EDGAR Online

STONEGATE MORTGAGE CORP

FORM 10-Q
(Quarterly Report)

Filed 08/06/15 for the Period Ending 06/30/15

Address	9190 PRIORITY WAY WEST DRIVE SUITE 300 INDIANAPOLIS, IN 46240
Telephone	317-663-5100
CIK	0001454389
Symbol	SGM
SIC Code	6162 - Mortgage Bankers and Loan Correspondents
Fiscal Year	12/31

Powered By EDGAR Online
http://www.edgar-online.com
© Copyright 2015, EDGAR Online, Inc. All Rights Reserved.
Distribution and use of this document restricted under EDGAR Online, Inc. Terms of Use.

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period ended June 30, 2015

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: 001-36116

Stonegate Mortgage Corporation
(Exact name of registrant as specified in its charter)

Ohio	**34-1194858**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
9190 Priority Way West Drive, Suite 300 Indianapolis, Indiana	**46240**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (317) 663-5100

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least 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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

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

Title of Each Class	**Outstanding at August 4, 2015**
Common Stock, $0.01 par value	25,782,190 shares

Stonegate Mortgage Corporation

Quarterly Report on Form 10-Q
For the Period Ended June 30, 2015

Table of Contents

		Page
PART I. FINANCIAL INFORMATION		
ITEM 1.	FINANCIAL STATEMENTS	
	Consolidated Balance Sheets (Unaudited) as of June 30, 2015 and December 31, 2014	3
	Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2015 and 2014	4
	Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the Three and Six Months Ended June 30, 2015 and 2014	5
	Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2015 and 2014	6
	Notes to Unaudited Consolidated Financial Statements	7
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	28
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	59
ITEM 4.	CONTROLS AND PROCEDURES	60
PART II. OTHER INFORMATION		
ITEM 1.	LEGAL PROCEEDINGS	60
ITEM 1A.	RISK FACTORS	60
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	60
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	60
ITEM 4.	MINE SAFETY DISCLOSURES	60
ITEM 5.	OTHER INFORMATION	60
ITEM 6.	EXHIBITS	60
SIGNATURES		61
INDEX TO EXHIBITS		62

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Stonegate Mortgage Corporation
Consolidated Balance Sheets
(Unaudited)

(In thousands, except share and per share data)	June 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$ 48,538	$ 45,382
Restricted cash	500	4,482
Mortgage loans held for sale, at fair value	987,409	1,048,347
Servicing advances	8,791	11,193
Derivative assets	29,048	12,560
Mortgage servicing rights, at fair value	209,343	204,216
Property and equipment, net	22,078	17,047
Loans eligible for repurchase from GNMA	111,765	109,397
Warehouse lending receivables	154,422	85,431
Goodwill and other intangible assets, net	7,146	7,390
Subordinated loan receivable	30,000	30,000
Other assets	29,625	21,106
Total assets	$ 1,638,665	$ 1,596,551
Liabilities and stockholders’ equity		
Liabilities		
Secured borrowings - mortgage loans	536,455	592,798
Mortgage repurchase borrowings	544,125	472,045
Warehouse lines of credit	1,947	1,374
Secured borrowings - mortgage servicing rights	80,058	75,970
Operating lines of credit	5,000	2,000
Accounts payable and accrued expenses	38,561	28,350
Derivative liabilities	4,876	9,044
Reserve for mortgage repurchases and indemnifications	5,289	4,967
Contingent earn-out liabilities	1,769	3,005
Liability for loans eligible for repurchase from GNMA	111,765	109,397
Deferred income tax liabilities, net	12,046	11,831
Other liabilities	15,039	5,695
Total liabilities	$ 1,356,930	$ 1,316,476
Commitments and contingencies - Note 13		
Stockholders’ equity		
Common stock, par value $0.01, shares authorized – 100,000,000; shares issued and outstanding: 25,782,190 and 25,780,973	264	264
Additional paid-in capital	268,728	267,083
Retained earnings	12,743	12,728
Total stockholders’ equity	281,735	280,075
Total liabilities and stockholders’ equity	$ 1,638,665	$ 1,596,551

See accompanying notes to the unaudited consolidated financial statements.

Stonegate Mortgage Corporation
Consolidated Statements of Operations
(Unaudited)

(In thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues				
Gains on mortgage loans held for sale, net	$ 51,334	$ 46,548	$ 104,175	$ 75,179
Losses on sales of mortgage servicing rights	(3,068)	—	(2,869)	—
Changes in mortgage servicing rights valuation	20,821	(10,713)	(3,568)	(18,644)
Payoffs and principal amortization of mortgage servicing rights	(11,322)	(4,651)	(25,088)	(7,378)
Loan origination and other loan fees	7,724	6,731	14,068	11,808
Loan servicing fees	12,611	10,790	26,950	19,965
Interest and other income	9,343	8,918	18,094	14,994
Total revenues	87,443	57,623	131,762	95,924
Expenses				
Salaries, commissions and benefits	42,919	35,144	80,867	68,563
General and administrative expense	9,569	9,346	18,015	17,647
Interest expense	8,295	6,263	16,704	10,075
Occupancy, equipment and communication	5,933	4,762	11,794	8,904
Provision for mortgage repurchases and indemnifications - change in estimate	437	509	523	904
Depreciation and amortization expense	1,846	1,193	3,627	2,276
Total expenses	68,999	57,217	131,530	108,369
Income (loss) before income tax expense (benefit)	18,444	406	232	(12,445)
Income tax expense (benefit)	7,310	138	217	(4,829)
Net income (loss) attributable to common stockholders	11,134	268	15	(7,616)
Income (loss) per share				
Basic	$ 0.43	$ 0.01	$ —	$ (0.30)
Diluted	$ 0.43	$ 0.01	$ —	$ (0.30)

See accompanying notes to the unaudited consolidated financial statements.

Stonegate Mortgage Corporation
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

(In thousands)	Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2013	—	$ —	25,769	$ 264	$ —	$ 263,830	$ 43,407	$ 307,501
Net loss	—	—	—	—	—	—	(7,616)	(7,616)
Stock-based compensation expense	—	—	—	—	—	1,770	—	1,770
Balance at June 30, 2014	—	$ —	25,769	$ 264	$ —	$ 265,600	$ 35,791	$ 301,655
Balance at December 31, 2014	—	$ —	25,781	$ 264	$ —	$ 267,083	$ 12,728	$ 280,075
Net income	—	—	—	—	—	—	15	15
Stock-based compensation expense	—	—	—	—	—	1,645	—	1,645
Issuance of common stock	—	—	1	—	—	—	—	—
Balance at June 30, 2015	—	$ —	25,782	264	$ —	268,728	12,743	281,735

See accompanying notes to the unaudited consolidated financial statements.

Stonegate Mortgage Corporation
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Six Months Ended June 30,	
	2015	**2014**
Operating activities		
Net income (loss)	$ 15	$ (7,616)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization expense	3,627	2,276
Losses on disposal and impairment of long lived assets	322	223
Gains on mortgage loans held for sale, net	(89,756)	(75,179)
Losses on sale of mortgage servicing rights	2,869	—
Changes in mortgage servicing rights valuation	3,568	18,644
Payoffs and principal amortization of mortgage servicing rights	25,088	7,378
Provision for reserve for mortgage repurchases and indemnifications - change in estimate	523	904
Stock-based compensation expense	1,645	1,770
Deferred income tax benefit (expense)	217	(4,829)
Change in fair value of contingent earn-out liabilities	34	(142)
Payments of contingent earn-out liabilities in excess of original fair value estimate	(406)	—
Proceeds from sales and principal payments of mortgage loans held for sale	7,007,654	5,291,372
Originations and purchases of mortgage loans held for sale	(6,919,039)	(5,729,310)
Repurchases and indemnifications of previously sold loans	(25,167)	(486)
Changes in operating assets and liabilities:		
Restricted cash	3,982	(9,229)
Servicing advances	2,402	265
Warehouse lending receivables	(68,991)	(40,052)
Other assets	(1,480)	(4,025)
Accounts payable and accrued expenses	7,795	2,116
Other liabilities	9,345	1,837
Due to related parties	—	(608)
Net cash used in operating activities	(35,753)	(544,691)
Investing activities		
Net proceeds from sale of mortgage servicing rights	40,455	—
Subordinated loan receivable	—	(9,000)
Purchases of property and equipment	(8,426)	(2,629)
Purchases in a business combination, net of cash acquired	—	(258)
Purchase of mortgage servicing rights	(86)	(1,685)
Net cash provided by (used in) investing activities	31,943	(13,572)
Financing activities		
Proceeds from borrowings under mortgage funding arrangements - mortgage loans and operating lines of credit	11,821,470	18,057,080
Repayments of borrowings under mortgage funding arrangements - mortgage loans and operating lines of credit	(11,817,052)	(17,516,703)
Proceeds from borrowings under mortgage funding arrangements - MSRs	14,000	—
Repayments of borrowings under mortgage funding arrangements - MSRs	(9,912)	—
Payments of contingent earn-out liabilities not exceeding original fair value estimate	(864)	(68)
Payments of debt issuance costs	(676)	—
Net cash provided by financing activities	6,966	540,309
Change in cash and cash equivalents	3,156	(17,954)
Cash and cash equivalents at beginning of period	45,382	43,104
Cash and cash equivalents at end of period	$ 48,538	$ 25,150
Supplemental Cash Flow Information:		
Cash paid for interest	$ 16,492	$ 9,174
Cash paid for taxes	$ 574	$ 60

See accompanying notes to the unaudited consolidated financial statements.

(Dollars In Thousands, Except Per Share Data or As Otherwise Stated Herein)

1. Organization and Operations

References to the terms “we”, “our”, “us”, “Stonegate” or the “Company” used throughout these Notes to Unaudited Consolidated Financial Statements refer to Stonegate Mortgage Corporation and, unless the context otherwise requires, its wholly-owned subsidiaries. The Company was initially incorporated in the State of Indiana in January 2005. As a result of an acquisition and subsequent merger with Swain Mortgage Company ("Swain") in 2009, the Company is now an Ohio corporation. The Company’s headquarters is in Indianapolis, Indiana.

The Company is a leading, non-bank mortgage company focused on originating, financing, and servicing U.S. residential mortgage loans that operates as an intermediary between residential mortgage borrowers and the ultimate investors of these mortgages. The Company’s integrated and scalable residential mortgage banking platform includes a diversified origination business which includes a retail branch network, a direct to consumer call center and a network of third party originators consisting of mortgage brokers, mortgage bankers and financial institutions (banks and credit unions). The Company predominantly sells mortgage loans to the Federal National Mortgage Association (“Fannie Mae” or “FNMA”), the Federal Home Loan Mortgage Corporation (“Freddie Mac” or “FHLMC”), financial institution secondary market investors and the Government National Mortgage Association (“Ginnie Mae” or “GNMA”) as pools of mortgage backed securities (“MBS”). Both FNMA and FHLMC are considered government-sponsored enterprises ("GSEs"), for which the Company may perform servicing of U.S. residential mortgage loans. The Company also provides warehouse financing through its NattyMac, LLC subsidiary to third party correspondent lenders. The Company’s principal sources of revenue include (i) gains on sales of mortgage loans from loan securitizations and whole loan sales and fee income from originations, (ii) fee income from loan servicing, and (iii) fee and net interest and other income from its financing facilities and warehouse lending business.

Since the date of the Company’s initial public offering, the Company has continued its development of internal management reporting. Such development has resulted in changes in the information that is provided to the Company’s chief operating decision maker. Accordingly, during the quarter ended September 30, 2014, management re-evaluated this information in relation to its definition of its operating segments. As a result of this new information provided to the chief operating decision maker, management has concluded that its Mortgage Banking operations should be disclosed as three segments: Originations, Servicing and Financing. Prior period segment disclosures have been restated to conform to the current period presentation of segment disclosures - see Note 15, "Segment Information". This determination is based on the Company’s current organizational structure, which reflects the manner in which the chief operating decision maker evaluates the performance of the business.

2. Basis of Presentation and Significant Accounting Policies

The accompanying unaudited consolidated financial statements include the accounts of Stonegate and its subsidiaries and have been prepared in conformity 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. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Company has omitted certain financial disclosures that would substantially duplicate the disclosures in its audited consolidated financial statements as of and for the year ended December 31, 2014 , unless the information contained in those disclosures materially changed or is required by GAAP. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements as of and for the three and six months ended June 30, 2015 and 2014 have been recorded. All intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2015 . These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements as of and for the year ended December 31, 2014 included in its 2014 Annual Report on Form 10-K.

In the normal course of business, companies in the mortgage banking industry encounter certain economic and regulatory risks. Economic risks include interest rate risk and credit risk. In an interest rate cycle in which rates decline over an extended period of time, the Company's mortgage origination activities’ results of operations could be positively impacted by higher loan origination volumes and gain on sale margins. In contrast, the Company's results of operations of its mortgage

servicing activities could decline due to higher actual and projected loan prepayments related to its loan servicing portfolio. In an interest rate cycle in which rates rise over an extended period of time, the Company's mortgage origination activities' results of operations could be negatively impacted and its mortgage servicing activities' results of operations could be positively impacted. Credit risk is the risk of default that may result from the borrowers' inability or unwillingness to make contractually required payments during the period in which loans are being held for sale. The Company manages these various risks through a variety of policies and procedures, such as the hedging of the loans held for sale and interest rate lock commitments using forward sales of MBS, such as To Be Announced ("TBA") securities, designed to quantify and mitigate the operational and financial risk to the Company to the extent possible. Specifically, the Company engages in hedging of interest rate risk of its mortgage loans held for sale and interest rate lock commitments with the use of TBA securities.

The Company sells loans to investors without recourse. As such, the investors have assumed the risk of loss or default by the borrower. However, the Company is usually required by these investors to make certain standard representations and warranties relating to credit information, loan documentation, collateral and regulatory compliance. To the extent that the Company does not comply with such representations, the Company may be required to repurchase the loans or indemnify these investors for any losses from borrower defaults. The Company performs due diligence prior to funding mortgage loans as part of its loan underwriting process, whereby the Company analyzes credit, collateral and compliance risk of all loans in an effort to ensure the mortgage loans meet the investors' standards. However, if a loan is repurchased, the Company could incur a loss as part of recording such loan at fair value, which may be less than the amount paid to purchase the loan. In addition, if loans pay off within a specified time frame, the Company may be required to refund a portion of the sales proceeds to the investors.

The Company's business requires substantial cash to support its operating activities. As a result, the Company is dependent on its lines of credit and other financing facilities in order to fund its continued operations. If the Company's principal lenders decided to terminate or not to renew any of these credit facilities with the Company, the loss of borrowing capacity would have a material adverse impact on the Company's financial statements unless the Company found a suitable alternative source of financing.

3. Earnings (Loss) Per Share

The following is a reconciliation of net income (loss) attributable to common stockholders and a table summarizing the basic and diluted earnings (loss) per share calculations for the three and six months ended June 30, 2015 and 2014 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income (loss):				
Net income (loss) attributable to common stockholders	$ 11,134	$ 268	$ 15	$ (7,616)
Weighted average shares outstanding *(in thousands)* **:**				
Denominator for basic earnings (loss) per share – weighted average common shares outstanding	25,782	25,769	25,781	25,769
Effect of dilutive shares—employee and director stock options, restricted stock units, warrants and convertible preferred stock	—	—	—	—
Denominator for diluted earnings (loss) per share	25,782	25,769	25,781	25,769
Earnings (loss) per share:				
Basic	$ 0.43	$ 0.01	$ —	$ (0.30)
Diluted	$ 0.43	$ 0.01	$ —	$ (0.30)

During the three and six months ended June 30, 2015 , weighted average shares of 1,555 and 1,558 , respectively, were excluded from the denominator for diluted earnings per share because the shares (which related to stock options, restricted stock units and stock warrants) were anti-dilutive. During both the three and six months ended June 30, 2014 , weighted average shares of 1,867 were excluded from the denominator for diluted (loss) earnings per share because the shares (which related to stock options, restricted stock units and stock warrants) were anti-dilutive.

4. Business Combinations

Acquisition of Medallion Mortgage Company

On February 4, 2014, in the continuing effort to expand retail originations, the Company completed its acquisition of Medallion Mortgage Company ("Medallion"), a residential mortgage originator based in southern California. Medallion serviced customers with an extensive portfolio of residential real estate loan programs and had 10 offices along the southern and central coast of California, Utah and a new operations center in Ventura, California. In the acquisition of Medallion, the Company agreed to purchase certain assets, assume certain liabilities and offer employment to certain employees.

The acquisition of Medallion was accounted for as a business combination. The following table summarizes the total consideration transferred to acquire Medallion and the fair values of the assets acquired and liabilities assumed on the acquisition date:

Consideration:		
Cash consideration	$	258
Fair value of contingent consideration		603
Total consideration		861
Fair value of net assets acquired:		
Property and equipment		190
Other assets		94
Accounts payable and accrued expenses		(50)
Total fair value of net assets acquired		234
Goodwill	$	627
Acquisition-related expenses [1]	$	49

[1] Legal and miscellaneous expenses classified as general and administrative expenses.

The excess of the aggregate consideration transferred over the fair value of the identified net assets acquired resulted in tax-deductible goodwill of $627 at the time of acquisition. Goodwill recognized from the acquisition of Medallion primarily relates to the expected future growth of Medallion's business. The Company has noted no circumstances which would result in any impairment of this amount as of June 30, 2015 .

As part of the acquisition of Medallion, the Company agreed to pay Medallion's seller a contingent consideration, which payment is contingent upon Medallion achieving certain predetermined minimum mortgage loan origination goals during the two year period following the acquisition date (the "earn-out"). If such goals are met by Medallion, the Company will pay the seller two annual payments equal to a multiple of the actual total mortgage loan volume of Medallion. The earn-out is uncapped in amount. The fair value of the earn-out was estimated to be approximately $603 as of the acquisition date and was estimated using a calibrated Monte-Carlo simulation. The fair value was primarily based on (i) the Company’s estimate of the mortgage loan origination volume of Medallion over the two year earnout period, (ii) an asset volatility factor of 16.90% and (iii) a discount rate of 6.05% . The first of the two potential earn-out payments was determined to be $200 and was paid in April 2015. As of June 30, 2015 , the Company estimated the fair value of the remaining earn-out to be approximately $200 .

5. Derivative Financial Instruments

The Company does not designate any of its derivative instruments as hedges for accounting purposes. The following summarizes the Company’s outstanding derivative instruments as of June 30, 2015 and December 31, 2014 :

June 30, 2015:				**Fair Value**			
		Notional	**Balance Sheet Location**		**Asset**		**(Liability)**
Interest rate lock commitments	$	2,081,614	Derivative assets/liabilities	$	15,983	$	(2,238)
MBS forward sales contracts		2,743,904					
MBS forward purchase contracts		658,800					
Total MBS forward trades		3,402,704	Derivative assets/liabilities		13,065		(2,638)
Total derivative financial instruments	$	5,484,318		$	29,048	$	(4,876)

December 31, 2014:

	Notional	Balance Sheet Location	Fair Value Asset	Fair Value (Liability)
Interest rate lock commitments	$ 1,211,675	Derivative assets/liabilities	$ 12,300	$ (96)
MBS forward sales contracts	1,860,768			
MBS forward purchase contracts	457,481			
Total MBS forward trades	2,318,249	Derivative assets/liabilities	260	(8,948)
Total derivative financial instruments	$ 3,529,924		$ 12,560	$ (9,044)

The following summarizes the effect of the Company's derivative financial instruments and related changes in estimated fair value of mortgage loans held for sale on its consolidated statements of operations for the three and six months ended June 30, 2015 and 2014 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest rate lock commitments	$ (14,562)	$ 10,815	$ 1,541	$ 20,657
MBS forward trades	21,120	(18,456)	19,116	(32,174)
Net derivative gains (losses)	6,558	(7,641)	20,657	(11,517)
Gains (losses) from changes in estimated fair value of mortgage loans held for sale [1]	(11,060)	17,111	(10,972)	26,741
	$ (4,502)	$ 9,470	$ 9,685	$ 15,224

[1] Mortgage loans held for sale are carried at estimated fair value pursuant to the fair value option. Gains from changes in estimated fair values are included within "gains on mortgage loans held for sale, net" on the Company's consolidated statements of operations. This information is presented here due to its correlation with the changes in value of our derivative financial instruments.

The Company has exposure to credit loss in the event of contractual non-performance by its trading counterparties and counterparties to the over-the-counter derivative financial instruments that the Company uses in its interest rate risk management activities. The Company manages this credit risk by selecting only counterparties that the Company believes to be financially strong, spreading the credit risk among many such counterparties, by placing contractual limits on the amount of unsecured credit extended to any single counterparty and by entering into netting agreements with the counterparties, as appropriate.

The Company has entered into agreements with derivative counterparties, which include netting arrangements whereby the counterparties are entitled to settle their positions on a net basis. In certain circumstances, the Company is required to provide certain derivative counterparties collateral against derivative financial instruments. As of June 30, 2015 and December 31, 2014 , counterparties held none and $4,482 , respectively, of the Company's cash and cash equivalents in margin accounts as collateral (which is classified as "Restricted cash" on the Company's consolidated balance sheets), after which the Company was in a net credit gain position of $10,428 and a net credit loss position of $4,562 at June 30, 2015 and December 31, 2014 , respectively, to those counterparties. For the six months ended June 30, 2015 and 2014 , the Company incurred no credit losses due to non-performance of any of its counterparties.

6. Mortgage Loans Held for Sale, at Fair Value

The following summarizes mortgage loans held for sale at fair value as of June 30, 2015 and December 31, 2014 :

	June 30, 2015	December 31, 2014
Conventional [1]	$ 335,469	$ 507,297
Government insured [2]	565,363	444,955
Non-agency/Other	86,577	96,095
Total mortgage loans held for sale, at fair value	$ 987,409	$ 1,048,347

[1] Conventional includes FNMA and FHLMC mortgage loans, as well as mortgage loans to various housing agencies.

[2] Government insured includes GNMA mortgage loans. GNMA portfolio balance is made up of Federal Housing Administration ("FHA"), Veterans Affairs ("VA"), and United States Department of Agriculture ("USDA") home loans, as well as mortgage loans to various housing agencies.

Under certain of the Company's mortgage funding arrangements (including secured borrowings and warehouse lines of credit), the Company is required to pledge mortgage loans as collateral to secure borrowings. The mortgage loans pledged as collateral must equal at least 100% of the related outstanding borrowings under the mortgage funding arrangements. The outstanding borrowings are monitored and the Company is required to deliver additional collateral if the amount of the outstanding borrowings exceeds the fair value of the pledged mortgage loans. As of June 30, 2015 , the Company had pledged $928,105 in fair value of mortgage loans held for sale as collateral to secure debt under its mortgage funding arrangements, with the remaining $59,304 of mortgage loans held for sale funded with the Company's excess cash. As of December 31, 2014 , the Company had pledged $981,015 in fair value of mortgage loans held for sale as collateral to secure debt under its mortgage funding arrangements, with the remaining $67,332 of mortgage loans held for sale funded with the Company's excess cash. The mortgage loans held as collateral by the respective lenders are restricted solely to satisfy the Company's borrowings under those mortgage funding arrangements. Refer to Note 10 "Debt" for additional information related to the Company's outstanding borrowings as of June 30, 2015 and December 31, 2014 .

The following are the fair values and related UPB due upon maturity for loans held for sale accounted under the fair value method as of June 30, 2015 and December 31, 2014 :

	June 30, 2015		December 31, 2014	
	Fair Value	UPB	Fair Value	UPB
Current through 89 days delinquent	$ 981,891	$ 975,448	$ 1,044,005	$ 1,025,374
90 or more days delinquent	5,518	6,518	4,342	5,342
Total	$ 987,409	$ 981,966	$ 1,048,347	$ 1,030,716

7. Mortgage Servicing Rights

The Company sells residential mortgage loans in the secondary market and typically retains the right to service the loans sold. Upon sale, the MSRs are capitalized as an asset, which represents the current fair value of the future net cash flows that are expected to be realized for performing servicing activities. The Company may also purchase MSRs directly from third parties.

The Company's total mortgage servicing portfolio as of June 30, 2015 and December 31, 2014 is summarized as follows (based on the unpaid principal balance ("UPB") of the underlying mortgage loans):

	June 30, 2015	December 31, 2014
FNMA	$ 4,659,391	$ 5,797,883
GNMA:		
FHA	5,168,907	5,365,627
VA	2,967,064	2,652,678
USDA	900,440	974,501
FHLMC	3,490,671	3,500,321
Other Investors	57,831	45,735
Total mortgage servicing portfolio	$ 17,244,304	$ 18,336,745
MSRs balance	$ 209,343	$ 204,216
MSRs balance as a percentage of total mortgage servicing portfolio	1.21%	1.11%

A summary of the changes in the balance of MSRs for the three and six months ended June 30, 2015 and 2014 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	$ 170,580	$ 192,470	$ 204,216	$ 170,294
MSRs originated in connection with loan sales	46,541	40,323	81,124	71,535
MSRs sold and derecognized	(17,277)	—	(47,427)	—
Purchased MSRs	—	64	86	1,686
Changes in valuation inputs and assumptions [1]	20,821	(10,713)	(3,568)	(18,644)
Actual portfolio runoff (payoffs and principal amortization)	(11,322)	(4,651)	(25,088)	(7,378)
Balance at end of period	$ 209,343	$ 217,493	$ 209,343	$ 217,493

[1] Refer to Note 9, *"Transfers and Servicing of Financial Assets"* for a discussion of inputs and assumptions, including range of discount rates, prepayment speeds and cost of servicing.

On March 31, 2015, the Company completed a sale of MSRs with an underlying unpaid principal balance of $2.7 billion in FNMA and FHLMC loans to an unrelated party. This pool of MSRs was somewhat geographically focused, had average mortgage interest rates that were different than current mortgage rates, and did not include any GNMA MSRs, which have a different historical performance than FNMA and FHLMC MSRs. On April 30, 2015, in a separate transaction, the Company completed a sale of MSRs with an underlying UPB of $1.9 billion in GNMA loans to an unrelated party. This pool of MSRs had average mortgage interest rates that were higher than the current GNMA mortgage interest rates and did not include any FNMA or FHLMC MSRs, which have a different historical performance than GNMA MSRs. Thus, the characteristics of each sold pool do not represent the characteristics of the Company's MSRs portfolio as a whole.

The Company performs temporary sub-servicing activities with respect to both pools of underlying loans described above through the established loan file transfer dates of each sale, the second quarter and third quarter, respectively, for a fee, during which time the Company is entitled to certain other ancillary income amounts. The Company used the proceeds to reinvest back into newly originated MSRs through its origination platform. There are various protection provisions for which an estimated A liability in the amount of $1,700 has been established for the various protection provisions included in the transactions, the majority of which relates to the reimbursement of purchase price related to estimated prepayments. Each of these MSRs sale transactions met the criteria for derecognition, allowing for the MSRs assets to be derecognized and a gain or loss to be recorded at the time of derecognition. The recognized gains or losses were recorded net of direct transaction expenses and estimated protection provisions.

Under certain of the Company's secured borrowing arrangements, the Company is required to pledge mortgage servicing rights as collateral to the secured borrowings. As of June 30, 2015 , the Company had pledged $208,805 in fair value of mortgage servicing rights as collateral to secure debt under certain of its secured borrowing arrangements. As of December 31, 2014 , $203,811 in fair value of mortgage servicing rights were pledged as collateral to the Company's secured borrowing arrangements. Refer to Note 10 "Debt" for additional information related to the Company's outstanding borrowings as of June 30, 2015 and December 31, 2014 .

The following is a summary of the components of loan servicing fees as reported in the Company's consolidated statements of operations for the three and six months ended June 30, 2015 and 2014 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Contractual servicing fees	$ 11,842	$ 10,399	$ 25,370	$ 19,165
Late fees	769	391	1,580	800
Loan servicing fees	$ 12,611	$ 10,790	$ 26,950	$ 19,965
Servicing fees as a percentage of average portfolio *(annualized)*	0.30%	0.28%	0.31%	0.28%

8. Fair Value Measurements

The Company uses fair value measurements in fair value disclosures and to record certain assets and liabilities at fair value on a recurring basis, such as MSRs, derivatives and loans held for sale; or on a nonrecurring basis, such as when measuring intangible assets and long-lived assets. The Company has elected fair value accounting for loans held for sale to

more closely align the Company’s accounting with its interest rate risk strategies without having to apply the operational complexities of hedge accounting.

The Company groups its assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level Input:	**Input Definition:**
Level 1	Unadjusted, quoted prices in active markets for identical assets or liabilities.
Level 2	Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing an asset or liability and are developed based on market data obtained from sources independent of the Company. These may include quoted prices for similar assets and liabilities, interest rates, prepayment speeds, credit risk and others.
Level 3	Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity), unobservable inputs may be used. Unobservable inputs reflect the Company's own assumptions about the factors that market participants would use in pricing the asset or liability, and are based on the best information available in the circumstances.

An asset or liability’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

While the Company believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methods or assumptions to estimate the fair value of certain financial statement items could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such items existed, or had such items been liquidated, and those differences could be material to the consolidated financial statements.

Management incorporates lack of liquidity into its fair value estimates based on the type of asset or liability measured and the valuation method used. The Company uses discounted cash flow techniques to estimate fair value. These techniques incorporate forecasting of expected cash flows discounted at appropriate market discount rates that are intended to reflect the lack of liquidity in the market.

The following describes the methods used in estimating the fair values of certain financial statement items:

Mortgage Loans Held for Sale: The majority of the Company's mortgage loans held for sale at fair value are saleable into the secondary mortgage markets and their fair values are estimated using observable quoted market or contracted prices or market price equivalents, which would be used by other market participants. The fair values of a portion of the loans are estimated using a discounted cash flow analysis with significant unobservable inputs, such as prepayment speeds, default rates, the spread between bid and ask prices and loss severities.

Derivative Financial Instruments: The Company estimates the fair value of interest rate lock commitments based on the value of the underlying mortgage loan, quoted MBS prices and estimates of the fair value of the MSRs, and an estimate of the probability that the mortgage loan will fund within the terms of the interest rate lock commitment. The Company estimates the fair value of forward sales commitments based on quoted MBS prices.

Mortgage Servicing Rights: The Company uses a discounted cash flow approach to estimate the fair value of MSRs. This approach consists of projecting servicing cash flows discounted at a rate that management believes market participants would use in their determinations of value. The Company obtains valuations from an independent third party on a monthly basis, to support the reasonableness of the fair value estimate generated by the internal model. The key assumptions used in the estimation of the fair value of MSRs include prepayment speeds, discount rates, default rates, cost to service, contractual servicing fees and escrow earnings. In valuing the fair value of MSRs, the Company uses a forward yield curve as an input which will impact pre-pay estimates and the value of escrows as compared to a static forward yield curve. The Company believes that the use of the forward yield curve better represents fair value of MSRs because the forward yield curve is the market’s expectation of future interest rates based on its expectation of inflation and other economic conditions.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 :

	Level 1	Level 2	Level 3	Total
Assets:				
Mortgage loans held for sale	$ —	$ 947,621	$ 39,788	$ 987,409
Derivative assets (IRLCs)	—	15,983	—	15,983
Derivative assets (MBS forward trades)	—	13,065	—	13,065
MSRs	—	—	209,343	209,343
Total assets	$ —	$ 976,669	$ 249,131	$ 1,225,800
Liabilities:				
Derivative liabilities (IRLCs)	$ —	$ 2,238	$ —	$ 2,238
Derivative liabilities (MBS forward trades)	—	2,638	—	2,638
Contingent earn-out liability	—	—	1,769	1,769
Total liabilities	$ —	$ 4,876	$ 1,769	$ 6,645

The following are the major categories of assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 :

	Level 1	Level 2	Level 3	Total
Assets:				
Mortgage loans held for sale	$ —	$ 1,048,347	$ —	$ 1,048,347
Derivative assets (IRLCs)	—	12,300	—	12,300
Derivative assets (MBS forward trades)	—	260	—	260
MSRs	—	—	204,216	204,216
Total assets	$ —	$ 1,060,907	$ 204,216	$ 1,265,123
Liabilities:				
Derivative liabilities (IRLCs)	$ —	$ 96	$ —	$ 96
Derivative liabilities (MBS forward trades)	—	8,948	—	8,948
Contingent earn-out liability	722	—	2,283	3,005
Total liabilities	$ 722	$ 9,044	$ 2,283	$ 12,049

Mortgage Loans Held for Sale

A reconciliation of the beginning and ending balances of the Company’s mortgage loans held for sale measured at fair value on a recurring basis using Level 3 inputs for the three and six months ended June 30, 2015 is as follows:

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Balance at beginning of period	$ —	$ —
Changes in fair value recognized in earnings	—	—
Purchases	27,887	27,887
Sales	—	—
Issuances	—	—
Settlements	—	—
Transfers into Level 3	11,901	11,901
Transfers out of Level 3	—	—
Balance at end of period	$ 39,788	$ 39,788

MSRs

Refer to Note 7, "Mortgage Servicing Rights", for a reconciliation of the beginning and ending balances during the three and six months ended June 30, 2015 and 2014 . Refer to Note 9, "Transfers and Servicing of Financial Assets" for a discussion of significant observable inputs related to the Company's MSRs and relative ranges of those used in determining their fair value.

Contingent Earn-out Liability

Contingent earn-out liabilities resulted from the Company's acquisitions of NattyMac in August 2012, Crossline in December 2013 and Medallion in February 2014. See Note 4, "Business Combinations," to our audited consolidated financial statements as of and for the year ended December 31, 2014 , included in our 2014 Annual Report on Form 10-K for additional information related to these contingent earn-out liabilities.

A reconciliation of the beginning and ending balances of the Company's contingent earn-out liabilities measured at fair value on a recurring basis using Level 3 inputs for the three and six months ended June 30, 2015 and 2014 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	$ 2,155	$ 4,411	$ 3,005	$ 3,791
Changes in fair value recognized in earnings [1]	10	(184)	34	(142)
Purchases [2]	—	—	—	603
Sales	—	—	—	—
Issuances	—	—	—	—
Settlements	(396)	(43)	(1,270)	(68)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—		—
Balance at end of period	$ 1,769	$ 4,184	$ 1,769	$ 4,184

[1] Recognized in the consolidated statements of operations within "General and administrative expense".
[2] Represents the Company's acquisition of Medallion during February 2014.

The Company estimated the fair value of its NattyMac earn-out as of June 30, 2015 using the same method as at acquisition date. For the three and six months ended June 30, 2015 , the Company adjusted its earn-out liability for NattyMac by an increase of $61 and $85 , respectively, primarily due to the estimated timing of mortgage loan fundings from the NattyMac warehousing business.

The Company estimated the fair value of its Medallion earn-out using forecasted information that it believes approximates the fair value of the liability as of June 30, 2015 . For the three and six months ended June 30, 2015 , the Company decreased its earn-out liability for Medallion by $51 .

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. As disclosed in Note 4, "Business Combinations," we completed our acquisition of Medallion on February 4, 2014. The values of the net assets acquired in the acquisition of Medallion and resulting goodwill were recorded at fair value using Level 3 inputs. Refer to Note 4, "Business Combinations," for further information regarding the methodology and key assumptions used in the acquisition date fair value estimates.

Fair Value of Other Financial Instruments

As of June 30, 2015 and December 31, 2014 , all financial instruments were either recorded at fair value or the carrying value approximated fair value. For financial instruments that were not recorded at fair value, such as cash, restricted cash, servicing advances, subordinated loan receivable, short-term secured borrowings, warehouse and operating lines of credit, accounts payable and accrued expenses, their carrying values approximated fair value due to the short-term nature of such instruments. For our long-term secured borrowings not recorded at fair value, the carrying value approximated fair value due to the collateralization of such borrowings and given the interest rate adjusts over time based on market conditions.

9. Transfers and Servicing of Financial Assets

Residential mortgage loans are primarily sold to FNMA or FHLMC or transferred into pools of GNMA MBS. The Company has continuing involvement in mortgage loans sold through servicing arrangements and the liability for loan indemnifications and repurchases under the representations and warranties it makes to the investors and insurers of the loans it sells. The Company is exposed to interest rate risk through its continuing involvement with mortgage loans sold, including the MSRs, as the value of the asset fluctuates as changes in interest rates impact borrower prepayment.

The Company also sells non-agency residential mortgage loans to non-GSE third parties generally without retaining the servicing rights to such loans.

All loans are sold on a non-recourse basis; however, certain representations and warranties have been made that are customary for loan sale transactions, including eligibility characteristics of the mortgage loans and underwriting responsibilities, in connection with the sales of these assets.

In order to facilitate the origination and sale of mortgage loans held for sale, the Company entered into various agreements with warehouse lenders. Such agreements are in the form of loan participations and repurchase agreements with banks and other financial institutions. Mortgage loans held for sale are considered sold when the Company surrenders control over the financial assets and such financial assets are legally isolated from the Company in the event of bankruptcy. For loan participations and repurchase agreements that meet the sale criteria, the transferred financial assets are derecognized from the balance sheet and a gain or loss is recognized upon sale. If the sale criteria are not met, the transfer is recorded as a secured borrowing in which the assets remain on the balance sheet and the proceeds from the transaction are recognized as a liability. From time to time, the Company may sell loans whereby the underlying risks and cash flows of the mortgage loan have been transferred to a third party through the issuance of participating interests. The terms and conditions of these interests are governed by the participation agreements. The Company will receive a marketing fee paid by the participating entity upon completion of the sale. In addition, the Company will also subservice the underlying mortgage loans to the participation agreement for the period that the participating interests are outstanding. As of June 30, 2015 and December 31, 2014 , all transfers pursuant to our mortgage funding arrangements are accounted for by the Company as secured borrowings.

The following table sets forth information regarding cash flows for the six months ended June 30, 2015 and 2014 relating to loan sales in which the Company has continuing involvement:

	Six Months Ended June 30,	
	2015	**2014**
Proceeds from new loan sales [1]	$ 20,611	$ 5,332
Proceeds from loan servicing fees	$ 25,510	$ 19,965
Cash inflows from servicing advances	$ 2,402	$ 265
Cash outflows from repurchases and indemnifications of previously sold loans	$ 25,167	$ 6,178

[1] Represents the proceeds from mortgage loans or pools of mortgage loans sold, net of the related repayments of borrowings under the Company's mortgage funding arrangements used to fund the related mortgage loans prior to sale as well as the cost to retain the servicing rights.

The following table sets forth information related to outstanding loans sold as of June 30, 2015 and December 31, 2014 for which the Company has continuing involvement:

	June 30, 2015	December 31, 2014
Total unpaid principal balance	$ 17,244,304	$ 18,336,745
Loans 30-89 days delinquent	$ 298,466	$ 379,881
Loans delinquent 90 or more days or in foreclosure [1]	$ 134,857	$ 127,751

[1] Includes GNMA mortgage loans eligible for repurchase and recorded on the consolidated balance sheet, which are government-insured, of $111,765 and $109,397 , respectively, as of June 30, 2015 and December 31, 2014 .

The key weighted average assumptions (or range of assumptions) used in determining the fair value of the Company’s MSRs as of June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015	December 31, 2014
Discount rates	9.25% - 11.00%	9.25% - 11.00%
Annual prepayment speeds (by investor type):		
FNMA	12.1%	13.9%
GNMA:		
FHA	10.6%	11.2%
VA	9.4%	10.1%
USDA	11.1%	11.8%
FHLMC	10.5%	13.1%
Other Investors	11.3%	12.4%
Cost of servicing (per loan)	$85	$83

MSRs are generally subject to loss in value when mortgage rates decrease. Decreasing mortgage rates normally encourage increased mortgage refinancing activity. Increased refinancing activity reduces the life of the loans underlying the MSRs, thereby reducing MSRs value. Reductions in the value of MSRs affect income through changes in fair value. These factors have been considered in the estimated prepayment speed assumptions used to determine the fair value of the Company's MSRs.

In addition to the assumptions provided above, the Company uses assumptions for default rates in determining the fair value of MSRs. These assumptions are based primarily on internal estimates, and the Company also obtains third party data, where applicable, to assess the reasonableness of its internal assumptions. The Company's assumptions for default rates for FNMA, GNMA, FHLMC and Other Investors mortgage loans as of June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015	December 31, 2014
FNMA	3.98%	3.93%
GNMA:		
FHA	6.49%	6.42%
VA	6.41%	6.31%
USDA	6.46%	6.29%
FHLMC	3.91%	3.80%
Other Investors	6.34%	6.14%

The default rates represent the Company's estimate of the loans that will eventually enter foreclosure proceedings over the entire term of the portfolio's life. These assumptions affect the future cost to service loans, future revenue earned from the portfolio, and future assumed foreclosure losses. Because the Company's portfolio is generally comprised of recent vintages, actual future defaults may differ from the Company's assumptions.

The hypothetical effect of an adverse change in these key assumptions would result in a decrease in the fair values of MSRs as follows as of June 30, 2015 and December 31, 2014 :

	June 30, 2015	% of Average Portfolio	December 31, 2014	% of Average Portfolio
Discount rates:				
Impact of discount rate + 1%	$ (9,499)	5%	$ (8,345)	4%
Impact of discount rate + 2%	$ (18,215)	9%	$ (16,063)	8%
Impact of discount rate + 3%	$ (26,236)	13%	$ (23,222)	11%
Prepayment speeds:				
Impact of prepayment speed * 105%	$ (5,729)	3%	$ (5,445)	3%
Impact of prepayment speed * 110%	$ (11,257)	5%	$ (10,668)	5%
Impact of prepayment speed * 120%	$ (21,757)	10%	$ (20,508)	10%
Cost of servicing:				
Impact of cost of servicing * 105%	$ (1,474)	1%	$ (1,529)	1%
Impact of cost of servicing * 110%	$ (2,947)	1%	$ (3,058)	1%
Impact of cost of servicing * 120%	$ (5,895)	3%	$ (6,116)	3%

As the table demonstrates, the Company's methodology for estimating the fair value of MSRs is highly sensitive to changes in assumptions. For example, actual prepayment experience may differ and any difference may have a material effect on MSRs fair value. Changes in fair value resulting from changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumption; in reality, changes in one factor may be associated with changes in another (for example, decreases in market interest rates may indicate higher prepayments; however, this may be partially offset by lower prepayments due to other factors such as a borrower's diminished opportunity to refinance), which may magnify or counteract the sensitivities. Thus, any measurement of MSRs fair value is limited by the conditions existing and assumptions made as of a particular point in time. Those assumptions may not be appropriate if they are applied to a different point in time.

10. Debt

Borrowings outstanding as of June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015		December 31, 2014	
	Amount Outstanding	**Weighted Average Interest Rate**	**Amount Outstanding**	**Weighted Average Interest Rate**
Secured borrowings - mortgage loans	$ 536,455	3.97% [1]	$ 592,798	3.97%
Mortgage repurchase borrowings	544,125	2.23%	472,045	2.23%
Warehouse lines of credit	1,947	4.25%	1,374	4.25%
Secured borrowings - mortgage servicing rights	80,058	5.11%	75,970	5.49%
Operating lines of credit	5,000	4.00%	2,000	4.00%
Total mortgage funding arrangements	$ 1,167,585		$ 1,144,187	

[1] The Company's costs for secured borrowings on mortgage loans are shown in the table above based on the average underlying mortgage rates. These costs are reduced by earnings and fees specific to each of the secured borrowing facilities.

The Company maintains mortgage loan participation, repurchase and warehouse lines of credit arrangements listed above (collectively referred to as "mortgage funding arrangements") with various financial institutions, primarily to fund the origination of mortgage loans. As of June 30, 2015 , the Company held mortgage funding arrangements with four separate financial institutions and a total maximum borrowing capacity of $1,942,000 , including the operating lines of credit. Except for our operating lines of credit, each mortgage funding arrangement is collateralized by the underlying mortgage loans. Separately, the Company had two mortgage funding arrangements for the funding of MSRs, each of which is collateralized by the MSRs pledged to the respective facilities.

The following tables summarize the amounts outstanding, interest rates and maturity dates under the Company's various mortgage funding arrangements as of June 30, 2015 and December 31, 2014 :

As of June 30, 2015:

Mortgage Funding Arrangements [1]	Amount Outstanding	Maximum Borrowing Capacity		Interest Rate	Maturity Date	
Merchants Bank of Indiana - Participation Agreement	$ 307,596	$ 600,000	[2]	Same as the underlying mortgage rates, less contractual service fee	July 2015	[6]
Merchants Bank of Indiana - NattyMac Funding	228,859	—	[3]	LIBOR plus applicable margin	March 2016	
Total secured borrowings - mortgage loans	536,455	600,000				
Barclays Bank PLC	122,865	400,000		LIBOR plus applicable margin	December 2015	
Bank of America, N.A.	346,290	700,000	[5]	LIBOR plus applicable margin	June 2016	
Wells Fargo	74,970	200,000		LIBOR plus applicable margin	January 2016	
Total mortgage repurchase borrowings	544,125	1,300,000				
Merchants Bank of Indiana - Warehouse Line of Credit	1,947	2,000		Prime plus 1.00%	July 2015	[6]
Total warehouse lines of credit	1,947	2,000				
Barclays Bank PLC - MSRs Secured	45,058	—	[4]	LIBOR plus applicable margin	December 2015	
Merchants Bank of Indiana - MSRs Secured	35,000	35,000		LIBOR plus applicable margin	June 2017	
Total secured borrowings - MSRs	80,058	35,000				
Total	1,162,585	1,937,000				

[1] Does not include our operating lines of credit for which we have a maximum borrowing capacity of $5,000 .
[2] Merchants Bank of Indiana will periodically constrain the aggregate maximum borrowing capacity. At June 30, 2015, the aggregate maximum borrowing capacity was $600,000 .
[3] The maximum borrowing capacity is a sublimit of the Merchants Participation Agreement maximum borrowing capacity of $600,000 referred to in Note 2 above.
[4] Governed by the Barclays Bank PLC maximum borrowing capacity of $400,000 , with a sub-limit of $100,000 .
[5] The Bank of America maximum borrowing includes $400,000 of mortgage repurchase and $300,000 of mortgage gestation repurchase facilities.
[6] Extended on July 30, 2015 to a maturity date of July 31, 2016.

As of December 31, 2014:

Mortgage Funding Arrangements [1]		Amount Outstanding		Maximum Borrowing Capacity		Interest Rate	Maturity Date	
Merchants Bank of Indiana - Participation Agreement	$	273,341	$	600,000	2	Same as the underlying mortgage rates, less contractual service fee	July 2015	
Merchants Bank of Indiana - NattyMac Funding		319,457		—	3	Same as the underlying mortgage rates, less 49% of facility earnings	March 2015	7
Total secured borrowings - mortgage loans		592,798		600,000				
Barclays Bank PLC		224,444		400,000		LIBOR plus applicable margin	December 2015	
Bank of America, N.A.		247,601		600,000	6	LIBOR plus applicable margin	May 2015	
Total mortgage repurchase borrowings		472,045		1,000,000				
Merchants Bank of Indiana - Warehouse Line of Credit		1,374		2,000		Prime plus 1.00%	July 2015	
Total warehouse lines of credit		1,374		2,000				
Barclays Bank PLC - MSRs Secured		45,970		—	4	LIBOR plus applicable margin	December 2015	
Merchants Bank of Indiana - MSRs Secured		30,000		30,000	5	LIBOR plus applicable margin	June 2017	
Total secured borrowings - MSRs	$	75,970	$	30,000				
Total	$	1,142,187	$	1,632,000				

1 Does not include our operating lines of credit for which we have a maximum borrowing capacity of $2,000 .

2 Merchants Bank of Indiana will periodically constrain the aggregate maximum borrowing capacity. During the year ended December 31, 2014, the most the aggregate maximum borrowing capacity was constrained approximated $500,000 . At December 31, 2014, the aggregate maximum borrowing capacity was $600,000 .

3 The maximum borrowing capacity is a sublimit of the Merchants Participation Agreement maximum borrowing capacity of $600,000 referred to in Note 2 above.

4 Governed by the Barclays Bank PLC maximum borrowing capacity of $400,000 , with a sub-limit of $100,000 .

5 Based on GNMA MSRs pledged to Merchants Bank of Indiana. Subsequent to year end, such capacity was raised to $35,000 .

6 The Bank of America maximum borrowing includes $400,000 of mortgage repurchase and $200,000 of mortgage gestation repurchase facilities.

7 Agreement automatically renews 90 days prior to maturity if no termination notice given by either party. No notice was received or given at the 90 day mark and this line was extended to a maturity date of March 2016.

The Company intends to renew the mortgage funding arrangements when they mature and has no reason to believe the Company will be unable to do so.

On January 29, 2015, the Company signed a Mortgage Repurchase Agreement with Wells Fargo with a maximum borrowing capacity of $200,000 . The borrowing facility is comparable to the repurchase facilities that the Company has in place with other financial institutions, and is designed to finance newly originated conventional, government and jumbo residential mortgages originated or purchased by the Company. The facility is uncommitted and matures on January 30, 2016.

The Company reviews and monitors its operating lines of credit during the quarter and amends the borrowing capacity and maturity date throughout the quarter based on current operations.

The Company has concluded that on a consolidated basis it has a variable interest in NMF resulting from any potential interest it may earn from the 49% NMF earnings participation. The Company has further concluded that it is not considered the primary beneficiary of its variable interest in NMF based on the fact that it does not have the power to direct the activities of

NMF that most significantly impact NMF’s economic performance. NMF has the final authority over its operating policies. If at any time in the future the Company claims the right to the common capital stock of NMF in a default scenario as described above, the primary beneficiary conclusion may change.

11. Reserve for Mortgage Repurchases and Indemnifications

Representations and warranties are provided to investors and insurers on loans sold and are also assumed on purchased mortgage loans. In the event of a breach of these representations and warranties, the Company may be required to repurchase the mortgage loan or indemnify the investor against loss. In limited circumstances, the full risk of loss on loans sold is retained to the extent the liquidation of the underlying collateral is insufficient. In some instances where the Company has purchased loans from third parties, it may have the ability to recover the loss from the third party originator. Repurchase and foreclosure-related reserves are maintained for probable losses related to repurchase and indemnification obligations.

The following is a summary of changes in the reserve for mortgage repurchases and indemnifications for the three and six months ended June 30, 2015 and 2014 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	$ 4,877	$ 4,231	$ 4,967	$ 3,709
Provision for mortgage repurchases and indemnifications - new loan sales [1]	932	556	1,696	1,034
Provision for mortgage repurchases and indemnifications - change in estimate [2]	437	509	523	904
Losses on repurchases and indemnifications	(957)	(509)	(1,897)	(860)
Balance at end of period	$ 5,289	$ 4,787	$ 5,289	$ 4,787

[1] Recognized as a reduction to "Gain on mortgage loans held for sale, net" in the consolidated statements of operations.
[2] Accounts for change in estimate made subsequent to the initial reserve for new loan sales being made.

Because of the inherent uncertainties involved in the various estimates and assumptions used by the Company in determining the mortgage repurchase and indemnifications liability, there is a reasonable possibility that future losses may be in excess of the recorded liability. In assessing the adequacy of the reserve, management evaluates various factors including actual losses on repurchases and indemnifications during the period, historical loss experience, known delinquent and other problem loans, delinquency trends in the portfolio of sold loans and economic trends and conditions in the industry. The Company considers the liability to be appropriate at each balance sheet date.

12. Income Taxes

The Company calculates its quarterly tax provision pursuant to the guidelines in Accounting Standards Codification ("ASC") 740-270 "Income Taxes". Generally ASC 740-270 requires companies to estimate the annual effective tax rate for current year ordinary income. In calculating the effective tax rate, permanent differences between financial reporting and taxable income are factored into the calculation, but temporary differences are not. The estimated annual effective tax rate represents the best estimate of the tax provision in relation to the best estimate of pre-tax ordinary income or loss. The estimated annual effective tax rate is then applied to year-to-date ordinary income or loss to calculate the year-to-date interim tax provision. Due primarily to the unpredictable nature of the MSRs valuation and the impact this has on making a reliable estimate of the annual effective tax rate for interim reporting periods, the Company applies the actual year-to-date effective tax rate for the current period tax provision as a matter of policy.

The following is a reconciliation of the expected statutory federal corporate income tax expense to the income tax expense recorded on the Company's consolidated statements of operations for the three and six months ended June 30, 2015 and 2014 :

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	$	%	$	%	$	%	$	%
Statutory federal income tax expense (benefit)	$ 6,456	35.0%	$ 142	35.0 %	$ 82	35.0%	$ (4,355)	35.0%
State income tax expense (benefit), net of federal tax expense (benefit)	803	4.4%	14	3.4 %	23	10.2%	(417)	3.4%
Non-deductible expenses	50	0.2%	2	0.5 %	111	47.7%	(40)	0.3%
Provision to return adjustments	—	—%	—	— %	—	—%	—	—%
Adjustment to state net deferred tax liabilities	—	—%	—	— %	—	—%	—	—%
YTD impact of change in effective tax rate	—	—%	(20)	(4.9)%	—	—%	(20)	0.1%
Other	1	—%	—	— %	1	0.6%	3	—%
Total income tax expense (benefit)	$ 7,310	39.6%	$ 138	34.0 %	$ 217	93.5%	$ (4,829)	38.8%

During the three months ended June 30, 2015 and 2014 , the Company recognized an income tax expense of $7,310 and $138 , respectively, which represented effective tax rates of 39.6% and 34.0% , respectively. During the six months ended June 30, 2015 and 2014 , the Company recognized an income tax expense (benefit) of $217 and $(4,829) , respectively, which represented effective tax rates of 93.5% and 38.8% , respectively. While the tax effects of the Company's permanent differences have remained consistent, they result in a higher effective tax rate impact given the Company's pre-tax income position for the six months ended June 30, 2015 .

As of June 30, 2015 , the Company had federal and state net operating loss carryforwards of $148,580 and $125,957 , respectively. The Company's federal and state net operating loss carryforwards are available to offset future taxable income and expire from 2027 through 2034 . Given the uncertainty around the Company’s ability to forecast book and taxable income due primarily to the unpredictable nature of the MSRs value impacted by changing interest rates, the Company has not relied on any projections of future taxable income to support the assertion that no valuation allowance is needed. It has relied solely on the reversal and timing of the reversal of its deferred tax liabilities, and, to the extent necessary, tax planning strategies. The Company anticipates the reversal of deferred tax liabilities will offset the future reversal of deferred tax assets. Accordingly, no valuation allowance has been established at June 30, 2015 and 2014 .

13. Commitments and Contingencies

Commitments to Extend Credit

The Company enters into interest rate lock commitments ("IRLCs") with customers who have applied for residential mortgage loans and meet certain credit and underwriting criteria. These commitments expose the Company to market risk if interest rates change and the loan is not economically hedged or committed to an investor. The Company is also exposed to credit loss if the loan is originated and not sold to an investor and the customer does not perform. The collateral upon extension of credit typically consists of a first deed of trust in the mortgagor’s residential property. Commitments to originate loans do not necessarily reflect future cash requirements as some commitments are expected to expire without being drawn upon. Total commitments to originate loans as of June 30, 2015 and December 31, 2014 approximated $2,081,614 and $1,211,675 , respectively, in estimated principal loan amount. The related fair value of these commitments is recognized in the balance sheet within “Derivatives".

Litigation

The Company is subject to various legal proceedings arising out of the ordinary course of business. As of June 30, 2015 , there were no current or pending claims against the Company, which could have a material impact on the Company's statement of financial position, net income or cash flows. Any liabilities which are probable to occur and estimable have been recorded in the balance sheet.

Regulatory Contingencies

The Company is subject to periodic audits and examinations, both formal and informal in nature, from various federal and state agencies, including those made as part of regulatory oversight of our mortgage origination, servicing and financing

activities. Such audits and examinations could result in additional actions, penalties or fines by state or federal governmental bodies, regulators or the courts with respect to our mortgage origination, servicing and financing activities, which may be applicable generally to the mortgage industry or to us in particular. During 2014, we received a report of examination from a state regulatory agency that certain fees that were charged to borrowers in connection with the origination of loans through our wholesale and retail channels were impermissible and must be refunded to such borrowers. The total amount of these fees is $417 . The Company disagrees with the findings in the report of examination and has communicated its reasoning as to why the related fees are permissible to the state regulatory agency. However, there can be no assurance that the state regulatory agency will agree with our position and that we will not be ultimately required to refund the fees to the related borrowers.

Other Contingencies

During 2013, the Company became aware that it had purchased certain refinancing loans, with a total principal amount of $5,163 , from a correspondent lender where the prior mortgage loan on the property securing the mortgage loan that was purchased from the correspondent was not satisfied and released by the correspondent's title company at the time the loan from the correspondent was made. As part of the Company's process in purchasing a mortgage loan from a correspondent, it generally requires that a closing protection letter be issued by the title insurer in favor of the borrower. A closing protection letter was obtained with respect to each of these purchased loans. As a result, the Company believes the borrower is insured against any liens prior to ours that were not identified in connection with the issuance of that closing protection letter. The Company believes that its procedures, including conducting a post-purchase audit, were effective in identifying the failure by the correspondent to obtain a release of the prior mortgage loan and that the Company's practice of obtaining closing protection letters is appropriate to protect it in these situations. The Company has notified the affected borrowers and the relevant insurance carriers, and it expects that the title insurance obtained in connection with the refinancings will result in the loan having a first priority status. However, there can be no assurances that the prior mortgages will be fully satisfied from the title insurance claims.

14. Stock-Based Compensation

Stock Options

A summary of stock option activity for the six months ended June 30, 2015 is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2014	1,405,206	$ 16.90		
Granted	—	N/A		
Exercised	—	N/A		
Forfeited or expired	(14,877)	$ 18.00		
Outstanding at June 30, 2015	1,390,329	$ 16.89	7.8	$ 619
Exercisable at June 30, 2015	757,882	$ 16.12	7.7	$ 619

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options granted. For a more detailed discussion of the Company's stock-based compensation plan's fair value methodology, refer to Note 18, "Stock-Based Compensation," to its audited consolidated financial statements as of and for the year ended December 31, 2014 , included in its 2014 Annual Report on Form 10-K.

Restricted Stock Units

A summary of the nonvested restricted stock unit activity for the six months ended June 30, 2015 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share
Nonvested at December 31, 2014	33,922	$ 16.00
Granted	4,652	$ 10.75
Vested	(1,217)	12.93
Forfeited	—	N/A
Nonvested at June 30, 2015	37,357	$ 15.44

15. Segment Information

Since the date of the Company's IPO, the Company has continued its development of internal management reporting. Such development has resulted in changes in the information that is provided to the Company's chief operating decision maker. Accordingly, during the quarter ended September 30, 2014, management re-evaluated this information in relation to its definition of its operating segments.

As a result of this new information provided to the chief operating decision maker, management has concluded that its Mortgage Banking operations should be disclosed as three segments: Originations, Servicing and Financing. Prior period segment disclosures have been restated to conform segment disclosures for the three and six months ended June 30, 2014 to those for the three and six months ended June 30, 2015 .

The Originations segment primarily originates and sells residential mortgage loans, which conform to the underwriting guidelines of the GSEs and government agencies and non-agency whole loan investors. The Servicing segment includes loan administration, collection and default activities, including the collection and remittance of loan payments, responding to customer inquiries, collection of principal and interest payments, holding custodial funds for the payment of property taxes and insurance premiums, counseling delinquent mortgagors, modifying loans and supervising foreclosures on the Company's property dispositions. The Financing segment includes warehouse-lending activities to correspondent customers by the Company's NattyMac subsidiary, which commenced operations in July 2013.

The Company's segments are based upon its organizational structure, which focuses primarily on the services performed. The accounting policies of each reportable segment are the same as those of the Company. Certain consolidated back-office operations, such as risk and compliance, human resources, information technology, business processes and marketing, are allocated to each individual segment. Expenses are allocated to individual segments based on the estimated value of services performed, including estimated utilization of square footage and corporate personnel.

Financial highlights by segment are as follows:

	Total Assets	
	June 30, 2015	December 31, 2014
Originations	$ 1,157,182	$ 1,199,727
Servicing	229,603	223,058
Financing	187,907	118,593
Other [1]	63,973	55,173
Total	$ 1,638,665	$ 1,596,551

[1] Includes intersegment eliminations and assets not allocated to the three reportable segments.

	Three Months Ended June 30, 2015				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 51,285	$ —	$ —	$ 49	$ 51,334
Losses on sale of mortgage servicing rights	—	(3,068)	—	—	(3,068)
Changes in mortgage servicing rights valuation	—	20,821	—	—	20,821
Payoffs and principal amortization of mortgage servicing rights	—	(11,322)	—	—	(11,322)
Loan origination and other loan fees	7,421	—	303	—	7,724
Loan servicing fees	—	12,611	—	—	12,611
Interest and other income	7,635	—	1,694	14	9,343
Total revenues	66,341	19,042	1,997	63	87,443
Expenses					
Salaries, commissions and benefits	32,801	2,285	574	7,259	42,919
General and administrative	4,380	837	173	4,179	9,569
Interest expense	5,738	1,772	657	128	8,295
Occupancy, equipment and communication	3,843	505	61	1,524	5,933
Provision for mortgage repurchases and indemnifications	437	—	—	—	437
Depreciation and amortization	1,269	99	102	376	1,846
Corporate allocations	6,125	858	75	(7,058)	—
Total expenses	54,593	6,356	1,642	6,408	68,999
Income (loss) before taxes	$ 11,748	$ 12,686	$ 355	$ (6,345)	$ 18,444

[1] Includes intersegment eliminations and certain corporate income and expenses not allocated to the three reportable segments, such as those related to our accounting, executive administration, finance, internal audit, investor relations and legal departments.

	Three Months Ended June 30, 2014				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 46,533	$ —	$ —	$ 15	$ 46,548
Changes in mortgage servicing rights valuation	—	(10,713)	—	—	(10,713)
Payoffs and principal amortization of mortgage servicing rights	—	(4,651)	—	—	(4,651)
Loan origination and other loan fees	6,593	—	169	(31)	6,731
Loan servicing fees	—	10,790	—	—	10,790
Interest and other income	8,586	—	392	(60)	8,918
Total revenues	61,712	(4,574)	561	(76)	57,623
Expenses					
Salaries, commissions and benefits	27,289	1,367	412	6,076	35,144
General and administrative	2,674	345	154	6,173	9,346
Interest expense	6,049	170	—	44	6,263
Occupancy, equipment and communication	2,711	420	86	1,545	4,762
Provision for mortgage repurchases and indemnifications	509	—	—	—	509
Depreciation and amortization	276	11	93	813	1,193
Corporate allocations	7,442	893	43	(8,378)	—
Total expenses	46,950	3,206	788	6,273	57,217
Income (loss) before taxes	$ 14,762	$ (7,780)	$ (227)	$ (6,349)	$ 406

[1] Includes intersegment eliminations and certain corporate income and expenses not allocated to the three reportable segments, such as those related to our accounting, executive administration, finance, internal audit, investor relations and legal departments.

	Six Months Ended June 30, 2015				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 104,126	$ —	$ —	$ 49	$ 104,175
Losses on sale of mortgage servicing rights	—	(2,869)	—	—	(2,869)
Changes in mortgage servicing rights valuation	—	(3,568)	—	—	(3,568)
Payoffs and principal amortization of mortgage servicing rights	—	(25,088)	—	—	(25,088)
Loan origination and other loan fees	13,491	—	577	—	14,068
Loan servicing fees	—	26,950	—	—	26,950
Interest and other income	14,564	—	3,428	102	18,094
Total revenues	132,181	(4,575)	4,005	151	131,762
Expenses					
Salaries, commissions and benefits	60,902	4,401	1,093	14,471	80,867
General and administrative	8,139	1,278	308	8,290	18,015
Interest expense	10,485	4,305	1,660	254	16,704
Occupancy, equipment and communication	7,191	987	119	3,497	11,794
Provision for mortgage repurchases and indemnifications	523	—	—	—	523
Depreciation and amortization	2,507	198	203	719	3,627
Corporate allocations	13,284	1,840	152	(15,276)	—
Total expenses	103,031	13,009	3,535	11,955	131,530
Income (loss) before taxes	$ 29,150	$ (17,584)	$ 470	$ (11,804)	$ 232

[1] Includes intersegment eliminations and certain corporate income and expenses not allocated to the three reportable segments, such as those related to our accounting, executive administration, finance, internal audit, investor relations and legal departments.

	Six Months Ended June 30, 2014				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 75,164	$ —	$ —	$ 15	$ 75,179
Changes in mortgage servicing rights valuation	—	(18,644)	—	—	(18,644)
Payoffs and principal amortization of mortgage servicing rights	—	(7,378)	—	—	(7,378)
Loan origination and other loan fees	11,628	—	231	(51)	11,808
Loan servicing fees	—	19,965	—	—	19,965
Interest and other income	14,508	—	816	(330)	14,994
Total revenues	101,300	(6,057)	1,047	(366)	95,924
Expenses					
Salaries, commissions and benefits	53,591	2,580	788	11,604	68,563
General and administrative	6,195	681	273	10,498	17,647
Interest expense	10,032	258	—	(215)	10,075
Occupancy, equipment and communication	4,988	805	97	3,014	8,904
Provision for mortgage repurchases and indemnifications	904	—	—	—	904
Depreciation and amortization	462	11	183	1,620	2,276
Corporate allocations	12,917	1,558	65	(14,540)	—
Total expenses	89,089	5,893	1,406	11,981	108,369
Income (loss) before taxes	$ 12,211	$ (11,950)	(359)	$ (12,347)	$ (12,445)

[1] Includes intersegment eliminations and certain corporate income and expenses not allocated to the three reportable segments, such as those related to our accounting, executive administration, finance, internal audit, investor relations and legal departments.

16. Capital Stock

During the six months ended June 30, 2014 , the Company sold a portion of its investment in shares of preferred stock of a closely held entity for $200 , of which all of the proceeds from such sale were applied against the Company's outstanding balance on its operating line of credit with the same entity.

17. Subsequent Events

On July 30, 2015, the Company amended its master participation agreement, warehouse and security agreement and operating line of credit facilities with Merchants to extend their maturity dates to July 31, 2016.

On July 30, 2015, the Company's Board of Directors were granted awards totaling 87,191 in restricted stock units, which will result in approximately $830 in expense for the Company prior to the last vesting date of the awards. The majority of these awards vested immediately upon grant.

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

(Dollars In Thousands, Except Per Share Data or As Otherwise Stated Herein)

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2014 and the MD&A included in our 2014 Annual Report on Form 10-K. This MD&A contains forward-looking statements that involve risk, uncertainties and assumptions. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including those discussed in "Risk Factors" in our 2014 Annual Report on Form 10-K. As used in this discussion and analysis, unless the context otherwise requires or indicates, references to "the Company," "our company," "we," "our" and "us" refer to Stonegate Mortgage Corporation.

Overview

We are a leading, non-bank mortgage company focused on originating, financing and servicing U.S. residential mortgage loans that operates as an intermediary between residential mortgage borrowers and the ultimate investors of these mortgages. We predominantly transfer mortgage loans into pools of Government National Mortgage Association ("Ginnie Mae" or "GNMA") mortgage backed securities ("MBS") and sell mortgage loans to the Federal National Mortgage Association ("Fannie Mae" or "FNMA") and the Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC"). Both FNMA and FHLMC are considered government-sponsored enterprises ("GSEs"), for which we may perform servicing of U.S. residential mortgage loans. We also sell mortgage loans to other third-party investors in the secondary market and provide short-term financing to other residential mortgage loan originators. Our principal sources of revenue include (i) gain on sale of mortgage loans from loan originations and whole loan sales, and fee income from originations, (ii) fee income from loan servicing and (iii) fee and net interest and other income from its financing facilities. We operate in three segments: Originations, Servicing and Financing. This segment determination is based on our current organizational structure, which reflects how our chief operating decision maker evaluates the performance of our business.

For additional information about our company and business operations, see the "Overview" section of the MD&A included in our 2014 Annual Report on Form 10-K.

Recent Industry Trends and Our Outlook

The U.S. residential mortgage industry has experienced mixed trends in loan applications in recent months. The increase in refinance application activity that was seen in the first quarter of 2015 retracted in the second quarter of 2015, as evidenced by the Mortgage Bankers Association ("MBA") Refinance Index declining from a high of 2743.1 in January 2015 to a low of 1307.7 in June 2015. The first quarter 2015 rate levels resulted in higher industry-wide refinance volume, which continued into early second quarter 2015, but began to subside during the second quarter 2015 as rates began to climb to levels consistent with fourth quarter 2014. Most notably the 10-year US Treasury rate ended June at 2.35%, compared to the ending rate of 1.64% in January 2015. This second quarter increase resulted in a decline in refinance activity. The current quarter saw an increase in purchase-mortgage demand activity as a result of typical seasonal activity. As rates continue to rise and the seasonal demand slows down, demand for mortgage activity will likely begin to decrease. Conversely, the purchase market has improved from the first quarter results, as evidenced by the MBA Purchase Index increasing from a 2015 low in February of 162.7 to a high in June of 214.3. Applications serve as a leading indicator for mortgage originations as applications turn into originations within a couple months. The MBA has estimated that second quarter mortgage origination volume was $378 billion, compared to $313 billion in the first quarter 2015. Changing interest rate and origination activity have varying impacts on our business and segments. The elevated purchase and refinance originations volume typically results in higher gains from mortgage loan sales, offset in the short-term by margin pressure as investors seek attractive yield opportunities.

The increase in refinance activity experienced in the first quarter 2015 caused higher prepayment speeds and activity, which typically has negative impacts on MSRs valuations, due to the shorter average lives of the underlying mortgages, while having a positive impacts on our Originations segment. The steady increase in interest rates experienced in the second quarter of 2015 would generally lead to the opposite occurrence, resulting in positive impacts on mortgage servicing rights valuations and negative impacts on our Originations segment. We believe that the following table generally describes the impacts on our financial results by segment in several interest rate environment scenarios (although there are various factors impacting our financial results that may cause different outcomes than depicted here):

	Origination Segment	Financing Segment	Servicing Segment
Yield curve shifts upward	Decrease	Unchanged	Increase
Yield curve shifts downward	Increase	Unchanged	Decrease
Yield curve steepens	Decrease	Increase	Increase
Yield curve flattens	Increase	Decrease	Decrease

Performance Summary and Outlook

The following highlights our performance for the second quarter and year to date period of 2015:

	Three Months Ended June 30,		Change	
	2015	2014	$	%
Mortgage loan originations	$ 3,440,205	$ 3,307,442	$ 132,763	4 %
Gain on sale revenue	$ 51,334	$ 46,548	$ 4,786	10 %
Gain on sale revenue, bps [1]	149	141	8	6 %
Total Expenses related to Originations segment, bps [1]	159	142	17	12 %
Total Expenses related to Servicing segment, bps [2]	4	2	2	100 %

	Six Months Ended June 30,		Change	
	2015	2014	$	%
Mortgage loan originations	$ 6,278,158	$ 5,729,310	$ 548,848	10 %
Gain on sale revenue	$ 104,175	$ 75,179	$ 28,996	39 %
Gain on sale revenue, bps [1]	166	131	35	27 %
Total Expenses related to Originations segment, bps [1]	164	155	9	6 %
Total Expenses related to Servicing segment, bps [2]	7	4	3	75 %

	Three Months Ended		Change	
	June 30, 2015	March 31, 2015	$	%
Mortgage loan originations	$ 3,440,205	$ 2,837,954	$ 602,251	21 %
Gain on sale revenue	$ 51,334	$ 52,841	$ (1,507)	(3)%
Gain on sale revenue, bps [1]	149	186	(37)	(20)%
Total Expenses related to Originations segment, bps [1]	159	168	(9)	(5)%
Total Expenses related to Servicing segment, bps [2]	4	3	1	33 %

	As of		Change	
	June 30, 2015	December 31, 2014	$	%
Mortgage Service Portfolio ("UPB")	$ 17,244,304	$18,336,745	$ (1,092,441)	(6)%

	As of		Change	
	June 30, 2015	March 31, 2015	$	%
Mortgage Service Portfolio ("UPB")	$ 17,244,304	$ 16,964,734	$ 279,570	2 %

[1] Bps as a percentage of origination volume for applicable period.
[2] Bps as a percentage of our average servicing portfolio for applicable period.

We operate a diversified originations business, consisting of retail, wholesale and correspondent channels. These channels each offer varying risk and return characteristics. We believe the retail channel offers us a more stable source of revenue by generating mortgage servicing rights ("MSRs"), either via a distributed network of branches or a direct-to-consumer

call center ("retail direct"), driving our strategic focus on growing that channel's origination volume. Therefore, in order to maximize our retail scope, we created Stonegate Direct in October 2014, which allows us to reach customers directly through the internet and call centers using a lower cost platform. Due to increased retail originations, we expect to generate higher revenues as retail originations produce higher per loan revenue contribution than originations from third party originators. We also expect to see a continued increase in our government-insured and non-agency mortgage loan originations, which provide innovative products that meet borrowers' demands and investors' return thresholds. Accordingly, we expect we will expand our origination of non-agency loans and expect that we will sell these loans into the whole loan market or securitize these loans as private label securitizations at a future date.

Our servicing revenues have continued to grow as the volume of MSRs generated from our originations platform has increased, resulting in an increase in the average number of loans in our servicing portfolio. As an asset manager, we are prepared to act as either a buyer or a seller of MSRs, depending on market conditions. As we monitor these market conditions, we may choose to sell a portion of our servicing rights to third parties, continue our involvement as a subservicer to certain sold servicing rights, or sell a portion of our servicing rights on a flow basis or retain other beneficial interests (such as interest-only strips) as we determine to create the best economic value in the current market. Subservicing fee revenue is earned over the life of the associated loan and is generally lower than the servicing fee received by the owner of the MSRs; however, there are lower risks in subservicing loans as opposed to owning the MSRs, such as prepayment risk, and subservicing is less capital intensive than owning MSRs as there is no asset recorded on the balance sheet for subservicing of mortgage loans. Also, selling MSRs on a flow basis results in additional liquidity, allowing us to deploy capital resources into potential higher return assets and generate higher levels of profitability. As we sell MSRs, we lessen the negative impact that high prepayment speeds and lower interest rates have on our Servicing segment results, as the segment would no longer be subject to the fair value adjustments for the sold MSRs. Additionally, we have entered into MSRs financing facilities that allow us to leverage the MSRs assets we hold.

We continue to grow our financing segment as we focus on providing warehouse financing to our correspondent customers and others. Our financing subsidiary, which we refer to as NattyMac, allows us to leverage our proprietary technology and our existing due diligence and underwriting processes to efficiently underwrite the warehouse lines of credit it provides for both our origination segment correspondent originators and customers who may not sell loans to our origination segments. We believe that NattyMac is highly scalable with little additional fixed cost investment needed to grow our customer base. We believe our focus on growth in NattyMac creates access to efficient sources of capital and strengthens relationships with small to mid-size correspondents to originate mortgage loans that meet our underwriting requirements and are eligible for us and other investors to purchase.

We have experienced increased expenses associated with our investments in technology and the growth of headcount necessary to support our originations volume and MSRs average servicing portfolio growth. With the expected growth in our originations, we expect to see an increase in total expenses, but a decrease in total expenses when calculated as a percentage of origination volume. We also expect expenses to increase as we expand our retail channel, but expect higher revenues from higher and more profitable retail originations offsetting this increase. Our retail expansion and growth strategy is focused on the retail direct side of the retail channel. We plan to maximize our potential return by focusing on lowering expenses through creating system automation efficiencies through information technology investments and process enhancements. We also plan to further evaluate and target expense reductions in the retail channel in order to maximize efficiency. As we continue to grow, we will invest in additional information technology infrastructure to manage our growth and to increase automation within our systems surrounding both critical operational areas and corporate support areas. We believe these investments will eventually lead to a decrease in expenses over the long-term.

We have also experienced growth within our platforms and increased expenses related to industry regulatory compliance. We are monitoring a number of developments in regulations that are expected to impact us, and there has been a heightened focus of regulators on the practices of the mortgage industry. The full impact of regulatory developments remains uncertain, although we expect the higher level of legislative and regulatory focus on mortgage origination and servicing practices will result in higher legal, compliance, and servicing related costs, heightened risk of potential regulatory fines and penalties, and we could experience an increase in mortgage origination or servicing related litigation in the future.

Financial Condition Summary

Changes in the composition and balance of our assets and liabilities during the six months ended June 30, 2015 are attributable to the execution of our strategy to grow our lending and servicing platforms, particularly our warehouse lending operations which have experienced the largest growth of the three segments during this time period.

Non-GAAP Financial Measures

Our results of operations discussed throughout this MD&A are determined in accordance with U.S. generally accepted accounting principles ("GAAP"). We also calculate adjusted net income and adjusted diluted EPS as performance measures, which are considered non-GAAP financial measures under Regulation G and Item 10(e) of Regulation S-K, to further aid our investors in understanding and analyzing our core operating results and comparing them among periods. Adjusted net income and adjusted diluted EPS exclude certain items that we do not consider part of our core operating results, including changes in valuation inputs and assumptions on our MSRs, stock-based compensation expenses, other non-routine costs and acquisition related costs. Other non-routine costs consists primarily of guarantees and other compensation expense prior to the period of meaningful origination production during the first quarter of 2014. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for (loss) income before income taxes, net (loss) income or diluted (LPS) EPS prepared in accordance with GAAP.

In addition, adjusted net income has limitations as an analytical tool, including but not limited to the following:

- adjusted net income does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- adjusted net income does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted net income does not reflect the cash requirements necessary to service principal payments related to the financing of the business;
- peer companies in our industry may calculate adjusted net income differently, thereby limiting its usefulness as a comparative measure.

Because of these and other limitations, adjusted net income should not be considered solely as a measure of discretionary cash available to us to invest in the growth of our business. Adjusted net income is a performance measure and is presented to provide additional information about our core operations.

The table below reconciles net income to adjusted net income (loss) and diluted EPS to adjusted diluted EPS (LPS)(which are the most directly comparable GAAP measures) for the three months ended June 30, 2015 and 2014 .

	Three Months Ended June 30,		Change	
	2015	2014	$	%
Net income	$ 11,134	$ 268	$ 10,866	4,054 %
Adjustments:				
Changes in valuation inputs and assumptions on MSRs	(20,821)	10,712	(31,533)	(294)%
Stock-based compensation expense	823	871	(48)	(6)%
Tax effect of adjustments	7,926	(4,494)	12,420	(276)%
Adjusted net (loss) income	$ (938)	$ 7,357	$ (8,295)	(113)%
Diluted EPS	$ 0.43	$ 0.01	$ 0.42	4,200 %
Adjustments:				
Changes in valuation inputs and assumptions on MSRs	(0.81)	0.42	(1.23)	(293)%
Stock-based compensation expense	0.03	0.03	—	— %
Tax effect of adjustments	0.31	(0.17)	0.48	(282)%
Adjusted diluted (LPS) EPS	$ (0.04)	$ 0.29	$ (0.33)	(114)%

Adjusted net income decreased $8,295 , or 113% , during the three months ended June 30, 2015 , as compared to the three months ended June 30, 2014 . Adjusted diluted EPS decreased $0.33 , or 114% , during the three months ended June 30, 2015 , as compared to the three months ended June 30, 2014 . The decrease was primarily attributable to increased headcount in revenue producing positions and in segment and corporate support areas related to the growth in both the originations and servicing segments, as well as the increased amortization of MSRs expense related to payoffs and principal reductions experienced during the current period due to the lower interest rate environment present throughout the three months ended June 30, 2015 , as compared to the three months ended June 30, 2014 , during which refinance activity and prepayment speeds increased.

The table below reconciles net income (loss) to adjusted net income and diluted EPS (LPS) to adjusted diluted EPS (which are the most directly comparable GAAP measures) for the six months ended June 30, 2015 and 2014 .

	Six Months Ended June 30,		Change	
	2015	2014	$	%
Net income (loss)	$ 15	$ (7,616)	$ 7,631	(100)%
Adjustments:				
Changes in valuation inputs and assumptions on MSRs	3,568	18,643	(15,075)	81 %
Stock-based compensation expense	1,645	1,770	(125)	(7)%
Other non-routine expenses [1]	—	9,593	(9,593)	(100)%
Acquisition related expenses	—	49	(49)	N/A
Tax effect of adjustments	(1,893)	(11,661)	9,768	(84)%
Adjusted net income	$ 3,335	$ 10,778	$ (7,443)	(69)%
Diluted EPS (LPS)	$ —	$ (0.30)	$ 0.30	(100)%
Adjustments:				
Changes in valuation inputs and assumptions on MSRs	0.14	0.72	(0.58)	81 %
Stock-based compensation expense	0.06	0.07	(0.01)	N/A
Other non-routine expenses	—	0.37	(0.37)	N/A
Acquisition related expenses	—	—	—	N/A
Tax effect of adjustments	(0.07)	(0.44)	0.37	(84)%
Adjusted diluted EPS	$ 0.13	$ 0.42	$ (0.29)	(69)%

[1] For the six months ended June 30, 2014 , amount consists primarily of guarantees and other compensation expense prior to the period of meaningful origination production.

Adjusted net income decreased $7,443 , or 69% , during the six months ended June 30, 2015 , as compared to the six months ended June 30, 2014 . Adjusted diluted EPS decreased $0.29 , or 69% , during the six months ended June 30, 2015 , as compared to the six months ended June 30, 2014 . The decrease was primarily attributable to increased amortization of MSRs expense related to payoffs and principal reductions experienced during the current period due to the lower interest rate environment present throughout the six months ended June 30, 2015 , during which refinance activity and prepayment speeds increased, as well as increased headcount in revenue producing positions and in segment and corporate support areas related to the growth in both the originations and servicing segments.

Recent Developments and Significant Transactions

We continue to perform on our growth strategy in each segment through geographic expansion, development of new investor and product offerings, a focus on higher margin volume and selling MSRs if the market conditions are favorable. Our MSRs are created through our originations channels. As an asset manager, we are prepared to act as either a buyer or a seller of MSRs, depending on market conditions. We successfully executed on this strategy by selling nearly $4.6 billion of MSRs to date in 2015, freeing up capital to reinvest in originations, which we believe has higher return potential over the course of an interest rate cycle. These two MSRs pools were sold to unrelated third parties, in two separate transactions.

The first sale of MSRs, in the first quarter of 2015, consisted of an underlying UPB of $2.7 billion in FNMA and FHLMC loans. The second sale of MSRs, in the second quarter of 2015, consisted of an underlying UPB of approximately $1.9 billion in GNMA loans. These pools of MSRs had average mortgage interest rates that were different than the current mortgage interest rates and did not represent the characteristics of our MSRs portfolio as a whole. We performed temporary sub-serving activities with respect to the underlying loans through the established loan file transfer dates, occurring and targeted for the second and third quarters of 2015, respectively, for a fee, during which time we were also entitled to certain other ancillary income amounts. We plan (and have begun) to re-deploy the proceeds from these sales back into our originations platform to create newly originated MSRs with the intent of improving our returns.

We continue to enter into strategic financing arrangements and actively amend our existing arrangements to execute our liquidity and financing strategies. The following financing-related transactions occurred throughout 2015:

- On January 29, 2015, we signed a Mortgage Repurchase Agreement with Wells Fargo with a maximum borrowing capacity of $200,000. The borrowing facility is comparable to the repurchase facilities that we have in place with other financial institutions, and is designed to finance newly originated conventional, government and jumbo residential mortgages originated or purchased by us. The facility is uncommitted and matures on January 30, 2016. With this additional borrowing facility, we now have a total maximum borrowing capacity of $1.9 billion , including the operating lines of credit.

- On April 23, 2015, we, through our NattyMac subsidiary, entered into a Participation Agreement with Citizens Bank & Trust Company ("Citizens"), in which we will sell participation interests in certain of our warehouse lines of credit in an amount not to exceed $100,000 and on an individual warehouse lender basis not to exceed $7,500. There was no activity during the three or six months ended June 30, 2015 .
- On April 30, 2015, we amended our operating line of credit with Merchants Bank to extend the available borrowings through June 2015.
- On June 10, 2015, we amended our mortgage repurchase financing facility with Bank of America to extend the maturity date to June 2016. Additionally, we increased the maximum borrowing capacity of our mortgage gestation repurchase facility from $200 to $300.
- On July 30, 2015, we amended our master participation agreement, warehouse and security agreement and operating line of credit facilities with Merchants to extend their maturity dates through July 2016.

On January 14, 2015, we established a new captive insurance subsidiary, licensed in Michigan, for the purpose of insuring certain employment practices, cyber risk and professional services liability risks of the Company that are currently self-insured or uninsured. By establishing the captive insurance company, we, via the new insurance subsidiary, have applied for membership to the Federal Home Loan Bank of Indianapolis. If obtained, this membership will allow for us to participate in certain mortgage loan sale programs offered by the Federal Home Loan Bank. We believe that these loan sale programs will provide another avenue through which to sell our residential mortgage assets at more attractive results. There continues to be no material financial impact from the captive insurance company as of and for the year to date period ended June 30, 2015 .

Other Factors Influencing Our Results

Prepayment Speeds. A significant driver of our servicing business is prepayment speed, which is the measurement of how quickly unpaid principal balance on mortgage loans is reduced by borrower payments. Prepayment speeds, as reflected by the constant prepayment rate, vary according to interest rates, the type of loan, conditions in the housing and financial markets, competition and other factors, none of which can be predicted with any certainty. Prepayment spread impacts future servicing fees, value of MSRs, float income, interest expense on advances and interest expense. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their mortgage loans and, as a result, prepayment speeds tend to decrease. This can extend the period over which we earn servicing income but reduce the demand for new mortgage loans. When interest rates fall, prepayment speeds tend to increase, thereby decreasing the value of MSRs and shortening the period over which we earn servicing income but increasing the demand for new mortgage loans.

Changing Interest Rate Environment. Generally, when interest rates rise, the value of mortgage loans and interest rate lock commitments decrease while the value of hedging instruments related to such loans and commitments increases. When interest rates fall, the value of mortgage loans and interest rate lock commitments increases and the value of hedging instruments related to such loans and commitments decrease. Decreasing interest rates also precipitate increased loan refinancing activity by borrowers seeking to benefit from lower mortgage interest rates.

Risk Management Effectiveness-Credit Risk. We are subject to the risk of potential credit losses on all of the residential mortgage loans that we hold for sale or investment as well as for losses incurred by investors in mortgage loans that we sell to them as a result of breaches of representations and warranties we make as part of the loan sales. The representations and warranties require adherence to investor or guarantor origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law. The level of mortgage loan repurchase losses is dependent on economic factors, investor repurchase demand strategies, and other external conditions that may change over the lives of the underlying loans.

Risk Management Effectiveness-Interest Rate Risk. Because changes in interest rates may significantly affect our activities, our operating results will depend, in large part, upon our ability to effectively manage interest rate risks and prepayment risks, including risk arising from the change in value of our inventory of mortgage loans held for sale and commitments to fund mortgage loans and related hedging derivative instruments, as well the effects of changes in interest rates on the value of our investment in MSRs. See “Quantitative and Qualitative Disclosures about Market Risk” included in this MD&A for a discussion on the effects of changes in interest rates on the recorded value of our MSRs.

Liquidity. Our ability to operate profitably is dependent on both our access to capital to finance our assets and our ability to profitably sell and service mortgage loans. An important source of capital for the residential mortgage industry is warehouse financing facilities. These facilities provide funding to mortgage loan producers until the loans are sold to investors

or securitized in the secondary mortgage loan market. Our ability to hold loans pending sale or securitization depends, in part, on the availability to us of adequate financing lines of credit at suitable interest rates. During any period in which a borrower is not making payments, if we own the MSRs then we may be required to advance our own funds to meet contractual principal and interest remittance requirements for investors and advance costs of protecting the property securing the investors' loan and the investors' interest in the property. The ability to obtain capital to finance our servicing advances influences our ability to profitably service delinquent loans. See "Liquidity and Capital Resources" for additional information.

Servicing Effectiveness. Our servicing fee rates for loans serviced for non-affiliates are generally at specified servicing rates that do not change with a loan's performance status. As a mortgage loan becomes delinquent and moves through the delinquency process to settlement through acquisition of the property or partial payoff, the loan requires greater effort on our part to service. Increased mortgage delinquencies, defaults and foreclosures will therefore result in a higher cost to service those loans due to the increased time and effort required to collect payments from delinquent borrowers. Therefore, how efficiently we are able to maintain the credit quality of our portfolio of serviced mortgage loans and service the mortgage loans where the borrower has defaulted influences the level of expenses that we incur in the mortgage loan servicing process.

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

Our consolidated results of operations for the three months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,			
	2015	**2014**	**$ Change**	**% Change**
Gains on mortgage loans held for sale, net	$ 51,334	$ 46,548	$ 4,786	10%
Losses on sale of mortgage servicing rights	(3,068)	—	(3,068)	(100)%
Changes in mortgage servicing rights valuation	20,821	(10,713)	31,534	(294)%
Payoffs and principal amortization of mortgage servicing rights	(11,322)	(4,651)	(6,671)	143%
Loan origination and other loan fees	7,724	6,731	993	15%
Loan servicing fees	12,611	10,790	1,821	17%
Interest and other income	9,343	8,918	425	5%
Total revenues	87,443	57,623	29,820	52%
Salaries, commissions and benefits	42,919	35,144	7,775	22%
General and administrative	9,569	9,346	223	2%
Interest expense	8,295	6,263	2,032	32%
Occupancy, equipment and communications	5,933	4,762	1,171	25%
Provision for mortgage repurchases and indemnifications - change in estimate	437	509	(72)	(14)%
Depreciation and amortization expense	1,846	1,193	653	55%
Total expenses	68,999	57,217	11,782	21%
Income before income tax expense	18,444	406	18,038	4,443%
Income tax expense	7,310	138	7,172	5,197%
Net income	$ 11,134	$ 268	$ 10,866	4,054%
Weighted average diluted shares outstanding *(in thousands)*	25,782	25,769	13	—%
Diluted EPS	$ 0.43	$ 0.01	$ 0.42	4,200%

Revenues

During the three months ended June 30, 2015 , total revenues increased $29,820 , or 52% , as compared to the three months ended June 30, 2014 . The increase in revenues resulted from increases in the fair value of our MSRs, gains on mortgage loans held for sale, net, loan servicing fees, loan origination fees and interest and other income, offset by increased loan payoffs and principal amortization of our MSRs and a loss on sale of mortgage servicing rights.

The increase in the fair value of our MSRs was driven primarily by the increase in market interest rates and steepening of the yield curve during the three months ended June 30, 2015 . Increasing interest rates generally result in increased MSRs values as the assumption for prepayment speeds of the underlying mortgage loans tends to decrease (mortgage loans prepay slower) and a steepening yield curve increases the expected value of interest and other income from the escrow balances we maintain.

Our gains on mortgage loans held for sale, net during the three months ended June 30, 2015 increased $4,786 , or 10% , as compared to the three months ended June 30, 2014 primarily due to the 4% increase in our originations volume and shifts in our product and channel mix. Our gains on mortgage loans held for sale, net during the three months ended June 30, 2015 were 149 basis points of loan originations compared to 141 basis points for the comparable period in 2014. The increase in basis point gain on sale was due primarily to an increase in our government insured loan production and in our retail originations and a decrease in our correspondent originations, as further discussed in the Segment Results section. Government insured loans and loans originated in our retail channel generate higher revenue margins than our other loan products or loans originated through our other channels.

The increase in our loan servicing fees was a direct result of our higher average servicing portfolio of $16.6 billion during the three months ended June 30, 2015 , compared to an average servicing portfolio of $15.4 billion during the three months ended June 30, 2014 . The increase in our average servicing portfolio was the result of our increase in originations volume. Our loan servicing fees, as an annualized percentage of our average servicing portfolio, were 30 bps for the three months ended June 30, 2015 , compared to 28 bps for the three months ended June 30, 2014 . The increase in servicing fees in basis points is due to the increase in the percentage of the portfolio that is government-backed loans, which have a higher servicing fee than conventional mortgages.

Loan origination and other loan fees increased primarily as a result of the increase in the amount of loans originated during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 , as well as higher fees achieved by shifting our loan portfolio mix to increase government insured loans and originations made in the retail channel.

The increase in interest and other income was primarily a result of the 4% increase in mortgage loan originations during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , as there is a direct correlation between interest and other income and mortgage loan origination activity. Additionally, government insured loans carry a higher average coupon rate, so we would expect to see an increase in interest and other income as we continue to shift our product mix towards this type of loan origination. The average coupon rate was 4.02% at June 30, 2015 compared to 3.99% at June 30, 2014 .

The increase in payoffs and principal amortization of our MSRs was also driven primarily by the decrease in market interest rates during the first part of the three months ended June 30, 2015 , as well as the higher refinancing activity discussed in the Recent Industry Trends and Our Outlook section.

The losses on sale of mortgage servicing rights primarily relates to our second quarter sale of GNMA MSRs and the change in fair value of the underlying MSRs assets from the time of the transaction bid to the date of derecognition. The loss was driven by the estimated prepayment protection provision, given the fact that this GNMA pool consisted of mortgage loans with higher average mortgage rates.

Expenses

Total expenses increased $11,782 or 21% for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 . Total expenses have increased due to 1) a 4% increase in total originations and the related costs associated with higher originations; 2) a strategic change in mix of originations to retail and wholesale, which are higher cost origination channels with higher revenue as compared to our correspondent channel; 3) a 8% increase in our average servicing portfolio and the related costs during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , including increased specialized servicing expertise required to manage a strategic change in mix towards government-insured loans and the increased age of our servicing, which increases delinquencies and defaults; and 4) higher regulatory compliance costs.

With the expected growth in our originations and compliance costs related to increased industry regulations, we expect to see an increase in total expenses, though a decrease when calculated as a percentage of origination volume. We also expect expenses to increase as we expand our retail channel, but expect this increase will be offset by a higher gain on sale revenues. We plan to maximize our potential return by focusing on lowering expenses through continued investments in information technology and enhancing process efficiencies. As we continue to grow, we will invest in additional infrastructure to manage our growth and to increase automation within our systems surrounding critical areas, particularly related to core operations systems, as well as corporate support areas. We believe these increases in investments will eventually lead to a decrease in expenses in relation to our origination volume over the long-term.

Salaries, commissions and benefits expense increased $7,775 , or 22% , during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 , primarily as a result of increased headcount in revenue producing positions and in segment and corporate support areas related to the growth in both the originations and servicing segments. Our total headcount increased from 1,256 employees at June 30, 2014 to 1,349 employees at June 30, 2015 .

Interest expense increased $2,032 , or 32% , during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , primarily due to increased borrowings as a result of the increase in the volume of mortgage loans originated and funded in the current period and interest associated with increased borrowings related to financing our MSRs portfolio in the current period. We expect that interest expense will generally move in direct correlation to changes in our origination and servicing portfolio trends in future periods.

Occupancy, equipment and communication expenses decreased $1,171 , or 25% , during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 . Our retail expansion increased the number of mortgage loan branches from 69 at June 30, 2014 to 115 at June 30, 2015 . We do not expect the same level of growth in occupancy levels in future periods. However, we expect to see increases in information technology costs to support our strategic growth. We expect expenses will continue to grow, as we invest in additional infrastructure to manage our growth and to increase automation within our systems, both in our core operations and corporate support areas.

Depreciation and amortization expense increased $653 , or 55% , during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , primarily due to increased property and equipment expenditures resulting from our overall growth.

We reported an income tax expense of $7,310 and $138 for the three months ended June 30, 2015 and 2014, respectively, with an effective tax rate of 40% and 34% , respectively. The increase in income tax expense is due primarily to an increase in our net operating income before taxes for the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 .

Segment Results

	Three Months Ended June 30, 2015				
	Originations	**Servicing**	**Financing**	**Other/Eliminations [1]**	**Consolidated**
Revenues					
Gains on mortgage loans held for sale, net	$ 51,285	$ —	$ —	$ 49	$ 51,334
Gain on sale of mortgage servicing rights	—	(3,068)	—	—	(3,068)
Changes in mortgage servicing rights valuation	—	20,821	—	—	20,821
Payoffs and principal amortization of mortgage servicing rights	—	(11,322)	—	—	(11,322)
Loan origination and other loan fees	7,421	—	303	—	7,724
Loan servicing fees	—	12,611	—	—	12,611
Interest and other income	7,635	—	1,694	14	9,343
Total revenues	66,341	19,042	1,997	63	87,443
Expenses					
Salaries, commissions and benefits	32,801	2,285	574	7,259	42,919
General and administrative	4,380	837	173	4,179	9,569
Interest expense	5,738	1,772	657	128	8,295
Occupancy, equipment and communication	3,843	505	61	1,524	5,933
Provision for mortgage repurchases and indemnifications	437	—	—	—	437
Depreciation and amortization	1,269	99	102	376	1,846
Corporate allocations	6,125	858	75	(7,058)	—
Total expenses	54,593	6,356	1,642	6,408	68,999
Income (loss) before taxes	$ 11,748	$ 12,686	$ 355	$ (6,345)	$ 18,444

[1] Includes intersegment eliminations and certain corporate income and expenses not allocated to the three reportable segments, such as those related to our accounting, executive administration, finance, internal audit, investor relations and legal departments.

	Three Months Ended June 30, 2014				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 46,533	$ —	$ —	$ 15	$ 46,548
Changes in mortgage servicing rights valuation	—	(10,713)	—	—	(10,713)
Payoffs and principal amortization of mortgage servicing rights	—	(4,651)	—	—	(4,651)
Loan origination and other loan fees	6,593	—	169	(31)	6,731
Loan servicing fees	—	10,790	—	—	10,790
Interest and other income	8,586	—	392	(60)	8,918
Total revenues	61,712	(4,574)	561	(76)	57,623
Expenses					
Salaries, commissions and benefits	27,289	1,367	412	6,076	35,144
General and administrative	2,674	345	154	6,173	9,346
Interest expense	6,049	170	—	44	6,263
Occupancy, equipment and communication	2,711	420	86	1,545	4,762
Provision for mortgage repurchases and indemnifications	509	—	—	—	509
Depreciation and amortization	276	11	93	813	1,193
Corporate allocations	7,442	893	43	(8,378)	—
Total expenses	46,950	3,206	788	6,273	57,217
Income (loss) before taxes	$ 14,762	$ (7,780)	$ (227)	$ (6,349)	$ 406

[1] Includes intersegment eliminations and certain corporate income and expenses not allocated to the three reportable segments, such as those related to our accounting, executive administration, finance, internal audit, investor relations and legal departments.

Originations

The Originations segment reported income before taxes of $11,748 and $14,762 during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 . This decrease was the result of increased costs associated with higher originations, such as increased commissions and incentive compensation, an increased number of branch locations and other costs associated with managing growth of our retail channel and other regulatory costs, offset by an increase in gains on sale of mortgage loans. Our mortgage loan originations increased 4% period over period.

Gains on Mortgage Loans Held for Sale, Net

Our gains on mortgage loans held for sale, net during the three months ended June 30, 2015 increased $4,786 or 10% as compared to the three months ended June 30, 2014 primarily due to the 4% increase in our originations volume. Our gains on mortgage loans held for sale, net during the three months ended June 30, 2015 were 149 bps of loan originations compared to 141 bps for the comparable period in 2014. The increased gain on sale in basis points was due primarily to an increase in our government insured loans and in our retail originations as seen in the tables below. Government insured loans and loans originated in our retail channel generate higher revenue margins than our other loan products or loans originated in other channels. Gains on mortgage loans held for sale, net consisted of the following for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30,				
	2015		2014		Variance
	$	bps [2]	$	bps [2]	$
Realized gains on sales of loans	$ 12,589	37	$ 1,756	5	$ 10,833
Capitalized servicing rights	46,468	135	40,247	122	6,221
Economic hedge results	(1,788)	(5)	10,790	33	(12,578)
Provision for repurchases	(932)	(3)	(603)	(2)	(329)
Direct loan origination costs [1]	(5,003)	(15)	(5,642)	(17)	639
Gains on mortgage loans held for sale, net	$ 51,334	149	$ 46,548	$ 141	$ 4,786

[1] Includes costs directly related to specified activities performed for a particular loan to facilitate the sale of such loan and the creation of the capitalized servicing right.
[2] Shown as a percentage of originations.

Material components presented in gains on mortgage loans held for sale, net are listed below.

Realized gains on sales of loans - Realized gains on sales of loans represent the difference between the actual sales proceeds received upon sale of the loans and Stonegate's cost basis in acquiring/producing those loans, including loan discount fees, lender credits, yield spread premiums and servicing release premiums paid to correspondents. These items represent the components that factor into the pricing of the loans to borrowers and represent the core "margin" elements of the loan sales. The increase in our realized gains on sales of loans during the three months ended June 30, 2015 , compared to the comparable period in 2014 , was primarily due to the increase in our loan origination volume, as well as the mix shift toward more retail and government production. These increases were partially offset by increases in the cost basis in acquiring/producing the higher loan volume.

Capitalized servicing rights - An originated mortgage loan inherently includes both the value of the coupon to the borrower as well as the servicing fee component to compensate the servicer for its activities. A key element of Stonegate's strategy is to retain the servicing of its loans upon sale to investors in order to take advantage of the value of the servicing component. When Stonegate sells its loans "servicing retained", a contractual separation of the servicing component occurs from the underlying mortgage loan. This results in the creation of an MSRs asset. As such, a component of the gain on mortgage loans held for sale is attributable to the creation of this MSRs asset and is based on the fair value of such MSRs asset at the time of its creation (i.e. upon separation from the underlying loan during the loan sale). The Company utilizes a third-party analytic tool to derive/estimate this initial MSRs fair value at the time of sale. The increase in our capitalized servicing rights component for the three months ended June 30, 2015 , as compared to the three months ended June 30, 2014 , relates to the increase in our loan origination volume and an increase in the rate at which we capitalize these servicing rights at the time of separation from the underlying loan during the loan sale, which represents the initial fair value of the MSRs at the time of sale. An increase in loan origination volume results in a higher level of MSRs asset creation. The rate at which we capitalize these servicing rights increased based on current market conditions.

Economic hedge results - Unrealized gains/losses on loans not yet sold and accounted for under the fair value option are included as a component of Gains on mortgage loans held for sale, net. This includes the impact of recording such loans at fair value and the change from period to period based on market conditions. In addition, the change in value of Stonegate's interest rate lock commitments ("IRLCs") and other loan-related derivatives are recorded in this financial statement line item. The Company also enters into forward sales of MBS securities linked to security issuances of GSEs (FNMA, FHLMC, GNMA) for economic hedging purposes, as these instruments have similar characteristics to the loans held for sale by Stonegate. The decrease in our economic hedge results for the three months ended June 30, 2015 , as compared to the three months ended June 30, 2014 , primarily relates to the decrease attributed to the net volume change period over period of interest rate lock commitments and loans held for sale.

Provision for repurchase/indemnification obligation - Certain representations and warranties are made by Stonegate to investors and insurers on loans sold. In the event of a breach of these reps and warranties, the Company may incur losses and/or be required to repurchase loans from the investor. A provision is made at the time of sale for an estimate of such expected losses, the amount of which is offset against this gain line item. We expect that the provision for mortgage repurchases and indemnifications may increase in relation to the expected growth in our originations; however, changing market conditions will also influence any trends in our provision. The increase in our provision for repurchase/indemnification obligation for the three months ended June 30, 2015 , as compared to the three months ended June 30, 2014 , relates to the 13% increase in loan sales period over period and an increase in the rate at which we reserve upon loan sale.

Direct loan origination costs - Stonegate offsets its gains/losses on mortgage loans held for sale, as described by the various categories above, with certain direct loan origination costs. These direct costs primarily relate to the following two circumstances:

i) Costs directly associated with the origination of the mortgage loans that are paid to/incurred with a third party and are largely mandated by the investors as requirements for the loans to be sold. Such costs include net appraisal fees, credit report fees, document preparation and imaging, risk management and loan file review and certain FNMA/FHLMC/GNMA specific fees.

ii) Costs directly associated with the contractual creation of the separate servicing component of the loans upon sale to the investors on a “servicing retained” basis. Such costs include the one-time upfront setup fees for life of loan tax services (including tracking and paying of tax payments to jurisdictions), fees paid to an outsource provider for valuation of initial MSRs created upon sale of the loan, and upfront recording fees at initial servicing setup.

The decrease in direct loan origination costs for the for the three months ended June 30, 2015 , as compared to the three months ended June 30, 2014 , relates to our shift towards loans originated in our retail channel, which generate higher revenue margins, and a change in FNMA fee structure in the current period.

Loan Origination and Other Loan Fees

Our loan origination and other loan fees during the three months ended June 30, 2015 increased $828 , or 13% , compared to the comparable period in 2014, due to higher origination volume and a higher mix of government insured loans, which have higher margins than conventional mortgages, and an increase in retail originations, driven by Stonegate Direct, which also have higher margins than correspondent originations. Our loan origination and other loan fees as a percentage of total originations were 22 bps and 20 bps for the three months ended June 30, 2015 and 2014 , respectively. The following table illustrates mortgage loan originations by type for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30,			
	2015		2014	
	$	% Total	$	% Total
Conventional	$ 1,324,969	38 %	$ 1,896,562	57%
Government insured	1,948,744	57 %	1,349,137	41 %
Non-agency/Other	166,492	5 %	61,743	2 %
Total mortgage loan originations	$ 3,440,205	100%	$ 3,307,442	100%

The following is a summary of mortgage loan origination volume by channel for the three months ended June 30, 2015 and 2014 :

	Three Months Ended June 30,					
	2015			2014		
	# of Loans	$	% Total	# of Loans	$	% Total
Retail	3,428	$ 755,920	22 %	2,109	$ 469,671	14%
Wholesale	2,188	623,361	18 %	3,111	729,899	22 %
Correspondent	9,229	2,060,924	60 %	10,577	2,107,872	64 %
Total mortgage loan originations	14,845	$ 3,440,205	100 %	15,797	$ 3,307,442	100%

The increased volume in the retail channel during the three months ended June 30, 2015 is reflective of our strategy to grow this channel's origination volume. We believe the retail channel offers us a lower cost basis of generating MSRs due to the higher cash gain on sale and fee income. Our Stonegate Direct division continues to grow, as we believe our customers have a growing demand for online business.

We seek to manage asset quality and control credit risk by diversifying our loan portfolio and by applying policies designed to promote sound underwriting and loan monitoring practices. We perform various levels of analysis in order to monitor the overall risk profile of our mortgage originations and servicing portfolio. This analysis includes review of the LTV, FICO scores, delinquencies, defaults and historical loan losses. Monthly risk meetings are conducted where portfolio risk analysis, such as FICO and LTV combination migration, is studied to ensure that the population distributions are in accordance with acceptable risk parameters. In addition, default activity is evaluated in the context of credit spectrum to identify any emerging credit quality trends.

A summary of the mortgage loan origination volume by FICO score and LTV for the three months ended June 30, 2015 and 2014 is as follows:

	Three Months Ended June 30, 2015						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 2,379	$ 3,569	$ 4,919	$ 33,807	$ 1,818	$ 46,492	1%
620-680	44,945	83,086	102,609	617,195	27,102	874,937	26 %
681-719	60,130	107,525	107,294	461,720	31,402	768,071	22 %
>719	371,486	517,484	231,924	576,462	53,349	1,750,705	51 %
Total mortgage loan originations	$ 478,940	$ 711,664	$ 446,746	$ 1,689,184	$ 113,671	$ 3,440,205	100%
% Total	14%	21%	13%	49%	3%	100%	

	Three Months Ended June 30, 2014						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 588	$ 1,154	$ 1,537	$ 4,870	$ 541	$ 8,690	—%
620-680	62,537	120,073	87,451	524,613	8,334	$ 803,008	25 %
681-719	102,433	160,709	91,562	380,551	7,570	$ 742,825	22 %
>719	367,266	610,027	216,955	548,621	10,050	$ 1,752,919	53 %
Total mortgage loan originations	$ 532,824	$ 891,963	$ 397,505	$ 1,458,655	$ 26,495	$ 3,307,442	100%
% Total	16%	27%	12%	44%	1%	100%	

Interest and Other Income

Interest and other income related to our Originations segment decreased $951 , or 11% , during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 . The decrease in interest and other income was primarily a result of lower average coupon rates, partially offset by an increase in mortgage loan originations, during the three months ended June 30, 2015 , as compared to the three months ended June 30, 2014 . The average coupon rate related to our originations volume was 3.73% during the three months ended June 30, 2015 compared to 4.03% during the three months ended June 30, 2014 . There is a direct correlation between interest and other income and mortgage loan originations. Additionally, government insured loans carry a higher average coupon rate, so we would expect to see an increase in interest and other income as we continue to shift our product mix towards this type of loan origination.

Salaries, Commissions and Benefits Expense

Salaries, commissions and benefits expense related to our Originations segment increased $5,512 , or 20% , during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily as a result of increasing revenue-producing positions during the latter half of 2014, resulting in higher commissions and other incentive compensation. Headcount related to our Originations segment increased from 456 employees at June 30, 2014 to 982 employees at June 30, 2015 .

General and Administrative Expenses

General and administrative expenses related to our Originations segment increased $1,706 , or 64% , during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , due primarily to our originations volume growth. We have experienced an increase in outside services expenses, marketing expenses and regulatory expenses, as we continue to manage our origination growth. We expect that general and administrative costs will continue to grow in future quarters, but at a slower pace than our origination growth, as we are able to leverage many of the fixed costs that are included in this category of expenses.

Interest Expense

Interest expense related to our Originations segment decreased $311 , or 5% , during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , primarily due to increased payoffs given the favorable interest rate environment for the borrower, offset by the increase in the volume of mortgage loans originated and funded in the current

period. We expect that interest expense will move in direct correlation to changes in our origination trends and borrowings in future periods.

Occupancy, Equipment and Communication Expenses

Occupancy, equipment and communication expenses increased $1,132 , or 42% , during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 . Our retail expansion during 2014 increased the number of mortgage loan branches from 69 at June 30, 2014 to 115 at June 30, 2015 . We do not expect the same level of growth in occupancy levels in future periods. However, we expect to see continued increases in information technology costs to support our strategic growth as we continue to invest in our core loan origination system.

Provision for Mortgage Repurchases and Indemnification - Change in Estimate

Provision for mortgage repurchases and indemnification - change in estimate is recorded in the current period when the Company determines that additional reserve is needed for actual or estimated losses to be incurred with respect to representations, warranties and indemnifications made in connection with our loan sales that may likely exceed the initial reserve established at the time of the sale. This initial reserve is included within the gains on mortgage loans held for sale, net line item in our consolidated statements of operations. The provision for mortgage repurchases and indemnification - change in estimate decreased $72 , or 14% , during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 . As our loan originations increased throughout 2014 and the first quarter of 2015, we have been able to gather information and trends which allow us to better forecast our estimated losses and we expect our provision for mortgage repurchases and indemnifications - change in estimate to continue to decrease in comparison to prior periods.

Depreciation and Amortization Expense

Depreciation and amortization expense related to our Originations segment increased $993 , or 360% , during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , primarily due to increased property and equipment expenditures resulting from our overall growth.

Servicing

The Servicing segment reported income before taxes of $12,686 and a loss before taxes of $7,780 during the three months ended June 30, 2015 and 2014, respectively, due primarily to the change in our MSRs valuation as discussed below. Excluding the impact of the change in MSRs valuation, the Servicing segment incurred a loss of $8,135 before income taxes during the three months ended June 30, 2015 , compared to income of $2,933 before income taxes during the three months ended June 30, 2014 . This decrease was the result of increased amortization of MSRs expense related to payoffs and principal reductions experienced during the current period due to the lower interest rate environment present throughout the three months ended June 30, 2015, during which refinance activity and prepayment speeds increased. Additionally, we incurred a loss on the sale of a certain pool of MSRs in the current period. We also experienced higher loan servicing revenues and expenses as we continue to grow our mortgage servicing portfolio.

The following is a summary of certain metrics specific to the Servicing segment for the three months ended June 30, 2015 and 2014:

	As of June 30,	
	2015	**2014**
Servicing Portfolio UPB	$ 17,244,304	16,739,463
Number of Loans Serviced (units)	91,934	90,503
Weighted Average Coupon	4.02%	3.99%
Weighted Average Age (in months)	13	12
90+ day Delinquency Rate	0.62%	0.50%
Weighted Average FICO score	718	736
Weighted Average Servicing Fee (in basis points)	30	28
Capitalized Loan Servicing Portfolio	$ 209,343	$ 217,493
Capitalized Servicing Rate	1.21%	1.30%
Capitalized Servicing Multiple	4.08	4.71

	Three Months Ended June 30,	
	2015	2014
Gross Constant Prepayment Rate [1]	24.29%	6.28%
Adjusted Constant Prepayment Rate [2]	18.64%	5.68%
Average Total Loan Servicing Portfolio	$ 16,613,832	$ 15,412,381
Average Capitalized Loan Servicing Portfolio	$ 185,500	$ 204,196
Payoffs and Principal Curtailments of Capitalized Portfolio	$ 1,004,675	$ 261,360
Sales of Capitalized Portfolio	$ 1,845,207	$ —

[1] Represents the rate at which a pool of mortgage loans' remaining balance is prepaid each month. The rate is calculated on an annualized basis and expressed as a percentage of the outstanding principal balance.
[2] Represents the constant prepayment rate, reduced by the amount of the prepaid mortgage loans recaptured by our origination channels. The rate then expresses that percentage of the "net prepaid loans" as an annualized percentage of the period beginning outstanding principal balance.

Losses on Sale of Mortgage Servicing Rights

The losses on sale of mortgage servicing rights primarily relates to our sale of GNMA MSRs and the change in fair value of the underlying MSRs assets from the time of the transaction bid to the date of derecognition. The characteristics of this loan pool did not represent the characteristics of our MSRs portfolio as a whole. The pool had no FNMA or FHLMC MSRs, had average mortgage interest rates that were different than current mortgage rates, and had a different historical performance than our overall portfolio. The transaction also includes an estimate for a prepayment protection provision and, given the fact that this GNMA pool consisted of mortgage loans with higher average mortgage rates, this estimate represents a significant portion of the transaction. We will perform temporary sub-servicing activities with respect to the underlying loans through the established loan file transfer date, targeted for the third quarter of 2015, for a fee. We will continue to purchase or sell our MSRs to take advantage of opportunistic market conditions as they become available to us.

Changes in Mortgage Servicing Rights Valuation

The increase in the fair value of our MSRs during the three months ended June 30, 2015 was driven primarily by the increase in market interest rates and steepening of the yield curve during the latter part of the three month period ended June 30, 2015 , while the decrease in the fair value of MSRs during the three months ended June 30, 2014 was driven primarily by the decrease in market interest rates and flattening of the yield curve present during that time period. The key assumptions used in the estimation of the fair value of MSRs include prepayment speeds, discount rates, default rates, cost to service, contractual servicing fees, escrow earnings and ancillary income. The shape of the forward yield curve also has an impact on the asset valuation. We believe that the use of the forward yield curve better presents fair value of MSRs because the forward yield curve is the market’s expectation of future interest rates based on its expectation of inflation and other economic conditions.

The spread between the weighted average coupon and current market rates determines modeled prepayment speed. During the three months ended June 30, 2015 , the weighted average coupon of our MSRs portfolio remained flat in comparison to March 31, 2015 and, at June 30, 2015 , mortgage rates were higher than they were at March 31, 2015. The combination of these factors decreased current prepayment estimates and prepayment estimates in the interest rate shifts. Please see our disclosures in the "Quantitative and Qualitative Disclosure About Market Risk" section of this Management's Discussion and Analysis for further details on how interest rate fluctuations impact our MSRs valuation and the sensitivity of the yield curve.

Payoffs and Principal Amortization of Mortgage Servicing Rights Portfolio

Payoffs and principal amortization of our MSRs portfolio related to our Servicing segment represents the value of our portfolio run-off, including paid off loans. During the three months ended June 30, 2015 , this amount decreased the value of our MSRs by $11,322 , compared to $4,651 during the three months ended June 30, 2014 . The increase in run-off and paid off loans correlates with a 41% increase in average prepayment speeds during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 , as well as a 7.8% increase in our average servicing portfolio. Prepayment speeds did not significantly slow until May/June 2015.

Loan Servicing Fees

The following is a summary of loan servicing fee income by component for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30,	
	2015	2014
Contractual servicing fees	$ 11,842	$ 10,399
Late fees	769	391
Loan servicing fees	$ 12,611	$ 10,790
Servicing fees as a percentage of average portfolio *(annualized)*	0.30%	0.28%

Our loan servicing fees increased to $12,611 during the three months ended June 30, 2015 from $10,790 during the three months ended June 30, 2014 . The 17% increase in our loan servicing fees was primarily the result of our higher average servicing portfolio of $16.6 billion during the three months ended June 30, 2015 , compared to an average servicing portfolio of $15.4 billion during the three months ended June 30, 2014 . Our loan servicing fees, as a percentage of our average servicing portfolio and annualized, were 30 bps for the three months ended June 30, 2015 , compared to 28 bps for the three months ended June 30, 2014 . The increase in servicing fees in basis points is due to the increase in the percentage of the portfolio that are government backed loans, which have a higher servicing fee than conventional mortgages.

Salaries, Commissions and Benefits Expense

Salaries, commissions and benefits expense related to our Servicing segment increased $918 , or 67% , during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , primarily as a result of increased headcount due to growth in our servicing portfolio and the increased age of the portfolio, which increases delinquencies and defaults on the portfolio. In addition, the shift toward more government insured origination volume may require more specialized servicing expertise. Headcount related to our Servicing segment increased from 66 employees at June 30, 2014 to 100 employees at June 30, 2015 , as we continue to add support staff in the quality control and default management areas.

General and Administrative Expenses

General and administrative expenses related to our Servicing segment increased $492 , or 143% , during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , primarily as a result of increased expenses attributable to our growth, such as those related to foreclosed properties and the increased quality control and printing of statements required to service the loans.

Interest Expense

Interest expense related to our Servicing segment increased $1,602 during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , primarily due to interest associated with our MSRs secured borrowings entered into during June and December of 2014, as well as increased loans paid off by customers during the period, for which we are responsible for remitting to the investors the interest accrued between the payoff date and month end.

Occupancy, Equipment and Communication Expenses

Occupancy, equipment and communication expenses increased $85 , or 20% , during the three months ended June 30, 2015 , compared to the three months ended June 30, 2014 , primarily as a result of increased expenses attributable to our servicing portfolio growth and the related increase in staffing. We anticipate continued increases in information technology costs to support our strategic growth of the Servicing segment.

Financing

The Financing segment provides warehouse lending activities to correspondent customers through our NattyMac subsidiary. The Financing segment reported income before taxes of $355 and a loss before income taxes of $227 during the three months ended June 30, 2015 and 2014 , respectively. The income in the current period is primarily due to increased interest and other income resulting from higher volume of warehouse loan originations as we continue to grow with new customer applications and increased warehouse line commitments within our existing customer base. Originations funded by our NattyMac subsidiary increased to $0.9 billion during the three months ended June 30, 2015 from $0.4 billion during the three months ended June 30, 2014 . The loss in the prior period is due to the increased expenses associated with growing the business, including indirect costs allocated to the segment in 2014 as a result of increased headcount to support the fulfillment services needed to generate the revenues we are seeing in the current period. As operations continue to grow, we expect

revenues to increase in line with originations that are funded by NattyMac and the related expenses, on a per loan basis, to decrease due to the anticipated continued increase in volume.

Total Revenues

Total revenues related to our Financing segment increased $1,436 during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 , due to overall lending activity growth. The following details the increases in total revenues:

- Our loan origination and other loan fees during the three months ended June 30, 2015 increased $134 , compared to the comparable period in 2014 , due to higher origination volume, as discussed above.
- The increase in interest and other income was primarily a result of the increase in warehouse loan originations funded during the three months ended June 30, 2015 as compared to the three months ended June 30, 2014 , as there is a direct correlation between interest and other income and warehouse loan origination activity.

Total Expenses

Total expenses related to our Financing segment increased $854 during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 , due to our overall lending activity growth and directly allocating headcount to support the growth of the business. The following details the increases in total expenses:

- Salaries, commissions and benefits increased $162 . Headcount related to our Financing segment increased to 25 employees at June 30, 2015 from 11 employees at June 30, 2014 .
- The interest expense of $657 is attributable to our Financing segment is related to the utilization of our NMF line with Merchants Bancorp, entered into on April 15, 2014.

Results of Operations

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Our consolidated results of operations for the six months ended June 30, 2015 and 2014 are as follows:

	Six Months Ended June 30,			
	2015	2014	$ Change	% Change
Gains on mortgage loans held for sale, net	$ 104,175	$ 75,179	$ 28,996	39%
Losses on sale of mortgage servicing rights	(2,869)	—	(2,869)	100%
Changes in mortgage servicing rights valuation	(3,568)	(18,644)	15,076	(81)%
Payoffs and principal amortization of mortgage servicing rights	(25,088)	(7,378)	(17,710)	240%
Loan origination and other loan fees	14,068	11,808	2,260	19%
Loan servicing fees	26,950	19,965	6,985	35%
Interest and other income	18,094	14,994	3,100	21%
Total revenues	131,762	95,924	35,838	37%
Salaries, commissions and benefits	80,867	68,563	12,304	18%
General and administrative	18,015	17,647	368	2%
Interest expense	16,704	10,075	6,629	66%
Occupancy, equipment and communications	11,794	8,904	2,890	32%
Provision for mortgage repurchases and indemnifications - change in estimate	523	904	(381)	(42)%
Depreciation and amortization expense	3,627	2,276	1,351	59%
Total expenses	131,530	108,369	23,161	21%
Income (loss) before income tax expense (benefit)	232	(12,445)	12,677	(102)%
Income tax expense (benefit)	217	(4,829)	5,046	(104)%
Net income (loss)	$ 15	$ (7,616)	$ 7,631	(100)%
Weighted average diluted shares outstanding *(in thousands)*	25,781	25,769	12	—%

Diluted EPS (LPS)	$ —	$ (0.30)	$ 0.30	(100)%

Revenues

During the six months ended June 30, 2015 , total revenues increased $35,838 , or 37% , as compared to the six months ended June 30, 2014 . The increase in revenues resulted from increases in gains on mortgage loans held for sale, net, the fair value of our MSRs, loan servicing fees, interest and other income and loan origination fees, offset by increased loan payoffs and principal amortization of MSRs and a loss on sale of mortgage servicing rights.

Our gains on mortgage loans held for sale, net during the six months ended June 30, 2015 increased $28,996 , or 39% , as compared to the six months ended June 30, 2014 , primarily due to the 10% increase in our originations volume and shifts in our product and channel mix. Our gains on mortgage loans held for sale, net during the six months ended June 30, 2015 were 166 basis points of loan originations compared to 131 basis points for the comparable period in 2014 . The increase in basis point gain on sale was due primarily to an increase in our government insured loan production, our retail channel originations and a decrease in our correspondent originations, as further discussed in the Segment Results section. Government insured loans and loans originated in our retail channel generate higher revenue margins than our other loan products or loans originated through our other channels.

The increase in the fair value of our MSRs was driven primarily by the increase in market interest rates as well as the steepening of the yield curve during May and June 2015. Increasing interest rates generally result in increased MSRs values as the assumption for prepayment speeds of the underlying mortgage loans tends to decrease (mortgage loans prepay slower) and a steepening yield curve increases the expected value of interest and other income from the escrow balances we maintain.

The increase in our loan servicing fees was a direct result of our higher average servicing portfolio of $17.6 billion during the six months ended June 30, 2015 , compared to an average servicing portfolio of $14.3 during the six months ended June 30, 2014 . The increase in our average servicing portfolio was the result of our increase in originations volume, partially offset by our sales of MSRs in the second half of 2014 and year to date 2015. Our loan servicing fees, as a percentage of our average servicing portfolio and annualized, were 31 bps for the six months ended June 30, 2015 , compared to 28 bps for the six months ended June 30, 2014 . The increase in servicing fees in basis points is due to the increase in the percentage of the portfolio that is government-backed loans, which have a higher servicing fee than conventional mortgages.

The increase in interest and other income was primarily a result of the 10% increase in mortgage loan originations during the six months ended June 30, 2015 compared to June 30, 2014 , as there is a direct correlation between interest and other income and mortgage loan origination activity. Additionally, government insured loans carry a higher average coupon rate, so we would expect to see an increase in interest and other income as we continue to shift our product mix towards this type of loan origination. The average coupon rate was 4.02% at June 30, 2015 compared to 3.99% at June 30, 2014 .

Loan origination and other loan fees increased primarily as a result of the increase in the amount of loans originated during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 , as well as higher margins achieved by shifting our loan portfolio mix to increase government insured loans and originations made in the retail channel.

The increase in payoffs and principal amortization of our MSRs was also driven primarily by the decrease in market interest rates during the first part of the six months ended June 30, 2015 , as well as the higher refinancing activity discussed in the Recent Industry Trends and Our Outlook section.

The losses on sale of mortgage servicing rights primarily relates to our second quarter sale of GNMA MSRs and the change in fair value of the underlying MSRs assets from the time of the transaction bid to the date of derecognition. The loss was driven by the estimated prepayment protection provision, given the fact that this GNMA pool consisted of mortgage loans with higher average mortgage rates.

Expenses

Total expenses increased $23,161 or 21% for the six months ended June 30, 2015 , compared to the same period ended June 30, 2014 . Total expenses have increased due to 1) a 10% increase in total originations and the related costs associated with higher originations; 2) a strategic change in mix of originations to retail and wholesale, which are higher cost origination channels with higher revenue as compared to our correspondent channel; 3) a 23.4% increase in our average servicing portfolio and the related costs during the six months ended June 30, 2015 , compared to the same period ended June 30, 2014 , including increased specialized servicing expertise required to manage a strategic change in mix towards government-insured loans and the increased age of our servicing, which increases delinquencies and defaults; and 4) higher regulatory compliance costs.

With the expected growth in our originations, we expect to see an increase in total expenses, though a decrease when calculated as a percentage of origination volume. We also expect expenses to increase as we expand our retail channel, but expect this increase will be offset by a higher gain on sale revenues. We plan to maximize our potential return by focusing on lowering expenses through continued investments in information technology and enhancing process efficiencies. As we

continue to grow, we will invest in additional infrastructure to manage our growth and to increase automation within our systems surrounding critical areas. We believe these increases in investments will eventually lead to a decrease in expenses in relation to our origination volume over the long-term.

Salaries, commissions and benefits expense increased $12,304 , or 18% , during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 , primarily as a result of increased headcount in revenue producing positions and in segment and corporate support areas related to the growth in all our segments. Our total headcount increased from 1,256 employees at June 30, 2014 to 1,349 employees at June 30, 2015 .

Interest expense increased $6,629 , or 66% , during the six months ended June 30, 2015 , compared to the six months ended June 30, 2014 , primarily due to increased borrowings as a result of the increase in the volume of mortgage loans originated and funded in the current period and interest associated with increased borrowings related to financing our MSRs portfolio in the current period. We expect that interest expense will generally move in direct correlation to changes in our origination and servicing portfolio trends in future periods.

Occupancy, equipment and communication expenses increased $2,890 , or 32% , during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 . Our retail expansion increased the number of mortgage loan branches from 69 at June 30, 2014 to 115 at June 30, 2015 . We do not expect the same level of growth in occupancy levels in future periods. However, we expect to see increases in information technology costs to support our strategic growth, both in the operations and corporate support areas. We expect expenses will continue to grow, as we invest in additional infrastructure to manage our growth and to increase automation within our core and corporate support systems.

Provision for mortgage repurchases and indemnification - change in estimate is recorded in the current period when the Company determines that additional reserve is needed for actual or estimated losses with respect to representations, warranties and indemnifications made in connection with our loan sales that may likely exceed the initial reserve established at the time of the sale. This initial reserve is included within the gains on mortgage loans held for sale, net line item in our consolidated statements of operations. The provision for mortgage repurchases and indemnification - change in estimate decreased $381 , or 42% , during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 . As our loan originations increased throughout 2014 and the first half of 2015, we have been able to gather information and trends which allow us to better forecast our estimated losses and we expect our provision for mortgage repurchases and indemnifications - change in estimate to continue to decrease in comparison to prior periods.

We reported income tax expense of $217 and an income tax benefit of $4,829 for the six months ended June 30, 2015 and 2014 , respectively, with an effective tax rate of 93.5% and 38.8% , respectively. The increase in the effective tax rate was primarily due to our pre-tax income position for the six months ended June 30, 2015 , compared to the pre-tax loss position for the six months ended June 30, 2014 . Additionally, while the tax effect of our permanent differences have remained consistent, they result in a higher effective tax rate impact given our pre-tax income position for the six months ended June 30, 2015 .

Segment Results

	Six Months Ended June 30, 2015				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 104,126	$ —	$ —	$ 49	$ 104,175
Losses on sale of mortgage servicing rights	—	(2,869)	—	—	(2,869)
Changes in mortgage servicing rights valuation	—	(3,568)	—	—	(3,568)
Payoffs and principal amortization of mortgage servicing rights	—	(25,088)	—	—	(25,088)
Loan origination and other loan fees	13,491	—	577	—	14,068
Loan servicing fees	—	26,950	—	—	26,950
Interest and other income	14,564	—	3,428	102	18,094
Total revenues	132,181	(4,575)	4,005	151	131,762
Expenses					
Salaries, commissions and benefits	60,902	4,401	1,093	14,471	80,867
General and administrative	8,139	1,278	308	8,290	18,015
Interest expense	10,485	4,305	1,660	254	16,704
Occupancy, equipment and communication	7,191	987	119	3,497	11,794
Provision for mortgage repurchases and indemnifications	523	—	—	—	523
Depreciation and amortization	2,507	198	203	719	3,627
Corporate allocations	13,284	1,840	152	(15,276)	—
Total expenses	103,031	13,009	3,535	11,955	131,530
Income (loss) before taxes	$ 29,150	$ (17,584)	$ 470	$ (11,804)	$ 232

[1] Includes intersegment eliminations and certain corporate income and expenses not allocated to the three reportable segments, such as those related to our accounting, executive administration, finance, internal audit, investor relations and legal departments.

	Six Months Ended June 30, 2014				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 75,164	$ —	$ —	$ 15	$ 75,179
Changes in mortgage servicing rights valuation	—	(18,644)	—	—	(18,644)
Payoffs and principal amortization of mortgage servicing rights	—	(7,378)	—	—	(7,378)
Loan origination and other loan fees	11,628	—	231	(51)	11,808
Loan servicing fees	—	19,965	—	—	19,965
Interest and other income	14,508	—	816	(330)	14,994
Total revenues	101,300	(6,057)	1,047	(366)	95,924
Expenses					
Salaries, commissions and benefits	53,591	2,580	788	11,604	68,563
General and administrative	6,195	681	273	10,498	17,647
Interest expense	10,032	258	—	(215)	10,075
Occupancy, equipment and communication	4,988	805	97	3,014	8,904
Provision for mortgage repurchases and indemnifications	904	—	—	—	904
Depreciation and amortization	462	11	183	1,620	2,276
Corporate allocations	12,917	1,558	65	(14,540)	—
Total expenses	89,089	5,893	1,406	11,981	108,369
Income (loss) before taxes	$ 12,211	$ (11,950)	$ (359)	$ (12,347)	$ (12,445)

[1] Includes intersegment eliminations and certain corporate income and expenses not allocated to the three reportable segments, such as those related to our accounting, executive administration, finance, internal audit, investor relations and legal departments.

Originations

The Originations segment reported income before taxes of $29,150 and $12,211 during the six months ended June 30, 2015 and 2014 , respectively. This increase was the result of mortgage loan originations increasing 10% period over period and higher revenue margins from a strategic change in mix of originations to retail and wholesale, offset by increased costs associated with higher originations, such as increased commissions and incentive compensation, an increased number of branch locations and other costs associated with managing growth of our retail channel and other regulatory costs. In addition, we incurred $9,593 in non-routine expenses in the first quarter of 2014 related to guarantees and other compensation expense prior to the period of meaningful origination production.

Gains on Mortgage Loans Held for Sale, Net

Our gains on mortgage loans held for sale, net during the six months ended June 30, 2015 increased $28,962 , or 39% , as compared to the six months ended June 30, 2014 primarily due to the 10% increase in our originations volume. Our gains on mortgage loans held for sale, net during the six months ended June 30, 2015 were 166 bps of loan originations compared to 131 bps for the comparable period in 2014 . The increased gain on sale in basis points was due primarily to an increase in our government insured loans and in our retail originations as seen in the tables below. Government insured loans and loans originated in our retail channel generate higher revenue margins than our other loan products or loans originated in other channels. Gains on mortgage loans held for sale, net consisted of the following for the six months ended June 30, 2015 and 2014 :

	Six Months Ended June 30,				
	2015		2014		Variance
	$	bps [2]	$	bps [2]	
Realized gains on sales of loans	$ 20,611	33	$ (784)	(1)	$ 21,395
Capitalized servicing rights	80,979	129	71,395	125	9,584
Economic hedge results	13,796	22	15,857	27	(2,061)
Provision for repurchases	(1,696)	(3)	(1,096)	(2)	(600)
Direct loan origination costs [1]	(9,515)	(15)	(10,193)	(18)	678
Gains on mortgage loans held for sale, net	$ 104,175	166	$ 75,179	131	$ 28,996

[1] Includes costs directly related to specified activities performed for a particular loan to facilitate the sale of such loan and the creation of the capitalized servicing right.
[2] Shown as a percentage of originations.

Material components presented in gains on mortgage loans held for sale, net are listed below.

Realized gains on sales of loans - Realized gains on sales of loans represent the difference between the actual sales proceeds received upon sale of the loans and Stonegate's cost basis in acquiring/producing those loans, including loan discount fees, lender credits, yield spread premiums and servicing release premiums paid to correspondents. These items represent the components that factor into the pricing of the loans to our borrowers and represent the core "margin" elements of the loan sales. The increase in our realized gains on sales of loans during the six months ended June 30, 2015 , compared to the comparable period in 2014 , was primarily due to the increase in our loan origination volume, as well as the mix shift toward more retail and government production. These increases were partially offset by increases in the cost basis in acquiring/producing the higher loan volume.

Capitalized servicing rights - An originated mortgage loan inherently includes both the value of the coupon to the borrower as well as the servicing fee component to compensate the servicer for its activities. A key element of Stonegate's strategy is to retain the servicing of its loans upon sale to investors in order to take advantage of the value of the servicing component. When Stonegate sells its loans "servicing retained", a contractual separation of the servicing component occurs from the underlying mortgage loan. This results in the creation of an MSRs asset. As such, a component of the gain on mortgage loans held for sale is attributable to the creation of this MSRs asset and is based on the fair value of such MSRs asset at the time of its creation (i.e. upon separation from the underlying loan during the loan sale). The Company utilizes a third-party analytic tool to derive/estimate this initial MSRs fair value at the time of sale. The increase in our capitalized servicing rights component for the six months ended June 30, 2015 , as compared to the six months ended June 30, 2014 , relates to the

increase in our loan origination volume and an increase in the rate at which we capitalize these servicing rights at the time of separation from the underlying loan during the loan sale, which represents the initial fair value of the MSRs at the time of sale. An increase in loan origination volume results in a higher level of MSRs asset creation. The rate at which we capitalize these servicing rights increased based on current market conditions.

Economic hedge results - Unrealized gains/losses on loans not yet sold and accounted for under the fair value option are included as a component of Gains on mortgage loans held for sale, net. This includes the impact of recording such loans at fair value and the change from period to period based on market conditions. In addition, the change in value of Stonegate's interest rate lock commitments ("IRLCs") and other loan-related derivatives are recorded in this financial statement line item. The Company also enters into forward sales of MBS securities linked to security issuances of GSEs (FNMA, FHLMC, GNMA) for economic hedging purposes, as these instruments have similar characteristics to the loans held for sale by Stonegate which are also included here. The decrease in our economic hedge results for the six months ended June 30, 2015 , as compared to the six months ended June 30, 2014 , primarily relates to the decrease attributed to the net volume change period over period of interest rate lock commitments and loans held for sale.

Provision for repurchase/indemnification obligation - Stonegate makes certain representations and warranties to its investors and insurers on all loans sold. In the event of a breach of these reps and warranties, the Company may incur losses and/or be required to repurchase loans from the investor. A provision is made at the time of sale for an estimate of such expected losses, the amount of which is offset against this gain line item. We expect that the provision for mortgage repurchases and indemnifications may increase in relation to the expected growth in our originations; however, changing market conditions will also influence any trends in our provision. The increase in our provision for repurchase/indemnification obligation for the six months ended June 30, 2015 , as compared to the six months ended June 30, 2014 , relates to the 19% increase in loan sales period over period and an increase in the rate at which we reserve upon loan sale

Direct loan origination costs - Stonegate offsets its gains/losses on mortgage loans held for sale, as described by the various categories above, with certain direct loan origination costs. These direct costs primarily relate to the following two circumstances:

i) Costs directly associated with the origination of the mortgage loans that are paid to/incurred with a third party and are largely mandated by the investors as requirements for the loans to be sold. Such costs include net appraisal fees, credit report fees, document preparation and imaging, risk management and loan file review and certain FNMA/FHLMC/GNMA specific fees.

ii) Costs directly associated with the contractual creation of the separate servicing component of the loans upon sale to the investors on a "servicing retained" basis. Such costs include the one-time upfront setup fees for life of loan tax services (including tracking and paying of tax payments to jurisdictions), fees paid to an outsource provider for valuation of initial MSRs created upon sale of the loan, and upfront recording fees at initial servicing setup.

The decrease in direct loan origination costs for the for the six months ended June 30, 2015 , as compared to the six months ended June 30, 2014 , relates to our shift towards loans originated in our retail channel, which generate higher revenue margins, and a change in FNMA fee structure in the current period.

Loan Origination and Other Loan Fees

Our loan origination and other loan fees during the six months ended June 30, 2015 increased $1,863 , or 16% , compared to the comparable period in 2014 , due to higher origination volume and a higher mix of government insured loans, which have higher fees than conventional mortgages, and an increase in retail originations, driven by Stonegate Direct, which also have higher fees than correspondent originations. Our loan origination and other loan fees as a percentage of total originations were 21 bps and 20 bps for the six months ended June 30, 2015 and 2014 , respectively. The following table illustrates mortgage loan originations by type for the six months ended June 30, 2015 and 2014 :

	Six Months Ended June 30,			
	2015		2014	
	$	% Total	$	% Total
Conventional	$ 2,682,247	43 %	$ 3,306,267	58%
Government insured	3,277,756	52 %	2,338,841	41 %
Non-agency/Other	318,155	5 %	84,202	1 %
Total mortgage loan originations	$ 6,278,158	100 %	$ 5,729,310	100%

The following is a summary of mortgage loan origination volume by channel for the six months ended June 30, 2015 and 2014 :

	Six Months Ended June 30,					
	2015			2014		
	# of Loans	$	% Total	# of Loans	$	% Total
Retail	5,968	$ 1,349,129	21 %	3,290	$ 730,579	13%
Wholesale	4,954	1,430,494	23 %	5,065	1,152,059	20 %
Correspondent	15,830	3,498,535	56 %	19,367	3,846,672	67 %
Total mortgage loan originations	26,752	$ 6,278,158	100 %	27,722	$ 5,729,310	100%

The increased volume in the retail channel during the six months ended June 30, 2015 is reflective of our strategy to grow this channel's origination volume. We believe the retail channel offers us a lower cost basis of generating MSRs due to the higher cash gain on sale and fee income. Our Stonegate Direct division continues to grow, as we believe our customers have a growing demand for online business.

We seek to manage asset quality and control credit risk by diversifying our loan portfolio and by applying policies designed to promote sound underwriting and loan monitoring practices. We perform various levels of analysis in order to monitor the overall risk profile of our mortgage originations and servicing portfolio. This analysis includes review of the LTV, FICO scores, delinquencies, defaults and historical loan losses. Monthly risk meetings are conducted where portfolio risk analysis, such as FICO and LTV combination migration, is studied to ensure that the population distributions are in accordance with acceptable risk parameters. In addition, default activity is evaluated in the context of credit spectrum to identify any emerging credit quality trends.

A summary of the mortgage loan origination volume by FICO score and LTV for the six months ended June 30, 2015 and 2014 is as follows:

	Six Months Ended June 30, 2015						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 4,097	$ 6,372	$ 7,371	$ 56,904	$ 5,076	$ 79,820	1%
620-680	87,200	160,827	192,852	1,063,070	31,847	1,535,796	25 %
681-719	132,742	231,345	204,585	775,618	37,433	1,381,723	22 %
>719	792,987	1,037,152	425,701	964,167	60,812	3,280,819	52 %
Total mortgage loan originations	$ 1,017,026	$ 1,435,696	$ 830,509	$ 2,859,759	$ 135,168	$ 6,278,158	100%
% Total	16%	23%	13%	46%	2%	100%	

	Six Months Ended June 30, 2014						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 864	$ 1,369	$ 1,642	$ 8,068	$ 892	$ 12,835	—%
620-680	109,715	205,365	149,402	889,665	16,331	1,370,478	24 %
681-719	172,326	285,860	157,901	666,181	11,722	1,293,990	23 %
>719	597,871	1,049,990	381,081	1,005,237	17,828	3,052,007	53 %
Total mortgage loan originations	$ 880,776	$ 1,542,584	$ 690,026	$ 2,569,151	$ 46,773	$ 5,729,310	100%
% Total	15%	27%	12%	45%	1%	100%	

Interest and Other Income

Interest and other income related to our Originations segment increased $56 during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 . The increase in interest and other income was primarily a result of an increase in mortgage loan originations, partially offset by lower average coupon rates, during the six months ended June 30, 2015 as compared to June 30, 2014 , as there is a direct correlation between interest and other income and mortgage loan origination. The average coupon rate was 3.75% during the six months ended June 30, 2015 compared to 4.04% during the six months ended June 30, 2014 . Additionally, government insured loans carry a higher average coupon rate, so we would expect to see an increase in interest and other income as we continue to shift our product mix towards this type of loan origination.

Salaries, Commissions and Benefits Expense

Salaries, commissions and benefits expense related to our Originations segment increased $7,311 , or 14% , during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily as a result of increasing revenue-producing positions during the latter half of 2014, resulting in higher commissions and other incentive compensation. Headcount related to our Originations segment increased from 456 employees at June 30, 2014 to 982 employees at June 30, 2015 .

General and Administrative Expenses

General and administrative expenses related to our Originations segment increased $1,944 , or 31% , during the six months ended June 30, 2015 , compared to the six months ended June 30, 2014 , due primarily to our originations volume growth. We have experienced an increase in professional fees, marketing expenses, travel-related expenses and regulatory expenses, as we continue to manage our origination growth. We expect that general and administrative costs will continue to grow in future quarters, but at a slower pace than our origination growth, as we are able to leverage many of the fixed costs that are included in this category of expenses.

Interest Expense

Interest expense related to our Originations segment increased $453 , or 5% , during the six months ended June 30, 2015 , compared to the six months ended June 30, 2014 , primarily due to increased borrowings as a result of the increase in the volume of mortgage loans originated and funded in the current period. We expect that interest expense will move in direct correlation to changes in our origination trends and borrowings in future periods.

Occupancy, Equipment and Communication Expenses

Occupancy, equipment and communication expenses increased $2,203 , or 44% , during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 . Our retail expansion during 2014 increased the number of mortgage loan branches from 69 at June 30, 2014 to 115 at June 30, 2015 . We do not expect the same level of growth in occupancy levels in future periods. However, we expect to see continued increases in information technology costs related to our core origination systems to support our strategic growth and to ensure that the appropriate regulatory changes are reflected within our core systems.

Provision for Mortgage Repurchases and Indemnification - Change in Estimate

Provision for mortgage repurchases and indemnification - change in estimate is recorded in the current period when the Company determines that additional reserve is needed for estimated losses to be incurred with respect to representations, warranties and indemnifications made in connection with our loan sales that may likely exceed the initial reserve established at the time of the sale. This initial reserve is included within the gains on mortgage loans held for sale, net line item in our consolidated statements of operations. The provision for mortgage repurchases and indemnification - change in estimate decreased $381 , or 42% , during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 . As our loan originations increased throughout 2014 and the first quarter of 2015, we have been able to gather information and trends which allow us to better forecast our estimated losses and we expect our provision for mortgage repurchases and indemnifications - change in estimate to continue to decrease in comparison to prior periods.

Depreciation and Amortization Expense

Depreciation and amortization expense related to our Originations segment increased $2,045 , or 443% , during the six months ended June 30, 2015 , compared to the six months ended June 30, 2014 , primarily due to increased property and equipment expenditures resulting from our overall growth.

Servicing

The Servicing segment incurred a loss before taxes of $17,584 and $11,950 during the six months ended June 30, 2015 and 2014 , respectively, due primarily to increased amortization of MSRs expense related to payoffs and principal reductions experienced during the current period. This increase in principal runoff was due to the lower interest rate environment present throughout the six months ended June 30, 2015 , during which refinance activity and prepayment speeds increased. This increase in MSRs amortization was partially offset by the change in our MSRs valuation as discussed below.

The following is a summary of certain metrics specific to the Servicing segment for the six months ended June 30, 2015 and 2014 :

	As of June 30,	
	2015	**2014**
Servicing Portfolio UPB	$ 17,244,304	16,739,463
Number of Loans Serviced (units)	91,934	90,503
Weighted Average Coupon	4.02%	3.99%
Weighted Average Age (in months)	13	12
90+ day Delinquency Rate	0.62%	0.50%
Weighted Average FICO score	718	736
Weighted Average Servicing Fee (in basis points)	30	28
Capitalized Loan Servicing Portfolio	$ 209,343	$ 217,493
Capitalized Servicing Rate	1.21%	1.3%
Capitalized Servicing Multiple	4.08	4.71

	Six Months Ended June 30,			
		2015		2014
Gross Constant Prepayment Rate [1]		23.25%		5.37%
Adjusted Constant Prepayment Rate [2]		17.87%		4.86%
Average Total Loan Servicing Portfolio	$	17,613,034	$	14,273,366
Average Capitalized Loan Servicing Portfolio	$	190,492	$	192,141
Payoffs and Principal Curtailments of Capitalized Portfolio	$	2,319,299	$	386,202
Sales of Capitalized Portfolio	$	4,556,268	$	—

[1] Represents the rate at which a pool of mortgage loans' remaining balance is prepaid each month. The rate is calculated on an annualized basis and expressed as a percentage of the outstanding principal balance.

[2] Represents the constant prepayment rate, reduced by the amount of the prepaid mortgage loans recaptured by our origination channels. The rate then expresses that percentage of the "net prepaid loans" as an annualized percentage of the period beginning outstanding principal balance.

Losses on Sale of Mortgage Servicing Rights

The losses on sale of mortgage servicing rights primarily relates to our sale of GNMA MSRs and the change in fair value of the underlying MSRs assets from the time of the transaction bid to the date of derecognition. The characteristics of this loan pool did not represent the characteristics of our MSRs portfolio as a whole. The pool had no FNMA or FHLMC MSRs, had average mortgage interest rates that were different than current mortgage rates, and had a different historical performance than our overall portfolio. The transaction also includes an estimate for a prepayment protection provision and, given the fact that this GNMA pool consisted of mortgage loans with higher average mortgage rates, this estimate represents a significant portion of the transaction. We will perform temporary sub-servicing activities with respect to the underlying loans through the established transfer date, targeted for the third quarter of 2015, for a fee. We will continue to purchase or sell our MSRs to take advantage of opportunistic market conditions as they become available to us.

Changes in Mortgage Servicing Rights Valuation

The decrease in the fair value of our MSRs during the six months ended June 30, 2015 was driven primarily by the decrease in market interest rates and flattening of the yield curve during the first part of the six-month period ended June 30, 2015 . The impact was to a lesser extent when compared to the decrease in MSRs balance for the six months ended June 30, 2014 , as market interest rates began to rise and the yield curve began to steepen during the latter part of the six month period ended June 30, 2015 . The key assumptions used in the estimation of the fair value of MSRs include prepayment speeds, discount rates, default rates, cost to service, contractual servicing fees, escrow earnings and ancillary income. The shape of the forward yield curve also has an impact on the asset valuation. We believe that the use of the forward yield curve better presents fair value of MSRs because the forward yield curve is the market’s expectation of future interest rates based on its expectation of inflation and other economic conditions.

The spread between the weighted average coupon and current market rates determines modeled prepayment speed. During the six months ended June 30, 2015 , the weighted average coupon of our MSRs portfolio remained flat in comparison to December 31, 2014 and, at June 30, 2015 , mortgage rates were higher than they were at December 31, 2014. The combination of these factors decreased current prepayment estimates and prepayment estimates in the interest rate shifts. The same was true for the six months ended June 30, 2014, but to a greater extent. Please see our disclosures in the "Quantitative and Qualitative Disclosure About Market Risk" section of this Management's Discussion and Analysis for further details on how interest rate fluctuations impact our MSRs valuation and the sensitivity of the yield curve.

Payoffs and Principal Amortization of Mortgage Servicing Rights Portfolio

Payoffs and principal amortization of our MSRs portfolio related to our Servicing segment represents the value of our portfolio run-off, including paid off loans. During the six months ended June 30, 2015 , this amount decreased the value of our MSRs by $25,088 , compared to $7,378 during the six months ended June 30, 2014 . The increase in run-off and paid off loans correlates with a 58% increase in average prepayment speeds during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 , as well as a 23.4% increase in our average servicing portfolio.

Loan Servicing Fees

The following is a summary of loan servicing fee income by component for the six months ended June 30, 2015 and 2014 :

	Six Months Ended June 30,	
	2015	2014
Contractual servicing fees	$ 25,370	$ 19,165
Late fees	1,580	800
Loan servicing fees	$ 26,950	$ 19,965
Servicing fees as a percentage of average portfolio *(annualized)*	0.31%	0.28%

Our loan servicing fees increased to $26,950 during the six months ended June 30, 2015 from $19,965 during the six months ended June 30, 2014 . The 35% increase in our loan servicing fees was primarily the result of our higher average servicing portfolio of 17.6 billion during the six months ended June 30, 2015 , compared to an average servicing portfolio of $14.3 during the six months ended June 30, 2014 . Our loan servicing fees, as an annualized percentage of our average servicing portfolio, were 31 bps for the six months ended June 30, 2015 , compared to 28 bps for the six months ended June 30, 2014 . The increase in servicing fees in basis points is due to the increase in the percentage of the portfolio that are government backed loans, which have a higher servicing fee than conventional mortgages.

Salaries, Commissions and Benefits Expense

Salaries, commissions and benefits expense related to our Servicing segment increased $1,821 , or 71% , during the six months ended June 30, 2015 , compared to the six months ended June 30, 2014 , primarily as a result of increased headcount due to growth in our servicing portfolio and the increased age of the portfolio, which increases delinquencies and defaults on the portfolio. In addition, the shift toward more government insured origination volume may require more specialized servicing expertise. Headcount related to our Servicing segment increased from 66 employees at June 30, 2014 to 100 employees at June 30, 2015 , as we continue to add support staff in the quality control and default management areas.

General and Administrative Expenses

General and administrative expenses related to our Servicing segment increased $597 , or 88% , during the six months ended June 30, 2015 , compared to the six months ended June 30, 2014 , primarily as a result of increased expenses attributable to our growth, such as those related to increased foreclosure-related expenses, professional fees, printing of statements and quality control required to service the loans.

Interest Expense

Interest expense related to our Servicing segment increased $4,047 during the six months ended June 30, 2015 , compared to the six months ended June 30, 2014 , primarily due to interest associated with our MSRs secured borrowings entered into during June and December of 2014, as well as increased loans paid off by customers during the period, for which we are responsible for remitting to the investors interest accrued between the payoff date and month end.

Occupancy, Equipment and Communication Expenses

Occupancy, equipment and communication expenses increased $182 , or 23% , during the six months ended June 30, 2015 , compared to the six months ended June 30, 2014 , primarily as a result of increased expenses attributable to our servicing portfolio growth and the related increase in staffing. We anticipate continued increases in information technology costs to support our strategic growth of the Servicing segment.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased $187 during the six months ended June 30, 2015 , compared to the six months ended June 30, 2014 , primarily as a result of amortization of software attributable to our increased investment in information technology to support our servicing portfolio growth and the related increase in staffing.

Financing

The Financing segment provides warehouse lending activities to correspondent customers through our NattyMac subsidiary. The Financing segment reported income before taxes of $470 and a loss before income taxes of $359 during the six months ended June 30, 2015 and 2014 , respectively. The income in the current period is primarily due to increased interest and other income resulting from higher volume of warehouse loan originations as we continue to grow with new customer

applications and increased warehouse line commitments within our existing customer base. Originations funded by our NattyMac subsidiary grew to $1.5 billion during the six months ended June 30, 2015 from $0.7 billion during the six months ended June 30, 2014 . The loss in the prior period is due to the increased expenses associated with growing the business, including indirect costs allocated to the segment in 2014 as a result of increased headcount to support the fulfillment services needed to generate the revenues we are seeing in the current period. As operations continue to grow, we expect revenues to increase in line with originations that are funded by NattyMac and the related expenses, on a per loan basis, to decrease due to the anticipated continued increase in volume.

Total Revenues

Total revenues related to our Financing segment increased $2,958 during the six months ended June 30, 2015 , compared to the six months ended June 30, 2014 , due to our overall lending activity growth. The following details the increases in total revenues:

- Our loan origination and other loan fees during the six months ended June 30, 2015 increased $346 , compared to the comparable period in 2014 , due to higher origination volume, as discussed above.

- The increase in interest and other income was primarily a result of the increase in warehouse loan originations funded during the six months ended June 30, 2015 as compared to the six months ended June 30, 2014 , as there is a direct correlation between interest and other income and warehouse loan origination activity.

Total Expenses

Total expenses related to our Financing segment increased $2,129 during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 , due to our overall lending activity growth and directly allocating headcount to support the growth of the business. The following details the increases in total expenses:

- Salaries, commissions and benefits increased $305 . Headcount related to our Financing segment increased to 25 employees at June 30, 2015 from 11 employees at June 30, 2014 .

- The interest expense of $1,660 attributable to our Financing segment is related to the utilization of our NMF line with Merchants Bancorp, entered into on April 15, 2014.

Regulation

Since the enactment of the Dodd-Frank Act in 2010, the U.S. financial services industry has been subject to a significant increase in regulation and regulatory oversight initiatives. This increased regulation and oversight has substantially changed how residential mortgage loan originators and servicers conduct business and has increased their regulatory compliance costs. In particular, on August 1, 2014 the CFPB promulgated the TILA-RESPA Integrated Disclosure rule that integrates the mortgage loan disclosures required under TILA and sections 4 and 5 of RESPA. The TILA-RESPA Integrated Disclosure rule contains new requirements and two new disclosure forms that borrowers will receive in the process of applying for and consummating a mortgage loan. The implementation of these new forms and related requirements has necessitated significant operational and technological changes for the entire mortgage origination industry, and for our mortgage origination business in particular. On July 21, 2015, the CFPB issued a final rule moving the effective date for the TILA-RESPA Integrated Disclosure rule from August 1, 2015 to October 3, 2015.

For a discussion of the significant regulations and regulatory oversight initiatives that have affected or may affect our business, we refer you to the "Regulation" and "Risk Factors" sections of our 2014 Annual Report on Form 10-K.

Critical Accounting Policies

Our financial accounting and reporting policies are in accordance with GAAP. Some of these accounting policies require us to make estimates and judgments about matters that are uncertain. The application of assumptions could have a material impact on our financial condition or results of operations. Critical accounting policies and related assumptions, estimates and disclosures are determined by management and reviewed periodically with the Audit Committee of the Board of Directors. We believe that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements are appropriate given the factual circumstances at the time. We consider some of our most important accounting policies that require estimates and management judgment to be those policies with respect to reserves for loan repurchases and indemnifications, fair value of financial instruments, MSRs, derivative financial instruments, mortgage loans held for sale, business combinations (including accounting for goodwill and intangible assets) and income taxes. For additional information regarding these significant accounting policies, refer to Note 2, "Basis of Presentation and Significant Accounting Policies," to

our audited consolidated financial statements as of and for the year ended December 31, 2014 , included in our 2014 Annual Report on Form 10-K.

Liquidity and Capital Resources

Overview

Liquidity measures our ability to meet potential cash requirements, including the funding of servicing advances, the payment of operating expenses, the originations of loans and the repayment of borrowings.

Our primary sources of funds for liquidity include: (i) secured borrowings in the form of repurchase facilities and participation agreements with major financial institutions, as well as our warehouse lines of credit and operating lines of credit, (ii) secured borrowings secured by MSRs (iii) equity offerings, (iv) servicing fees and ancillary fees, (v) payments received from sales or securitizations of loans, (vi) payments received from mortgage loans held for sale, and (vii) sale of MSRs. Our primary uses of funds for liquidity include: (i) originations of loans, (ii) originations of warehouse lines of credit, (iii) funding of servicing advances, (iv) payment of interest expenses, (v) payment of operating expenses, (vi) repayment of borrowings, (vii) investment in subordinated debt, and (viii) payments for acquisitions of MSRs.

Our financing strategy primarily consists of using repurchase facilities and participation agreements with major financial institutions, as well as regional banks. We believe this provides us with a stable, low-cost, diversified source of funds to finance our business. On January 29, 2015, we signed a Mortgage Repurchase Agreement with Wells Fargo with a maximum borrowing capacity of $200,000. The borrowing facility is comparable to the repurchase facilities that the Company has in place with other financial institutions, and is designed to finance newly originated conventional, government and jumbo residential mortgages originated or purchased by the Company. The facility is uncommitted and matures on January 30, 2016.

On April 23, 2015, we, through our NattyMac subsidiary, entered into a Participation Agreement with Citizens Bank & Trust Company ("Citizens"), in which we will sell 100% participation interests in certain of our warehouse lines of credit in an amount not to exceed $100,000 and on an individual warehouse lender basis not to exceed $7,500. There was no activity during the three or six months ended June 30, 2015 . The Citizens arrangement is designed to provide additional liquidity to the Company for its warehouse lines of credit ("WLOC"s) originated by NattyMac.

With a viable and growing market for the sale of servicing, we see no material negative trends that we believe would affect our access to long-term or short-term borrowings to maintain our current operations, or that would inhibit our ability to fund operations and capital commitments for the next 12 months.

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 speed affect the size of servicing advance balances. These advances are typically recovered upon weekly or monthly reimbursements or from sale in the market.

We finance these advances using cash on hand. We are not currently anticipating that the servicing advance asset will grow in the near future beyond our capacity of financing the asset using available cash. If the servicing advances become a sizable asset on our balance sheet, we will negotiate a servicing advance facility with one or more of our financial partners, which we believe to be readily available in the market.

Cash Flows

Our unrestricted cash balance increased from $45,382 as of December 31, 2014 to $48,538 as of June 30, 2015 . The following discussion summarizes the changes in our unrestricted cash balance for the six months ended June 30, 2015 and 2014 :

Operating Activities

Our operating activities used $35,753 and $544,691 of cash flow for the six months ended June 30, 2015 and 2014 , respectively. The decrease in cash used in operating activities was primarily due to the fact we sold our loans at a faster rate than the prior period. Additionally, we continue to experience negative operating cash flows due to the cash investment in the creation of MSRs assets and the related increases in our loan inventory and locked loan pipeline, and this will continue in the future as we grow originations to increase the loan servicing portfolio. These negative operating cash flows will be offset by increases and improvements in the efficiency of borrowings against our assets and by the periodic sale of servicing. As servicing fees collected from borrowers increase as the servicing portfolio grows, the operating cash flows are expected to increase.

Investing Activities

Our investing activities provided $31,943 of cash flow for the six months ended June 30, 2015 and used $13,572 of cash flow for the same period in the prior year. The increase in cash provided by investing activities was primarily due to the proceeds received from the sale of nearly $4.6 billion of MSRs in the current period to unrelated third parties in two separate transactions and our investment in the subordinated debt of Merchants Bancorp entered into during the second quarter of 2014 in order to facilitate the financing of WLOCs in our Financing segment. This increase was partially offset by purchases of property and equipment.

Financing Activities

Our financing activities provided $6,966 and $540,309 of cash flow for the six months ended June 30, 2015 and 2014, respectively. The decrease in cash provided by financing activities was primarily due to the timing of borrowings versus repayments under our various mortgage funding arrangements. The timing of our borrowings and repayments fluctuates based on the needs of our operations.

Off-Balance Sheet Arrangements

As of June 30, 2015 and December 31, 2014 , we did not have any off-balance sheet arrangements.

Quantitative and Qualitative Disclosures about Market Risk

Market risk is defined as the sensitivity of income, fair value measurements and capital to changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates or prices. The primary market risks that we are exposed to are interest rate risks and the price risk associated with changes in interest rates. Interest rate risk is defined as risk to current or anticipated earnings or capital arising from movements in interest rates. Price risk is defined as the risk to current or anticipated earnings or capital arising from changes in the value of either assets or liabilities that are entered into as part of distributing or managing risk.

Our interest rate risk and price risk arise from the financial instruments and positions we hold. This includes mortgage loans held for sale, mortgage servicing rights, and derivative financial instruments. Due to the nature of our operations, we are not subject to foreign currency exchange or commodity price risk.

These risks are managed as part of our overall monitoring of liquidity, which includes regular meetings of a group of executive managers that identify and manage the sensitivity of earnings or capital to changing interest rates to achieve our overall financial objectives. The members of this group include the Chief Financial Officer, acting as the chair, the EVP of Capital Markets, the SVP Treasurer and other members of management as deemed necessary. The group is responsible for:

- meeting day-to-day cash outflows primarily in the settlement of margin requests from trading counterparties, operating expenses, planned capital expenditures and customer demand for loans;
- ensuring sufficient sources of liquidity exist to cover commitments to originate or purchase mortgage loans, warehouse lines of credit or other credit commitments;
- funding asset growth in a cost efficient manner;
- controlling concentration of exposure to any financing source;
- minimizing the impact of market disruptions should adverse events occur which erode Stonegate's ability to fund itself; and
- surviving a major financial crisis which might result in a funding crisis.

Credit Risk

We have exposure to credit loss in the event of contractual non-performance by our trading counterparties and counterparties to the over-the-counter derivative financial instruments that we use in our rate risk management activities. We manage this credit risk by selecting only counterparties that we believe to be financially strong, spreading the credit risk among many such counterparties, by placing contractual limits on the amount of unsecured credit extended to any single counterparty and by entering into netting agreements with the counterparties, as appropriate. For additional information, refer to Note 5 “Derivative Financial Instruments” to the unaudited consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

We have exposure to credit losses on residential mortgage loans that we hold for sale or investment as well as for losses incurred by investors in mortgage loans that we sell to them as a result of breaches of representations and warranties we make as part of the loan sales. The representations and warranties require adherence to investor or guarantor origination and

underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law. The level of mortgage loan repurchase losses is dependent on economic factors, investor repurchase demand strategies, and other external conditions that may change over the lives of the underlying loans.

We also have exposure to credit loss in the event of non-repayment of amounts funded to correspondent customers through our NattyMac financing facility, though this has been somewhat mitigated by our transfer of participation interests in certain warehouse lines of credit, and related risks, to NMF. We also bear the risk of loss on any loans funded in NMF, up to the amount of our investment in the subordinated debt of Merchants Bancorp. We manage this credit risk by performing due diligence and underwriting analysis on the correspondent customers prior to lending. Each counterparty is evaluated according to the underwriting guidelines as documented in the NattyMac Warehouse Underwriting Guidelines as required by the NattyMac Warehouse Credit Policy. In addition, the correspondent customers pledge, as security to the Company, the underlying mortgage loans. We periodically review the warehouse lending receivables for collectability based on historical collection trends and management judgment regarding the ability to collect specific accounts.

Interest Rate Risk

Our principal market exposure is to interest rate risk, specifically long-term Treasury, LIBOR, and mortgage interest rates due to their impact on mortgage-related assets and commitments. Additionally, our escrow earnings on our mortgage servicing rights are sensitive to changes in short-term interest rates such as LIBOR. We also are exposed to changes in short-term interest rates on certain variable rate borrowings, primarily our mortgage warehouse lines of credit and our MSRs borrowing facilities. We anticipate that such interest rates will remain our primary benchmark for market risk for the foreseeable future.

Our business is subject to variability in results of operations in both the mortgage origination and mortgage servicing activities due to fluctuations in interest rates. In a declining interest rate environment, we would expect our mortgage production activities' results of operations to be positively impacted by higher loan origination volumes and gain on sale margins. In contrast, we would expect the results of operations of our mortgage servicing activities to decline due to higher actual and projected loan prepayments related to our loan servicing portfolio. In a rising interest rate environment, we would expect a negative impact on the results of operations of our mortgage production activities and our mortgage servicing activities' results of operations to be positively impacted. The interaction between the results of operations of our mortgage activities is a core component of our overall interest rate risk strategy.

Our mortgage funding arrangements (mortgage participation agreements and warehouse lines of credit) carry variable rates. As of June 30, 2015 , approximately $536,455 , or 46% , of our total $1,162,585 in outstanding adjustable rate mortgage funding arrangements had interest rates that were equal to the underlying mortgage loans. The remaining 54% of the adjustable rate mortgage funding arrangements carried a weighted average interest rate of 2.61% , which was well below the weighted average interest rate on the related mortgage loans held for sale as of June 30, 2015 . In addition, mortgage loans held for sale are carried on our balance sheet on average for only 20 to 25 days after closing and prior to transfer to FNMA, FHLMC or into pools of GNMA MBS. As a result, we believe that any negative impact related to our variable rate mortgage funding arrangements resulting from a shift in market interest rates would not be material to our consolidated financial statements as of or for the three months ended June 30, 2015 .

Interest rate lock commitments represent an agreement to extend credit to a mortgage loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to funding. Our mortgage loans held for sale, which are held in inventory awaiting sale into the secondary market, and our interest rate lock commitments, are subject to changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. As such, we are exposed to interest rate risk and related price risk during the period from the date of the lock commitment through (i) the lock commitment cancellation or expiration date; or (ii) the date of sale into the secondary mortgage market. Loan commitments generally range between 30 and 90 days; and our holding period of the mortgage loan from funding to sale is typically within 30 days.

We manage the interest rate risk associated with its outstanding interest rate lock commitments and loans held for sale by entering into derivative loan instruments such as forward loan sales commitments of To-Be-Announced mortgage backed securities ("TBA Forward Commitments"). We expect these derivatives will experience changes in fair value opposite to changes in fair value of the derivative interest rate lock commitments and loans held for sale, thereby reducing earnings volatility. We take into account various factors and strategies in determining the portion of the mortgage pipeline (derivative loan commitments) and mortgage loans held for sale it wants to economically hedge. Our expectation of how many of our interest rate lock commitments will ultimately close is a key factor in determining the notional amount of derivatives used in hedging the position.

Sensitivity Analysis

We have exposure to economic losses due to interest rate risk arising from changes in the level or volatility of market interest rates. We assess this risk based on changes in interest rates using a sensitivity analysis. The sensitivity analysis measures the potential impact on fair values based on hypothetical changes in interest rates.

We use financial models in determining the impact of interest rate shifts on our mortgage loan portfolio, MSRs portfolio and pipeline derivatives (IRLC and forward MBS trades). A 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. We obtain independent third party valuations on a quarterly basis, to support the reasonableness of the fair value estimate generated by our internal model. The primary assumptions in this model are prepayment speeds, discount rates, costs of servicing and default 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. We also use a forward yield curve as an input which will impact pre-pay estimates and the value of escrows as compared to a static forward yield curve. We believe that the use of the forward yield curve better presents fair value of MSRs because the forward yield curve is the market's expectation of future interest rates based on its expectation of inflation and other economic conditions.

For mortgage loans held for sale, 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 borrowers' likelihood 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 used June 30, 2015 market rates on our instruments to perform the sensitivity analysis. The estimates are based on the market risk sensitivity portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. Management uses sensitivity analysis, such as those summarized below, based on a hypothetical 25 basis point increase or decrease in interest rates, on a daily basis to monitor the risks associated with changes in interest rates to our mortgage loans pipeline (the combination of mortgage loans held for sale, IRLCs and forward MBS trades). We believe the use of a 25 basis point shift (50 basis point range) is appropriate given the relatively short time period that the mortgage loans pipeline is held on our balance sheet and exposed to interest rate risk (during the processing, underwriting and closing stages of the mortgage loans which generally last approximately 60 days). We also actively manage our risk management strategy for our mortgage loans pipeline (through the use of economic hedges such as forward loan sale commitments and mandatory delivery commitments) and generally adjust our hedging position daily. In analyzing the interest rate risks associated with our MSRs, management also uses multiple sensitivity analyses (hypothetical 25, 50 and 100 basis point increases and decreases) to review the interest rate risk associated with its MSRs, as the MSRs asset is generally more sensitive to interest rate movements over a longer period of time.

These sensitivities are hypothetical and presented for illustrative purposes only. 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.

At a given point in time, the overall sensitivity of our mortgage loans pipeline is impacted by several factors beyond just the size of the pipeline. The composition of the pipeline, based on the percentage of IRLC's compared to mortgage loans held for sale, the age and status of the IRLC's, the interest rate movement since the IRLC's were entered into, the cannels from which the IRLC's originate, and other factors all impact the sensitivity. The following table summarizes the (unfavorable) favorable estimated change in our mortgage loans pipeline as of June 30, 2015 and December 31, 2014 , given hypothetical instantaneous parallel shifts in the yield curve:

Mortgage loans pipeline [1]	**Down 25 bps**	**Up 25 bps**
June 30, 2015	$ (3,460)	$ (302)
December 31, 2014	(2,341)	551

[1] Represents unallocated mortgage loans held for sale, IRLCs and forward MBS trades that are considered "at risk" for purposes of illustrating interest rate sensitivity. Mortgage loans held for sale, IRLCs and forward MBS trades are considered to be unallocated when we have not committed the underlying mortgage loans for sale to the applicable GSEs.

Mortgage Servicing Rights

We use a discounted cash flow approach to estimate the fair value of MSRs. This approach consists of projecting servicing cash flows discounted at a rate that management believes market participants would use in the determination of value. The key assumptions used in the estimation of the fair value of MSRs include prepayment speeds, discount rates, default rates, cost to service, contractual servicing fees, escrow earnings and ancillary income. The shape of the forward yield curve also has an impact on the asset valuation. We believe that the use of the forward yield curve better presents fair value of MSRs because the forward yield curve is the market's expectation of future interest rates based on its expectation of inflation and other economic conditions. We obtain independent third party valuations on a quarterly basis, to support the reasonableness of the fair value estimate generated by our internal model. We also have an MSRs committee that meets on a monthly basis to review assumptions, challenge estimates and review valuation results. Our MSRs are subject to substantial interest rate risk as the mortgage loans underlying the MSRs permit the borrowers to prepay the loans. Therefore, the value of MSRs generally tends to vary with interest rate movements and the resulting changes in prepayment speeds. Although the level of interest rates is a key driver of prepayment activity, there are other factors that influence prepayments, including home prices, underwriting standards and product characteristics. Since our mortgage origination activities' results of operations are also impacted by interest rate changes, our mortgage origination activities' results of operations may fully or partially offset the change in fair value of MSRs over time. We may, from time to time, review opportunities to sell pools of our MSRs portfolio under certain conditions that would be beneficial to us either due to market demand for servicing, changes in interest rates or our need for liquidity. For additional information about the assumptions used in determining the fair value of our MSRs and a quantitative sensitivity analysis on our MSRs as of June 30, 2015 , refer to Note 9, "Transfers and Servicing of Financial Assets," to our consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

At a given point in time, the primary factors that contribute to the interest rate sensitivity of MSRs are the weighted average coupon of the loans underlying the MSRs compared to current mortgage rates and the size and composition of the MSRs portfolio. The spread between the weighted average coupon and current market rates determines modeled prepayment speed. During the three months ended June 30, 2015 , the weighted average coupon of our MSRs portfolio remained flat in comparison to December 31, 2014 and, at June 30, 2015 , mortgage rates were lower than they were at December 31, 2014. The combination of these factors increased current prepayment estimates and prepayment estimates in the interest rate shifts. The following table summarizes the (unfavorable) favorable estimated change in our MSRs as of June 30, 2015 , given hypothetical instantaneous parallel shifts in the yield curve:

MSRs	Down 100 bps	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps	Up 100 bps
June 30, 2015	$ (84,991)	$ (37,480)	$ (17,545)	$ 15,606	$ 29,393	$ 50,834
December 31, 2014	(95,045)	(48,810)	(23,505)	20,225	37,764	67,609

Prepayment Risk

To the extent that the actual prepayment rate on the mortgage loans underlying our MSRs differs from what we projected when we initially recognized the MSRs and when we measured fair value as of the end of each reporting period, the carrying value of our investment in MSRs will be affected. In general, an increase in prepayment expectations will accelerate the amortization of our MSRs accounted for using the amortization method and decrease our estimates of the fair value of both the MSRs accounted for using the amortization method and those accounted for using the fair value method, thereby reducing net servicing income.

Inflation Risk

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors will influence our performance more than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Furthermore, our consolidated financial statements are prepared in accordance with GAAP and our activities and balance sheet are measured with reference to historical cost and/or fair value without considering inflation.

Market Value Risk

Our mortgage loans held for sale and MSRs are reported at their estimated fair values. The fair value of these assets fluctuates primarily due to changes in interest rates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a detailed discussion of our market risks, see the “Quantitative and Qualitative Disclosures about Market Risk” section of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part I, Item 2 of this Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of June 30, 2015 . The Company's Disclosure Review Committee is charged with reviewing the adequacy of the disclosure controls and procedures to ensure the accuracy, completeness and timeliness of the Company's financial and other information in its periodic reports. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective, as of June 30, 2015 , to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it 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. No matter how well a control system is designed and operated, it can provide only reasonable, not absolute, assurance that it will detect or uncover control issues and instances of fraud, if any, within the Company to disclose material information otherwise required to be set forth in our periodic reports. There have not been any changes in our internal control (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the periods covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings at June 30, 2015 , see the “Litigation” section of Note 13, “Commitments and Contingencies” to our unaudited consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

ITEM 1A. RISK FACTORS

We are subject to various risks and uncertainties which may have a material adverse effect on our business, financial condition and results of operations, as discussed in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, filed on March 6, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits: A list of exhibits required to be filed as part of this Form 10-Q is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Stonegate Mortgage Corporation
Registrant

Date: August 6, 2015

By: / s / Robert B. Eastep

Robert B. Eastep
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Third Amended and Restated Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to Stonegate Mortgage Corporation Amendment No. 1 to S-1 filed September 30, 2013 (File No. 333-191047))
3.2	Third Amended and Restated Code of Regulations of the Registrant (incorporated by reference to Exhibit 3.2 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Stonegate Mortgage Corporation Amendment No. 1 to S-1 filed September 30, 2013 (File No. 333-191047))
4.2	Form of Indenture (incorporated by reference to Exhibit 4.5 of Stonegate Mortgage Corporation S-3 filed January 14, 2015 (File No. 001-201507))
10.1*	Participation Agreement, dated April 23, 2015, by and between Citizens Bank and Trust Company and Stonegate Mortgage Corporation
31.1*	Certification of the Company’s Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Company’s Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Company’s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Company’s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

Execution Version

PARTICIPATION AGREEMENT

between

NATTYMAC, LLC
(“Seller”)

and

CITIZENS BANK AND TRUST COMPANY
(“Participant”)

April 23, 2015

PARTICIPATION AGREEMENT

THIS PARTICIPATION AGREEMENT (the “Agreement”) is entered into and made effective as of April 23, 2015 (the “Effective Date”), by and between NATTYMAC, LLC, an Indiana limited liability company having a principal place of business at 9190 Priority Way West Drive, Suite 300, Indianapolis, Indiana 46240 (“Seller”), and Citizens Bank and Trust Company, a Missouri bank, having an office at 515 Washington Street, Chillicothe, Missouri 64601 (“Participant”).

WITNESSETH :

WHEREAS, Seller has entered into a certain Mortgage Warehouse Loan and Security Agreement, dated _____________ (the “Warehouse Agreement”), wherein Seller will from time to time make loans (each, a “Warehouse Loan,” and collectively, the “Warehouse Loans”) to ________________, a(n) ________ __________ (“Warehouse Borrower”), for the origination of qualifying, single-family mortgage loans through funds advanced under the Warehouse Loan, including conforming Federal National Mortgage Association (“FNMA”) loans, Federal Home Loan Mortgage Corporation (“FHLMC”) loans, and loans insured by the Federal Housing Administration (“FHA”) or guaranteed by the Veterans Administration (“VA”) or United States Department of Agriculture (“USDA”), and for the origination of certain Mortgage Loans which comply with all applicable Agency requirements other than loan amount (each, a “Jumbo Loan”), but specifically excluding any and all construction loans, loans secured by manufactured homes or co-operatives, and high-cost loans (hereinafter referred to individually as a “Mortgage Loan” and collectively as the “Mortgage Loans”) (“FNMA”, “FHLMC”, “FHA”, “VA”, and “USDA” are hereinafter from time to time referred to individually as an “Agency” or collectively as the “Agencies”);

WHEREAS, Seller wishes to sell to Participant, and Participant wishes to purchase from Seller, an undivided beneficial ownership interest in the Warehouse Loans in an aggregate amount not to exceed at any time the "Warehouse Borrower Lending Limit" set forth in the Transaction Terms Letter of even date executed by Seller and Participant setting forth certain specific terms, and any additional terms, with respect to this Agreement (the "Transaction Terms Letter"); and

WHEREAS, Seller wishes to sell to Participant, and Participant may determine to purchase from Seller, undivided beneficial ownership interests in other warehouse loan agreements and warehouse loans originated by Seller to borrowers other than Warehouse Borrower which, in the aggregate, do not exceed the "Aggregate Participation Limit" set forth in the Transaction Terms Letter.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Seller and Participant agree as follows:

1. **OWNERSHIP INTEREST; PARTICIPATION CERTIFICATE.**

1.1 Acquisition by Participant.

(a) Subject to the terms and conditions of this Agreement and in reliance on representations, warranties and covenants contained herein, Participant establishes with Seller the terms on which Participant shall purchase an undivided beneficial ownership interest in each Warehouse Loan. The percentage of Participant's undivided interest in each Warehouse Loan shall be determined as set forth on the Participation Certificate, hereinafter defined (the "Ownership Interest").

(b) Each date that funds are advanced to Warehouse Borrower to originate a Mortgage Loan pursuant to the Warehouse Agreement is referred to as a "Funding Date," and each such advance of funds is referred to as an "Advance." The purchase of an Ownership Interest in each Warehouse Loan shall be subject to (1) Participant's review and approval of the Mortgage Loan Documents (hereinafter defined) and such other documents relating to the Mortgage Loan that will be originated with the proceeds of such Warehouse Loan as Participant deems appropriate, (2) Participant's satisfaction with Warehouse Borrower's ability to dispose of the Mortgage Loan that will be originated with the proceeds of such Warehouse Loan through a sale or securitization of the Mortgage Loan pursuant to one or more binding agreements with an independent third party or parties to an investor acceptable to Participant (the "Investor"), (3) Participant's satisfaction with the Warehouse Borrower's creditworthiness, and (4) the Warehouse Loan and Mortgage Loan having terms acceptable to Participant.

(c) Participant hereby commits to purchase during the term of this Agreement an Ownership Interest in each Warehouse Loan to Warehouse Borrower, provided that, as of the time of the applicable Advance, (1) each of the conditions in Section 1.1(b) has been satisfied or waived by Participant, (2) the Seller's representations, warranties and covenants at Section 2.1 are accurate, (3) the representations, warranties and covenants at Section 2.2 with respect to the Mortgage Loan that will be originated with such Advance are accurate, and (4) the Advance will not cause the Warehouse Borrower Lending Limit or the Aggregate Participation Limit to be exceeded. Participant acknowledges that its commitment to purchase Ownership Interests pursuant to this Section 1.1(c) is binding on Participant, and that Seller may rely on such commitment in originating each Warehouse Loan to the Warehouse Borrower, during the term of this Agreement. For the avoidance of doubt, this Agreement obligates Purchaser to purchase Ownership Interests only in Warehouse Loans originated by Seller to the Warehouse Borrower identified in the second introductory paragraph of this Agreement and does not obligate Purchaser to purchase ownership interests in warehouse loans originated by Seller to any other person.

1.2 Pro Rata Sharing of Credit Risk. It is the intention of the parties that the transaction described in this Agreement shall result in the pro rata sharing of credit risk between Seller and Participant with respect to each Warehouse Loan in proportion to their respective Ownership Interests.

1.3 Seller to Assign Warehouse Loan and Mortgage Loan Documents. Subject to compliance with the requirements of the Investor, Seller shall transfer and assign to Participant and deliver to Participant or at Participant's election, Participant's agent or custodian, originals or copies when deemed acceptable by Participant of (i) all documents relating to the Warehouse Agreement, including the Line of Credit Promissory Note executed by Warehouse Borrower and any related UCC financing statements or other instruments evidencing the security interest granted by Warehouse Borrower to Seller thereunder, within two (2) business days of

the date hereof, and (ii) upon the Warehouse Borrower's request for a Warehouse Loan to originate a particular Mortgage Loan, all documents with respect to such Mortgage Loan including, without limitation, the related promissory mortgage note ("Note"), Mortgage or Deed of Trust (the "Mortgage"), other security documents, title and hazard insurance policies and Closing Protection Letter (the "Mortgage Loan Documents"). The transfer and assignment of the Note shall be by an assignment in blank executed by Seller and/or Warehouse Borrower pursuant to security procedures and in accordance with industry standards.

1.4 Examination of Mortgage File. Prior to each Funding Date, if requested to do so by the Participant, the Seller shall deliver to the Participant or its designee, for examination, copies of the Mortgage Loan Documents to be executed by the mortgagor and the Warehouse Borrower pertaining to the Mortgage Loan to be originated on such Funding Date.

1.5 Participation Certificates.

(a) Immediately upon the purchase by Participant of an Ownership Interest in a Warehouse Loan, Seller shall deliver to Participant an original certificate evidencing such Ownership Interest, substantially in the form attached hereto as Exhibit A ("Participation Certificate"), setting forth: (i) the principal amount of the applicable Warehouse Loan; (ii) Participant's Ownership Interest in such Warehouse Loan; (iii) the purchase price of the Ownership Interest, and (iv) such other data as Participant may from time to time request.

(b) Seller shall maintain at its office a certificate register (the "Certificate Register") showing all pertinent information with respect to the Participation Certificate.

(c) Seller shall provide a copy of the Certificate Register to Participant upon request.

(d) The Participation Certificate may be re-issued in the event of a transfer by Participant. Prior to due presentation of the Participation Certificate for registration of transfer, Seller shall treat Participant as the owner of such Participation Certificate and the Ownership Interest relating thereto.

(e) In the event of any mutilated, lost, destroyed, or stolen Participation Certificate, Seller shall execute and deliver to Participant a replacement Participation Certificate of like tenor and interest, in the absence of notice that such Participation Interest has been acquired by a bona fide purchaser, upon Participant: (i) either surrendering any mutilated Participation Certificate to Seller, or (ii) providing evidence to Seller's satisfaction of the loss, destruction, or theft of any Participation Certificate, as applicable, and delivering a representation regarding such loss, destruction or theft, together with such indemnity as may be required by Seller. Any replacement Participation Certificate issued as provided herein shall constitute, absent fraud, complete and indisputable evidence of ownership of the Ownership Interest as if originally issued, whether or not the mutilated, destroyed, lost, or stolen Participation Certificate shall be subsequently found at any time. Seller may assess a reasonable charge for the re-issuance of a Participation Certificate as provided herein.

2. **REPRESENTATIONS, WARRANTIES AND COVENANTS.**

2.1 General Representations, Warranties and Covenants of Seller. Seller represents, warrants, and covenants to Participant that, upon execution of this Agreement and on each date that a Warehouse Loan is funded and an Ownership Interest therein is sold to Participant:

(a) Seller is duly organized, and is and shall continue to be existing, under the laws of the jurisdiction of its organization.

(b) Seller is, and to the extent necessary to perform its obligations under this Agreement shall continue to be, duly authorized and qualified to transact business in all jurisdictions where it conducts business or is not required to be so authorized; Seller possesses and shall continue to possess all requisite authority, power, licenses, permits, franchises, and approvals to conduct its business and to execute, deliver, and comply with its obligations under this Agreement.

(c) The execution, delivery and performance of this Agreement by Seller will not: (i) violate the articles of organization or operating agreement of Seller or any resolution or other instrument governing its operations or any laws which violation could have any material adverse effect upon the validity, performance, and enforceability of any of the terms of this Agreement applicable to

Seller, or (ii) constitute a default (or any event which, with notice or lapse of time or both, would constitute a default) under any contract, agreement, or other instrument to which Seller is a party or which is applicable to any of its assets.

(d) This Agreement constitutes a valid, legal, and binding obligation of Seller, enforceable in accordance with its terms and no consent, approval or authorization of any governmental authority is required for the execution, delivery or performance of, or compliance by Seller with, this Agreement or the consummation of any other transaction contemplated hereby, except as has been duly obtained.

(e) As of the date of the Warehouse Agreement, Seller has collected and reviewed information regarding Warehouse Borrower in accordance with Seller's underwriting guidelines in effect as of such date.

(f) As of each Funding Date, Seller has confirmed that, based upon Seller's review of the information provided to Seller by the Warehouse Borrower, the applicable Mortgage Loan is eligible for purchase by an Investor.

2.2 Mortgage Loan Representations, Warranties and Covenants of Seller. Seller further represents, warrants, and covenants to Participant that the Warehouse Agreement provides for Warehouse Borrower to represent and warrant to Seller with respect to each Mortgage Loan originated with an Advance, as of the applicable Funding Date, that:

(a) The information pertaining to such Mortgage Loan set forth in the request for an Advance submitted by Warehouse Borrower with respect thereto ("Request for Advance") is true, correct and complete to the best of Warehouse Borrower's knowledge.

(b) Warehouse Borrower has not advanced funds, or induced, solicited or knowingly received any advance of funds from a party other than the owner of the Mortgaged Property, directly or indirectly, for the payment of any amount required by the Mortgage Loan and there has been no delinquency in any payment by the mortgagor thereunder.

(c) There are no delinquent taxes, ground rents, water charges, sewer rents, assessments or other outstanding charges affecting the Mortgaged Property.

(d) The terms of the Note and the Mortgage have not been impaired, waived, altered or modified in any respect. No mortgagor has been released, in whole or in part.

(e) The Note and the Mortgage are not subject to any right of rescission, set-off, abatement, diminution, counterclaim or defense, including the defense of usury, nor will the operation of any of the terms of the Note or the Mortgage, or the exercise of any right thereunder, render the Note or the Mortgage unenforceable, in whole or in part, or subject to any right of rescission, set-off, abatement, diminution, counterclaim or defense, including the defense of usury, and no such right of rescission, set-off, abatement, diminution, counterclaim or defense has been asserted with respect thereto.

(f) All improvements constituting a part of the Mortgaged Property are insured by an insurer acceptable to the applicable Agency and generally acceptable to prudent mortgage lending institutions against loss by fire and such other risks as may be included in the broad form of extended insurance coverage, as may be available from time to time, and such other hazards as are customary in the area where the Mortgaged Property is located, in an amount which is at least equal to the maximum insurable value of the improvements constituting a part of the Mortgaged Property. If the Mortgaged Property is in an area then identified in the Federal Register by the Flood Emergency Management Agency as having special flood hazards (and such flood insurance is then available), there is in effect a flood insurance policy meeting the requirements of the current guidelines of the Federal Insurance Administration with a financially responsible insurance carrier acceptable to the applicable Agency, in an amount representing coverage not less than the maximum amount of insurance which is available under the Flood Disaster Protection Act of 1973, as amended. All such individual insurance policies (collectively, the "hazard insurance policy") contain a "standard" or "New York" mortgagee clause naming the Warehouse Borrower, its successors and assigns as mortgagee, provide for at least 30 days' prior written notice to the Warehouse Borrower of any cancellation thereof, and all premiums thereon have been paid. The Mortgage obligates the mortgagor thereunder to maintain the hazard insurance policy at the mortgagor's cost and expense, and upon the mortgagor's failure to do so, authorizes the holder of the mortgage to obtain and maintain such insurance at the mortgagor's cost and expense and to seek reimbursement therefor from the mortgagor.

(g) Any and all requirements of any federal, state or local law including, without limitation, usury, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity or disclosure laws applicable to the Mortgage Loan have been complied with.

(h) The Mortgage has not been satisfied, canceled, subordinated or rescinded, and the Mortgaged Property has not been released from the lien of the Mortgage, in whole or in part, nor has any instrument been executed that would effect any such satisfaction, cancellation, subordination, rescission or release.

(i) Unless otherwise agreed to by Seller with respect to any Mortgage Loan, the mortgagor has fee simple estate in and to the Mortgaged Property and the Mortgaged Property consists of real property that complies with applicable Agency requirements, all of which constitutes real property under the laws of the State in which the Mortgaged Property is located and Warehouse Borrower is qualified to do business.

(j) The Mortgage is a valid, subsisting and enforceable first priority lien on the Mortgaged Property (including, without limitation, all buildings constituting a part of the Mortgaged Property and all installations and mechanical, electrical, plumbing, heating and air conditioning systems located in or affixed to such buildings, and all additions, alterations and replacements made at any time with respect to the foregoing). Such lien is subject only to (a) the lien of current real property taxes and assessments not yet due and payable, (b) covenants, conditions and restrictions, rights of way, easements and other matters of public record as of the date of recording which are (i) acceptable to mortgage lending institutions generally and, in the case of a Mortgage Loan insured by the FHA or guaranteed by the VA, USDA or RHS, to the FHA, VA, USDA or RHS, (ii) specifically referred to in the lender's title insurance policy delivered to Warehouse Borrower and (iii) referred to or otherwise considered in the appraisal made for Warehouse Borrower or which do not adversely affect the appraised value of the Mortgaged Property as set forth in such appraisal and (c) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by the Mortgage, the use, enjoyment, value or marketability of the related Mortgaged Property or, in the case of a Mortgage Loan insured by the FHA or guaranteed by the VA, USDA or RHS, prevent realization of the benefits provided by any FHA insurance or VA, USDA or RHS guaranty. Any security agreement, chattel mortgage or equivalent document related to and delivered in connection with the Mortgage Loan establishes and creates a valid, subsisting and enforceable first priority lien and first priority security interest on the property described therein.

(k) The Note and the Mortgage are genuine, and each is the legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally.

(l) All parties to any agreement affecting the Mortgage Loan, including, but not limited to, the Note and Mortgage, had legal capacity to enter into such agreement and to execute and deliver such agreement and each such agreement has been duly and properly authorized, executed and delivered by such parties.

(m) The proceeds of the Mortgage Loan have been fully disbursed and there is no obligation or requirement for future advances thereunder by the holder of the Mortgage Loan, and any and all requirements as to completion of any on-site or off-site improvements and as to disbursements of any escrow funds therefor have been complied with.

(n) Except as otherwise described in writing to Seller, the Note and the Mortgage have not been assigned or pledged by the Warehouse Borrower except to Seller as provided in the Warehouse Agreement. The Warehouse Borrower or its agent, and, in the case of a Mortgage Loan originated by one of Warehouse Borrower's correspondents, Warehouse Borrower's correspondent and its agent, or the title company or other closing agent handling the closing of the Mortgage Loan, has had continuous sole and complete possession of all the Mortgage Loan Documents in the Mortgage File prior to the Closing Date. At the time of the pledge of the Mortgage Loan to Seller, the Warehouse Borrower had good and marketable title thereto.

(o) In the case of a Mortgage Loan which complies with all applicable Agency requirements (a "Conforming Mortgage Loan"), (a) the Loan-to-Value Ratio either (i) is not more than 80% or (ii) is not more than 95% and the excess over 80% is and will be insured by a policy of primary mortgage guaranty insurance issued by a mortgage guaranty insurer acceptable to FNMA or FHLMC until the Loan-to-Value Ratio is reduced below 80% or otherwise meets guidelines for an applicable FNMA or FHLMC

product (i.e., DU Refi Plus), (b) the mortgage interest rate for the Mortgage Loan as set forth in the Request for Advance is net of any such insurance premium and (c) all provisions of any primary mortgage guaranty insurance policy have been and are being complied with and such policy is in full force and effect and all premiums due thereunder have been paid. Any Mortgage Loan subject to any such policy of primary mortgage guaranty insurance obligates the mortgagor thereunder to maintain such insurance and to pay all premiums and charges in connection therewith. In the case of a Mortgage Loan which complies with all applicable Agency requirements other than loan amount (a "Nonconforming Mortgage Loan"), the Loan-to-Value Ratio is within the agreed upon limits established between Seller and Warehouse Borrower for Nonconforming Loans (an "Eligible Nonconforming Loan").

(p) Each Conforming Mortgage Loan is covered by an American Land Title Association form of lender's title insurance policy or other generally acceptable form of title insurance policy acceptable to the applicable Agency (and, in the case of a Mortgage Loan insured by the FHA or guaranteed by the VA, USDA or RHS, the FHA, VA, USDA or RHS, as the case may be), issued by a title insurer acceptable to the applicable Agency and qualified to do business in the state of the Mortgaged Property, insuring the Warehouse Borrower, its successors and assigns, as to the first priority lien of the Mortgage in the original principal amount of the Mortgage Loan. Each Nonconforming Mortgage Loan is covered by a form of lender's title insurance policy required for an Eligible Nonconforming Loan. In each case, the Warehouse Borrower is the sole insured under such lender's title insurance policy, and such lender's title insurance policy is in full force and effect. No claims have been made under such lender's title insurance policy and no holder of the Mortgage Loan, including the Warehouse Borrower, has done or omitted to do anything which would impair the coverage of such lender's title insurance policy.

(q) If the Mortgage Loan is insured by the FHA or guaranteed by the VA, it shall be either (i) guaranteed by the VA to the maximum extent permitted by law for a veteran who has not used any part of his entitlement and the uninsured portion thereof upon origination was not more than 75% of the original principal amount of the Mortgage Loan or (ii) fully insured by the FHA and all necessary steps have been taken to make and keep such guaranty or insurance valid, binding and enforceable, and such guaranty or insurance is the valid, binding and enforceable obligation of the VA or the FHA, as the case may be, to the full extent thereof, without surcharge, set-off or defense.

(r) There is no default, breach, violation, or event of acceleration existing under the Note or Mortgage and no event which, with the passage of time or the giving of notice, or both, would constitute such a default, breach, violation or event of acceleration; and neither the Warehouse Borrower nor any person having or having had an interest therein has waived any such default, breach, violation or event of acceleration.

(s) There are no mechanics' or similar liens or claims which have been filed for work, labor or material (and no rights are outstanding that could give rise to any such lien) affecting the related Mortgaged Property which are or may be liens prior to, or equal to or coordinate with, the lien of the related Mortgage and the Mortgage requires the mortgagor promptly to cause any such liens, as well as liens which are junior to the lien of the Mortgage, to be removed.

(t) All improvements which were considered in determining the appraised value of the related Mortgaged Property lie wholly within the boundary and building restriction lines of the Mortgaged Property and no improvements on adjoining properties encroach upon the Mortgaged Property in any respect so as to affect the marketability of the Mortgaged Property.

(u) The Mortgage Loan was originated by the Warehouse Borrower or was acquired by Warehouse Borrower from one of its correspondents.

(v) The Note is payable monthly in self-amortizing installments of principal and interest, with interest payable in arrears, providing for full amortization by maturity or a balloon payment, over an original term in compliance with the requirements of the applicable Agency or Investor. The original principal amount of the Note was not more than the amount prescribed by the applicable Agency or Investor. The Mortgage contains customary and enforceable provisions for the acceleration of the payment of the unpaid principal balance of the Mortgage Loan in the event the related Mortgaged Property is sold without the prior consent of the mortgagee thereunder.

(w) The Mortgaged Property is free of damage and waste and there is no proceeding pending or, to the best of the knowledge of the Warehouse Borrower, threatened, for the total or partial condemnation or taking by eminent domain thereof.

(x) The Mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the Mortgaged Property of the benefits of the security provided thereby. There is no homestead or other exemption available to the mortgagor which would interfere with the right to sell the Mortgaged Property at a trustee's sale or under a power of sale, or the right to foreclose the Mortgage.

(y) The Mortgage File relating to the Mortgage Loan contains all of the documents required by, and such documents are in the form required by the underwriting guidelines of the Investor that will purchase the Mortgage Loan.

(z) The Mortgage File relating to the Mortgage Loan contains all of the documents required by the Investor and a clear to close letter has been issued compliant and meeting the requirements of the Investor.

(aa) To the best of the Warehouse Borrower's knowledge, the Mortgaged Property is lawfully occupied under applicable law.

(bb) The Note is not, and has not been, secured by any collateral except the lien of the related Mortgage and the security interest of any applicable security agreement or chattel mortgage referred to in clause (j) above and the Mortgage was not given as collateral or security for the performance of obligations of any person other than the mortgagor.

(cc) At the time of origination by the Warehouse Borrower, or at the time of the acquisition of the Mortgage Loan by the Warehouse Borrower from any correspondent, the Mortgage Loan met the requirements for investment by the Warehouse Borrower.

(dd) Neither the Warehouse Borrower nor the mortgagor has made any statement or taken any other action that would impair or invalidate the coverage provided by any primary mortgage guaranty insurance, FHA insurance or VA, USDA or RHS guaranty or any hazard, title or other insurance policy relating to the Mortgage Loan or the Mortgaged Property.

(ee) The Warehouse Borrower has no knowledge of any circumstance or condition with respect to the Mortgage Loan, the Mortgaged Property, the mortgagor or the mortgagor's credit standing that can reasonably be expected to cause private institutional investors to regard the Mortgage Loan as an unacceptable investment, cause the Mortgage Loan to become delinquent or adversely affect the value or marketability of the Mortgage Loan.

(ff) The Mortgage Loan has been duly and validly pledged by the Warehouse Borrower under the Warehouse Agreement, and the Warehouse Agreement, together with such pledge and delivery, creates as security for the Advances, in accordance with the terms of the Warehouse Agreement, a valid and perfected first priority security interest in respect of each Advance in favor of Seller in such Mortgage Loan and all proceeds, products and profits derived therefrom, and incidents thereto, including, without limitation, all accounts, general intangibles, instruments, moneys, goods, insurance proceeds and other tangible or intangible property received upon liquidation thereof and no further action is required to create, preserve and perfect such security interest.

(gg) There is no litigation pending or, to the Warehouse Borrower's knowledge, threatened, which, if determined adversely to the Warehouse Borrower, would adversely affect the execution, delivery or enforceability of the Warehouse Agreement, any Request for Advance, any assignment of Mortgage, the pledge of any Mortgage Loan to Seller, or the ability of the Warehouse Borrower to service the Mortgage Loans in accordance with the terms of the Warehouse Agreement or which would have a material adverse effect on the financial condition of the Warehouse Borrower.

(hh) The Mortgage Loan is either a Conforming Mortgage Loan or a Nonconforming Mortgage Loan, in either case, as disclosed by Warehouse Borrower to Seller, and is not a construction loan, a loan secured by a manufactured home or co-operative or a high-cost loan.

(ii) A MIN has been assigned by MERS, such MIN is accurately disclosed in the Request for Advance, and Seller has been or will be reflected within the MERS System as an "interim funder". The related assignment of Mortgage to MERS has been duly and properly recorded, or has been delivered for recording to the applicable recording office.

2.3 Participant in Reliance; Survival. Participant is purchasing the Ownership Interest in reliance upon the representations, covenants and warranties of Seller, and Seller's full and faithful compliance with all of the terms, covenants and conditions of this

Agreement. The representations, warranties, and covenants of Seller set forth in this Section shall survive this Agreement.

3. **SERVICING.**

3.1 Servicing Standards.

(jj) Seller shall administer the Warehouse Loans in accordance with customary mortgage banking practices of prudent lending institutions and such actions as a reasonably prudent lender would take in regard to loans held for its own account, all subject to and in accordance with the provisions of this Agreement. Sub-servicing of the Warehouse Loans by a third party shall not occur without Participant's written consent. Seller will perform the following servicing and administrative activities with respect to each Warehouse Loan:

(i) administer the funding of Mortgage Loan originations, including coordinating the disbursement of funds to the closing table and maintaining custody of the related Mortgage Loan File;

(ii) act as closing agent and provide wire instruction validation;

(iii) maintain ProMerit as a system of record for all Mortgage Loan transactions;

(iv) facilitate daily tracking of Mortgage Loans and reconciliation procedures;

(v) monitor the Warehouse Borrower's credit and collateral on an ongoing basis, including collecting and analyzing quarterly financials and regulatory compliance;

(vi) manage and maintain disbursement and collection accounts with the custodian of the Mortgage Loan Files to facilitate funding and repayment of Mortgage Loans and security of collateral; and

(vii) maintain records with respect to the delivery and custody of the Mortgage Loan Files and communicate with the custodian for the handling and processing thereof.

(kk) Seller will promptly remit to Participant the Participant's Ownership Interest percentage of all payments received from Warehouse Borrower with respect to each Mortgage Loan, including without limitation, each payment of principal and interest, and any prepayment premiums or penalties on the Note; any insurance proceeds or condemnation award accepted as a prepayment on a Mortgage Loan; and any rents collected with respect to, or the proceeds of any sale of, a Mortgaged Property.

(ll) Seller will direct Warehouse Borrower to service each Mortgage Loan, and may permit Warehouse Borrower, with prior written approval of Participant, to service the Mortgage Loans through a subservicer or retain an independent contractor to perform certain servicing functions; provided, however, in the event any servicing is performed by such subservicer or any functions performed by such independent contractor, Warehouse Borrower shall remain liable for its servicing duties and obligations and for the manner in which they are exercised by such subservicer or independent contractor. Seller will direct Warehouse Borrower to provide to Seller current payment and other account information with respect to each Mortgage Loan and will promptly input on ProMerit all such information in the form provided by Warehouse Borrower.

3.2 Servicing of Mortgage Loans; Certification.

(a) Seller represents and warrants that the Warehouse Agreement requires Warehouse Borrower or other permitted servicer to:

(i) hold all sums received in respect of any Mortgage Loan (and any interest or earning thereon or with respect thereto) in trust, in a segregated, identifiable interest-bearing trust account maintained for Seller (which sums Seller hereby covenants to hold in trust for Participant);

(ii) with respect to each Mortgage Loan, maintain or cause to be maintained accurate records reflecting the status of ground rents, taxes, assessments, water rates and other charges that are or may become a lien upon the Mortgaged Property,

the status of and all charges constituting escrow payments, including all primary mortgage guaranty insurance premiums and fire and hazard insurance coverage on such property; and

(iii) obtain Seller's prior written consent before taking any action that could affect Seller's interests with respect to the Mortgage Loans, including, without limitation, discharging, releasing, modifying or compromising any Mortgage or a mortgagor's payment obligations under any Note or any guarantor's obligations in respect thereof or releasing from the lien created thereunder of any property covered thereby.

(b) Upon request by Participant, Seller will direct Warehouse Borrower or other permitted servicer to provide Participant with a statement of payment of mortgage insurance premiums, and escrow account balances thereunder, and any release from the reserve fund for replacements (and the purpose of such release) for each Mortgage Loan, and copies of all Agency approvals of release of any escrowed funds.

(c) Seller shall provide to Participant, on an annual basis, such additional information regarding the Warehouse Loans and Mortgage Loans as Participant shall reasonably request.

(d) All funds received by Seller with respect to the Mortgage Loans, other than amounts constituting servicing compensation, reimbursement for Seller advances, or escrowed funds belonging to the mortgagors, shall be held by Seller in trust for Participant to the extent of Participant's Ownership Interest as required by this Agreement.

3.3 Insurance; Condemnation.

(f) Seller shall direct Warehouse Borrower to keep the Mortgaged Property insured against loss by fire and such other hazards, casualties, and contingencies as required by the applicable Agency and as generally shall be required by reasonably prudent lenders in similar transactions. Such insurance shall be pursuant to a broad form all-risk policy and shall name Seller and Participant as additional insureds pursuant to a standard mortgagee clause. The insurance carrier providing the insurance shall be chosen by the mortgagor, subject to Seller's approval; such carrier shall meet the minimum rating requirements of the Investor for carriers of hazard insurance.

(g) Seller will direct Warehouse Borrower to receive the proceeds of all such insurance or any award for the condemnation of all or any part of the Mortgaged Property, and to the extent required obtain the consent of the applicable Agency to the disposition thereof. Seller will direct Warehouse Borrower to deposit such proceeds with Participant or Participant's designee. Seller will direct Warehouse Borrower not to make any agreement with respect to the reconstruction or rehabilitation of the Mortgaged Property without the prior written consent of Participant, such consent not to be unreasonably withheld. During the term of this Agreement, Seller will direct Warehouse Borrower to retain custody of all insurance policies or renewals thereof which are required to be provided by each mortgagor under its Mortgage Loan Documents and maintained by Warehouse Borrower under the requirements of the applicable Agency. To the extent that any such insurance proceeds or condemnation award shall be applied as a prepayment on the Mortgage Loan, Seller will direct Warehouse Borrower to hold such proceeds or award in trust for the benefit of Participant and remitted pursuant to Section 3.1(b) hereof.

(h) To the extent any insurance coverages described above are not maintained by the mortgagor, Seller shall direct Warehouse Borrower to advance funds to obtain such coverages and obtain reimbursement.

3.4 Material Change to Mortgaged Property. Seller shall, if and as soon as such information comes to its attention, promptly notify Participant of any material change in the condition of the Mortgaged Property, any sale or transfer by the mortgagor of the legal or equitable title to the Mortgaged Property or any abandonment of the Mortgaged Property, and shall take any action in regard thereto as Participant shall direct, the costs of which shall be paid by Participant.

3.5 Fidelity Bond; Errors and Omissions Insurance. Seller shall direct Warehouse Borrower or other permitted servicer to keep, at no cost to Participant, fidelity bond, errors and omissions and any other insurance required by the Agencies in amounts required by the Agencies and reasonably satisfactory to Participant as to form, substance and company. Seller shall direct Warehouse Borrower to furnish a certificate evidencing such insurance coverage to Participant, upon request, and shall notify Participant if Seller becomes aware that such fidelity bond coverage is decreased or exhausted.

3.6 No Variation of Mortgage Loan Documents. Seller, Warehouse Borrower or other permitted servicer shall not be authorized or empowered to waive or vary any terms of any Mortgage Loan Document or consent to any postponement, delay or other deviation from strict compliance by a mortgagor with any provision of any Mortgage Loan Document or consent to any secondary financing, except as specifically authorized in writing by Participant. Seller shall request from Warehouse Lender and promptly forward to Participant all requests for such waiver, variance or consent, and any related documentation received from a mortgagor. Participant shall use its best efforts to respond promptly to Seller's request.

3.7 Mortgage Loan Default. If the mortgagor shall fail to make any payment due pursuant to the respective Mortgage Loan or shall fail to comply with any other covenant of any Mortgage Loan Document, which failure shall give rise to Warehouse Borrower's right, as mortgagee, to accelerate the Mortgage Loan, Seller shall consult with Participant as to the course of action to be taken and Seller shall instruct Warehouse Borrower to proceed as directed by Participant. In all cases, Seller shall direct Warehouse Borrower to take such action as is necessary to obtain the maximum benefit of the applicable Agency insurance, guaranty or other credit enhancement benefits including, to the extent applicable, filing a claim with the applicable Agency. In all events, Seller will direct Warehouse Borrower to act in accordance with any written instructions given by Participant with respect to such default or claim and shall make no settlement without the express written consent of Participant.

3.8 Acquisition of Title to the Mortgaged Property. Seller shall not elect for it or Warehouse Borrower to acquire the Mortgaged Property in the event of a default on a Mortgage Loan. In the event, however, that title to the Mortgaged Property is to be acquired, title shall be taken in the name of the Participant or its designee, which may be Seller or Warehouse Borrower. Following acquisition of title to the Mortgaged Property, Seller shall, either itself or through an agent of its choosing, manage and operate the Mortgaged Property for the benefit of Participant. Seller or Warehouse Borrower shall maintain the Mortgaged Property pursuant to such practices as are customary in the locality where the Mortgaged Property is located, and in accordance with procedures employed by prudent property owners acting for their own account. Seller or Warehouse Borrower shall collect all rents for the benefit of Participant and remit to Participant pursuant to Section 3.1(b) on the fifteenth (15th) day of each month all Mortgaged Property income after expenses, including reimbursement of Seller or Warehouse Borrower advances, including but not limited to advances of principle and interest, third party fees and legal fees incurred with respect to the enforcement of Section 3.8 herein, and payment of Seller's or Warehouse Borrower's management fee described below. Seller shall cooperate with Participant in the sale of the Mortgaged Property. Any such sale shall be pursuant to terms and conditions acceptable to Participant in its sole reasonable discretion. The proceeds of any such sale shall be paid to Seller or Warehouse Borrower and promptly remitted to Participant pursuant to Section 3.1(b) of this Agreement. In the event that Participant shall elect to accept a note or other noncash compensation in the sale of the Mortgaged Property, Participant agrees to pay to Seller or Warehouse Borrower upon such sale any amounts then owing to Seller pursuant to this Agreement.

3.9 Compliance with Law. Seller will direct Warehouse Borrower or other permitted servicer to comply with all applicable federal, state and local law and regulations, including, without limitation, all applicable Agency requirements. Without limiting the generality of the preceding sentence, Seller will direct Warehouse Borrower or other permitted servicer, in servicing and administering each Mortgage Loan serviced under this Agreement, to comply with all applicable Agency requirements as the same may from time to time be amended, and promptly discharge all of the obligations of the mortgagee thereunder, and under such Mortgage, including the timely giving of notices thereunder.

3.10 Servicing Compensation. Seller will direct Warehouse Borrower to pay any permitted third-party servicer of the Mortgage Loans all servicing fees or other compensation payable to such party.

3.11 Books and Records. Seller shall keep proper books of account and records reflecting the interest of Participant in each Warehouse Loan, which books and records shall be available for inspection by Participant at all reasonable times during normal business hours. Seller will direct Warehouse Borrower to maintain accounts and records relating to the Mortgage Loans, the Mortgaged Property, and the servicing relating thereto in accordance with generally accepted accounting principles.

3.12 Provision of Information. Not more often than annually, Seller shall provide to Participant such information as Participant shall reasonably request regarding Seller's compliance with this Agreement, including, but not limited to the requirements of Sections 3.2, 3.3, 3.4 and 3.5 hereof.

3.13 Seller Certification. The Seller shall provide periodic certifications and reports to the Participant as described on Exhibit B attached hereto ("Seller's Certification").

4. **TERM; TERMINATION; TRANSFER.**

4.1 Term of Agreement. The term of this Agreement will commence on the Effective Date and, unless sooner terminated as provided herein, will terminate on the expiration date of the Warehouse Agreement, as stated in the Pricing Side Letter thereto. The term may renew for one or more additional terms of one year each with the prior written consent of Seller and Participant, which consent must be provided at least 60 days prior to the expiration of the then-current term. If the parties do not agree to renew the term of this Agreement at least 60 days prior to the expiration of the then-current term, this Agreement will terminate upon the expiration of such term.

4.2 Termination. This agreement may be terminated by Participant:

(i) upon the happening of any Seller Default (as defined in Section 6 hereof), at the option of the Participant, without the payment of a termination fee upon ten (10) business days written notice by Participant;

(j) if Warehouse Borrower institutes a proceeding for voluntary bankruptcy, or files a petition seeking reorganization under the Federal Bankruptcy Laws or for relief under any other law for the relief of debtors, or consents to the appointment of a conservator or receiver of all or substantially all of its property, or makes a general assignment for the benefit of its creditors, or admits in writing its inability to pay its debts as they become due, or be adjudged bankrupt or insolvent by a court of competent jurisdiction appointing a receiver, liquidator or trustee of Warehouse Borrower or of all or substantially all of its property or approving any petition filed against Warehouse Borrower for its reorganization, and such adjudication or order remains in force or unstayed for a period of thirty (30) days, or a final judgment or decree for the payment of money is entered against Warehouse Borrower and such judgment or decree is not discharged or stayed within sixty (60) days from the date of entry thereof;

(k) if any creditor of Warehouse Borrower files a petition to reorganize or liquidate Warehouse Borrower and such petition is not discharged or dismissed within ninety (90) days after the date on which it is filed;

(l) if there is a material default by Warehouse Borrower under the Warehouse Agreement;

(m) if there is a default by Warehouse Borrower and a failure to cure within any applicable cure period under any material loan agreement, mortgage, indenture, agreement or lease with another party; or

(n) if Warehouse Borrower fails to maintain its status as an Agency-approved mortgagee in good standing.

Each of items (b) through (f) above are hereinafter referred to as a "Warehouse Borrower Termination Event." Upon the occurrence of a Warehouse Borrower Termination Event, Participant may, in its discretion, (i) replace Seller as the administrator/servicer of the Warehouse Loans and (ii) if such Warehouse Borrower Termination Event has not been cured within five (5) business days following written notice thereof from Participant to Seller, Seller hereby grants Participant a power of attorney for the limited purpose of acting on Seller's behalf to pursue all rights and remedies available to Seller against Warehouse Borrower under each Warehouse Loan.

4.3 Transfer by Participant. Participant will have the right to assign, transfer, convey, pledge, hypothecate or otherwise dispose of each Participation Certificate. In the event of such assignment, transfer, conveyance, hypothecation or disposition, Seller will re-register the applicable Participation Certificate upon request by Participant's transferee. Seller specifically acknowledges that Participant may (and shall have the right to) pledge the Ownership Interest in each Warehouse Loan to one or more Federal Home Loan Banks (each, the "FHLB") as collateral under an Advances, Pledge and Security Agreement by and between Participant and FHLB (the "APSA"). Notwithstanding anything in this Agreement to the contrary, Seller further acknowledges and agrees that during such time as a Participation Certificate is pledged to the FHLB, (i) Participant and Seller or Warehouse Borrower under Participant's direction will hold the applicable Mortgage Loan Documents in trust for the benefit of both Participant and the FHLB, as their interests may appear, and (ii) the FHLB shall have the right to take possession and ownership of the Ownership Interest pursuant to the APSA. Seller further agrees to provide the FHLB with duplicate copies of all notices or other communications to or

from Participant pursuant to this Agreement with respect to such Ownership Interest. Participant also will have the right to sub-participate its Ownership Interest to one or more sub-participants.

5. **CONTROL OF MORTGAGE LOANS BY PARTICIPANT; PAYMENTS TO PARTICIPANT AND SELLER.**

5.1 Assignment of Mortgage Loans and Mortgage Loan Files. To secure the repayment by Warehouse Borrower to Participant of amounts owing on each Warehouse Loan, Seller hereby assigns and transfers to Participant all of Seller's rights, title and interests in the Mortgage Loan and the related Mortgage Loan File originated by Warehouse Borrower with the proceeds of such Warehouse Loan, which Mortgage Loan and related Mortgage Loan File were previously pledged by Warehouse Borrower to Seller pursuant to the Warehouse Agreement. Seller and Participant intend for Participant to have such control of each Mortgage Loan and the related Mortgage Loan File necessary for Participant to be deemed to have possession of and to control such Mortgage Loan and related Mortgage Loan File for purposes of the Uniform Commercial Code.

5.2 Bailee Letter. Seller will direct Warehouse Borrower to provide instructions to Participant for the delivery of the Mortgage Loan Documents to an Investor in accordance with a bailee letter substantially in the form attached hereto as Exhibit C which shall be attached to the front of every Note to facilitate the sale of a Mortgage Loan or mortgage-backed securities to the Investor pursuant to the terms of such letter (the "Bailee Letter").

5.3 Payment of Proceeds to Participant. The Investor shall be directed to pay the purchase price for the sale of each Mortgage Loan or mortgage-backed securities for the Mortgage Loan by wire transfer to the Participant or its designated disbursement agent or custodian. Such direction shall state that it may not be rescinded or modified without the written consent of Participant. A copy of such direction shall be delivered to Warehouse Borrower and Seller. The proceeds from the sale of the Mortgage Loan or mortgage-backed securities for the Mortgage Loan shall be applied by the Participant to the Participant's and Seller's pro rata interests in the unpaid principal balance and unpaid interest on the applicable Warehouse Loan. To the extent that such proceeds are less than the amount necessary to pay both Participant and Seller for their pro rata interests in such Warehouse Loan and interest accrued thereon, the difference shall be paid by Warehouse Borrower.

5.4 Payment of Certain Fees to Seller. In consideration of the services provided by Seller hereunder, Participant shall pay to Seller a Servicing/Administrative Fee for each Warehouse Loan as set forth in the Transaction Terms Letter. Seller may offset the Servicing/Administrative Fee against any funds Seller remits to Participant pursuant to Section 3.1(b). To the extent any Servicing/Administrative Fee with respect to a particular Mortgage Loan remains unpaid upon the sale of such Mortgage Loan to an Investor, Participant shall promptly pay such Servicing/Administrative Fee to Seller upon its receipt of the proceeds of such sale. Seller shall also retain as an "Origination Fee" all fees previously paid by Warehouse Borrower to Seller in connection with Warehouse Borrower's origination of Warehouse Loans with funds advanced by Seller pursuant to the Warehouse Agreement.

6. **SELLER DEFAULT; REMEDIES.**

(a) The occurrence of any of the following shall be a "Seller Default":

(i) Seller shall fail to make remittances due by Seller to Participant pursuant to Section 3.1(b) hereof;

(ii) Seller shall assign, hypothecate, pledge or transfer in any manner this Agreement or any of Seller's rights hereunder, or suffer the creation of any lien upon, or security interest in, or the transfer of, any of Seller's rights hereunder, by operation of law or otherwise in favor of an assignee, transferee, pledgee, or secured party other than a lending bank of Seller reasonably acceptable to Participant;

(iii) Seller shall institute proceedings for voluntary bankruptcy, or shall file a petition seeking reorganization under the Federal Bankruptcy Laws or for relief under any other law for the relief of debtors, or shall consent to the appointment of a conservator or receiver of all or substantially all of its property, or shall make a general assignment for the benefit of its creditors, or shall admit in writing its inability to pay its debts as they become due, or shall be adjudged bankrupt or insolvent by a court of competent jurisdiction appointing a receiver, liquidator or trustee of Seller or of all or substantially all of its property or approving any petition filed against Seller for its reorganization, and such adjudication or order shall remain in force or unstayed for a period of thirty (30) days, or a final judgment or decree for the payment of money is entered against

Seller and such judgment or decree is not discharged or stayed within sixty (60) days from the date of entry thereof;

(iv) Any creditor of Seller files a petition to reorganize or liquidate Seller and such petition is not discharged or dismissed within ninety (90) days after the date on which it is filed;

(v) A material breach of any representation, warranty or covenant of Seller contained herein occurs and is not cured by Seller within ten (10) days after Seller's receipt of written notice thereof from Participant;

(vi) There shall exist a material default by Seller under any agreement by and between Participant and Seller;

(vii) There shall exist a material default by Seller and a failure to cure such default within any applicable cure period under any material loan agreement, mortgage, indenture, agreement or lease between Seller and a party other than Participant; or

(viii) Seller fails to maintain its status as an Agency-approved mortgagee in good standing.

(b) In the event of a Seller Default, Participant shall have all remedies existing at law or equity including but not limited to the following remedies which may be exercised by Participant at its election in any order (i) have Seller repurchase the Ownership Interest in each Warehouse Loan upon demand of Participant, for a price equal to the sum of the following, calculated as of the applicable repurchase date: (A) the outstanding principal balance of the applicable Warehouse Loan multiplied by Participant's Ownership Interest, (B) all accrued but unpaid interest on such Warehouse Loan, and (C) any costs or expenses incurred by Participant relating to the purchase of, and any fee paid to Seller under this Agreement for, the Ownership Interest ("Default Price"); or (ii) sell or assign any Warehouse Loan to a third party in compliance with Part 6 of Article 9 of the Uniform Commercial Code, and provide Seller an accounting for all funds and other property accepted in connection with such sale or assignment (the "Sale Proceeds"), in which event Seller shall pay to Participant with respect to such Warehouse Loan an amount equal to the difference between the Default Price and the Sale Proceeds. Further, in the event of a Seller Default, Seller will be liable to Participant for any costs and expenses, including reasonable attorney's fees which Participant may incur in connection with enforcing its rights under this Agreement.

(c) Seller shall be liable to Participant for, and shall promptly pay to Participant, any damages incurred or suffered as a result of a Seller Default or remaining after the exercise of any right or remedy provided herein and Seller shall indemnify Participant and Participant's officers, directors, employees and agents (collectively, the "Indemnitees") and hold the Indemnitees harmless from any claim, loss, damage, liability or expense whatsoever (including without limitation, reasonable attorneys' fees) suffered or incurred by any of them and arising out of or resulting from or attributable to any Seller Default. The indemnification obligation set forth herein shall survive the termination of this Agreement. All rights and remedies of Participant herein specified are cumulative and are in addition to, not in limitation of, any rights and remedies Participant may have by law or at equity. No waiver of any default or failure or delay to exercise any right or remedy by Participant shall operate as a waiver of any other default or of the same default in the future or of any right or remedy with respect to the same or any other occurrence.

7. **MISCELLANEOUS**

7.1 <u>Assignment. Except as otherwise provided for herein or agreed to by the parties hereto, Seller may not assign, sell, transfer or subparticipate its rights and obligations under this Agreement.</u>

7.2 <u>Expenses. Seller and Participant shall be liable for their own expenses, including legal expenses, incurred in connection with the execution and performance of this Agreement.</u>

7.3 <u>Participation not Partnership or Loan. Neither the execution of this Agreement, nor any sharing in the benefits and burdens by Seller and Participant in respect of the Warehouse Loan or in the proceeds thereof, is intended nor shall be construed to constitute the formation of a partnership or joint venture between Seller and Participant, nor shall it be construed to be an extension of credit or a loan by Participant to Seller. It is agreed that Participant shall be the holder of the Ownership Interest.</u>

7.4 <u>Amendment. No amendment or modification of this Agreement shall be valid unless evidenced by an instrument, in</u>

writing, signed by Seller and Participant.

7.5 Severability. If any one or more of the covenants, agreements, provisions, or terms of this Agreement shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Agreement and shall in no way affect the validity or enforceability of the other provisions of this Agreement.

7.6 Waiver. Any waiver by a party of any obligation or forbearance to exercise any right hereunder shall in no event be deemed to be binding upon such party in future instances where such right may be available to it.

7.7 Notice. Notices hereunder shall be in writing, and may be delivered by hand, first class, registered or certified mail, express delivery, or facsimile or other telecommunication device capable of providing confirmation of receipt, addressed to Participant or Seller at the addresses set forth in the first paragraph of this Agreement or at such other address as each party may furnish to the other in writing. 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

7.8 Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Indiana without regard to the conflicts of laws provisions thereof.

7.9 Counterparts. This Agreement may be executed and delivered in two or more counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute one and the same instrument.

7.10 Authority. The undersigned person executing this Agreement for and on behalf of Seller represents and certifies that he or she is an authorized representative of Seller and has been fully empowered, and all necessary action has been taken, to execute and deliver this Agreement. The undersigned person executing this Agreement for and on behalf of Participant represents and certifies that he or she is an authorized representative of Participant and has been fully empowered, and all necessary action has been taken, to execute and deliver this Agreement.

[*Remainder of page intentionally blank; signatures on following page*]

IN WITNESS WHEREOF, the parties have duly executed and delivered this Participation Agreement as of the Effective Date.

SELLER:

NATTYMAC, LLC ,
an Indiana limited liability company

By: ______/s/ Steve Landes ______________________
Name: _____Steve Landes__________________________
Its: _____President _____________________________

PARTICIPANT:

CITIZENS BANK AND TRUST COMPANY

By: __/s/ Kenneth A. Roberson____________________
Name: ___Kenneth A. Roberson _____________________
Its: ___Senior Vice President_____________________

EXHIBIT A

Form of Participation Certificate

THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE. ANY RESALE OR TRANSFER OF THIS CERTIFICATE WITHOUT REGISTRATION THEREOF UNDER THE ACT AND SUCH LAWS MAY ONLY BE MADE IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE ACT AND SUCH LAWS AND IN ACCORDANCE WITH THE PARTICIPATION AGREEMENT REFERRED TO HEREIN.

PARTICIPATION CERTIFICATE

evidencing a participation in
a Warehouse Loan and Security Agreement by and between

NATTYMAC, LLC
"Seller"

and

____
"Warehouse Borrower"

THIS CERTIFIES THAT Citizens Bank and Trust Company ("Participant") is the registered owner of an undivided participation ownership interest ("Ownership Interest") in the Warehouse Loan and Security Agreement identified above (the "Warehouse Agreement"), and in each Advance of funds to the above-named Warehouse Borrower made pursuant to the Warehouse Agreement in connection with the origination of Mortgage Loans (each such Advance, a "Warehouse Loan"), as more particularly described on Schedule I attached hereto. Participant's Ownership Interest in each Warehouse Loan shall be equal to the percentage of the original principal balance of the Mortgage Loan that is funded with proceeds disbursed by Participant to the applicable Closing Agent in connection with the origination of such Mortgage Loan.

This Participation Certificate is issued under and is subject to the terms, provisions and conditions of the Participation Agreement, dated as of April 23, 2015, entered into by Seller and Participant (the "Participation Agreement"). Capitalized terms used but not defined in this Participation Certificate have the same meanings as in the Participation Agreement.

This Participation Certificate does not represent an obligation of, or an interest in, Seller and is not insured or guaranteed by any government agency. This Participation Certificate is limited in right of payment to certain collections and recoveries respecting the Warehouse Loan, all as more specifically set forth in the Participation Agreement.

Seller acknowledges that Participant may (and shall have the right to) pledge the Ownership Interest, as evidenced by this Participation Certificate, to one or more Federal Home Loan Banks (each, the "FHLB") as collateral under an Advances, Pledge and Security Agreement by and between Participant and such FHLB (the "APSA"), and that such pledge shall remain in effect until such time as Seller reacquires the Ownership Interest according to the terms of the Agreement. Seller further acknowledges and agrees

that during such time as this Participation Certificate is pledged to the FHLB, (i) Seller will hold the Mortgage Loan Documents in trust for the benefit of both Participant and the FHLB, as their interests may appear, and (ii) the FHLB shall have the right to take possession and ownership of the Ownership Interest pursuant to the APSA. Seller further agrees to provide the FHLB with duplicate copies of all notices or other communications to or from Participant pursuant to the Agreement with respect to the Ownership Interest. Capitalized terms used in this Participation Certificate but not defined herein shall have the meaning ascribed to them in the Agreement.

IN WITNESS WHEREOF, Seller has caused this Participation Certificate to be duly executed by its duly authorized officer.

NATTYMAC, LLC

By: --------------------Specimen Only----------------------

Name: ____

Title: ____

Dated: ______________________

SCHEDULE I

1. Warehouse Loan Amount: $ XXXXX
2. Ownership Interest: With respect to each Warehouse Loan, the percentage of the original principal balance of the underlying Mortgage Loan that is funded with proceeds disbursed by Participant to the Closing Agent in connection with the origination of such Mortgage Loan.
3. Purchase Price: Par
4. NattyMac shall retain all fees paid by Warehouse Borrower pursuant to the Warehouse Agreement notwithstanding any provision of the Participation Agreement to the contrary.

- End of Exhibit A -

EXHIBIT B

Seller’s Certification

1. NATTYMAC, LLC (“Seller”) shall provide Citizens Bank and Trust Company (“Participant”) with a copy of the Seller’s balance sheet, as contained in the Seller’s annual financial statements, certified to be true and correct in all material respects by an authorized officer of the Seller, within ninety (90) days after the end of each fiscal year. In addition, Seller shall provide Participant an annual certification, executed by an authorized officer of the Seller, certifying that “During the preceding twelve (12) months, to the best knowledge of the undersigned, no financial event has occurred, other than as specified in this Certification, the effect of which has materially, adversely affected the Seller’s ability to perform its obligations pursuant to the Participation Agreement, dated as of April 23, 2015, by and between Seller and Citizens Bank and Trust Company.”

2. Seller shall direct Warehouse Borrower to provide the Participant with an annual certification that all insurance coverage required by the Participation Agreement is in full force and effect.

3. Seller shall direct Warehouse Borrower to provide the Participant with an annual certification that fidelity bond and errors and omissions insurance required by the Participation Agreement is in full force and effect.

- End of Exhibit B -

EXHIBIT C

Form of Bailee Letter

BAILEE LETTER

Loan Name/Number: _____________

Loan Amount: _____________

Dear Investor:

Citizens Bank and Trust Company (the "Participant") owns a participation interest in the Mortgage Note(s), Mortgage(s) and other documents enclosed herewith (the "Loan Documents"). _____________, the originator of the subject mortgage loan, granted a security interest in the Loan Documents to NattyMac, LLC (the "Seller"), and Seller assigned and transferred all of its rights, title and interests in the Loan Documents to the Participant pursuant to that certain Participation Agreement dated April 23, 2015 between Seller and Participant.

The Loan Documents, whether now or hereafter delivered to you, are to be held by you as a bailee in possession on behalf of and for the benefit of the Participant, for the purpose of perfecting the right, title and interest of the Participant in such Loan Documents, and subject to the Participant's direction and control. It is our mutual understanding that the Loan Documents constitute collateral securing the obligations of Seller to the Participant and that all proceeds thereof (the "Purchase Price") should be promptly paid to the Participant for application to such obligations. The Loan Documents held by you hereunder for any period shall at all times be segregated from other property owned or held by you.

In no event should the Loan Documents be delivered to any party other than the Participant, or otherwise dealt with by you, without the prior written consent of Participant.

Participant hereby agrees that, upon receipt of the Purchase Price, it automatically releases all rights, interest or lien of any kind it may have with respect to the Mortgage Loan without any further action required by Participant. Remittance of the Purchase Price shall be by wire transfer pursuant to the wiring instructions below.

Pending the purchase of each Mortgage Loan and until the Purchase Price is received by Participant directly from you, the aforesaid interest in the Mortgage Loan will remain in full force and effect, and you shall hold possession of such Note(s) and the documentation evidencing same as custodian, agent and bailee for and on behalf of the Participant. In the event that any Mortgage Loan is unacceptable for purchase, return the rejected item directly to us at the address set forth below. The Mortgage Loan must be returned or Purchase Price remitted in full no later than fourteen (14) days from the date hereof. If you are unable to comply with the above instructions, please so advise the undersigned immediately.

NOTE: BY ACCEPTING THE MORTGAGE LOAN DELIVERED TO YOU WITH THIS LETTER, YOU CONSENT TO BE THE CUSTODIAN, AGENT AND BAILEE FOR THE PARTICIPANT ON THE TERMS DESCRIBED IN THIS LETTER. THE UNDERSIGNED REQUESTS THAT YOU ACKNOWLEDGE RECEIPT OF THE ENCLOSED MORTGAGE LOAN AND THIS LETTER BY SIGNING AND RETURNING THE ENCLOSED COPY OF THIS LETTER TO THE UNDERSIGNED; HOWEVER, YOUR FAILURE TO DO SO DOES NOT NULLIFY SUCH CONSENT.

Participant's Wiring Instructions : **Participant's Mailing Address:**

515 Washington Street
Chillicothe, Missouri 64601

ABA #__________________________ _________

____

____

If the terms hereof are acceptable to you, please have an authorized officer of your institution execute the enclosed copy of this letter in the space provided below and promptly return such executed copy to the Participant at the above address.

PARTICIPANT:

CITIZENS BANK AND TRUST COMPANY

By: ______________________________
Name: ______________________________
Its: ______________________________

Acceptance by Investor :

All terms and conditions acknowledged, agreed
and accepted as of the ___ day of _________, 20__.

____
By: ______________________________
Name: ______________________________
Its: ______________________________

- End of Exhibit C -

AMENDMENT NO. 1 TO PARTICIPATION AGREEMENT

This Amendment No. 1 to Participation Agreement (this " Amendment ") is entered into as of June 30, 2015, by and between Citizens Bank & Trust Company, a Missouri Bank, as participant (the " Participant "), and NattyMac, LLC, an Indiana limited liability company, as seller (the " Seller "). Capitalized terms used in this Amendment that are not defined herein have the same meanings as set forth in the Participation Agreement (defined below).

W I T N E S S E T H:

WHEREAS, Participant and Seller have entered into that certain Participation Agreement, dated as of April 23, 2015 (as may be amended, restated, supplemented or otherwise modified from time to time, the " Participation Agreement "), pursuant to which the Seller agrees to sell, and Participant agrees to purchase, an undivided beneficial ownership interest in certain Warehouse Loans originated by Seller to the Warehouse Borrowers named therein;

WHEREAS, Stonegate Mortgage Corporation, an Ohio corporation (" Parent "), the parent company of Seller, desires to become a party to the Participation Agreement for the sole purpose of assuming joint and several responsibility, along with Seller, for claims for indemnification brought by Participant pursuant to the terms hereof; and

WHEREAS, Participant and Seller wish to amend certain provisions of the Participation Agreement in order to tailor the contract as set forth below.

NOW, THEREFORE, in consideration of the premises and mutual agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Participant and Seller agree as follows:

Amendments.

(A) The third introductory paragraph to the Participation Agreement is hereby amended and restated to provide, in its entirety, as follows:

WHEREAS, Participant wishes to purchase an undivided one-hundred percent (100%) beneficial ownership interest in each Warehouse Loan made to Warehouse Borrower pursuant to the Warehouse Agreement, and thereby provide for the actual funding of each such Warehouse Loan, provided that the aggregate amount of such purchases shall not exceed at any time the "Warehouse Borrower Lending Limit" set forth in the Transaction Terms Letter of even date executed by Seller and Participant setting forth certain specific terms, and any additional terms, with respect to this Agreement (the "Transaction Terms Letter");

(B) The following is hereby added as a new fourth introductory paragraph to the Participation Agreement:

WHEREAS, Stonegate Mortgage Corporation, an Ohio corporation ("Parent"), the parent company of Seller, wishes to be a party to the Agreement for the sole purpose of assuming joint and several responsibility, along with Seller, for claims for indemnification brought by Participant pursuant to the terms hereof;

(C) Section 1(a) of the Participation Agreement is hereby deleted in its entirety and replaced as follows:

(a) Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and covenants contained herein, Participant establishes with Seller the terms on which Participant will purchase an undivided one-hundred percent (100%) beneficial ownership interest (the "Ownership Interest") in each Warehouse Loan made to Warehouse Borrower pursuant to the Warehouse Agreement. Seller and Participant intend for each sale of an Ownership Interest in a Warehouse Loan to Participant hereunder to constitute the sale of a "true" participation interest in such Warehouse Loan by Seller to Participant, and that such sale will result in Participant holding full equitable and beneficial title, and Seller holding only bare legal title, to such Warehouse Loan (except upon Participant's subsequent and discretionary exercise of the repurchase remedy described in Section 6(b)(i)). Seller's holding of legal title is for the limited purpose of allowing Seller to service and enforce the Warehouse Loans on behalf of Participant, as provided in this Agreement.

(D) Section 1.2 of the Participation Agreement is hereby deleted in its entirety and replaced as follows:

1.2 Credit Risk . It is the intention of the parties that the transactions described in this Agreement shall result in Citizens bearing all of the credit risk with respect to each Warehouse Loan as to which it owns a 100% Ownership Interest.

(E) Section 2.1 of the Participation Agreement is hereby amended by deleting paragraph (f) in its entirety.

(F) Section 2.2 of the Participation Agreement is hereby amended by:

1. Re-designating paragraphs (a) through (ii) as subparagraphs (i) through (xxxv), respectively;

2. Designating the lead-in paragraph thereof as new paragraph (a); and

3. Adding as new paragraph (b) the following:

(b) Seller further represents, warrants, and covenants to Participant that, as of each Funding Date, Seller has confirmed that, based upon Seller's review of the information provided to Seller by the Warehouse Borrower, the applicable Mortgage Loan is eligible for purchase by an Investor.

(G) Section 3.1(a) of the Participation Agreement is hereby amended by adding the following sentence at the beginning thereof.

(a) Servicing and enforcement of the Warehouse Loans will be undertaken by Seller, subject to Participant's right to assume such responsibilities pursuant to Section 4.2 upon the occurrence of a Warehouse Borrower Termination Event.

(H) Section 3.1(b) of the Participation Agreement is hereby deleted in its entirety and replaced as follows:

(b) Seller shall hold in trust in a segregated, identifiable interest-bearing trust account maintained for Participant, and shall promptly remit to Participant, all payments received from Warehouse Borrower with respect to each Warehouse Loan, including without limitation, each payment of principal and interest on the line of Credit Note; any prepayment premiums or penalties on the Line of Credit Note; any insurance proceeds or condemnation award accepted by Warehouse Borrower as a prepayment on a Mortgage Loan pursuant to Section 3.3(b); and any rents collected by Warehouse Borrower,

or proceeds of any sale of the Mortgaged Property paid to Warehouse Borrower, in each case pursuant to Section 3.8.

(I) Section 6(a)(v) of the Participation Agreement is hereby deleted in its entirety and replaced as follows:

(v) A material breach of any representation, warranty or covenant of Seller set forth in Section 2.1 occurs and is not cured by Seller within ten (10) days after Seller's receipt of written notice thereof from Participant.

(J) Sections 6(a)(vi) through 6(a)(viii) of the Participation Agreement are hereby redesignated as Sections 6(a)(vii) through 6(a)(ix), respectively, and the following is hereby added as new Section 6(a)(vi):

(vi) A material breach of any representation, warranty or covenant of Seller set forth in Section 2.2 occurs and is not cured by Seller within ten (10) days after Seller's receipt of written notice thereof from Participant.

(K) Section 6(b) of the Participation Agreement is hereby deleted in its entirety and replaced as follows:

(b) In the event of a Seller Default, Participant shall have all remedies existing at law or equity including but not limited to the following remedies which may be exercised by Participant at its election in any order:

(i) in the event of a Seller Default occurring under Section 6(a)(vi), Participant may require Seller to repurchase from Participant the Ownership Interest in the Warehouse Loan that funded the Mortgage Loan as to which such breach relates, upon demand of Participant, for a price equal to the sum of the following, calculated as of the applicable repurchase date: (A) the outstanding principal balance of the applicable Warehouse Loan multiplied by Participant's Ownership Interest, (B) all accrued but unpaid interest on such Warehouse Loan, and (C) any costs or expenses incurred by Participant relating to the purchase of, and any fee paid to Seller under this Agreement for, the Ownership Interest ("Default Price"); or

(ii) in the event of a Seller Default occurring under Sections 6(a)(i) through 6(a)(v) or Sections 6(a)(vii) through 6(a)(ix), Participant may sell each Warehouse Loan in compliance with Part 6 of Article 9 of the Uniform Commercial Code (even though such Part 6 would not otherwise apply), and provide Seller an accounting for all funds and other property accepted in connection with such sales (the "Sale Proceeds"), in which event Seller shall pay to Participant an amount equal to the difference between the Default Price and the Sale Proceeds for each Warehouse Loan so sold.

In addition to the remedies in the foregoing Sections 6(b)(i) and (ii), in the event of a Seller Default, Seller will also be liable to Participant for any costs and expenses, including reasonable attorney's fees which Participant may incur in connection with enforcing its rights under this Agreement.

(L) Section 6(c) of the Participation Agreement is hereby deleted in its entirety and replaced as follows:

(c) Seller and Parent shall be jointly and severally liable to Participant for, and shall promptly pay to Participant, any damages incurred or suffered as a result of a Seller Default or remaining after the exercise of any right or remedy provided herein, and Seller and Parent shall jointly and severally indemnify Participant and Participant's officers, directors, employees and agents (collectively, the "Indemnitees") and hold the Indemnitees harmless from any claim, loss, damage, liability or expense whatsoever (including without limitation, reasonable attorneys' fees) suffered or incurred by any of them and arising out of or resulting from or attributable to any Seller Default. The indemnification obligation set forth herein shall survive the termination of this Agreement. All rights and remedies of Participant herein specified are cumulative and are in addition to, not in limitation of, any rights and remedies Participant may have by law or at equity. No waiver of any default or failure or delay to exercise any right or remedy by Participant shall operate as a waiver of any other default or of the same default in the future or of any right or remedy with respect to the same or any other occurrence.

(M) The form of Participation Certificate attached as Exhibit A to the Participation Agreement is hereby deleted and replaced in its entirety with Exhibit A attached to this Amendment.

Effect of Amendment. Except as expressly amended and modified by this Amendment, all provisions of the Participation Agreement shall remain in full force and effect and all such provisions shall apply equally to the terms and conditions set forth herein. After this Amendment becomes effective, all references in the Participation Agreement to "this Agreement," "hereof," "herein" or words of similar effect referring to such Participation Agreement shall be deemed to be references to such Participation Agreement as amended by this Amendment. This Amendment shall not be deemed to expressly or impliedly waive,

amend or supplement any provision of the Participation Agreement other than as set forth herein.

Successors and Assigns. This Amendment shall be binding upon the parties hereto and their respective successors and assigns.

Section Headings. The various headings and sub-headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or the Participation Agreement or any provision hereof or thereof.

Governing Law. This Amendment shall be governed by and interpreted in accordance with the laws of the State of Indiana without regard to the conflicts of laws provisions thereof.

Counterparts. This Amendment may be executed in one or more counterparts and by the different parties hereto on separate counterparts, including without limitation counterparts transmitted by facsimile or other electronic transmission, each of which, when so executed, shall be deemed to be an original and such counterparts, together, shall constitute one and the same agreement.

[signatures appear on the following page]

IN WITNESS WHEREOF, each undersigned party has caused this Amendment No. 1 to Participation Agreement to be duly executed by one of its officers thereunto duly authorized as of the date and year first above written.

SELLER:

NATTYMAC, LLC

By: ____
Name: ____
Its: ____

PARTICIPANT:

CITIZENS BANK & TRUST COMPANY

By: ____
Name: ____
Its: ____

PARENT:

Solely with respect to Section 6(c) of the Participation Agreement, as amended hereby:

STONEGATE MORTGAGE CORPORATION

By: ____
Name: ____
Its: ____

EXHIBIT A

Form of Participation Certificate

THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE. ANY RESALE OR TRANSFER OF THIS CERTIFICATE WITHOUT REGISTRATION THEREOF UNDER THE ACT AND SUCH LAWS MAY ONLY BE MADE IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE ACT AND SUCH LAWS AND IN ACCORDANCE WITH THE PARTICIPATION AGREEMENT REFERRED TO HEREIN.

PARTICIPATION CERTIFICATE

**This Participation Certificate evidences a participation
in the Warehouse Loan described at Schedule I attached hereto
originated pursuant to that certain Warehouse Loan and Security Agreement,
dated as of _______, 20__, by and between**

**NATTYMAC, LLC
"Seller"**

and

**________________________________
"Warehouse Borrower"**

THIS CERTIFIES THAT Citizens Bank & Trust Company ("Participant") is the registered owner of a one-hundred percent (100%) undivided participation ownership interest ("Ownership Interest") in the Warehouse Loan described at Schedule I attached hereto to the above-named Warehouse Borrower, which was made pursuant to the Warehouse Loan and Security Agreement between Seller and Warehouse Borrower identified above (the "Warehouse Agreement").

This Participation Certificate is issued under and is subject to the terms, provisions and conditions of the Participation Agreement, dated as of April 23, 2015 (as amended, restated, supplemented or otherwise modified from time to time, the "Participation Agreement"), entered into between Seller and Participant. Capitalized terms used but not defined in this Participation Certificate have the same meanings as in the Participation Agreement.

This Participation Certificate does not represent an obligation of, or an interest in, Seller and is not insured or guaranteed by any government agency. This Participation Certificate is limited in right of payment to certain collections and recoveries respecting the Warehouse Loan, all as more specifically set forth in the Participation Agreement.

Seller acknowledges that Participant may (and shall have the right to) pledge the Ownership Interest, as evidenced by this Participation Certificate, to one or more Federal Home Loan Banks (each, the "FHLB") as collateral under an Advances, Pledge and Security Agreement by and between Participant and such FHLB (the "APSA"), and that such pledge shall remain in effect until such time as Warehouse Borrower may repay the Warehouse Loan to which such Ownership Interest relates, or Seller may reacquire the Ownership Interest according to the terms of the Participation Agreement. Seller further acknowledges and agrees that during such time as this Participation Certificate is pledged to the FHLB, (i) Seller will hold the Mortgage Loan Documents in trust for the benefit of both Participant and the FHLB, as their interests may appear, and (ii) the FHLB shall have the right to take possession and ownership of the Ownership Interest pursuant to the APSA. Seller further agrees to provide the FHLB with duplicate copies of all notices or other communications to or from Participant pursuant to the Participation Agreement with respect to the Ownership Interest.

IN WITNESS WHEREOF, Seller has caused this Participation Certificate to be duly executed by its duly authorized officer.

NATTYMAC, LLC

By: --------------------Specimen Only----------------------

Name: ____

Title: ____

Dated: ______________________

SCHEDULE I

5. Warehouse Loan Amount: $ XXXXX
6. Date of Advance to Warehouse Borrower: ___________
7. Ownership Interest: 100%
8. Purchase Price: Par
9. NattyMac shall retain all fees paid by Warehouse Borrower pursuant to the Warehouse Agreement notwithstanding any provision of the Participation Agreement to the contrary.

- End of Exhibit A -

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE EXCHANGE ACT RULES,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Cutillo, certify that:

1. I have reviewed this report on Form 10-Q of Stonegate Mortgage Corporation;
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)) 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) intentionally omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a);
   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 registrant's board of directors (or persons performing the equivalent function):
   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 6, 2015

/s/ James J. Cutillo
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE EXCHANGE ACT RULES,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert B. Eastep, certify that:

1. I have reviewed this report on Form 10-Q of Stonegate Mortgage Corporation;
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)) 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) 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
   c) 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 registrant's board of directors (or persons performing the equivalent function):
   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 6, 2015

/s/ Robert B. Eastep

Chief Financial Officer

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 Stonegate Mortgage Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James J. Cutillo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ James J. Cutillo

James J. Cutillo

Chief Executive Officer

August 6, 2015

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 Stonegate Mortgage Corporation (the "Company") on Form 10-Q for the period ended June 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert B. Eastep, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Robert B. Eastep

Robert B. Eastep

Chief Financial Officer

August 6, 2015