information. We and the Selling Stockholder are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where the offers and sales are permitted. The information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate only as of the date of this prospectus supplement or the accompanying prospectus or the date of the document incorporated by reference, as the case may be, regardless of the time of delivery of this prospectus supplement or of any sale of shares of our common stock.

All references to we, our, us, the Company and New Residential in this prospectus supplement and the accompa prospectus mean New Residential Investment Corp. and its consolidated subsidiaries, except where it is made clear that the term means only the parent company.

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Prospectus Supplement

Prospectus

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INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus supplement and the accompanying prospectus, information that we file with the SEC prior to the completion of this offering. This permits us to disclose important information to you by referring to these filed documents. Any information referenced in this way is considered to be a part of this prospectus supplement and the accompanying prospectus and any such information filed by us with the SEC subsequent to the date of this prospectus supplement (but prior to the completion of this offering) will automatically be deemed to update and supersede this information. We incorporate by reference the following documents which we have already filed with the SEC, except that any information which is furnished under Item 2.02 or Item 7.01 of any Current Report on Form 8-K (including financial statements or exhibits relating thereto furnished pursuant to Item 9.01) and not filed shall not be deemed incorporated by reference herein:

- Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 15, 2019;
- The portions of our Definitive Proxy Statement on Schedule 14A for our 2018 Annual Meeting of Stockholders, filed on April 10, 2018, which are incorporated by reference in our Annual Report on Form 10-K for the year ended December 31, 2017; and
- The description of our Common Stock set forth in our Registration Statement on Form 10, as amended, filed on April 29, 2013, including any amendment or report filed for the purpose of updating such description.

Whenever after the date of this prospectus supplement (but prior to the completion of this offering) we file reports or documents under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, those reports and documents will be deemed to be a part of this prospectus supplement and the accompanying prospectus from the time they are filed (other than documents or information deemed to have been furnished and not filed in accordance with SEC rules). Any statement made in this prospectus supplement or the accompanying prospectus or in a document incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus will be deemed to be modified or superseded for purposes of this prospectus supplement and the accompanying prospectus to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document that is also incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement or the accompanying prospectus.

We will provide without charge, upon written or oral request, a copy of any or all of the documents which are incorporated by reference into this prospectus supplement and the accompanying prospectus, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit to the registration statement of which this prospectus supplement and the accompanying prospectus form a part. Requests should be directed to New Residential Investment Corp., 1345 Avenue of the Americas, 45th Floor, New York, New York 10105, Attention: Investor Relations (telephone number (212) 479-3150 and email address ir@newresi.com). Our SEC filings are also available free of charge at our website (www.newresi.com). The information on or accessible through our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus.

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein by reference contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which statements involve substantial risks and uncertainties. Such forward-looking statements relate to, among other things, the operating performance of our investments, the stability of our earnings, our financing needs and the size and attractiveness of market opportunities. Forward-looking statements are generally identifiable by use of forward-looking terminology such as may, will, should, potential, intend, expect, endeavor, seek, a estimate, overestimate, underestimate, believe, could, project, predict, continue or other similar words o Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations, cash flows or financial condition or state other forward-looking information. Our ability to predict results or the actual outcome of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. As set forth more fully under the heading Risk Factors contained in Part I, Item IA in our Annual Report on Form 10-K for the year ended December 31, 2018, which is incorporated by reference herein, factors that could have a material adverse effect on our operations and future prospects include, but are not limited to:

- reductions in the value of, or cash flows received from, our investments;
- the quality and size of the investment pipeline and our ability to take advantage of investment opportunities at attractive risk-adjusted prices;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- our ability to deploy capital accretively and the timing of such deployment;
- our counterparty concentration and default risks in Nationstar Mortgage LLC (Nationstar), Ocwen Financial Corporation (Ocwen), OneMain Holdings, Inc. (OneMain), Ditech Financial LLC (Ditech), PHH Mortgage Corporation (PHH) and other third parties;
- events, conditions or actions that might occur at Nationstar, Ocwen, OneMain, Ditech, PHH and other third parties, as well as the continued effect of prior events;
- a lack of liquidity surrounding our investments, which could impede our ability to vary our portfolio in an appropriate manner;
- the impact that risks associated with subprime mortgage loans and consumer loans, as well as deficiencies in servicing and foreclosure practices, may have on the value of our mortgage servicing rights (MSRs), excess mortgage servicing rights (Excess MSRs), servicer advance investments, residential mortgage-backed securities (residential MBS or RMBS), residential mortgage loans and consumer loan portfolios;
- the risks related to our acquisition of Shellpoint Partners LLC (Shellpoint) and ownership of entities that perform origination and servicing operations;
- the risks that default and recovery rates on our MSRs, Excess MSRs, servicer advance investments, RMBS, residential mortgage loans and consumer loans deteriorate compared to our underwriting estimates;
- changes in prepayment rates on the loans underlying certain of our assets, including, but not limited to, our MSRs or Excess MSRs;
- the risk that projected recapture rates on the loan pools underlying our MSRs or Excess MSRs are not achieved;
- servicer advances may not be recoverable or may take longer to recover than we expect, which could cause us to fail to achieve our targeted return on our investment in servicer advance investments or MSRs;

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- impairments in the value of the collateral underlying our investments and the relation of any such impairments to our judgments as to whether changes in the market value of our securities or loans are temporary or not and whether circumstances bearing on the value of such assets warrant changes in carrying values;
- the relative spreads between the yield on the assets in which we invest and the cost of financing;
- adverse changes in the financing markets we access affecting our ability to finance our investments on attractive terms, or at all;
- changing risk assessments by lenders that potentially lead to increased margin calls, not extending our repurchase agreements or other financings in accordance with their current terms or not entering into new financings with us;
- changes in interest rates and/or credit spreads, as well as the success of any hedging strategy we may undertake in relation to such changes;
- the availability and terms of capital for future investments;
- changes in economic conditions generally and the real estate and bond markets specifically;
- competition within the finance and real estate industries;
- the legislative/regulatory environment, including, but not limited to, the impact of the Dodd-Frank Act, U.S. government programs intended to grow the economy, future changes to tax laws, the federal conservatorship of Federal National Mortgage Association and Federal Home Loan Mortgage Corporation and legislation that permits modification of the terms of residential mortgage loans;
- the risk that government-sponsored enterprises (GSEs) or other regulatory initiatives or actions may adversely affect returns from investments in MSRs and Excess MSRs;
- our ability to maintain our qualification as a real estate investment trust (REIT) for U.S. federal income tax purposes and the potentially onerous consequences that any failure to maintain such qualification would have on our business;
- our ability to maintain our exclusion from registration under the Investment Company Act of 1940, as amended (the 1940 Act) and the fact that maintaining such exclusion imposes limits on our operations;
- the risks related to Home Loan Servicing Solutions liabilities that we have assumed;
- the impact of current or future legal proceedings and regulatory investigations and inquiries;
- the impact of any material transactions with FIG LLC (our Manager) or one of its affiliates, including the impact of any actual, potential or perceived conflicts of interest; and
- effects of the completed merger of Fortress Investment Group LLC (Fortress) with affiliates of SoftBank Group Corp. (SoftBank).

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

We encourage you to read this prospectus supplement and the accompanying prospectus, as well as the information that is incorporated by reference in this prospectus supplement and the accompanying prospectus, in their entireties. In evaluating forward-looking statements, you should consider the discussion regarding risks and uncertainties under Risk Factors in this prospectus supplement and in our reports filed with the SEC. We caution that you should not place undue reliance on any of our forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statement, whether written or oral, that we may make from time to time, whether as a result of new information, future events or otherwise.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. This summary does not contain all of the information you should consider before making a decision to invest in our common stock. You should read this entire prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, carefully before making an investment decision, especially the risks of investing in our common stock discussed under Risk Factors herein and therein and our consolidated financial statements and notes to those consolidated financial statements incorporated by reference herein and therein.

NEW RESIDENTIAL INVESTMENT CORP.

General

New Residential is a publicly traded REIT primarily focused on opportunistically investing in, and actively managing, investments primarily related to residential real estate. Our stock is traded on the NYSE under the symbol NRZ.

As of December 31, 2018, we conduct our business through the following segments: (i) servicing and originations, (ii) residential securities and loans, (iii) consumer loans and (iv) corporate.

We seek to drive strong risk-adjusted returns primarily through investments in the U.S. residential real estate market, which at times incorporate the use of leverage. We generally target assets that generate significant current cash flows and/or have the potential for meaningful capital appreciation. Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets in diverse markets, including non-real estate related assets such as consumer loans. We expect our asset allocation and target assets to change over time depending on the types of investment our Manager identifies and the investment decisions our Manager makes in light of prevailing market conditions.

We are externally managed by our Manager, an affiliate of Fortress. We are able to draw upon the long-standing expertise and resources of Fortress, a global investment management firm. Pursuant to the terms of our Management Agreement with our Manager, our Manager provides a management team and other professionals who are responsible for implementing our business strategy and performing certain services for us, subject to oversight by our board of directors. For its services, our Manager is entitled to an annual management fee and is eligible to receive incentive compensation, depending upon our performance. An affiliate of our Manager will also receive options in connection with this offering.

Our Corporate Information

Our principal executive offices are located at 1345 Avenue of the Americas, 45th Floor, New York, New York 10105. Our telephone number is 212-479-3150. Our web address is www.newresi.com. The information on or otherwise accessible through our web site does not constitute a part of this prospectus supplement or the accompanying prospectus and is not incorporated by reference into this prospectus supplement, accompanying prospectus or any other report or document we file with or furnish to the SEC.

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THE OFFERING

Common stock offered:

By us
40,000,000 shares (or 46,000,000 shares if the underwriters exercise their option to purchase additional shares of our common stock in full)
By the Selling Stockholder
297,096 shares of our common stock
Common stock to be outstanding after the offering
409,429,677 shares including the shares of our common stock sold by the Selling Stockholder which will be issued pursuant to the exercise of outstanding options concurrently with this offering (or 415,429,677 shares if the underwriters exercise their option to purchase additional shares of our common stock in full).
NYSE symbol
NRZ
Risk factors
Investing in our common stock involves certain risks, which are described under Risk Factors beginning on page S-12 of this prospectus supplement and in our reports filed with the SEC.
Use of proceeds
We estimate that the net proceeds from our sale of common stock in this offering will be approximately $ (or $ if the underwriters exercise their option to purchase additional shares of our common stock in full) after deducting the expenses of this offering and the underwriting discount. We intend to use the net proceeds from our sale of common stock in this offering for investments and general corporate purposes. We will not receive any proceeds from the sale of the Option Shares by the Selling Stockholder.
The number of shares of our common stock that will be outstanding after this offering is based on 369,132,581 shares of our common stock outstanding as of February 15, 2019 and excludes:

(i) options relating to an aggregate of 5,320,000 shares of our common stock held by our Manager after giving effect to the options exercised in connection with this offering by our Manager;

(ii) options relating to an aggregate of 1,530,916 shares of our common stock assigned to employees of affiliates of our Manager;

(iii) options relating to an aggregate of 6,000 shares of our common stock held by our directors; and

(iv) options relating to 4,000,000 shares of our common stock (or 4,600,000 shares if the underwriters exercise their option to purchase additional shares of our common stock in full) at an exercise price per share equal to the public offering price, representing 10% of the number of shares being offered by us hereby, that have been approved by the compensation committee of our board of directors to be granted pursuant to and in accordance with the terms of our Nonqualified Stock Option and Incentive Award Plan, as amended (the Plan), to an affiliate of our Manager in connection with this offering, and subject to adjustment if the underwriters exercise their option to purchase additional shares of our common stock. The options are fully vested as of the date of grant, become exercisable as to 1/30 of the shares to which it is subject on the first day of each of the 30 calendar months following the first month after the date of the grant and expire on the tenth anniversary of the date of grant.

These options will be settled in an amount of cash equal to the excess of the fair market value of a share of our common stock on the date of exercise over the exercise price, unless advance approval is made to settle the option in shares.

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SUMMARY HISTORICAL FINANCIAL INFORMATION

The following table presents our summary historical financial information as of and for the years ended December 31, 2018, 2017 and 2016.

The summary historical consolidated statements of income for the years ended December 31, 2018, 2017 and 2016 have been derived from our audited financial statements incorporated by reference into this prospectus supplement. The summary historical consolidated balance sheet as of December 31, 2016 has been derived from our audited financial statements not included or incorporated by reference in this prospectus supplement.

The summary historical financial information below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and New Residential s audited consolidated financial statements and related notes in New Residential s Annual Report on Form 10-K for the year ended December 31, 2018 and Management s Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated by reference into this prospectus supplement.

(dollars in thousands, except share and per share data)	**Year Ended December 31,**		
	2018	**2017**	**2016**
Statement of Income Data			
Interest income	$ 1,664,223	$ 1,519,679	$ 1,076,735
Interest expense	606,433	460,865	373,424
Net Interest Income	1,057,790	1,058,814	703,311
Impairment	90,641	86,092	87,980
Net interest income after impairment	967,149	972,722	615,331
Servicing revenue, net	528,595	424,349	118,169
Gain on sale of originated mortgage loans, net	89,017	—	—
Other Income	(44,257)	207,786	62,337
Operating Expenses	609,404	422,577	174,210
Income Before Income Taxes	931,100	1,182,280	621,627
Income tax expense (Benefit)	(73,431)	167,628	38,911
Net Income	$ 1,004,531	$ 1,014,652	$ 582,716
Noncontrolling Interests in Income of Consolidated Subsidiaries	$ 40,564	$ 57,119	$ 78,263
Net Income Attributable to Common Stockholders	$ 963,967	$ 957,533	$ 504,453
Net Income per Share of Common Stock, Basic	$ 2.82	$ 3.17	$ 2.12
Net Income per Share of Common Stock, Diluted	$ 2.81	$ 3.15	$ 2.12
Weighted Average Number of Shares of Common Stock Outstanding, Basic	341,268,923	302,238,065	238,122,665
Weighted Average Number of Shares of Common Stock Outstanding, Diluted	343,137,361	304,381,388	238,486,772
Dividends Declared per Share of Common Stock	$ 2.00	$ 1.98	$ 1.84

Other Data			
Core Earnings[A]	$ 815,158	$ 861,381	$ 510,821

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	Year Ended December 31,		
	2018	**2017**	**2016**
Balance Sheet Data			
Investments in:			
Excess mortgage servicing rights, at fair value	$ 447,860	$ 1,173,713	$ 1,399,455
Excess mortgage servicing rights, equity method investees, at fair value	147,964	171,765	194,788
Mortgage servicing rights, at fair value	2,884,100	1,735,504	659,483
Mortgage servicing rights financing receivables, at fair value	1,644,504	598,728	—
Servicer advance investments, at fair value	735,846	4,027,379	5,706,593
Real estate and other securities, available-for-sale	11,636,581	8,071,140	5,073,858
Residential mortgage loans, held-for-investment	735,329	691,155	190,761
Residential mortgage loans, held-for-sale	932,480	1,725,534	696,665
Residential mortgage loans, held-for-sale, at fair value	2,808,529	—	—
Real estate owned	113,410	128,295	59,591
Consumer loans, equity method investees	38,294	51,412	—
Consumer loans, held-for-investment	1,072,202	1,374,263	1,799,486
Cash and cash equivalents	251,058	295,798	290,602
Restricted cash	164,020	150,252	163,095
Servicer advances receivable	3,277,796	675,593	81,582
Trades receivable	3,925,198	1,030,850	1,687,788
Deferred tax asset, net	65,832	—	151,284
Other asserts	688,408	312,181	244,498
Total assets	31,691,013	22,213,562	18,399,529
Total debt	22,656,235	15,746,530	13,181,236
Total liabilities	25,602,718	17,417,400	14,931,352
Total New Residential stockholders’ equity	5,997,670	4,690,205	3,260,100
Noncontrolling interests in equity of consolidated subsidiaries	90,625	105,957	208,077
Total equity	6,088,295	4,796,162	3,468,177
Supplemental Balance Sheet Data			
Common shares outstanding	369,104,429	307,361,309	250,773,117
Book value per share of common stock	$ 16.25	$ 15.26	$ 13.00

(A) We have four primary variables that impact our operating performance: (i) the current yield earned on our investments, (ii) the interest expense under the debt incurred to finance our investments, (iii) our operating expenses and taxes and (iv) our realized and unrealized gains or losses, including any impairment, on our investments. Core Earnings is a non-GAAP measure of our operating performance, excluding the fourth variable above, and adjusts the earnings from the consumer loan investment to a level yield basis. Core Earnings is used by management to evaluate our performance without taking into account: (i) realized and unrealized gains and losses, which although they represent a part of our recurring operations, are subject to significant variability and are generally limited to a potential indicator of future economic performance; (ii) incentive compensation paid to our Manager; (iii) non-capitalized transaction-related expenses; and (iv) deferred taxes, which are not representative of current operations.

Our definition of Core Earnings includes accretion on held-for-sale loans as if they continued to be held-for-investment. Although we intend to sell such loans, there is no guarantee that such loans will be sold or that they will be sold within any expected timeframe. During the period prior to sale, we continue to receive cash flows from such loans and believe that it is appropriate to record a yield thereon. In addition, our definition of Core Earnings excludes all deferred taxes, rather than just deferred taxes related to unrealized gains or losses, because we believe deferred taxes are not representative of current operations. Our definition of Core Earnings also limits accreted interest income on RMBS where we receive par upon the exercise of associated call rights based on the estimated value of the underlying collateral, net of related costs including advances. We created this limit in order to be able to accrete to the lower of par or the net value of the underlying collateral, in instances where the net value of the underlying collateral is lower than par. We believe this amount represents the amount of accretion we would have expected to earn on such bonds had the call rights not been exercised.

Our investments in consumer loans are accounted for under ASC No. 310-20 and ASC No. 310-30, including certain non-performing consumer loans with revolving privileges that are explicitly excluded from being accounted for under ASC No. 310-30. Under ASC No. 310-20, the recognition of expected losses on these non-performing consumer loans is delayed in comparison to the level yield methodology under ASC No. 310-30, which recognizes income based on an expected cash flow model reflecting an investment s lifetime expected losses. The purpose of the Core Earnings adjustment to adjust consumer loans to a level yield is to present income recognition across the consumer loan portfolio in the manner in which it is economically earned, avoid potential delays in loss recognition, and align it with our overall portfolio of mortgage-related assets which generally record income on a level yield basis. With respect to consumer loans classified as held-for-sale, the level yield is computed through the expected sale date. With respect to the gains recorded under GAAP in 2014 and 2016 as a result of a refinancing of, and the consolidation of, our consumer loan companies, respectively, we continue to record a level yield on those assets based on their original purchase price.

While incentive compensation paid to our Manager may be a material operating expense, we exclude it from Core Earnings because (i) from time to time, a component of the computation of this expense will relate to items (such as gains or losses) that are excluded from Core Earnings, and (ii) it is impractical to determine the portion of the expense related to Core Earnings and non-Core Earnings, and the type of earnings (loss) that created an excess (deficit) above or below, as applicable, the incentive compensation threshold. To illustrate why it is impractical to determine the portion of incentive compensation expense that should be allocated to Core Earnings, we note that, as an example, in a given period, we may have Core Earnings in excess of the incentive compensation threshold but incur losses (which are excluded from Core Earnings) that reduce total earnings below the incentive compensation threshold. In such case, we would either need to (a) allocate zero incentive compensation expense to Core Earnings, even though Core Earnings exceeded the incentive compensation threshold, or (b) assign a pro forma amount of incentive compensation expense to Core Earnings, even though no incentive compensation was actually incurred. We believe that neither of these allocation methodologies achieves a logical result. Accordingly, the exclusion of incentive compensation facilitates comparability between periods and avoids the distortion to our non-GAAP operating measure that would result from the inclusion of incentive compensation that relates to non-Core Earnings.

With regard to non-capitalized transaction-related expenses, management does not view these costs as part of our core operations, as they are considered by management to be similar to realized losses incurred at acquisition. Non-capitalized transaction-related expenses are generally legal and valuation service costs, as well as other professional service fees, incurred when we acquire certain investments, as well as costs associated with the acquisition and integration of acquired businesses.

As of the third quarter of 2018, as a result of the acquisition of Shellpoint, we, through our wholly owned subsidiary, New Penn Financial LLC, originate conventional, government-insured and nonconforming residential mortgage loans for sale and securitization. In connection with the transfer of loans to the GSEs or mortgage investors, we report realized gains or losses on the sale of originated residential mortgage loans and retention of mortgage servicing rights, which we believe is an indicator of performance for our servicing and origination segment and therefore included in core earnings. Realized gains or losses on the sale of originated residential mortgage loans had no impact on core earnings in any prior period, but may impact core earnings in future periods.

Management believes that the adjustments to compute Core Earnings specified above allow investors and analysts to readily identify and track the operating performance of the assets that form the core of our activity, assist in comparing the core operating results between periods, and enable investors to evaluate our current core performance using the same measure that management uses to operate the business. Management also utilizes Core Earnings as a measure in its decision-making process relating to improvements to the underlying fundamental operations of our investments, as well as the allocation of resources between those investments, and management also relies on Core Earnings as an indicator of the results of such decisions. Core Earnings excludes certain recurring items, such as gains and losses (including impairment as well as derivative activities) and non-capitalized transaction-related expenses, because they are not considered by management to be part of our core operations for the reasons described herein. As such, Core Earnings is not intended to reflect all of our activity and should be considered as only one of the factors used by management in assessing our performance, along with GAAP Net Income which is inclusive of all of our activities.

The primary differences between Core Earnings and the measure we use to calculate incentive compensation relate to (i) realized gains and losses (including impairments), (ii) non-capitalized transaction-related expenses and (iii) deferred taxes (other than those related to unrealized gains and losses). Each are excluded from Core Earnings and included in our incentive compensation measure (either immediately or through amortization).

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In addition, our incentive compensation measure does not include accretion on held-for-sale loans and the timing of recognition of income from consumer loans is different. Unlike Core Earnings, our incentive compensation measure is intended to reflect all realized results of operations. The Gain on Remeasurement of Consumer Loans Investment was treated as an unrealized gain for the purposes of calculating incentive compensation and was therefore excluded from such calculation.

Core Earnings does not represent and should not be considered as a substitute for, or superior to, Net Income or as a substitute for, or superior to, cash flows from operating activities, each as determined in accordance with U.S. GAAP, and our calculation of this measure may not be comparable to similarly entitled measures reported by other companies. For a further description of the difference between cash flow provided by operations and Net Income, see Management s Discussion and Analysis of Financial Consolidation and Results of Operations—Liquidity and Capital Resources in our Annual Report on Form 10-K that is incorporated by reference in this prospectus supplement. Set forth below is a reconciliation of Core Earnings to the most directly comparable GAAP financial measure (dollars in thousands):

(dollars in thousands, except share and per share data)	**Year Ended December 31,**		
	2018	**2017**	**2016**
Net Income attributable to common stockholders	$ 963,967	$ 957,533	$ 504,453
Impairment	90,641	86,092	87,980
Other Income adjustments	(142,643)	(225,359)	(51,965)
Other Income and Impairment attributable to non-controlling interests	(22,247)	(30,416)	(26,303)
Change in fair value of investments in mortgage servicing rights	(65,670)	(155,495)	(103,679)
(Gain) loss on settlement of mortgage loan origination derivative instruments	(1,234)	—	—
Gain on securitization of originated mortgage loans	8,757	—	—
Non-capitalized transaction-related expenses	21,946	21,723	9,493
Incentive compensation to affiliate	94,900	81,373	42,197
Deferred taxes	(80,054)	168,518	34,846
Interest income on residential mortgage loans, held-for-sale	13,374	13,623	18,356
Limit on RMBS discount accretion related to called deals	(58,581)	(28,652)	