STONEGATE MORTGAGE CORP

FORM 10-K
(Annual Report)

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

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016
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
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒
As of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $41,939,772 based on the closing sale price of $3.36, as reported on the New York Stock Exchange.
As of March 1, 2017 , 25,854,022 shares of the registrant's common stock, $0.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information from the registrant's Proxy Statement or Form 10-K/A.

Stonegate Mortgage Corporation

Annual Report on Form 10-K
For the Year Ended December 31, 2016

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CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Various statements contained in this Annual Report on Form 10-K, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. These forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future production, revenues, income and capital spending. Our forward- looking statements are generally accompanied by words such as “estimate,” “project,” “predict,” “believe,” “expect,” “intend,” “anticipate,” “potential,” “plan,” “goal” or other words that convey the uncertainty of future events or outcomes. The forward-looking statements in this Annual Report on Form 10-K speak only as of the date of this Annual Report on Form 10-K; we disclaim any obligation to update these statements unless required by law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These and other important factors, including those discussed under “Risk Factors” may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, contingencies and uncertainties include, but are not limited to, the following:

- our ability to compete successfully in the highly competitive mortgage loan origination, mortgage loan servicing and mortgage loan financing industries;
- experiencing financial difficulties like some originators and mortgage servicers have experienced;
- adverse changes in the residential mortgage market;
- our ability to obtain sufficient capital to meet our operating requirements;
- our ability to sustain profitable loan origination volumes;
- the possible geographic concentration of our servicing portfolio may result in a higher rate of delinquencies and/or defaults;
- our mortgage financing business is subject to risks, including the risk of default and competitive risks;
- our estimates may prove to be imprecise and result in significant changes in financial performance, including fair value measurements;
- the impact on our business of federal, state and local laws and regulations concerning loan servicing, loan origination, loan modification or the licensing of individuals and entities that engage in these activities;
- changes in existing U.S. government-sponsored mortgage programs;
- changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. federal government, along with the conservatorship of Fannie Mae and Freddie Mac and related efforts;
- substantial compliance costs arising from state licensing and state and federal operational requirements, including the Truth In Lending Act ("TILA") and Real Estate Settlement Procedures Act ("RESPA") Integrated Disclosure rule;
- loss of our licenses;
- our ability to originate and/or acquire mortgage servicing rights;
- our ability to recover our significant investments in personnel and our technology platform;
- the accuracy and completeness of information we receive about borrowers and counterparties;
- increases in delinquencies and defaults may adversely affect our business, financial condition and results of operations;
- our ability to recapture mortgage loans from borrowers who refinance;
- changes in prevailing interest rates and any corresponding effects on origination volumes or the value of our assets;
- our growth may be difficult to sustain and manage and may place significant demands on our administrative, operational and financial resources;

- our ability to realize all of the anticipated benefits of our acquisitions;
- the change of control rules under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), may limit our ability to use net operating loss carryforwards to reduce future taxable income;
- failure to establish and maintain an effective system of internal controls;
- errors in our financial models or changes in assumptions;
- our ability to adapt to and implement technological changes;
- the impact of the ongoing implementation of the Dodd-Frank Wall Street Reform and Consumer Act of 2010 (the "Dodd-Frank Act") on our business activities and practices, costs of operations and overall results of operations;
- state or federal governmental examinations, legal proceedings or enforcement actions and related costs;
- increased costs and related losses if a borrower challenges the validity of a foreclosure action, if a court overturns a foreclosure or if a foreclosure subjects us to environmental liabilities;
- the impact of the termination of our servicing rights by counterparties;
- federal and state legislative and agency initiatives in mortgage-backed securities and securitization;
- we may be required to indemnify purchasers of the loans we originate or of the MBS backed by such loans or repurchase the related loans, if the loans fail to meet certain criteria or characteristics or under other circumstances;
- our inability to negotiate our fees with Fannie Mae, Freddie Mac, Ginnie Mae or other investors for the purchase of our loans;
- delays in our ability to collect or be reimbursed for servicing advances;
- our ability to successfully mitigate our risks through hedging strategies;
- our ability to obtain servicer ratings in a timely manner, or at all;
- failure of our internal security measures or breach of our privacy protections;
- losses due to fraudulent and negligent acts on the part of loan applicants, brokers, other vendors, existing customers, our employees and other third parties;
- failure of our vendors to comply with servicing criteria;
- the loss of the services of one or more of the members of our executive management team;
- failure to attract and retain a highly skilled work force;
- an active trading market for our stock may not be sustained;
- future sales of our common stock or other securities convertible into our common stock could cause the market value of our common stock to decline and could result in dilution; and
- future offerings of debt securities or preferred stock and future offerings of equity securities that may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.
- detail and benefits of the proposed Merger between the Company and Home Point Financial Corporation and the anticipated timing of the Merger.

References in this Annual Report on Form 10-K to the terms "we," "our," "us," "Stonegate" or the "Company" refer to Stonegate Mortgage Corporation and its consolidated subsidiaries, as the context requires.

PART I

ITEM 1. BUSINESS

Overview

Stonegate Mortgage Corporation, an Ohio corporation, is a leading, non-bank mortgage company focused on originating, financing and servicing U.S. residential mortgage loans. 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. We operate as an intermediary between residential mortgage borrowers and the ultimate investors of mortgages through originating, financing, and servicing U.S. residential mortgages. Our integrated and scalable residential mortgage banking platform includes a diversified origination business which includes a network of third party originators consisting of mortgage brokers, mortgage bankers and financial institutions (banks and credit unions), a retail branch network and a direct to consumer call center. We are committed to delivering consistent and sustainable value to our shareholders by constantly improving our overall quality and compliance, maximizing our overall efficiency, productivity, and effectiveness and enhancing our customer and associate satisfaction levels.

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"). We typically retain the right to service the mortgage for GNMA, FNMA and FHLMC. We also sell mortgage loans to over a dozen other third-party investors in the secondary market and provide short-term financing through our NattyMac, LLC ("NattyMac") subsidiary to third party correspondent lenders. As of December 31, 2016 , we were licensed to originate and service residential mortgage loans in 48 states and the District of Columbia, and we are an approved Seller/Servicer of FNMA, FHLMC and GNMA.

Proposed Merger with Home Point Financial Corporation

On January 26, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Home Point Financial Corporation, a New Jersey Corporation (“Home Point Financial”) and Longhorn Merger Sub, Inc. an Ohio corporation and wholly owned subsidiary of Home Point Financial (“Merger Sub”), pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving entity (the “Merger”). Under the terms of the Merger Agreement, each outstanding share of our common stock (other than certain excluded shares) will be converted into the right to receive $8.00 in cash, without interest, less any applicable tax withholdings, which represents a per share premium of approximately 61 percent over our 90-day volume weighted average price on January 26, 2017 and 34 percent over our closing price per share on January 26, 2017.

The Company's Board of Directors unanimously approved the Merger following a comprehensive review of the transaction and strategic alternatives. The Merger is subject to certain customary closing conditions, including, among other things, approval by the Company's stockholders and regulatory approvals. The Merger is expected to close by the end of the second quarter of 2017.

In connection with the Merger Agreement entered into by the Company on January 26, 2017, the Board of Directors of the Company adopted a Tax Asset Protection Plan (the “Plan”) with Broadridge Corporate Issuer Solutions, Inc., as Rights Agent. The Plan is designed to protect the Company's tax assets during the period prior to the closing of the Merger. As of December 31, 2016 , the Company had approximately $183.0 million in net operating loss carryforwards for U.S. federal income tax purposes.

Reportable Segments

We operate three identifiable business segments: Originations, Servicing and Financing. This determination is based on our current organizational structure, which reflects how our chief operating decision maker evaluates the performance of our business. Our mortgage origination business generates income primarily through origination fees and gains upon the sale of mortgage loans sourced through our correspondent, wholesale and retail channels. We also provide financing to our correspondent customers and others while they are accumulating loans prior to selling them to aggregators, including ourselves, through our mortgage financing business and we earn interest and fee income for these services. We also have the ability to retain the mortgage servicing rights ("MSRs") on the loans we sell and to create a recurring servicing income stream in our mortgage servicing business. We believe our three segments are complementary and provide us with the ability to effectively and efficiently source, finance, sell and service mortgage loans. A description of each business segment is presented below with further details and discussion of each segments results of operations and total assets presented in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Segment Results from Continuing Operations" and Item 8, "Consolidated Financial Statements, Note 22, Segment Information" of this Annual Report on Form 10-K.

Mortgage Originations

Our mortgage origination business primarily originates and sells residential mortgage loans, which conform to the underwriting guidelines of the GSEs and government agencies. We also originate and sell loans to third-party investors in the secondary market ("non-agency"), which generally conform to the underwriting guidelines of the GSEs, but may exceed the maximum loan size allowed for single unit properties.

We are committed to providing our customers with the tools and resources they need to be successful in today's marketplace. During 2015 and 2016, we invested in our technology platform in a dedicated effort to increase efficiencies throughout our origination business, meet the regulatory compliance demands, improve quality and maintain high underwriting standards, and to deliver a superior mortgage product, with exceptional customer service, which distinguishes us from our competitors. We plan to continue to grow our mortgage origination business through this exceptional customer service within our existing portfolio and markets.

We offer the following mortgage loan products:

- *Government Mortgage Loans* : First-lien mortgage loans secured by single-family residences that are insured by the Federal Housing Administration ("FHA") or guaranteed by the Veterans Administration ("VA") or guaranteed by the United States Department of Agriculture ("USDA") and are securitized into Ginnie Mae securities.

- *Prime [1] Conforming Mortgage Loans* : Prime credit quality first-lien mortgage loans (i.e., mortgage loans that, in the event of default, have priority over all other liens or claims) secured by single-family residences that meet or "conform" to the underwriting standards established by Fannie Mae or Freddie Mac for inclusion in their guaranteed mortgage securities programs.

- *Prime [1] Non-Conforming Mortgage Loans* : Prime credit quality first-lien mortgage loans secured by single-family residences that do not conform to the underwriting standards established by Fannie Mae or Freddie Mac, because they have original principal amounts exceeding Fannie Mae and Freddie Mac limits, which are commonly referred to as jumbo mortgage loans.

- *Non-agency Loans:* Loans that meet the underwriting standards of our third-party investors in the secondary market.

[1] We generally consider prime mortgage loans to be those with Fair Isaac Corporation ("FICO") scores greater than 620.

We originate residential mortgage loans through three channels: correspondent, wholesale and retail. We have continued to diversify our origination business in order to be successful in multiple market scenarios. While the channels are diverse, we constantly focus on quality control and maintaining high underwriting standards. We perform diligence on and underwrite loans through our proprietary technology platform, Stonegate Connect, an integrated, automated risk-based due diligence engine that automates the review process by applying business rules specific to the loan and the seller. We analyze credit, collateral and compliance risk on every loan on a pre-funding or a pre-purchase basis in order to ensure that each loan meets our investors' standards and any applicable regulatory rules. We also capture loan data and documents associated with the loan from application through sale/securitization and servicing, giving us the ability to run additional business rules that provide indication of loan performance. We believe that the ability to offer greater transparency and data to institutional investors that purchase our loans or securities backed by our loans will provide us with a substantial advantage over our competitors in our sales executions as the mortgage market continues to evolve and we grow our whole loan sales to non-agency investors or we begin to securitize our own non-agency mortgage loans.

Our three mortgage loan originations channels are discussed in more detail below.

<u>Correspondent Channel</u>

We acquire newly originated loans conforming to the underwriting standards of the GSEs or government agencies as well as non-agency mortgage loans conforming to the standards of our investors from our network of correspondents across 48 states plus the District of Columbia. We identify our correspondent customers through a team of relationship managers who are responsible for building and maintaining customer relationships and ensuring that we receive an adequate share of their origination volume. We offer our correspondents access to a state-of-the-art technology platform (Stonegate Connect), and warehouse funding through our financing platform NattyMac, through a separate approval process, that offers benefits when selling loans to Stonegate Mortgage. In return, our correspondents provide us with high quality products that meet our underwriting standards and those of our investors. We track the performance of our correspondents on a score-card and terminate relationships where quality and other requirements are not met. We believe that our programs offer correspondents an attractive value proposition, including greater access to capital and liquidity, as they seek to maintain and grow their businesses.

We conduct financial, operational and risk reviews of each correspondent prior to initially approving them as a customer and on an annual basis to ensure compliance with our guidelines and those of the various agencies that regulate our business. In addition, we conduct background and financial reviews of the principals and their mortgage loan officers. Lastly, our purchase agreements with correspondents include standard representations and warranties to further support the quality of our underwriting and origination process. Our growth has been driven by adding new correspondents as well as deepening relationships with existing correspondents. Our correspondent channel represented 64% , 64% and 66% of our mortgage originations for the years ended December 31, 2016 , 2015 and 2014 , respectively. Originations for this channel were $6.0 billion in 2016 , $7.2 billion in 2015 and $7.9 billion in 2014 . The decrease in percentage of our overall portfolio partially arises from increased pricing competition within the channel. To offset the impact of increased competitive pricing within this channel, we will focus our future efforts on re-engaging established dormant customers to further increase our origination volume with them. We believe that as we continue to increase our coverage of correspondents, and mature in existing as well as enter new markets, we will continue to increase our correspondent loan volume.

Wholesale Channel

We provide a variety of agency, government insured and non-agency mortgage loan products to approved brokers to allow them to better service their borrowers. Before approving a mortgage broker for business, we focus on several attributes including origination volume, quality of originations and tangible net worth. We also conduct financial and background checks on the principals and their mortgage loan officers through various third-party sources. Once we begin acquiring loans from our mortgage brokers, we track the performance of the loans on an on-going basis and terminate business relationships if the loans consistently do not perform or if there is evidence of misrepresentation. During the year ended December 31, 2016 , we did not terminate any significant relationships due to our continued focus on underwriting loans and ensuring compliance with policies. We expect to see a continued increase in our non-agency mortgage loan originations, which provide innovative products that meet borrowers' demands and investors' return thresholds. Accordingly, we expect we will expand our settlements of non-agency loans through sales to the whole loan market or private label securitizations to third party investors at a future date.

Through our wholesale channel, we originate loans through a network of approximately 594 non-exclusive relationships with various approved mortgage companies and mortgage brokers. This channel accounted for 23% , 23% and 24% of our originations from continuing operations for the years ended December 31, 2016 , 2015 and 2014 , respectively. Originations from continuing operations for this channel were $2.1 billion in 2016 , $2.6 billion in 2015 and $2.8 billion in 2014 . Mortgage brokers identify applicants, help them complete a loan application, gather required information and documents and act as our liaison with the borrower during the lending process. We review and underwrite an application submitted by a broker, accept or reject the application, determine the range of interest rates and other loan terms, and fund the loan upon acceptance by the borrower and satisfaction of all conditions to the loan in much the same manner as our retail channel. By relying on brokers to market our products and assist the borrower throughout the loan application process, we can increase loan volume through our wholesale channel with proportionately lower investment in overhead costs compared with the costs of increasing loan volume through loan originations in our distributed retail channels.

Retail Channel

In this channel, mortgage advisors, as employees of Stonegate, either originate loans through their relationships with local real estate agents, builders, telemarketers and other local contacts in one of our retail branch offices, or work in our Stonegate Direct division, a call center that purchases leads for mortgage loans and works directly with consumers over the phone. During the year ended December 31, 2015, we decreased our retail branch footprint, to better manage the expenses associated with retail originations. As of December 31, 2016 , our retail channel primarily operated through 12 retail offices across 7 states as compared to 21 retail offices across 11 states as of December 31, 2015. This channel accounted for 13% , 13% and 10% of our originations from continuing operations for the years ended December 31, 2016 , 2015 and 2014 , respectively. Originations from continuing operations for this channel were $1.2 billion in 2016 , $1.5 billion in 2015 and $1.2 billion in 2014 . With our remaining physical branch locations, we continue to focus on increasing our profitability through the hiring of additional advisors and leveraging within existing markets. Stonegate Direct provides consumers across the United States with direct access to mortgage advisors to facilitate nonstop access to our mortgage products and services. The creation of this division greatly enhances and simplifies the customer experience and home loan application process for qualified customers by providing quick, secure, online access for homebuyers and those looking to refinance. The creation of this division is part of our initiative to deliver a superior mortgage product and exceptional customer service that are our points of distinction from competitors in the marketplace.

Mortgage Servicing

Our mortgage servicing business is organized to maintain a high quality servicing portfolio and keep delinquency rates below the industry average. We perform loan administration, collection and default activities, including the collection and remittance of loan payments, responding to customer inquiries, investor accounting for principal and interest, holding custodial (impound) funds for the payment of property taxes and insurance premiums, counseling delinquent mortgagors, modifying loans and supervising foreclosures and our property dispositions. We focus on optimizing our operating platform technology, external interfaces related to the support of our default areas and continuous review of our internal processes to increase efficiencies, improve our performance quality, meet regulatory compliance demands, and support our ability for continued growth.

Our servicing model, along with Stonegate Direct, is very focused on "recapture," which involves actively working with existing borrowers to refinance their mortgage loans with Stonegate if it is advantageous for the borrower. When a loan is paid off or refinanced with a different lender, we lose the servicing fees on the loan, so our ability to recapture loans successfully is important to the longevity of our servicing cash flows. Because the refinanced loans typically have lower interest rates or lower monthly payments, and, in general, subsequently refinance more slowly and default less frequently, these refinancings also typically improve the overall quality of our servicing portfolio.

Our servicing business produces strong recurring, contractual fee-based revenue with minimal credit risk. Servicing fees are primarily based on the aggregate unpaid principal balance ("UPB") of the loans serviced and the payment structure varies by loan source and type. These include differences in rate of servicing fees as a percentage of UPB and in the structure of advances. We believe our origination business gives us a distinct advantage in building a high-quality portfolio of MSRs over those who rely heavily on purchasing MSRs from others to build their portfolios as originated portfolios generally perform better given the extensive diligence and underwriting procedures that we apply to each loan. In addition, there is a tax benefit associated with originated MSRs in that no MSRs asset is created and tax income is derived from the servicing revenue as opposed to an asset being created and amortized over a set period of time for purchased MSRs.

We service loans using a model designed to improve loan performance and reduce loan defaults and foreclosures. Our servicing portfolio consists of MSRs we retain from loans that we originate and MSRs we acquire from third party originators, including in transactions facilitated by GSEs. The loans we service are typically securitized by us, i.e., the loans have been pooled together with multiple other loans and interests have been sold to third party investors that are secured by loans in the securitization pool. We are prepared to act either as a retainer or a seller, and/or subservicer, of MSRs, depending on existing market conditions and our liquidity needs. We successfully executed on this strategy by selling nearly \$6.9 billion, \$8.8 billion and \$3.8 billion in MSRs during the years ended December 31, 2016 , 2015 and 2014 , respectively.

The table below contains information related to the mortgage loans in our servicing portfolio as of December 31, 2016 and 2015 :

	December 31,	
	2016	**2015**
Servicing portfolio *($UPB in thousands)*	$ 16,286,839	$ 17,520,731
Weighted average coupon	3.72%	4.02%
Weighted average age *(in months)*	17	16
90+ day delinquency rate	0.83%	0.60%
Weighted average FICO score	722	725
Gross constant prepayment rate [1]	17.11%	18.00%

[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.

Mortgage Financing

Our fully integrated financing platform, known as NattyMac, is a wholly-owned subsidiary providing warehouse financing to Stonegate Mortgage correspondent customers and other approved mortgage bankers. Natty Mac 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 its customers. We believe that NattyMac is highly scalable with little additional fixed cost investment needed to grow our customer base. This also creates an additional source of funding for our correspondents to originate mortgage loans that meet our underwriting requirements and are eligible for purchase by Stonegate Mortgage, as well as other investors. We are currently financing NattyMac's warehouse lending operations by selling a participating interest in the warehouse line of credit to an approved third party institution.

Our financing platform features a centralized custodian and disbursement agent allowing us to enter into participation arrangements with financial institutions, such as regional banks, for an interest in our newly originated warehouse lines of credit. By offering regional banks an opportunity to invest in a liquid high-quality asset, we are able to earn net interest income. By partnering with regional banks and other investors, we believe it allows us to compete with other bank-owned warehouse lenders who have traditionally dominated this market. We are also able to share in the interest income with the regional banks and other investors to increase revenue. On April 15, 2014, we entered into an agreement whereby we invested in the subordinate debt of Merchants Bancorp, which, in turn, agreed to capitalize NattyMac Funding, Inc. ("NMF") to invest in participation interests in warehouse lines of credit originated by us. We participate in the earnings of NMF alongside Merchants Bancorp.

As of December 31, 2016 , NattyMac had 102 approved warehouse customers, with commitments of $561.3 million.

Significant Transactions and Recent Developments
(Dollar Amounts In Thousands or As Otherwise Stated Herein)

MSR Sales

In 2015, we entered into a flow sale agreement for the sale of MSRs in GNMA loans to an unrelated party. The sales occurred monthly during the covered period, from September 2015 through April 2016. The characteristics of the pools sold are similar to those associated with the Company's current GNMA production.

On June 30, 2016, we completed a bulk sale of MSRs with an underlying unpaid principal balance of $5.1 billion in FNMA and FHLMC loans to an unrelated party. This pool of MSRs had average mortgage interest rates that were higher than current mortgage rates, and did not include any GNMA MSRs, which have a different historical performance than FNMA and FHLMC MSRs.

On September 30, 2016, we completed a bulk sale of MSRs with an underlying unpaid principal balance of $1.2 billion in GNMA loans to an unrelated party. This pool of MSRs had average mortgage interest rates that were higher than current mortgage rates, and did not include any FNMA and FHLMC MSRs, which have a different historical performance than GNMA MSRs.

Finance Related Transactions

On February 29, 2016, we amended our mortgage repurchase financing with Bank of America, N.A. to decrease the amount available under the line from $400,000 to $300,000 and on March 31, 2016, we amended our mortgage gestation repurchase financing with Bank of America, N.A. to decrease the amount available under the line from $300,000 to $250,000, decreasing the maximum borrowing capacity of the mortgage funding arrangements with Bank of America from $700,000 to $550,000.

On March 1, 2016, we amended our mortgage repurchase financing with EverBank to decrease the amount available under the line from $150,000 to $125,000, and decrease the MSR sublimit from $70,000 to $60,000. On October 24, 2016, we amended this facility to extend the maturity date to January 7, 2017. On January 6, 2017 we amended our mortgage repurchase financing agreement with EverBank to extend the maturity date to January 5, 2018.

On June 3, 2016, we amended our mortgage repurchase financing agreement with Bank of America, N.A. to extend the maturity date to July 8, 2016, which was subsequently extended through August 5, 2016. On August 3, 2016, we renewed and amended this agreement to extend the maturity date to August 2, 2017. The renewed agreement has a repurchase facility size of $200,000 and a gestation facility size of $225,000. The repurchase and gestation facility sizes were $250,000 and $300,000, respectively, prior to the renewal.

On June 17, 2016, we amended our operating line of credit agreement with Merchants to temporarily increase the maximum borrowing capacity from $5,000 to $10,000 through August 31, 2016, which was extended on August 30, 2016 through November 15, 2016 when it reverted back to $5,000. On November 30, 2016, we renewed at $10,000 through January 15, 2017, reverting to $5,000 after January 15, 2017 through the remainder of the renewal period. On December 31, 2016 we renewed our operating line of credit agreement with Merchants at $10,000 through the remainder of the term set for July 31, 2017.

On July 29, 2016, we amended our master participation agreement, warehouse and security agreement and operating line of credit facilities with Merchants to extend their maturity dates to July 31, 2017.

On December 15, 2016, we amended our master repurchase agreement with Barclays to extend the maturity date to February 20, 2017.

Employees

As of December 31, 2016 , we had 863 employees, all of whom are based in the United States. We are not aware that any of our employees is a member of any labor union, we are not subject to any collective bargaining agreement, and we have never experienced any business interruption as a result of any labor dispute.

Regulation

Our business is subject to extensive federal, state and local regulation. Our loan originations, loan servicing and debt collection operations are primarily regulated at the state level by state licensing authorities and administrative agencies. Because we do business in 48 states and the District of Columbia, we, along with certain of our employees who engage in regulated activities, must apply for licensing as a mortgage banker or lender, loan servicer, mortgage loan originator and/or debt default specialist, pursuant to applicable state law. These laws typically require that we file applications and pay certain processing fees to be approved to operate in a particular state, and that our principals and loan originators be subject to background checks, administrative review and continuing education requirements. Our mortgage servicing business is licensed (or maintains an appropriate statutory exemption) to service mortgage loans in 48 states and the District of Columbia. Our retail loan origination channel is licensed to originate loans in the states in which it operates, and our direct origination channel is licensed to originate loans in 44 states and the District of Columbia. From time to time, we receive requests from states and other agencies for records, documents and information regarding our policies, procedures and practices regarding our loan originations, loan servicing and debt collection business activities, and we are subject to periodic examinations by state regulatory agencies. We incur ongoing costs to comply with these licensing requirements.

The federal Secure and Fair Enforcement for Mortgage Licensing Act of 2008 also requires all states to enact laws requiring each individual who takes mortgage loan applications, or who offers or negotiates terms of a residential mortgage loan, to be individually licensed or registered as a mortgage loan originator. These laws require each mortgage loan originator to enroll in the Nationwide Mortgage Licensing System, apply for individual licenses with the state where they operate, complete a minimum of 20 hours of pre-licensing education and an annual minimum of eight hours of continuing education, and to successfully complete both national and state exams.

In addition to licensing requirements, we must comply with a number of federal consumer protection laws, including, among others:

◦ the Gramm-Leach-Bliley Act, which requires us to maintain privacy with respect to certain consumer data in our possession and to periodically communicate with consumers on privacy matters;

◦ the Fair Debt Collection Practices Act, which regulates the timing and content of debt collection communications;

◦ the Truth in Lending Act ("TILA") and Regulation Z thereunder, which require certain disclosures to mortgagors regarding the terms of their mortgage loans;

◦ the Fair Credit Reporting Act, which regulates the use and reporting of information related to the credit history of consumers;

◦ the Equal Credit Opportunity Act and Regulation B thereunder, which prohibit discrimination on the basis of age, race and certain other characteristics, in the extension of credit;

◦ the Homeowners Equity Protection Act, which requires, among other things, the cancellation of mortgage insurance once certain equity levels are reached;

◦ the Home Mortgage Disclosure Act and Regulation C thereunder, which require mortgage lenders to report certain public loan data;

◦ the Fair Housing Act, which prohibits discrimination in housing on the basis of race, sex, national origin, and certain other characteristics;

- the Real Estate Settlement Procedures Act ("RESPA") and Regulation X, which governs certain mortgage loan origination activities and practices and the actions of servicers related to escrow accounts, transfers, lender-placed insurance, loss mitigation, error resolution and other customer communications; and
- certain provisions of the Dodd-Frank Act, including the Consumer Financial Protection Act, which among other things, created the Consumer Financial Protection Bureau ("CFPB") and prohibits unfair, deceptive or abusive acts or practices, as further described below.

Dodd-Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Act which regulates the financial services industry, including securitizations, mortgage originations and mortgage sales. The Dodd-Frank Act also established the CFPB to enforce laws involving consumer financial products and services, including mortgage finance. The CFPB directly influences the regulation of residential mortgage loan originations and servicing in a number of ways. First, the CFPB has rulemaking authority with respect to many of the federal consumer protection laws applicable to mortgage servicers, including TILA, RESPA and the FDCPA. Second, the CFPB has supervision, examination and enforcement authority over consumer financial products and services offered by certain non-depository institutions and large insured depository institutions. The CFPB’s jurisdiction includes those persons originating, brokering or servicing residential mortgage loans and those persons performing loan modification or foreclosure relief services in connection with such loans.

The Dodd-Frank Act also directs the federal banking agencies and the Securities and Exchange Commission to adopt rules requiring an issuer or other entity creating an asset-backed security (including a mortgage-backed security) to retain an economic interest in a portion of the credit risk for the assets underlying the security. In 2014, the agencies approved a credit risk retention rule that requires sponsors of securitizations retain not less than 5% of the credit risk of the assets. The approved rule provides sponsors with various options for meeting this requirement, including retaining risk equal to at least 5% of each class of asset-backed security, 5% of par value of all asset-backed security interests issued, 5% of a representative pool of assets, or a combination of these options. Under this rule, asset-backed securities that are collateralized exclusively by qualified residential mortgages would not be subject to these requirements. The rule defines qualified residential mortgages to have the same meaning as the term “qualified mortgage” as defined by TILA. The rule also recognizes that the sponsor of a FNMA or FHLMC securitization will satisfy the rule’s risk-retention provisions, at least while those agencies remain in conservatorship or receivership with capital support from the U.S. government, because of their 100% guarantee of principal and interest payable on the sponsored securities. Because substantially all of our loans are sold to, or pursuant to programs sponsored by, FNMA, FHLMC, or GNMA, the approved rule would exempt us from the risk-retention requirements with regard to securities backed by such loans.

In addition, 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 rule contains new requirements and two disclosure forms that borrowers will receive in the process of applying for and consummating a mortgage loan. The first new disclosure form, the Loan Estimate, combines two existing forms, the good faith estimate and the initial truth-in lending disclosure, into one form. The loan estimate must be provided to consumers no later than the third business day after they submit a loan application. The rule defines a loan application as having six of the seven elements that RESPA required: consumer’s name, consumer’s income, consumer’s social security number to obtain a credit report, property address, estimate of the value of the property and mortgage loan amount sought. The second new disclosure form, the Closing Disclosure, also combines two existing forms, the settlement statement or HUD-1 and the final truth-in-lending disclosures, into one form. The Closing Disclosure must be provided to consumers at least three business days before consummation of the loan. There are also new tolerance levels for disclosed estimates and restrictions on fees and actions taken before the consumer has received the loan estimate and indicated an intent to proceed with the mortgage loan origination. These forms are designed to use clear language to make it easier for consumers to locate key information, such as interest rate, monthly payments, and costs to close the loan. They also provide more information to assist consumers in deciding whether they can afford the loan and to facilitate comparison of the cost of different loan offers. The implementation of these new forms and related requirements has necessitated significant operational and technological expenses and changes for the entire mortgage origination industry, and for our mortgage origination business in particular. The rule became effective October 3, 2015.

We continue to evaluate all aspects of the Dodd-Frank Act and the regulations issued thereunder. The burden associated with monitoring and complying with these regulations has increased our compliance costs and may restrict our origination and servicing operations, all of which could adversely affect our business, financial condition or results of operations. We continue to enhance and build our technology capabilities to drive greater efficiency in our compliance efforts.

Mortgage Origination

On January 10, 2014, the CFPB implemented final rules for the "ability to repay" requirement in the Dodd-Frank Act. The rules, among other things, require lenders to consider a consumer's ability to repay a mortgage loan before extending credit to the consumer, and limit prepayment penalties. The rules also establish certain protections from liability for mortgage lenders with regard to the "qualified mortgages" they originate. For this purpose, the rules define a "qualified mortgage" to include a loan with a borrower debt-to-income ratio of less than or equal to 43% or, alternatively, a loan eligible for purchase by Fannie Mae or Freddie Mac while they operate under Federal conservatorship or receivership, and loans eligible for insurance or guarantee by the FHA, VA or USDA. Additionally, a qualified mortgage may not: (i) contain excess upfront points and fees; (ii) have a term greater than 30 years; or (iii) include interest-only or negative amortization payments. These rules have not significantly impacted our mortgage production operations since most of the loans we currently originate are "qualified mortgages" under the rules, and we have made, and continue to make, assessments of each consumer's ability to repay a mortgage loan before extending credit to that consumer. Nonetheless, to the extent we originate non-"qualified mortgages", either inadvertently or purposefully, and we are found to have failed to make a reasonable and good faith determination of a borrower's ability to repay any such loan, we could be subject to additional civil or criminal penalties including substantial fines, imprisonment for individual responsible parties, and statutory penalties payable to the borrower equal to the sum the borrower's actual damages, twice the amount of the related finance charges up to $4,000, the actual amount of finance charges or fees paid by the borrower (unless we show our failure to comply is not material), and the borrower's attorney's fees and other costs in connection with the related litigation.

Mortgage Servicing

Title XIV of the Dodd-Frank Act imposes a number of additional requirements on servicers of residential mortgage loans by amending certain existing provisions and adding new sections to TILA and RESPA. The penalties for noncompliance with TILA and RESPA are also significantly increased by the Dodd-Frank Act and could lead to an increase in lawsuits against mortgage servicers. To that end, on January 10, 2014, the CFPB implemented final rules creating uniform standards for the mortgage servicing industry. The rules increase requirements for communications with borrowers, address requirements around the maintenance of customer account records, govern procedural requirements for responding to written borrower requests and complaints of errors, and provide guidance around servicing of delinquent loans, foreclosure proceedings and loss mitigation efforts, among other measures. Since becoming effective, these rules have increased costs to service loans across the mortgage industry.

Several state agencies overseeing the mortgage industry have entered into settlements and enforcement consent orders with mortgage servicers regarding certain foreclosure practices. These settlements and orders generally require servicers, among other things, to: (i) modify their servicing and foreclosure practices, for example, by improving communications with borrowers and prohibiting dual-tracking, which occurs when servicers continue to pursue foreclosure during the loan modification process; (ii) establish a single point of contact for borrowers throughout the loan modification and foreclosure processes; and (iii) establish robust oversight and controls of third party vendors, including outside legal counsel, that provide default management or foreclosure services on their behalf. Many of these practices are considered by regulators, investors and consumer advocates as industry "best practices." As such, we will be challenged to review and adapt many of these practices as well.

Competition

In our originations, servicing and financing businesses, we compete with large financial institutions and with other independent residential mortgage loan producers and servicers. These originators and servicers, however, are experiencing higher operating costs and increased capital requirements, thus allowing an opportunity for us to successfully compete and take advantage of growth opportunities in the mortgage sector.

Our mortgage loan origination business faces competition in mortgage loan offerings, rates, fees and level of customer service and technological innovation and efficiency. Our ability to differentiate the value of our financial products primarily through our mortgage loan offerings, technology platforms, rates, fees and customer service determines our competitive position within the mortgage loan originations industry.

Our servicing business faces competition in areas such as fees, service and technological innovation and efficiency. Our ability to differentiate ourselves from other loan servicers through our innovative technology platforms largely determines our competitive position within the mortgage loan servicing industry.

In our financing business, we primarily compete with depository institutions that use deposit funds to finance loans. These institutions, however, typically only focus on larger mortgage originations leaving the small- and mid-sized originators to sell mortgage loans to aggregators (a depository institution or non-bank originator), such as ourselves. Thus, our financing platform allows us to compete with bank-owned mortgage lenders, who have access to cheaper deposit funding.

Seasonality

Our Originations segment is subject to seasonal fluctuations, and activity tends to diminish somewhat in the months of December, January and February, when home sales volume and loan origination volumes are at their lowest. This typically causes seasonal fluctuations in our origination business revenue, as well as our financing business revenue in our Financing segment, as such revenue is mostly interest income and directly correlates to originations. Levels of delinquency are also subject to seasonal fluctuations, with higher levels occurring December through March, which can negatively affect the profitability of our Servicing segment due to larger amounts of servicing advances and increased expenses from operational efforts dedicated to servicing delinquent loans.

Intellectual Property

We hold registered trademarks with respect to the name Stonegate Mortgage Corporation, our logos and various additional designs and word marks relating to the Stonegate Mortgage Corporation name. Additionally, we own registered trademarks with respect to the name of NattyMac, its logo and various additional designs and word marks relating to NattyMac that we acquired. We use a variety of methods, such as trademarks, patents, copyrights and trade secrets, to protect our intellectual property. We also place appropriate restrictions on our proprietary information to control access and prevent unauthorized disclosures.

Available Information

Our corporate website is www.stonegatemtg.com . The information contained on our corporate website is not incorporated into this Annual Report on Form 10-K. We make available, free of charge, through our Internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC. Our corporate website also provides access to reports filed by our directors, executive officers and certain significant stockholders pursuant to Section 16 of the Exchange Act. These filings are also available to the public at the U.S. Securities and Exchange Commission's (the "SEC") Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements and other information that we file electronically with the SEC.

We also include on our corporate website our Corporate Governance Guidelines, our Standards of Ethical Business Conduct and the charter of each standing committee of our Board of Directors. In addition, we intend to disclose on our corporate website any amendments to, or waivers from, our Standards of Ethical Business Conduct that are required to be publicly disclosed pursuant to rules of the SEC and the New York Stock Exchange ("NYSE").

ITEM 1A. RISK FACTORS

The following factors, among others, could cause actual results to differ materially from those contained in the forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect on our business, financial condition, and results of operations and you should carefully consider them. It is not possible to predict or identify all such factors. Consequently, you should not consider such list to be a complete statement of all potential risks or uncertainties. Because of these and other factors, past performance should not be considered an indication of future performance.

We may fail to consummate the Merger, and uncertainties related to the consummation of the Merger may have a material adverse effect on our business, financial condition and results of operations and negatively impact the price of our common stock.

As previously discussed, on January 26, 2017, the Company entered into the Merger Agreement with Home Point Financial and its wholly owned subsidiary, Merger Sub. Pursuant to the Merger Agreement, Merger Sub will merge with and into the Company, with the Company surviving the Merger as a subsidiary of Home Point Financial. In connection with the Merger, each outstanding share of our common stock (other than certain excluded shares) will be converted into the right to receive $8.00 in cash, without interest, less any applicable tax withholdings. The Merger is subject to the satisfaction of a number of conditions beyond our control, including regulatory approvals and other customary closing conditions. There is no assurance that the Merger and the other transactions contemplated by the Merger Agreement will occur on the terms and timeline currently contemplated or at all. The conditions to the Merger could prevent or delay the completion of the Merger. In addition, the efforts to satisfy the closing conditions of the Merger, including the regulatory approval process, may place a significant burden on management and internal resources, and the Merger and related transactions, whether or not consummated, may result in a diversion of management's attention from day-to-day operations and a disruption of our operations. Any significant diversion of management attention away from ongoing business and any difficulties encountered in the Merger process could have a material adverse effect on our business, financial condition and results of operations.

The Merger Agreement also contains certain customary termination rights, including the right for each of the Company and Home Point Financial to terminate the Merger Agreement if the Merger is not consummated by January 26, 2018 or in the event of an uncured material breach of any representation, warranty, covenant or agreement such that the conditions to closing would not be satisfied. In addition, if the Merger Agreement is terminated under certain circumstances, we may be required to pay a termination fee of $7.25 million to Home Point Financial. If the proposed Merger is not completed or the Merger Agreement is terminated, the price of our common stock may decline, including to the extent that the current market price of our common stock reflects an assumption that the Merger and the other transactions contemplated by the Merger Agreement will be consummated without unexpected delays, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to various uncertainties and restrictions on the conduct of our business while the Merger is pending, which could have a material adverse effect on our business, financial condition and results of operations.

Uncertainty about the effect of the Merger on employees, customers, brokers, vendors, and other third parties who deal with us may have a material adverse effect on our business, financial condition and results of operations. These uncertainties may impair our ability to attract, retain and motivate key personnel pending the consummation of the Merger, as such personnel may experience uncertainty about their future roles following the consummation of the Merger. Additionally, these uncertainties could cause customers, brokers, vendors and other third parties who deal with us to seek to change existing business relationships with us or fail to extend an existing relationship with us, and competitors may target our existing customers by highlighting potential uncertainties and difficulties that may result from the Merger, all of which could have a material adverse effect on our business, financial condition and results of operations. In addition, the Merger Agreement restricts us from taking certain actions without Home Point Financial's consent while the Merger is pending. These restrictions may, among other matters, prevent us from pursuing otherwise attractive business opportunities, selling assets (including MSRs), making certain capital expenditures, refinancing or incurring additional indebtedness, entering into transactions or making other changes to our business prior to consummation of the Merger or termination of the Merger Agreement. These restrictions and uncertainties could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to lawsuits relating to the Merger, which may impact the timing of the closing of the Merger and adversely impact our business.

The Company and our directors and officers may be subject to lawsuits relating to the Merger. Litigation is very common in connection with the sale of public companies, regardless of whether the claims have any merit. One of the conditions to consummating the Merger is that no order preventing or otherwise prohibiting the consummation of the Merger shall have been issued by any court. Consequently, if any lawsuit challenging the Merger is successful in obtaining an order preventing the consummation of the Merger, that order may delay or prevent the Merger from being completed. While we will evaluate and defend against any lawsuits, the time and costs of defending against litigation relating to the Merger may adversely affect our business.

The industry in which we operate is highly competitive and our inability to compete successfully could adversely affect our business, financial condition and results of operations.

We operate in a highly competitive industry that could become even more competitive as a result of economic, technological and regulatory changes. Our mortgage loan origination business faces competition in mortgage loan offerings, rates, fees and levels of customer service. Competition to originate mortgage loans comes primarily from large commercial banks and savings institutions, but we also compete with a growing number of national and regional mortgage companies. Financial institutions generally have significantly greater resources and access to capital than we do, which gives them the benefit of a lower cost of funds and the ability to originate more mortgage loans. Our servicing business faces competition in areas such as fees and service. Competition to service mortgage loans comes from large commercial banks, large savings institutions and large independent servicers. Additionally, our servicing competitors may decide to modify their servicing model to compete more directly with our servicing model, or our servicing model may generate lower margins as a result of competition or as overall economic conditions improve.

In addition, technological advances and heightened e-commerce activities have increased consumers' accessibility to products and services. This has intensified competition among banks and non-banks in offering mortgage loans and servicing them. We may be unable to compete successfully in our origination and servicing businesses, and this could materially and adversely affect our business, financial condition and results of operations.

We may experience financial difficulties as some originators and mortgage servicers have experienced, which could adversely affect our business, financial condition and results of operations.

Since 2006, a number of originators and servicers of residential mortgage loans experienced serious financial difficulties and, in some cases, ceased operations. These difficulties have resulted, in part, from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions requiring repurchase in the event of early payment defaults or breaches of representations and warranties regarding loan quality, compliance and certain other loan characteristics. Origination volumes may decrease significantly in the current economic environment. Higher delinquencies and defaults may contribute to these difficulties by reducing the value of mortgage loans and requiring originators to sell their portfolios at greater discounts to par. In addition, servicing an increasingly delinquent mortgage loan portfolio increases servicing costs without a corresponding increase in servicing compensation. Any of the foregoing adverse developments could materially and adversely affect our business, financial condition and results of operations.

Adverse changes in the residential mortgage market would adversely affect our business, financial condition and results of operations.

Since 2007, adverse economic conditions, including high unemployment, stagnant or declining incomes and higher taxes, have impacted the residential mortgage market, resulting in unprecedented delinquency, default and foreclosure rates, all of which have led to increased losses on all types of residential mortgage loans due to sharp declines in residential real estate values. Falling home prices have resulted in higher LTVs, lower recoveries in foreclosure and an increase in losses above those that would have been realized had property values remained the same or continued to increase. As LTVs increase, borrowers sometimes have insufficient equity in their homes, which prohibits them from refinancing their existing loans. This may also provide borrowers an incentive to default on their mortgage loans even if they have the ability to make principal and interest payments, which we refer to as strategic defaults. Increased mortgage defaults negatively impact our servicing business because they increase the costs to service the underlying loans and may ultimately reduce the number of mortgages we service.

Adverse economic conditions also adversely impact our originations business. Declining home prices and increasing LTVs may preclude many potential borrowers, including borrowers whose existing loans we service, from refinancing their existing loans.

Adverse changes in the residential mortgage market may reduce the number of mortgages we service or new mortgages we originate, reduce the profitability of mortgages currently serviced by us, adversely affect our ability to sell mortgage loans originated by us or increase delinquency rates. Any of the foregoing adverse developments could materially and adversely affect our business, financial condition and results of operations.

We may be unable to obtain sufficient capital to meet the financing requirements of our business.

Our financing strategy consists primarily of using repurchase facilities, participation agreements, warehouse lines of credit and MSRs financings with major financial institutions and regional and community banks. As we continue to grow, we will likely need to borrow additional money. Our ability to renew or replace our existing facilities or warehouse lines of credit as they expire and borrow the additional funds we will need to accomplish our growth strategy is affected by a variety of factors including:

- the level of liquidity in the mortgage related credit markets;
- prevailing interest rates;
- the strength of the lenders that provide us financing;
- limitations on borrowings on repurchase facilities, participation agreements, warehouse lines of credit and MSRs financings imposed by the amount of eligible collateral pledged;
- limitations imposed on us under financing agreements that contain restrictive covenants and borrowing conditions that may limit our ability to raise or borrow additional funds; and
- accounting changes that may impact calculations of covenants in our financing agreements.

We cannot assure you we will be able to renew, replace or refinance our existing financing arrangements or enter into additional financing arrangements on terms that are commercially reasonable or at all.

In the ordinary course of our business, we periodically borrow money or sell newly-originated loans or MSRs to fund our mortgage loan origination and servicing operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.” Our ability to fund current operations and make advances required under our mortgage loan servicing agreements depends on our ability to secure these types of financings on acceptable terms and to renew or replace existing financings as they expire. Such financings may not be available on acceptable terms or at all.

An event of default, a negative ratings action by a rating agency, an adverse action by a regulatory authority or a general deterioration in the economy that constricts the availability of credit-similar to the market conditions that we have experienced during the last five years-may increase our cost of funds and make it difficult for us to renew existing facilities or obtain new financing facilities. We will analyze opportunities to acquire mortgage loan servicing portfolios and/or businesses that engage in mortgage loan servicing and/or mortgage loan originations. Our liquidity and capital resources may be diminished by any such transactions. Additionally, we believe that a significant acquisition may require us to raise additional capital to facilitate such a transaction, which may not be available on acceptable terms or at all.

In January 2014, the final capital requirements of the Basel Committee on Banking Supervision of the Bank of International Settlements, known as Basel III, became effective for U.S. banking organizations. These requirements should increase the cost of funding on financial institutions that we rely on for financing. Such Basel III requirements could reduce our sources of funding and increase the costs of originating and servicing mortgage loans. If we are unable to obtain sufficient capital on acceptable terms for any of the foregoing reasons, this could materially and adversely affect our business, financial condition and results of operations.

We may not be able to continue to grow our loan origination volume, which could adversely affect our business, financial condition and results of operations.

Our mortgage loan origination business consists of providing purchase money loans to homebuyers and refinancing existing loans. The origination of purchase money mortgage loans is greatly influenced by traditional business clients in the home buying process such as realtors and builders. As a result, our ability to secure relationships with such traditional business clients will influence our ability to grow our purchase money mortgage loan volume and, thus, our loan origination business.

Our loan origination business operates largely through third party mortgage brokers who do business with us on a best efforts basis, *i.e* ., they are not obligated to do business with us. Further, our competitors also have relationships with these brokers and actively compete with us in our efforts to expand our broker networks. Accordingly, we may not be successful in maintaining our existing relationships or expanding our broker networks. If we are unable to continue to grow our loan origination business, this could adversely affect our business, financial condition and results of operations.

The geographic concentration of our servicing portfolio may result in a higher rate of delinquencies and/or defaults, which could adversely affect our business, financial condition and results of operations.

The following is a summary of the loans we serviced as of December 31, 2016 by geographic concentration as measured by the total unpaid principal balance as of December 31, 2016 :

(dollars in millions)	**$ UPB**	**% of Total $UPB**
California	$ 3,386	21%
Illinois	1,094	7%
Texas	1,082	7%
New Jersey	919	6%
Florida	874	5%
Indiana	791	5%
Ohio	714	4%
North Carolina	613	4%
Missouri	595	4%
Georgia	544	3%
All other states	5,675	34%
Total	$ 16,287	100%

To the extent the states where we have a higher concentration of loans experience weaker economic conditions, greater rates of decline in single-family residential real estate values or reduced demand within the residential mortgage sector relative to the United States generally, the concentration of loans we service in those regions may increase the effect of the risks described in this “Risk Factors” section. Additionally, if states in which we have greater concentrations of mortgage loans were to change their licensing or other regulatory requirements to make our business cost-prohibitive, we may be required to stop doing business in those states or may be subject to higher costs of doing business in those states, which could adversely affect our business, financial condition and results of operations.

As our origination volume increases in the states where we have only recently become licensed and have not yet expanded our operations and in the additional states where we become licensed, we expect our geographic concentration to change and our origination and servicing of loans could be impacted by geographic concentrations in different states. To the extent those states experience weaker economic conditions or greater rates of decline in single-family residential real estate values, the concentration of loans we originate and service in those regions may increase the effect of the risks to our business.

We use financial models and estimates in determining the fair value of certain assets, such as MSRs, commitments to originate loans, mortgage loans held for sale and related hedging instruments. If our estimates or assumptions prove to be incorrect, we may be required to record negative fair value adjustments, which would adversely affect our earnings.

Our ability to measure and report our financial position and operating results is influenced by the need to estimate the impact or outcome of future events on the basis of information available at the time of the financial statements. An accounting estimate is considered critical if it requires that management make assumptions about matters that were highly uncertain at the time the accounting estimate was made. If actual results differ from our judgments and assumptions, then it may have an adverse impact on the results of operations and cash flows. Management has processes in place to monitor these judgments and assumptions, including with the Audit Committee of the Board of Directors.

Fair value is estimated based on a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that reflect the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels whereby the highest priority is given to Level 1 inputs and the lowest to Level 3 inputs.

We use internal financial models that utilize, wherever possible, market participant data to value certain of our assets and liabilities. Valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of our valuation methodologies.

For additional information on the key areas for which assumptions and estimate are used preparing our financial statements, see "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies."

We may incur losses due to changes in prepayment rates.

Our MSRs carry interest rate risk because the total amount of servicing fees earned, as well as changes in fair-market value, fluctuate based on expected loan prepayments (affecting the expected average life of a portfolio of residential MSRs). The rate of prepayment of residential mortgage loans may be influenced by a variety of factors, including, but not limited to, changing national and regional economic trends (such as recessions or depressed real estate markets), the difference between interest rates on existing residential mortgage loans relative to prevailing residential mortgage rates, or other terms that can affect the amount of payments borrowers make on mortgage loans, such as the rates or fees applicable to private or government-provided mortgage insurance. Changes in prepayment rates are therefore difficult for us to predict. An increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest and principal of their obligations. During periods of declining interest rates, many residential borrowers refinance their mortgage loans. The loan administration fee income (related to the residential mortgage loan servicing rights corresponding to a mortgage loan) decreases as mortgage loans are prepaid. Consequently, the fair value of portfolios of residential mortgage loan servicing rights tend to decrease during periods of declining interest rates, because greater prepayments can be expected and, as a result, the amount of loan administration income received also decreases.

Our investments in mortgage loans and MSRs may become illiquid, and we may not be able to vary our portfolio in response to changes in economic and other conditions.

Our investments in mortgage loans and MSRs may become illiquid. If that were to occur, it may be difficult or impossible to obtain or validate third party pricing on the investments we purchase. Illiquid investments also typically experience greater price volatility, as a ready market does not exist, and can be more difficult to value. We cannot predict if our mortgage loans or MSRs may become illiquid, or when such event may occur, though some factors that have contributed to periods of illiquidity for these assets generally in the past have been weak economic conditions, rates of decline in single-family residential real estate values and volatile interest rates. Any illiquidity of our investments may make it difficult for us to sell such investments if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the recorded value.

Federal, state and local laws and regulations, and related litigation, could materially adversely affect our business, financial condition and results of operations.

Due to the highly regulated nature of the residential mortgage industry, we are required to comply with a wide array of federal, state and local laws and regulations that regulate, among other things, the manner in which we conduct our origination and servicing businesses, the fees we may charge, and the services we provide. These regulations directly impact our business and require constant compliance, monitoring and internal and external audits. In particular, the CFPB and applicable state agencies have the power to levy fines or file suits against us or compel settlements with monetary penalties and operation requirements, and a material failure to comply with any state laws or regulations could result in the loss or suspension of our licenses in the applicable jurisdictions where such violations occur. Additionally, recent actions by regulators and government agencies indicate that, on an industry basis, they may increasingly pursue claims against financial services providers and mortgage originators and servicers in particular (including claims under the False Claims Act, where treble damages are potentially available). Any of these outcomes could materially and adversely affect our business, financial condition and results of operations.

In addition, there continue to be changes in legislation and licensing requirements that are intended to improve the consumer mortgage loan experience, which require technological changes and additional implementation costs for mortgage loan originators and servicers, such as the implementation of the TILA-RESPA Integrated Disclosure rule. The implementation of these new forms and related requirements has necessitated significant operational and technological expenses and changes for the entire mortgage origination industry, and for our mortgage origination business in particular. The rule became effective October 3, 2015. We expect legislative and licensing changes will continue in the foreseeable future, which will likely increase our operating expenses. Furthermore, there continue to be changes in state and federal laws and regulations that are adverse to mortgage originators and servicers that increase costs and operational complexity of our business and impose significant penalties for violation. Any of these changes in the law could materially and adversely affect our business, financial condition and results of operations.

Federal, state and local governments have recently proposed or enacted numerous laws, regulations and rules related to mortgage loans generally and foreclosure actions in particular. These laws, regulations and rules may result in significant delays in the foreclosure process, reduced payments by borrowers, modification of the original terms of mortgage loans, permanent forgiveness of debt and increased servicing advances. In some cases, local governments have ordered moratoriums on foreclosure activity, which prevent a servicer or trustee, as applicable, from exercising any remedies they might have in respect of liquidating a severely delinquent mortgage loan. Several courts also have taken unprecedented steps to slow the foreclosure process or prevent foreclosure altogether. See "Regulation" in Item 1 of this Form 10-K.

Certain proposed federal and state legislation would permit borrowers in bankruptcy to restructure mortgage loans secured by primary residences. Bankruptcy courts could, if this legislation is enacted, reduce the principal balance of a mortgage loan that is secured by a lien on mortgaged property, reduce the mortgage interest rate, extend the term to maturity or otherwise modify the terms of a bankrupt borrower’s mortgage loan.

We originate and sell FHA, VA and USDA loans. The origination of FHA, VA and USDA loans represented approximately 57%, 55% and 43% of the dollar value of loans originated, including originations resulting from discontinued operations, during the years ended December 31, 2016 , 2015 and 2014 , respectively. The housing finance reform contemplated by the Obama administration may impact the lending qualification and limits of these programs, which may adversely impact our volume of FHA, VA and USDA loan originations in the future and may increase the price of our mortgage insurance premiums or otherwise adversely affect our business, financial conditions and results of operations.

On January 30, 2015, the FHFA proposed new minimum financial eligibility requirements that apply to Fannie Mae and Freddie Mac seller/servicers, including non-bank seller/servicers. As proposed, these new requirements include a minimum net worth of $2.5 million plus 25 basis points of the UPB of the total mortgage loans serviced, a capital ratio of tangible net worth to total assets of greater than 6%, and a minimum liquidity amount of 3.5 basis points of total agency servicing (Fannie Mae, Freddie Mac, and Ginnie Mae) plus an incremental 200 basis of total non-performing agency servicing in excess of the 6% of total agency servicing UPB, with restrictions on the types of assets that will be eligible to be counted as liquidity. While we currently meet these requirements as proposed, the FHFA could enact more stringent financial eligibility requirements, or other federal or state agencies may enact additional requirements that are more stringent. Failure to comply with any of these requirements could adversely affect our business, financial condition and results of operations.

We may be subject to liability for potential violations of predatory lending laws, which could adversely impact our results of operations, financial condition and business.

Various U.S. federal, state and local laws have been enacted that are designed to discourage predatory lending practices. The U.S. federal Home Ownership and Equity Protection Act of 1994 ("HOEPA") prohibits inclusion of certain provisions in residential mortgage loans that have mortgage rates or origination costs in excess of prescribed levels and requires that borrowers be given certain disclosures prior to origination. Some states have enacted, or may enact, similar laws or regulations, which in some cases impose restrictions and requirements greater than those in HOEPA. In addition, under the anti-predatory lending laws of some states, the origination of certain residential mortgage loans, including loans that are not classified as “high-cost” loans under applicable law, must satisfy a net tangible benefits test with respect to the related borrower. This test may be highly subjective and open to interpretation. As a result, a court may determine that a residential mortgage loan, for example, does not meet the test even if the related originator reasonably believed that the test was satisfied. If any of our production loans are found to have been originated in violation of predatory or abusive lending laws, we could incur losses, which could adversely impact our results of operations, financial condition and business.

We are highly dependent upon programs administered by GSEs, such as Fannie Mae and Freddie Mac, and by Ginnie Mae, to generate revenues through mortgage loan sales to institutional investors. Any changes in existing U.S. government-sponsored mortgage programs could materially and adversely affect our business, financial position and results of operations.

On February 2011, the Obama administration presented Congress with a report titled *"Reforming America's Housing Finance Market, A Report to Congress,"* outlining its proposals for reforming the housing finance markets in the United States. The report, among other things, outlined various potential proposals to wind down the GSEs and reduce or eliminate over time the role of the GSEs in guaranteeing mortgages and providing funding for mortgage loans, as well as proposals to implement reforms relating to borrowers, lenders and investors in the mortgage market, including reducing the maximum size of loans that the GSEs can guarantee, phasing in a minimum down payment requirement for borrowers, improving underwriting standards and increasing accountability and transparency in the securitization process. There are also proposals to reduce the maximum size of loans insured by FHA (which comprise the majority of loans in the Ginnie Mae program) or otherwise reform FHA lending. In addition, various bills have been proposed by members of Congress to eliminate the GSEs and replace them with private but federally-subsidized guaranties for qualifying loans, to combine them into a single entity that will provide guaranties to a smaller number of qualified loans, or to continue their operations but in a more limited form and with greater capital requirements. Thus, the long-term future of the GSEs is still unclear.

Our ability to generate revenues through mortgage loan sales to institutional investors depends, to a significant degree, on programs administered by the GSEs, such as Fannie Mae and Freddie Mac and by Ginnie Mae. These GSEs and Ginnie Mae play a critical role in the residential mortgage industry, and we have significant business relationships with many of them. Most of the conforming loans we originate qualify under existing standards for inclusion in mortgage securities guaranteed by GSEs and Ginnie Mae. We also derive other material financial benefits from these relationships, including the assumption of credit risk by these GSEs and Ginnie Mae on loans included in such mortgage securities in exchange for our payment of guarantee fees and the ability to avoid certain loan inventory finance costs through streamlined loan funding and sale procedures.

Any discontinuation of, or significant reduction in, the operation of these GSEs and Ginnie Mae or any significant adverse change in the level of activity in the secondary mortgage market or the underwriting criteria of these GSEs or Ginnie Mae could materially and adversely affect our business, financial position and results of operations.

The conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. federal government, could adversely affect our business and prospects.

Due to increased market concerns about the ability of Fannie Mae and Freddie Mac to withstand future credit losses associated with securities held in their investment portfolios, in July 2008, the U.S. government passed the Housing and Economic Recovery Act of 2008. In September 2008, the Federal Housing Finance Agency ("FHFA") placed Fannie Mae and Freddie Mac into conservatorship and, together with the U.S. Treasury, established a program designed to boost investor confidence in their respective debt and MBS. As the conservator of Fannie Mae and Freddie Mac, the FHFA controls and directs the operations of Fannie Mae and Freddie Mac and may (i) take over the assets and operations of Fannie Mae and Freddie Mac with all the powers of the shareholders, the directors and the officers of Fannie Mae and Freddie Mac and conduct all business of Fannie Mae and Freddie Mac; (ii) collect all obligations and money due to Fannie Mae and Freddie Mac; (iii) perform all functions of Fannie Mae and Freddie Mac that are consistent with the conservator's appointment; (iv) preserve and conserve the assets and property of Fannie Mae and Freddie Mac; and (v) contract for assistance in fulfilling any function, activity, action or duty of the conservator. In addition, a number of GSE reform proposals have been advanced by the FHFA and other governmental authorities and industry groups, some of which advocate material changes to the business of the GSEs or the elimination of the GSEs altogether. The future of the GSEs, therefore, is uncertain. Certain changes to the mortgage financing programs of the GSEs could have a material adverse effect on the operations of the residential mortgage markets and our business, financial position and results of operations.

Although the U.S. Treasury has committed capital to Fannie Mae and Freddie Mac, these actions may not be adequate for their needs. If these actions are inadequate, Fannie Mae and Freddie Mac could continue to suffer losses and could fail to honor their guarantees and other obligations. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be considerably limited relative to historical measurements. Any changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac could redefine what constitute agency and government conforming MBS and could have broad adverse market implications. Such market implications could materially and adversely affect our business, financial condition and results of operations.

If we are unable to sell or securitize our non-agency mortgage loans, our business will be adversely affected and even if we are successful in securitizing our non-agency mortgage loans, we may bear a portion of the risk of loss associated with these loans.

We originate and acquire mortgage loans that are not eligible for sale to or securitization with the GSEs or Ginnie Mae. Because we do not want to hold these non-agency mortgage loans to maturity, we either must sell them to third parties or securitize them in non-agency securitizations. The non-agency securitization market has been dormant in the last few years because of a number of factors, including regulatory uncertainty. If we originate non-agency mortgage loans and cannot sell or securitize them, we may be forced to hold them in portfolio with little access to financing on favorable terms. This would adversely affect our business, financial condition and results of operations.

In addition, if we sponsor the securitization of non-agency mortgage loans, we would be required to retain an interest in the securitized loans and would thus bear some of the risk of loss associated with the loans, such as default risk.

Unlike banks and similar financial institutions with which we compete, we are subject to state licensing and operational requirements that result in substantial compliance costs.

Because we are not a depository institution, we do not benefit from an exemption to state mortgage banking, loan servicing or debt collection licensing and regulatory requirements that are generally given to a depository institution under state law. We must comply with state licensing requirements and varying compliance requirements in each of the 48 states and the District of Columbia, in which we do business. Future regulatory changes may increase our costs through stricter licensing laws, disclosure laws or increased fees, or may impose conditions to licensing that we are unable to meet. In addition, we are subject to periodic examinations by state regulators, which can result in refunds to borrowers of certain fees earned by us, and we may be required to pay substantial penalties imposed by state regulators due to compliance errors. In particular, Benjamin Lawsky, then superintendent of New York's Department of Financial Services, indicated in 2014 that the agency had "significant concerns" that the growth of non-bank mortgage servicers may "create capacity issues that put homeowners at risk." Future state legislation and changes in existing regulation may significantly increase our compliance costs or reduce the amount of ancillary fees, including late fees, that we may charge to borrowers. This could make our business cost-prohibitive in the affected state or states and could materially and adversely affect our business, financial condition and results of operations.

Our business would be adversely affected if we lose our licenses or if we are unable to obtain licenses in new markets.

Our operations are subject to regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations. In most states in which we operate, a regulatory agency regulates and enforces laws relating to mortgage loan servicing companies and mortgage loan origination companies such as us. These rules and regulations generally provide for licensing as a mortgage servicing company, mortgage origination company or third party debt default specialist, requirements as to the form and content of contracts and other documentation, licensing of our employees and employee hiring background checks, licensing of independent contractors with which we contract, restrictions on collection practices, disclosure and record-keeping requirements and enforcement of borrowers' rights. In certain states, we are subject to periodic examination by state regulatory authorities. Some states in which we operate require special licensing or provide extensive regulation of our business.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable federal, state and local laws. But we may not be able to maintain all requisite licenses and permits, and the failure to satisfy those and other regulatory requirements could result in a default under our servicing agreements and have a material adverse effect on our business, financial condition or results of operations. The states that currently do not provide extensive regulation of our business may later choose to do so, and if such states so act, we may not be able to obtain or maintain all requisite licenses and permits. The failure to satisfy those and other regulatory requirements could result in a default under our servicing agreements and have a material and adverse effect on our business, financial condition or results of operations. Furthermore, the adoption of additional, or the revision of existing, rules and regulations could materially and adversely affect our business, financial condition and results of operations.

Challenges to the MERS® System could materially and adversely affect our business, results of operations and financial condition.

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

Several legal challenges in the courts and by governmental authorities have been made disputing MERS's legal standing to initiate foreclosures or act as nominee for lenders in mortgages and deeds of trust recorded in local land records. These challenges have focused public attention on MERS and on how loans are recorded in local land records. Although most legal decisions have accepted MERS as mortgagee, these challenges could result in delays and additional costs in commencing, prosecuting and completing foreclosure proceedings, conducting foreclosure sales of mortgaged properties and submitting proofs of claim in borrower bankruptcy cases.

We may not be able to maintain or grow our business if we cannot originate and/or acquire MSRs.

Our servicing portfolio is subject to "run off," meaning that mortgage loans we service may be prepaid prior to maturity, refinanced with a mortgage not serviced by us or liquidated through foreclosure, deed-in-lieu of foreclosure or other liquidation process or repaid through standard amortization of principal. As a result, our ability to maintain and grow the size of our servicing portfolio depends on our ability to originate additional mortgages, to recapture the servicing rights on loans that are refinanced, and to acquire the right to service additional residential mortgage loans. We may not be able to originate a sufficient volume of mortgage loans, recapture a sufficient volume of refinanced loans or acquire MSRs on additional pools of mortgage loans with sufficient volume or on terms that are favorable to us or at all, which could materially and adversely affect our business, financial condition and results of operations.

We may not be able to recapture loans from borrowers who refinance.

One of the focuses of our origination efforts is "recapture," which involves actively working with existing borrowers to refinance their mortgage loans with us instead of another originator of mortgage loans. Borrowers who refinance have no obligation to refinance their loans with us and may choose to refinance with a different originator. If borrowers refinance with a different originator, this decreases the profitability of our primary servicing portfolio because the original loan will be repaid, and we will not have an opportunity to earn further servicing fees after the original loan is repaid. Moreover, recapture allows us to generate additional loan servicing more cost-effectively than MSRs acquired on the open market. If we are not successful in recapturing our existing loans that are refinanced, our servicing portfolio will become increasingly subject to run-off, and we may need to purchase additional MSRs on the open market to add to our servicing portfolio, which would increase ours costs and risks and decrease the profitability of our servicing business.

We may not be able to recover our significant investments in personnel and our technology platform if we cannot originate and acquire MSRs on favorable terms, which could adversely affect our business, financial condition and results of operations.

We have made, and expect to continue to make, significant investments in personnel and our technology platform to allow us to service additional loans. In particular, we invest significant resources in recruiting, training, technology and systems. We may not realize the expected benefits of these investments to the extent we are unable to increase the pool of residential mortgage loans we service, we are delayed in obtaining the right to service such loans or we do not appropriately value the MSRs that we do purchase. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We depend on the accuracy and completeness of information about borrowers and counterparties and any misrepresented information could adversely affect our business, financial condition and results of operations.

In deciding whether to extend credit or to enter into other transactions with borrowers and counterparties, we may rely on information furnished to us by or on behalf of borrowers and counterparties, including financial statements and other financial information. We also may rely on representations of borrowers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. We additionally rely on representations from public officials concerning the licensing and good standing of the third party mortgage brokers through which we do business. While we have a practice of independently verifying the borrower information that we use in deciding whether to extend credit or to agree to a loan modification, including employment, assets, income and credit score, if any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the mortgage broker, another third party or one of our employees, we generally bear the risk of loss associated with the misrepresentation. We have controls and processes designed to help us identify misrepresented information in our loan originations operations; however, we may not have detected or may not detect all misrepresented information in our loan originations or from our business clients. Any such misrepresented information could materially and adversely affect our business, financial condition and results of operations.

In addition, when we originate loans, we rely heavily upon information supplied by third parties, including the information contained in the loan application, appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to the loan funding, the value of the loan may be significantly lower than expected, and we may be subject to repurchase or indemnification obligations under loan sales agreements. Whether a misrepresentation is made by the loan applicant, the broker, another third party or one of our own employees, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is not typically saleable or is subject to repurchase if it is sold prior to detection of the misrepresentation. Even though we may have rights against persons and entities who made or knew about the misrepresentation, such persons and entities are often difficult to locate and it is often difficult to collect any monetary losses that we have suffered as a result of their actions.

Increases in delinquencies and defaults may adversely affect our business, financial condition and results of operations.

Falling home prices across the United States have resulted in higher LTVs, lower recoveries in foreclosure and an increase in loss severities above those that would have been realized had property values remained the same or continued to increase. Though housing values have stabilized in some markets, many borrowers do not have sufficient equity in their homes to permit them to refinance their existing loans, which may reduce the volume or growth of our loan production business. This may also provide borrowers with an incentive to default on their mortgage loans even if they have the ability to make principal and interest payments. Further, interest rates have remained at historical lows for an extended period of time. Borrowers with adjustable rate mortgage loans must make larger monthly payments when the interest rates on those mortgage loans adjust upward from their initial fixed rates or low introductory rates to the rates computed in accordance with the applicable index and margin. Increases in monthly payments may increase the delinquencies, defaults and foreclosures on a significant number of the loans that we service.

Increased mortgage delinquencies, defaults and foreclosures may result in lower revenue for loans that we service for the GSEs, including Fannie Mae or Freddie Mac, because we only collect servicing fees from GSEs for performing loans. Additionally, while increased delinquencies generate higher ancillary fees, including late fees, these fees are not likely to be recoverable in the event that the related loan is liquidated. In addition, an increase in delinquencies lowers the interest income that we receive on cash held in collection and other accounts because there is less cash in those accounts. Also, increased mortgage defaults may ultimately reduce the number of mortgages that we service.

Increased mortgage delinquencies, defaults and foreclosures will also result in a higher cost to service those loans due to the increased time and effort required to collect payments from delinquent borrowers and to liquidate properties or otherwise resolve loan defaults if payment collection is unsuccessful, and only a portion of these increased costs are recoverable under our servicing agreements. Increased mortgage delinquencies, defaults and foreclosures may also result in an increase in our interest expense and affect our liquidity as a result of borrowing under our credit facilities to fund an increase in our advancing obligations.

In addition, we are subject to risks of borrower defaults and bankruptcies in cases where we might be required to repurchase loans sold with recourse or under representations and warranties. A borrower filing for bankruptcy during foreclosure would have the effect of staying the foreclosure and thereby delaying the foreclosure process, which may potentially result in a reduction or discharge of a borrower’s mortgage debt. Even if we are successful in foreclosing on a loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our cost basis in the loan, resulting in a loss to us. For example, foreclosure may create a negative public perception of the related mortgaged property, resulting in a diminution of its value. Furthermore, any costs or delays involved in the foreclosure of the loan or a liquidation of the underlying property will further reduce the net proceeds and, thus, increase the loss. If these risks materialize, they could have a material adverse effect on our business, financial condition and results of operations.

GSE actions may negatively impact our MSRs and business.

On January 18, 2011, the FHFA announced that it has instructed the GSEs to study possible alternatives to the current residential mortgage servicing and compensation system used for single-family mortgage loans. There can be no certainty regarding what the GSEs may propose as alternatives to current servicing compensation practices, or when any such alternatives would become effective. Although MSRs that have already been created may not be subject to any changes implemented by the GSEs, it is possible that, because of the significant role of GSEs in the secondary mortgage market, any changes they implement could become prevalent in the mortgage servicing industry generally. Other industry stakeholders or regulators may also implement or require changes in response to the perception that the current mortgage servicing practices and compensation do not appropriately serve broader housing policy objectives. Changes to the residential mortgage servicing and compensation system would have a significant negative impact on our business, financial condition and results of operations.

The FHFA has released progress reports on the implementation of these efforts and outlined (i) the development of a new Contractual and Disclosure Framework that will align the contracts and data disclosures that support the mortgage-backed securities and set uniform contracts and standards for MBS that carry no or only a partial federal guarantee; (ii) the development of a common securitization platform that will perform major elements of the securitization process and eventually act as the agent of an issuer; and (iii) the initiation of a Uniform Mortgage Data Program to implement uniform data standards for single-family mortgages.

Our earnings may decrease because of changes in prevailing interest rates and any corresponding effects on origination volumes or the value of our assets.

Our profitability is directly affected by changes in prevailing interest rates. The following are the material risks we face related to changes in prevailing interest rates:

- an increase in prevailing interest rates could adversely affect our loan originations volume because refinancing an existing loan would be less attractive for homeowners and qualifying for a loan may be more difficult for prospective borrowers;
- an increase in prevailing interest rates would increase the cost of financing servicing advances and loan originations;
- a decrease in prevailing interest rates may require us to record a decrease in the value of our MSRs; and
- because certain of the mortgage loans we service have adjustable rates, an increase in prevailing interest rates could cause an increase in delinquency, default and foreclosure rates resulting in increases in both operating expenses and interest expense and could cause a reduction in the value of our assets.

We have experienced rapid growth, which may be difficult to sustain and which may place significant demands on our administrative, operational and financial resources. Our servicing portfolio, measured in unpaid principal balance, has grown from approximately $1.3 billion at December 31, 2011 to approximately $16.3 billion at December 31, 2016 . Our rapid growth has caused, and if it continues will continue to cause, significant demands on our legal, accounting and operational infrastructure, and increased expenses. In addition, we are required to continuously develop our systems and infrastructure in response to the increasing sophistication of the mortgage lending market and legal, accounting and regulatory developments relating to all of our business activities. Our future growth will depend, among other things, on our ability to maintain an operating platform and management system sufficient to address our growth and will require us to incur significant additional expenses and to commit additional senior management and operational resources. As a result, we face significant challenges in:

- maintaining adequate financial and business controls;
- implementing new or updated information and financial systems and procedures; and
- training, managing and appropriately sizing our work force and other components of our business on a timely and cost-effective basis.

There can be no assurance that we will be able to manage our expanding operations effectively or that we will be able to continue to grow, and any failure to do so could materially and adversely affect our business, financial condition and results of operations.

We have acquired and may acquire additional loan origination platforms or businesses, servicing assets and businesses and other businesses that we believe complement our existing business and will contribute to our growth, and the failure to do so on attractive terms or at all or to integrate acquisitions into our operations or otherwise manage our planned growth may adversely affect us.

In 2014, we acquired Crossline, certain assets of Nationstar and an MSRs portfolio from an independent third party, and, in February 2014, we acquired certain assets of Medallion. We can provide no assurances that the acquired businesses or MSRs portfolio may achieve anticipated revenues, earnings or cash flow, business opportunities, synergies, growth prospects or other anticipated benefits. In addition, goodwill or other intangible assets established as a result of our business combinations may be incorrectly valued or become non-recoverable, which could result in impairment charges that would adversely affect our earnings.

Further, we can provide no assurances that we will be successful in identifying future origination platforms or businesses, servicing assets and businesses or other businesses that meet our acquisition criteria or that, once identified, we will be successful in completing an acquisition. We face significant competition for attractive acquisition opportunities from other well-capitalized investors, some of which have greater financial resources and a greater access to debt and equity capital to secure and complete acquisitions than we do. As a result of such competition, we may be unable to acquire certain assets or businesses that we deem attractive or the purchase price may be significantly elevated or other terms may be substantially more onerous. In addition, we may seek to finance future acquisitions through a combination of borrowings, the use of retained cash flows, and offerings of equity and debt securities, which may not be available on advantageous terms, or at all. Any delay or failure on our part to identify, negotiate, finance on favorable terms, consummate and integrate such acquisitions could impede our growth.

We may not realize all of the anticipated benefits of our acquisitions, which could adversely affect our business, financial condition and results of operations.

We have expanded our business through acquisitions. Our ability to realize the anticipated benefits of these acquisitions and businesses and acquisitions of servicing portfolios, as well as future acquisitions of businesses, servicing portfolios and origination platforms will depend, in part, on our ability to integrate those portfolios, platforms and businesses with our business. The process of acquiring assets or companies may disrupt our business and may not result in the full benefits expected. The risks associated with acquisitions include, among others:

- unanticipated issues in integrating information, communications and other systems;
- unanticipated incompatibility of purchasing, logistics, marketing and administration methods;
- direct and indirect costs and liabilities;
- not retaining key employees; and
- the diversion of management's attention from ongoing business concerns.

Moreover, the acquired portfolios, platforms or businesses may not contribute to our revenues or earnings to any material extent, and cost savings and synergies we expect at the time of an acquisition may not be realized once the acquisition has been completed. If we inappropriately value the assets or businesses we acquire or the value of the assets or businesses we acquire declines after we acquire them, the resulting charges may negatively affect the carrying value of the assets on our balance sheet and our earnings. See the risk factor titled, "We use financial models and estimates in determining the fair value of certain assets, such as MSRs, commitments to originate loans, mortgage loans held for sale and related hedging instruments. If our estimates or assumptions prove to be incorrect, we may be required to record impairment charges, which could adversely affect our earnings." Furthermore, if we incur additional indebtedness to finance an acquisition, the acquired business may not be able to generate sufficient cash flow to service that additional indebtedness. Unsuitable or unsuccessful acquisitions could materially and adversely affect our business, financial condition and results of operations.

Our mortgage financing business is subject to risks, including the risk of default and competitive risks, which could adversely affect our results of operations.

Through NattyMac, we provide financing to correspondents and other third party residential mortgage originators with respect to the loans they originate, and these customers may default on their obligations to us, including their obligations to pay the line of credit or transfer the relevant loan under such financing arrangements. If our financing customers default on their obligations to us, we could incur losses. In addition, competition in warehouse lending has increased on a national level as new lenders, including national, community and regional banks that use deposit funds to finance loans, have begun entering the mortgage warehouse business. If increased competition negatively affects our mortgage financing business, our earnings could decrease.

The change of control rules under Section 382 of the Code may limit our ability to use net operating loss carryforwards to reduce future taxable income.

We have net operating loss ("NOL") carryforwards for federal and state income tax purposes. Generally, NOL carryforwards can be used to reduce future taxable income. Our use of our NOL carryforwards will be limited, however, under Section 382 of the Code, if we undergo a change in ownership of more than 50% of our capital stock over a three-year period as measured under Section 382 of the Code. These complex change of ownership rules generally focus on ownership changes involving shareholders owning directly or indirectly 5% or more of our stock, including certain public "groups" of shareholders as set forth under Section 382 of the Code, including those arising from new stock issuances and other equity transactions. We believe we experienced an ownership change for these purposes in October 2013 as a result of our initial public offering and in March 2012 as a result of a significant investment in preferred stock. In connection with any future public or private offerings, it is likely that we will experience another ownership change within the meaning of Section 382 of the Code, measured for this purpose by including transfers and issuances of stock that took place after the ownership change that we believe occurred in March 2012 and October 2013. If we experience another ownership change, the resulting annual limit on the use of our NOL carryforwards (which would generally equal the product of the applicable federal long-term tax-exempt rate, multiplied by the value of our capital stock immediately before the ownership change, and potentially increased by certain existing gains, if any, recognized within five years after the ownership change if we have a net built-in gain in our assets at the time of the ownership change) could result in a meaningful increase in our federal and state income tax liability in future years. Whether an ownership change occurs by reason of trading in our stock is not within our control and the determination of whether an ownership change has occurred is complex. No assurance can be given that we will not in the future undergo another ownership change that would have a significant adverse effect on the use of our NOL carryforwards. In addition, the possibility of causing an ownership change may reduce our willingness to issue new common stock to raise capital.

As a public reporting company, we are subject to rules and regulations established from time to time by the SEC and the NYSE regarding our internal control over financial reporting. We may not complete needed improvements to our internal

control over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the market price of our common stock and your investment.

Upon completion of our IPO, we became a public reporting company subject to the rules and regulations established from time to time by the SEC and the NYSE. These rules and regulations require, among other things, that we establish and periodically evaluate procedures with respect to our internal controls over financial reporting. Reporting obligations as a public company are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, as a public company we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") so that our management can certify as to the effectiveness of our internal controls over financial reporting. Likewise, our independent registered public accounting firm will be required to provide an attestation report on the effectiveness of our internal controls over financial reporting when we cease to be an "emerging growth company," as defined in the JOBS Act, although we could potentially qualify as an "emerging growth company" until December 31, 2018. As a result, we are in the process of improving our financial and managerial controls, reporting systems and procedures, incurring substantial expenses in making such improvements and testing our systems and hiring additional personnel. However, if we are unable to remediate any material weaknesses that may be identified in the future, if our management is unable to certify the effectiveness of our internal controls (at the time they are required to do so), if our independent registered public accounting firm cannot deliver (at such time as it is requested to do so by us) a report attesting to the effectiveness of our internal control over financial reporting or if we in the future identify and fail to remediate material weaknesses in our internal controls identified in the future, we could be subject to regulatory scrutiny and a loss of public confidence, which could harm our reputation and the market price of our common stock. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to manage our business effectively or accurately report our financial performance on a timely basis, which could cause a decline in our common stock price and adversely affect our results of operations and financial condition.

The success and growth of our business will depend upon our ability to adapt to and implement technological changes.

Our mortgage loan origination business is dependent upon our ability to effectively interface with our brokers, borrowers and other third parties and to efficiently process loan applications and closings. The origination process is becoming more dependent upon technological advancement. Any technologies we develop may not meet our expectations or maintain our needs for technological advancement. Further, the development of such technologies and maintaining and improving new technologies will require significant capital expenditures and maintaining the technological proficiency of our personnel will require significant expense.

As technological requirements increase in the future, we will have to fully develop these capabilities to remain competitive, and any failure to do so could adversely affect our business, financial condition and results of operations.

The ongoing implementation of the Dodd-Frank Act will increase our regulatory compliance burden and associated costs and place restrictions on certain originations and servicing operations, all of which could adversely affect our business, financial condition and results of operations.

As discussed further in "Regulation" in Item 1 of this Annual Report on Form 10-K, the ongoing implementation of the Dodd-Frank Act, including the implementation of the new origination and servicing rules by the CFPB and the CFPB's continuing examination of our industry, will increase our regulatory compliance burden and associated costs and place restrictions on our originations, servicing and financing operations, which could in turn adversely affect our business, financial condition and results of operations.

State or federal governmental examinations, legal proceedings or enforcement actions and related costs could have a material adverse effect on our liquidity, financial position and results of operations.

We are routinely involved in regulatory reviews and legal proceedings concerning matters that arise in the ordinary course of our business. An adverse result in regulatory actions or examinations or private lawsuits may adversely affect our financial results. In addition, a number of participants in our industry have been the subject of purported class action lawsuits and regulatory actions by state regulators and other industry participants have been the subject of actions by state Attorneys General. Regulatory investigations, both state and federal, can be either formal or informal. The costs of responding to the investigations can be substantial. In addition, government-mandated changes to servicing practices could lead to higher costs and additional administrative burdens, in particular regarding record retention and informational obligations.

The enforcement consent orders by, agreements with, and settlements of, certain federal and state agencies against other mortgage servicers related to foreclosure practices could impose additional compliance costs on our servicing business, which could adversely affect our business, financial condition and results of operations.

The federal and state agencies overseeing certain aspects of the mortgage market have entered into settlements and enforcement consent orders with other mortgage servicers regarding foreclosure practices that primarily relate to mortgage loans originated during the credit crisis. The enforcement consent orders require the servicers, among other things, to: (i) make significant modifications in practices for residential mortgage loan servicing and foreclosure processing, including communications with borrowers and limitations on dual-tracking, which occurs when servicers continue to pursue foreclosure during the loan modification process; (ii) establish a single point of contact for borrowers throughout the loan modification and foreclosure processes; and (iii) establish robust oversight and controls pertaining to their third party vendors, including outside legal counsel, that provide default management or foreclosure services.

Although we are not a party to any of these settlements and enforcement consent orders and lack the legacy loans that gave rise to these settlements and enforcement consent orders, the practices set forth in those settlements and consent orders are being adopted by the industry as a whole, forcing us to comply with them in order to follow standard industry practices. We may also become required to comply with these practices by our servicing agreements. While we have made and continue to make changes to our operating policies and procedures in light of these settlements and consent orders, further changes could be required, and changes to our servicing practices will increase compliance costs for our servicing business, which could adversely affect our business, financial condition and results of operations.

Our foreclosure proceedings in certain states may be delayed due to inquiries by certain state Attorneys General, court administrators and state and federal government agencies, the outcome of which could have an adverse effect on business, financial condition and results of operations.

Allegations of irregularities in foreclosure processes, including so-called “robo-signing” by mortgage loan servicers, have gained the attention of the Department of Justice, regulatory agencies, state Attorneys General and the media, among other parties. Certain state Attorneys General, court administrators and government agencies, as well as representatives of the federal government, have issued letters of inquiry to mortgage servicers requesting written responses to questions regarding policies and procedures, especially with respect to notarization and affidavit procedures. Even though we have not received any letters of inquiry and we do not have the legacy loans that have been examined for irregularities in the foreclosure process, our operations may be affected by regulatory actions or court decisions that are taken in connection with these inquiries. In addition to these inquiries, several state Attorneys General have requested that certain mortgage servicers suspend foreclosure proceedings pending internal review to ensure compliance with applicable law.

The current legislative and regulatory climate could lead borrowers to contest foreclosures that they would not otherwise have contested under ordinary circumstances, and we may incur increased litigation costs if the validity of a foreclosure action is challenged by a borrower. Delays in foreclosure proceedings could also require us to make additional servicing advances by drawing on our financing facilities, delay the recovery of advances, or result in compensatory fees being imposed against us by a GSE or the FHFA for delaying the foreclosure process, all or any of which could adversely affect our business, financial condition and results of operations.

Court cases in Oregon and Washington have challenged whether MERS meets the statutory definition of deed of trust beneficiary under applicable state laws. Based on decisions handed down by courts in Oregon, we and other servicers of MERS-related loans have elected to foreclose through judicial procedures in Oregon, resulting in increased foreclosure costs, longer foreclosure timelines and additional delays. If the Oregon case law is upheld on appeal, and/or if the Washington or other state courts where we do significant business issue a similar decision in the cases pending before them, our foreclosure costs and foreclosure timelines may continue to increase, which in turn, could increase our single family loan delinquencies, servicing costs, and adversely affect our cost of doing business and results of operations.

We may incur increased costs and related losses if a borrower challenges the validity of a foreclosure action, if a court overturns a foreclosure or if a foreclosure subjects us to environmental liabilities, which could adversely affect our business, financial condition and results of operations.

We may incur costs if we are required to, or if we elect to, execute or re-file documents or take other action in our capacity as a servicer in connection with pending or completed foreclosures. We may incur litigation costs if the validity of a foreclosure action is challenged by a borrower. If a court overturns a foreclosure because of errors or deficiencies in the foreclosure process, we may have liability to a title insurer or the purchaser of the property sold in foreclosure. These costs and liabilities may not be legally or otherwise reimbursable to us, particularly to the extent they relate to securitized mortgage loans. In addition, if certain documents required for a foreclosure action are missing or defective, we could be obligated to cure the defect or repurchase the loan. A significant increase in litigation costs could adversely affect our liquidity, and our inability to be reimbursed for an advance could adversely affect our business, financial condition and results of operations.

In addition, in the course of our business, it is necessary to foreclose and take title to real estate, which could subject us to environmental liabilities with respect to these properties. Hazardous substances or waste, contaminants, pollutants or sources thereof may be discovered on properties during our ownership or after a sale to a third party. We could be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at such properties. The costs associated with investigation or remediation activities could be substantial and could substantially exceed the value of the real property. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. We may be unable to recover costs from any third party. These occurrences may materially reduce the value of the affected property, and we may find it difficult or impossible to use or sell the property prior to or following any environmental remediation. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

Insurance on real estate securing mortgage loans and real estate securities collateral may not cover all losses.

There are certain types of losses, generally of a catastrophic nature, that result from such events as earthquakes, hurricanes, floods, acts of war or terrorism, and that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might make the insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received might not be adequate to restore our economic position with respect to the affected real property. Any uninsured loss could result in the loss of cash flow from, and the asset value of, the affected property.

Borrowers with adjustable rate mortgage loans are especially exposed to increases in monthly payments and they may not be able to refinance their loans, which could cause delinquency, default and foreclosure and therefore adversely affect our business.

At December 31, 2016 , we serviced adjustable rate mortgage loans that represented 1.12% of our total servicing portfolio. Borrowers with adjustable rate mortgage loans are exposed to increased monthly payments when the related mortgage loan's interest rate adjusts upward from an initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin. Borrowers with adjustable rate mortgage loans seeking to refinance their mortgage loans to avoid increased monthly payments as a result of an upwards adjustment of the mortgage loan's interest rate may no longer be able to find available replacement loans at comparably low interest rates. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with adjustable rate mortgage loans, which may cause delinquency, default and foreclosure. Increased mortgage defaults and foreclosures may adversely affect our business as they increase the cost of servicing the mortgage loans we service and reduce the number of mortgage loans we service.

Our counterparties may terminate our MSRs, which could materially and adversely affect our business, financial condition and results of operations.

The owners of the loans we service may, under certain circumstances, terminate our MSRs. Ginnie Mae may terminate our status as an issuer if we fail to comply with servicing standards or otherwise breach our agreement with Ginnie Mae. If this were to happen, Ginnie Mae would seize our MSRs and not compensate us for our MSRs. As is standard in the industry, under the terms of our master servicing agreement with GSEs, GSEs have the right to terminate us as servicer of the loans we service on their behalf at any time and the GSEs also have the right to cause us to sell the MSRs to a third party. In addition, failure to comply with servicing standards could result in termination of our agreements with GSEs. See the risk factor titled, "Because we are required to follow the guidelines of the GSEs with which we do business and are not able to negotiate our fees with these entities for the purchase of our loans, our competitors may be able to sell their loans to GSEs on more favorable terms." Some GSEs may also have the right to require us to assign the MSRs to a subsidiary and sell our equity interest in the subsidiary to a third party. If we were to have our servicing rights terminated on a material portion of our servicing portfolio, this could materially and adversely affect our business, financial condition and results of operations.

Federal and state legislative and agency initiatives in mortgage-backed securities and securitization may adversely affect our financial condition and results of operations.

There are federal and state legislative and agency initiatives that could, once fully implemented, adversely affect our business. For instance, the risk retention requirement under the Dodd-Frank Act requires securitizers to retain a minimum beneficial interest in MBS they sell through a securitization, absent certain qualified residential mortgage ("QRM") exemptions.

Once implemented, the risk retention requirement may result in higher costs of certain origination operations and impose on us additional compliance requirements to meet servicing and origination criteria for QRMs. Additionally, the amendments to Regulation AB relating to the registration statement required to be filed by asset-backed securities ("ABS") issuers adopted in March 2011 by the SEC pursuant to the Dodd-Frank Act would increase compliance costs for ABS issuers, which could in turn increase our cost of funding and operations. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We may be required to indemnify purchasers of the mortgage loans we originate or of the MBS backed by such loans or to repurchase the related loans if the loans fail to meet certain criteria or characteristics.

The indentures governing our securitized pools of mortgage loans and our contracts with purchasers of our whole loans contain provisions that require us to indemnify purchasers of the loans we originate or of the MBS backed by such loans or to repurchase the related loans under certain circumstances. While our contracts vary, they contain provisions that require us to repurchase loans if:

- our representations and warranties concerning loan quality and loan circumstances are inaccurate;
- we fail to secure adequate mortgage insurance within a certain period after closing;
- a mortgage insurance provider denies coverage; or
- we fail to comply, at the individual loan level or otherwise, with regulatory requirements, including but not limited to the provisions of the Dodd-Frank Act and the TILA-RESPA Integrated Disclosure rule.

We believe that, as a result of the current market environment, many purchasers of residential mortgage loans are particularly aware of the conditions under which originators must indemnify them or repurchase loans they have purchased and would benefit from enforcing any repurchase remedies they may have. We believe that our exposure to repurchases under our representations and warranties includes the current unpaid balance of all loans we have sold. If we are required to indemnify or repurchase loans that we originate and sell or securitize that result in losses that exceed our reserve, this could adversely affect our business, financial condition and results of operations.

Because we are required to follow the guidelines of Ginnie Mae and the GSEs and are not able to negotiate our fees with these entities for the purchase of our loans, our competitors may be able to sell their loans to Ginnie Mae or the GSEs on more favorable terms.

In our transactions with Ginnie Mae and the GSEs, we are required to follow specific guidelines that impact the way we service and originate mortgage loans including:

- our staffing levels and other servicing practices;
- the servicing and ancillary fees that we may charge;
- our modification standards and procedures; and
- the amount of non-reimbursable advances.

In particular, the FHFA has directed GSEs to align their guidelines for servicing delinquent mortgages they own or guarantee, which can result in monetary incentives for servicers that perform well and penalties for those that do not. In addition, FHFA has directed Fannie Mae to assess compensatory fees against servicers in connection with delinquent loans, foreclosure delays, and other breaches of servicing obligations.

We cannot negotiate these terms with the GSEs, and they are subject to change at any time. A significant change in these guidelines that has the effect of decreasing our fees or requires us to expend additional resources in providing mortgage services could decrease our revenues or increase our costs, which could adversely affect our business, financial condition and results of operations.

We are required to make servicing advances that can be subject to delays in recovery or may not be recoverable in certain circumstances, which could adversely affect our cash flows, liquidity, business, financial condition and results of operations.

During any period in which a borrower is not making payments, we are required under most of our servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for investors, pay property taxes and insurance premiums, pay legal expenses and fund other protective advances. We also advance funds to maintain, repair and market real estate properties that we service. Fannie Mae and Freddie Mac currently permit us to stop advancing delinquent principal and interest when a loan is 120 days delinquent, but this policy could change at any time. As home values change, we may have to reconsider certain of the assumptions underlying our decisions to make advances and, in certain situations, our contractual obligations may require us to make certain advances for which we may not be reimbursed. In addition, in the event a mortgage loan serviced by us defaults or becomes delinquent, the repayment to us of the advance may be delayed until the mortgage loan is repaid or refinanced or a liquidation occurs. With respect to loans in Ginnie Mae pools, advances are not recovered until the loan becomes current or we make a claim with the FHA or other insurer, and our right to reimbursement is capped. They are typically recovered upon weekly or monthly reimbursement or from sale in the market. In the event we receive requests for advances in excess of amounts we are able to fund, we may not be able to fund these advance requests, which could materially and adversely affect our cash flows and liquidity. An increase in delinquency and default rates on the loans that we service will increase the need for us to make advances. If delinquencies were to increase at the same time that Fannie Mae and Freddie Mac were to change their policies about reimbursing advances at 120 days delinquent, this combination would adversely affect our liquidity. These actions could take place in a distressed economic environment, and thus, we may find it difficult to retain our warehouse financing, which finances our business. If so, then we could find it extremely difficult to continue operations. Even if this combination of risks does not occur at the same time, any increase in delinquency or delay in our ability to collect an advance may adversely affect our cash flows and liquidity, and our inability to be reimbursed for an advance could adversely affect our business, financial condition and results of operations. Additionally, as we continue to grow our originations to increase our loan servicing portfolio, the negative operating cash flows we have experienced will likely continue in the future. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources” in Part II, Item 7 of this Annual Report on Form 10-K.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates.

From time to time, we have used various derivative financial instruments to provide a level of protection against interest rate risks, including the commitments we make to prospective borrowers, but no hedging strategy can protect us completely. The derivative financial instruments that we select may not have the effect of reducing our interest rate risks. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies, improperly executed and documented transactions or inaccurate assumptions could actually increase our risks and losses. In addition, hedging strategies involve transaction and other costs. Our hedging strategies and the derivatives that we use may not be able to adequately offset the risks of interest rate volatility, and our hedging transactions may result in or magnify losses. Furthermore, interest rate derivatives may not be available on favorable terms or at all, particularly during economic downturns. Any of the foregoing risks could adversely affect our business, financial condition, cash flows and results of operations.

Technology failures or terrorist attacks could damage our business operations and increase our costs, which could adversely affect our business, financial condition and results of operations.

The financial services industry as a whole is characterized by rapidly changing technologies, and system disruptions and failures caused by fire, power loss, telecommunications failures, unauthorized intrusion, computer viruses and disabling devices, natural disasters and other similar events may interrupt or delay our ability to provide services to our borrowers and other business partners. Security breaches, acts of vandalism and developments in computer capabilities could result in a compromise or breach of the technology that we use to protect our borrowers’ personal information and transaction data. Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate or implement effective preventive measures against all security breaches, especially because the techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources, including third parties such as persons involved with organized crime or associated with external service providers. Those parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. These risks may increase in the future as we continue to increase our reliance on the internet and use of web-based product offerings and on the use of cybersecurity.

A successful penetration or circumvention of the security of our systems or a defect in the integrity of our systems or cybersecurity could cause serious negative consequences for our business, including significant disruption of our operations, misappropriation of our confidential information or that of our customers, or damage to our computers or operating systems and to those of our customers and counterparties. Any of the foregoing events could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure and harm to our reputation, all of which could adversely affect our business, financial condition and results of operations.

In addition, the terrorist attacks on September 11, 2001 disrupted the U.S. financial markets, including the real estate capital markets, and negatively impacted the U.S. economy in general. Any future terrorist attacks, the anticipation of any such attacks, the consequences of any military or other response by the United States and its allies, and other armed conflicts could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. The economic impact of these events could also adversely affect the credit quality of some of our loans and investments and the properties underlying our interests.

We may suffer losses as a result of the adverse impact of any future attacks and these losses may adversely impact our performance and may cause the market value of our shares of common stock to decline or be more volatile. A prolonged economic slowdown, recession or declining real estate values could impair the performance of our investments and harm our financial condition and results of operations, increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. We cannot predict the severity of the effect that potential future armed conflicts and terrorist attacks would have on us. Losses resulting from these types of events may not be fully insurable.

Any failure of our internal security measures or breach of our privacy protections could cause harm to our reputation and subject us to liability, any of which could adversely affect our business, financial condition and results of operations.

In the ordinary course of our business, we receive and store certain confidential information concerning borrowers. Additionally, we enter into third party relationships to assist with various aspects of our business, some of which require the exchange of confidential borrower information. If a third party were to compromise or breach our security measures or those of the vendors, through electronic, physical or other means, and misappropriate such information, it could cause interruptions in our operations and expose us to significant liabilities, reporting obligations, remediation costs and damage to our reputation. Any of the foregoing risks could adversely affect our business, financial condition and results of operations. In addition, some of our third party service providers may be subject to enhanced regulatory scrutiny due to regulatory findings during examinations of such service provider(s) conducted by federal regulators. While we intend to subject such vendor(s) to higher scrutiny and monitor any corrective measures that the vendor(s) are or would undertake if applicable, we are not able to fully mitigate any risk which could result from a breach or other operational failure caused by this, or any other vendor's breach. See also risk factor titled, "Technology failures or terrorist attacks could damage our business operations and increase our costs, which could adversely affect our business, financial condition and results of operations."

Our vendor relationships subject us to a variety of risks.

We have significant vendors that, among other things, provide us with financial, technology and other services to support our mortgage loan servicing and origination businesses. With respect to vendors engaged to perform activities required by servicing criteria, we have elected to take responsibility for assessing compliance with the applicable servicing criteria for the applicable vendor and are required to have procedures in place to provide reasonable assurance that the vendor's activities comply in all material respects with servicing criteria applicable to the vendor, including but not limited to, monitoring compliance with our predetermined policies and procedures and monitoring the status of payment processing operations. In the event that a vendor's activities do not comply with the servicing criteria, it could negatively impact our servicing agreements. In addition, if our current vendors were to stop providing services to us on acceptable terms, including as a result of one or more vendor bankruptcies due to poor economic conditions, we may be unable to procure alternatives from other vendors in a timely and efficient manner and on acceptable terms, or at all. Further, we may incur significant costs to resolve any such disruptions in service and this could adversely affect our business, financial condition and results of operations. Additionally, in April 2012 the CFPB issued CFPB Bulletin 2012-03 which states that supervised banks and non-banks could be held liable for actions of their service providers. As a result, we could be exposed to liability, CFPB enforcement actions or other administrative penalties if the vendors with whom we do business violate consumer protection laws.

Our business could suffer if we fail to attract and retain a highly skilled workforce, including our senior executives.

Our future success will depend on our ability to identify, hire, develop, motivate and retain highly qualified personnel for all areas of our organization, in particular skilled managers, loan servicers, debt default specialists, loan officers and underwriters. Trained and experienced personnel are in high demand and may be in short supply in some areas. Many of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment. In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them. We may not be able to attract, develop and maintain an adequate skilled workforce necessary to operate our businesses, and labor expenses may increase as a result of a shortage in the supply of qualified personnel. If we are unable to attract and retain such personnel, we may not be able to take advantage of acquisitions and other growth opportunities that may be presented to us, and this could materially affect our business, financial condition and results of operations.

The experience of our senior executives is a valuable asset to us. Our management team has significant experience in the residential mortgage origination and servicing industry. Changes to our senior executive team may occur, which could have an adverse effect on our business, financial condition and results of operations. We do not maintain and do not currently plan to obtain key life insurance policies on any of our senior managers.

Negative public opinion could damage our reputation and adversely affect our earnings.

Reputation risk, or the risk to our business, earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending and debt collection practices, corporate governance, and actions taken by government regulators and community organizations in response to those activities. Negative public opinion can also result from media coverage, whether accurate or not. Negative public opinion can adversely affect our ability to attract and retain customers and employees and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our customers, business partners and communities, this risk will always be present in our organization.

ITEM 1B. UNRESOLVED SEC STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth information related to our primary operating facilities at December 31, 2016 . In addition to the facilities listed in the table below, we also lease small offices (retail branches and executive suites) throughout the United States.

Location	Owned/Leased	Square Footage
Principal executive office:		
Indianapolis, Indiana -- Corporate Headquarters	Leased	77,421
Business operations and support offices:		
Lake Forest, California	Leased	39,870
Clearwater, Florida	Leased	32,533
Dallas, Texas	Leased	22,470
Creve Coeur, Missouri	Leased	14,364
Scottsdale, Arizona	Leased	12,717
Oak Brook, Illinois	Leased	9,192
Greenwood, Indiana	Leased	7,548
Columbus, Ohio	Leased	4,264
Indianapolis, Indiana	Leased	3,750

Of the above locations, Dallas, Texas houses our Servicing business, while our Financing business is based in Clearwater, Florida which also includes some of our Originations business. All other locations, with the exception of our Indianapolis, Indiana locations which are devoted to corporate operations and risk compliance, support our Originations business.

ITEM 3. LEGAL PROCEEDINGS

For information regarding legal proceedings at December 31, 2016 , see the "Litigation" section of Note 18, "Commitments and Contingencies" to our audited consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Prices

Our common stock are listed and traded on the NYSE under the symbol "SGM". The following table sets forth for the periods presented the high and low sales prices for our common stock on the NYSE:

	High	Low
2016		
First Quarter	$ 5.74	$ 3.71
Second Quarter	6.06	3.35
Third Quarter	4.58	3.24
Fourth Quarter	5.97	4.02
2015		
First Quarter	$ 11.92	$ 9.50
Second Quarter	11.56	9.76
Third Quarter	10.17	6.28
Fourth Quarter	7.53	4.63

As of March 1, 2017, there were 25,854,022 shares outstanding and 757 stockholders of record of our common stock. A substantially greater number of holders of our common stock are “street name” or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

Dividends

We have never declared or paid dividends on our common stock and we currently do not expect to declare or pay any dividends in the foreseeable future. Instead, we anticipate that all of our earnings in the foreseeable future will be used for the operation and growth of our business.

Any future determination to pay dividends on our common stock will be at the discretion of our Board of Directors and will depend upon many factors, including our financial position, results of operations, liquidity, legal requirements, restrictions that may be imposed by the terms in current and future financing instruments to which we are a party, and other factors deemed relevant by our Board of Directors.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this Item concerning securities authorized for issuance under our equity compensation plans is set forth in or incorporated by reference into Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in this Annual Report on Form 10-K.

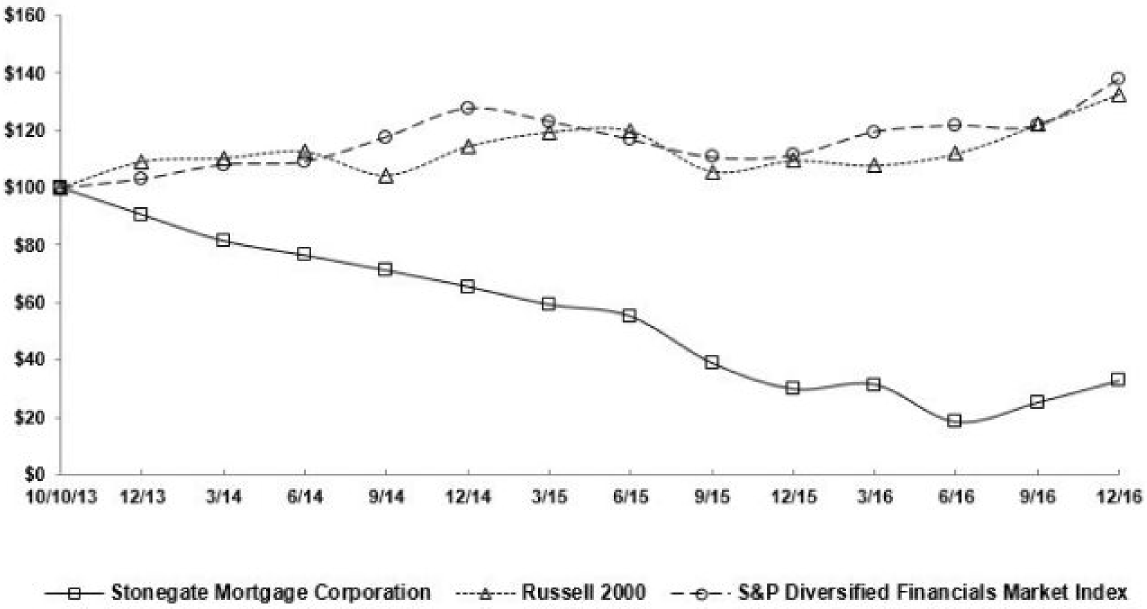
Performance Graph

The following graph shows a comparison of the cumulative total stockholder return for our common stock, the Russell 2000 Market Index and the S&P Diversified Financials Market Index from October 10, 2013 (the date our common stock began trading on the NYSE) through December 31, 2016 . This graph assumes an initial investment of $100 on October 10, 2013 in each of our common stock, the Russell 2000 Market Index and the S&P Diversified Financials Market Index (and the reinvestment of all dividends).

The comparisons shown in the graph below are based on historical data and we caution that the stock price performance shown in the graph is not indicative of, and is not intended to forecast, the potential future performance of our commons stock. The following graph and related information shall not be deemed "soliciting materials" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

COMPARISON OF 38 MONTH CUMULATIVE TOTAL RETURN*

Among Stonegate Mortgage Corporation, the Russell 2000 Index, and S&P Diversified Financials Market Index



*$100 invested on 10/10/13 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial information of Stonegate. The selected historical consolidated financial data as of December 31, 2016 and 2015 and for each of the years ended December 31, 2016 , 2015 and 2014 , has been derived from, and should be read together with, our audited consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K. The selected historical consolidated financial data as of December 31, 2014, 2013 and 2012 and for the years ended December 31, 2013 and 2012 have been derived from our audited consolidated financial statements for those years, which are not included in this Annual Report on Form 10-K. Results for all periods consider discontinued operations presentation. There were no results of discontinued operations for the years ended December 31, 2013 and 2012, as the retail branches sold or disposed of were not established until 2014 and beyond. Amounts presented for basic and diluted earnings per share reflect the impact of our stock dividend of 12.861519 additional shares of our common stock for each share of our common stock that was outstanding on May 14, 2013.

You should read this selected financial data along with Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 8 "Financial Statements and Supplementary Data" included in this Annual Report on Form 10-K.

(In thousands, except per share data)	As of and for the Years ended December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
Income Statement Data					
Revenues:					
Gains on mortgage loans held for sale, net	$ 118,226	$ 141,819	$ 133,390	$ 83,327	$ 71,420
Change in MSRs valuation	(12,666)	(30,395)	(55,842)	22,967	—
Payoff and principal amortization of MSRs portfolio	(34,247)	(41,529)	(23,735)	(8,545)	—
Loan origination and other loan fees	21,433	23,956	24,581	21,227	9,871
Loan servicing fees	50,233	54,772	44,407	22,204	5,908
Interest and other income	32,980	34,117	35,236	16,767	5,257
Expenses:					
Salaries, commissions and benefits	95,438	116,341	116,200	72,475	32,737
General and administrative expense	29,854	32,260	34,545	22,773	7,717
Interest expense	27,263	31,063	26,007	14,426	6,239
Impairment of MSRs	—	—	—	—	11,698
Amortization of MSRs	—	—	—	—	3,679
(Loss) income from continuing operations, net of tax	(3,082)	(16,241)	(25,428)	22,598	17,085
(Loss) income from discontinued operations, net of tax	—	(6,029)	(5,251)	—	—
Net (loss) income	(3,082)	(22,270)	(30,679)	22,598	17,085
Basic (loss) earnings per share from continuing operations	(0.12)	(0.63)	(0.99)	1.61	5.31
Diluted (loss) earnings per share from continuing operations	(0.12)	(0.63)	(0.99)	1.32	2.26
Balance Sheet Data					
Cash and cash equivalents	$ 26,258	$ 32,463	$ 45,382	$ 43,104	$ 15,056
Mortgage loans held for sale, at fair value	578,390	645,696	1,048,347	683,080	218,624
MSRs, at fair value	211,532	199,637	204,216	170,294	—
MSRs, at lower of amortized cost or fair value	—	—	—	—	42,202
Total assets	1,176,742	1,280,626	1,596,551	989,889	309,606
Secured borrowings - mortgage loans	277,789	492,799	592,798	342,393	102,675
Secured borrowings - MSRs	56,898	77,069	75,970	—	—
Secured borrowings - eligible GNMA loan repurchases	24,738	37,615	—	—	—
Mortgage repurchase borrowings	371,534	279,421	472,045	223,113	100,301
Warehouse lines of credit	170	1,306	1,374	7,056	—
Total liabilities	916,793	1,018,998	1,316,476	682,388	254,357
Total stockholders' equity	259,949	261,628	280,075	307,501	55,249
Other Data					
Origination volume	$ 9,363,003	$ 11,238,041	$ 11,975,133	$ 8,706,887	$ 3,449,407
Servicing portfolio ($UPB)	$ 16,286,839	$ 17,520,731	$ 18,336,745	$ 11,923,510	$ 4,145,340

ITEM 7. 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 discussion should be read in conjunction with Part I, Item 1 “Business” and our consolidated financial statements and related notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K. The following discussion should also be read in conjunction with the “Cautionary Note Concerning Forward-Looking Statements” and the risks and uncertainties described in Part I, Item 1A. “Risk Factors.”

During 2015, the Company disposed of certain retail branches, or components of its Originations segment, and the assets associated with them, either through sale or disposal other than by sale. The results of operations related to these disposed retail branches have been classified as discontinued operations for all periods presented in this report. The terms “earnings” and “loss” as used in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MDA”) refer to income (loss) from continuing operations, unless otherwise stated.

Performance Summary

The following highlights our performance from continuing operations for the years ended December 31, 2016 and 2015 .

	Years Ended December 31,		Change	
	2016	2015	$	%
Mortgage loan originations	$ 9,363,003	$ 11,238,041	$ (1,875,038)	(17)%
Gain on sale revenue	118,226	141,819	$ (23,593)	(17)%
Gain on sale revenue, bps [1]	126	126	—	— %
Total Expenses related to Originations segment, bps [1]	137	134	3	2 %
Total Expenses related to Servicing segment, bps [2]	11	13	(2)	(15)%

	As of		Change	
	December 31, 2016	December 31, 2015	$	%
Mortgage Service Portfolio ("UPB")	$ 16,286,839	$ 17,520,731	$ (1,233,892)	(7)%

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

Highlights of our financial and operating results from continuing operations for the year ended December 31, 2016 (“Current Period”) as compared to December 31, 2015 (“Prior Period”) include the following. For additional discussion and analysis of these results, see “Results of Operations” and “Liquidity and Capital Resources” included in this MDA:

Consolidated highlights

- Net loss of $3,082 , or $0.12 per diluted share, for the Current Period as compared to a net loss of $16,241 , or $0.63 per diluted share, for the Prior Period
- Maintained adequate liquidity position with cash and cash equivalents of $26,258 as of December 31, 2016 as compared to $32,463 as of December 31, 2015
- Reduced MSR debt by $20,171 , or 26% , to $56,898 as of December 31, 2016 as compared to December 31, 2015
- Total assets decreased $103,884 , or 8% , during the Current Period as compared to the Prior Period. Total liabilities decreased $102,205 , or 10% , during the Current Period as compared to the Prior Period. Changes in the composition and balance of our assets and liabilities during the Current Period are attributable to lower volume of loans originated during the Current Period compared to the Prior Period, as well as sales within our MSRs portfolio.

Originations segment highlights

- Pre-tax income of $28,901 for the Current Period as compared to $41,853 for the Prior Period

- Total originations of $9.36 billion during the Current Period as compared to $11.24 billion during the Prior Period
- Total expenses during the Current Period down 15% from the Prior Period
- Gains on mortgage loans held for sale, net during the year ended December 31, 2016 were 125 bps of loan originations compared to 127 bps for the year ended December 31, 2015 , increases in cash margins, lower provision for repurchases, direct loan origination costs and more favorable fair market value change of the interest rate lock commitments and loans held for sale partially offset by decrease in MSR capitalization rate was offset by basis point.

Servicing segment highlights

- Pre-tax loss of $12,532 for the Current Period as compared to $42,285 for the Prior Period
- Completed $6.90 billion of MSR sales for a realized gain of $5,514 during the Current Period
- Total expenses during the Current Period down 27% from the Prior Period
- Servicing UPB of $16.29 billion with a weighted average coupon of 3.72% as of December 31, 2016 as compared to $17.52 billion with a weighted average coupon of 4.02% as of December 31, 2015

Financing segment highlights

- Pre-tax income of $3,324 for the Current Period as compared to $1,207 for the Prior Period
- Total funded loans of $4.73 billion during the Current Period as compared to $3.22 billion during the Prior Period
- Funding fee income of $1.8 million during the Current Period, an increase of $546 thousand , or 45% , from the Prior Period
- An increase of 12% in total revenues, while also decreasing expenses by 16% during the Current Period as compared to the Prior Period

Proposed Merger with Home Point Financial Corporation

On January 26, 2017, the Company entered into the Merger Agreement with Home Point Financial and Merger Sub, pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving entity. Under the terms of the Merger Agreement, each outstanding share of our common stock (other than certain excluded shares) will be converted into the right to receive $8.00 in cash, without interest, less any applicable tax withholdings, which represents a per share premium of approximately 61 percent over our 90-day volume weighted average price on January 26, 2017 and 34 percent over our closing price per share on January 26, 2017.

The Company's Board of Directors unanimously approved the Merger following a comprehensive review of the transaction and strategic alternatives. The Merger is subject to certain customary closing conditions, including, among other things, approval by the Company's stockholders and regulatory approvals. The Merger is expected to close by the end of the second quarter of 2017.

In connection with the Merger Agreement entered into by the Company on January 26, 2017, the Board of Directors of the Company adopted a Tax Asset Protection Plan (the “Plan”) with Broadridge Corporate Issuer Solutions, Inc., as Rights Agent. The Plan is designed to protect the Company's tax assets during the period prior to the closing of the Merger. As of December 31, 2016 , the Company had approximately $183.0 million in net operating loss carryforwards for U.S. federal income tax purposes.

Recent Developments and Significant Transactions

We have continued to execute our strategies in each segment through development of new investor and product offerings, a focus on higher margin volume, improvement of operating expense efficiencies, and selling MSRs when the market conditions are favorable. Our MSRs are primarily created through our originations channels.

We continue to enter into strategic sale and financing arrangements and actively amend our existing arrangements to execute our liquidity and financing strategies. In 2015, we entered into a flow sale agreement for the sale of MSRs in GNMA loans to an unrelated party. The flow sales occurred monthly during the covered period, from September 2015 through April 2016. The characteristics of the pools sold were similar to those associated with the Company's current GNMA production. For additional discussion related to our MSR sales and amendments to our existing financing arrangements completed during 2016, please refer to Part I, Item 1 “Business - Significant Transactions and Recent Developments” included in this Annual Report on Form 10-K.

Market Considerations, Recent Industry Trends and Outlook

Mortgage Originations and Financing

Today’s U.S. residential mortgage loan origination sector primarily offers conventional agency and government conforming mortgage loans. Residential mortgage origination volume is impacted by changes in interest rates and housing market dynamics. Origination volume in 2015 was estimated at $1.72 trillion, according to an average estimates from industry sources (Fannie Mae, Freddie Mac, and the Mortgage Bankers Association ("MBA")), and indicate that 2016 origination volume was $1.94 trillion, an increase of 13% over 2015, as the market continued to benefit from the low prevailing interest rates. Refinance volume was estimated at 47% of total origination volume in 2016.

The 30-year fixed mortgage rates remained below 4.5% throughout 2016, ending the year at 4.20%, according to Freddie Mac, resulting in strong industry-wide refinance volume. Interest rates began trending upward during the fourth quarter of 2016, and peaked for the year in mid-December. The 10-year treasury ended the year at 2.45%.

2016 purchase-driven origination volume was up slightly compared to prior year, despite persistently low homeownership rates relative to historical values. In 2016, the homeownership rate was 63.7% compared to a high of 69% in 2005. However, household formation continues to trend up as the younger generation “comes of age”; many of these potential first-time homebuyers could drive additional purchase demand in the future. A more robust purchase market helps alleviate the volatility of the mortgage market associated with refinance volume.

The U.S. residential mortgage industry continues to experience mixed trends in loan applications and activity in recent months. During 2015, the MBA Weekly Refinance Application Index increased from 1272.9 on December 25, 2015 to 1449.4 on December 21, 2016, but fluctuated significantly throughout the year. The MBA Weekly Purchase Application Index increased from 196.2 on December 25, 2015 to 232.9 on December 21, 2016. Applications serve as a leading indicator for mortgage originations as applications turn into originations within a couple months.

Reports issued by Fannie Mae, Freddie Mac and the MBA indicate an average forecast of $1.54 trillion for 2017 origination volume, of which approximately 30% will result from refinance activity.

Finally, there continues to be changes in legislation and licensing in an effort to simplify and protect the consumer mortgage loan experience, which have required, and will continue to require, technological changes and additional implementation costs for mortgage loan originators. Specifically, ongoing compliance with the Home Mortgage Disclosure Act ("HMDA") and Consumer Financial Protection Bureau ("CFPB"), and the implementation of new forms and related requirements to comply with the Truth In Lending Act ("TILA") and Real Estate Settlement Procedures Act ("RESPA") Integrated Disclosure rule ("TRID") has necessitated significant operational and technological expenses and changes for the entire mortgage origination industry, and for our mortgage origination business in particular. We expect legislative changes and enforcement of recently effective legislation will continue in the foreseeable future, which may increase related expenses for originators in the industry. For additional information, see the “Regulation” and "Risk Factors" sections of our 2016 Annual Report on Form 10-K.

Mortgage Servicing

The mortgage servicing industry is impacted by borrower delinquencies and foreclosure activity, and servicers require a high level of expertise to comply with ongoing mortgage servicing reform and standardization of servicing and foreclosure practices within the industry. The modification of processes to adopt any new servicing or foreclosure standards may cause an increase in servicing costs for servicers in the industry. For additional information, see “Regulation” within Part I, Item 1 "Business" of our 2016 Annual Report on Form 10-K.

In the past several years, the mortgage servicing industry has transformed in several ways, primarily as a result of the economic crisis. Regulatory and counterparty oversight has increased, which has led to increased servicing costs. According to Freddie Mac, between 2008 and 2013, the average cost to service a performing loan increased 2.6 times and the cost to service a nonperforming loan increased 4.9 times. Additionally, the cost to hold mortgage servicing right assets (“MSRs”) increased in the wake of new capital requirements for banks and increased regulatory scrutiny. These factors have led to an increase in special servicers focused on nonperforming loans, as well as industry deconsolidation, specifically as it pertains to nonbanks accounting for a larger share of servicing than in the past. Among the top 20 servicers in 2009, nonbanks accounted for 9% of the servicing. By the fourth quarter of 2015, that share had increased to 28%.

Interest Rate Impacts

An increase in interest rates generally could lead to the following, which may in the aggregate have an adverse effect on our results:

- a reduction in origination volume and interest rate lock commitments;
- a shift from loan refinancing volume to purchase loan volume;
- a reduction of gains on mortgage loans held for sale; due to a more competitive originations market;
- an increase in net interest income from financing (assuming a steeper forward yield curve);
- an increase in the value of mortgage servicing rights due to a decline in prepayment expectations; and
- a decrease in actual prepayment speeds and activity, resulting in lower amortization expense.

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, change in GSEs' fee structures and other factors, none of which can be predicted with any certainty. Prepayment speeds impact 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 effectively 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.

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 income (loss) from continuing operations, net of tax and adjusted diluted EPS (LPS) from continuing operations 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 income (loss) from continuing operations, net of tax and adjusted diluted EPS (LPS) from continuing operations 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, and other non-routine costs such as remaining operating lease expenses from closed retail branches. These non-GAAP financial measures are not intended to be considered in isolation, or as a substitute for income (loss) from continuing operations before income taxes, income (loss) from continuing operations, net of tax or diluted EPS (LPS) from continuing operations prepared in accordance with GAAP.

In addition, adjusted net income (loss) from continuing operations, net of tax has limitations as an analytical tool, including but not limited to the following:

- adjusted net income (loss) does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- adjusted net income (loss) does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted net income (loss) 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 (loss) differently, thereby limiting its usefulness as a comparative measure.

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

The table below reconciles net income (loss) from continuing operations, net of tax, to adjusted net income (loss) from continuing operations and diluted EPS (LPS) from continuing operations to adjusted diluted EPS (LPS) from continuing operations (which are the most directly comparable GAAP measures) for the years ended December 31, 2016 , 2015 and 2014 .

	Years Ended December 31,			2016 vs 2015 Change		2015 vs 2014 Change	
	2016	2015	2014	$	%	$	%
(Loss) from continuing operations, net of tax	$ (3,082)	$ (16,241)	$ (25,428)	$ 13,159	81 %	$ 9,187	(36)%
Adjustments:							
Changes in mortgage servicing rights valuation [1]	12,666	30,395	55,842	(17,729)	(58)%	(25,447)	(46)%
Stock-based compensation expense	1,403	3,823	3,253	(2,420)	(63)%	570	18 %
Severance expense	—	1,735	—	(1,735)	(100)%	1,735	100 %
Other non-routine expenses [2]	119	221	5,483	(102)	(46)%	(5,262)	(96)%
Tax effect of adjustments	(527)	(9,192)	(21,775)	8,665	94 %	12,583	(58)%
Adjusted income from continuing operations, net of tax	$ 10,579	$ 10,741	$ 17,375	$ (162)	(2)%	$ (6,634)	(38)%
Diluted (loss) per share	$ (0.12)	$ (0.63)	$ (0.99)	$ 0.51	81 %	$ 0.36	(36)%
Adjustments:							
Changes in mortgage servicing rights valuation	0.49	1.18	2.17	(0.69)	(58)%	(0.99)	(46)%
Stock-based compensation expense	0.05	0.15	0.13	(0.10)	(67)%	0.02	15 %
Severance expense	—	0.07	—	(0.07)	(100)%	0.07	100 %
Other non-routine expenses	0.01	0.01	0.21	—	— %	(0.20)	(95)%
Tax effect of adjustments	(0.02)	(0.36)	(0.85)	0.34	94 %	0.49	(58)%
Adjusted diluted earnings per share	$ 0.41	$ 0.42	$ 0.67	$ (0.01)	(2)%	$ (0.25)	(37)%

[1] Changes in valuation inputs and assumptions on MSRs includes a realized gain of $5,514, a realized loss of $7,034 and a realized gain of $1,082 on the sale of MSRs for the years ended December 31, 2016, 2015 and 2014, respectively.

[2] For the year ended December 31, 2016 , amount consists of results from discontinued retail branches. For the year ended December 31, 2015 , amount consists primarily of expenses associated with the one-time write down of certain assets unrelated to our retail branch disposals. For the year ended December 31, 2014 , amount consists primarily of guarantees and other compensation expense prior to the period of meaningful origination production.

Adjusted net income decreased $162 , or 2% , during the year ended December 31, 2016 , as compared to the year ended December 31, 2015 . Adjusted diluted EPS decreased $0.01 , or 2% , during the year ended December 31, 2016 , as compared to the year ended December 31, 2015 . The decrease was primarily attributable to a reduction in our gain on sale due to lower originations volume, reduced MSR capitalization rate and lower loan servicing fees. These decreases were offset with decreased amortization of MSRs expense related to payoffs and principal reductions experienced during the year and reduced operating expenses due to decreased headcount.

Results of Operations

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Our consolidated results of operations for the years ended December 31, 2016 and 2015 are presented below. We will then discuss the results of continuing operations separately from the results of discontinued operations for each respective period.

	Years Ended December 31,			
	2016	2015	$ Change	% Change
Gains on mortgage loans held for sale, net	$ 118,226	$ 141,819	$ (23,593)	(17)%
Changes in mortgage servicing rights valuation	(12,666)	(30,395)	17,729	58%
Payoffs and principal amortization of mortgage servicing rights	(34,247)	(41,529)	7,282	18%
Loan origination and other loan fees	21,433	23,956	(2,523)	(11)%
Loan servicing fees	50,233	54,772	(4,539)	(8)%
Interest and other income	32,980	34,117	(1,137)	(3)%
Total revenues	175,959	182,740	(6,781)	(4)%
Salaries, commissions and benefits	95,438	116,341	(20,903)	(18)%
General and administrative expense	29,854	32,260	(2,406)	(7)%
Interest expense	27,263	31,063	(3,800)	(12)%
Occupancy, equipment and communications	16,491	16,870	(379)	(2)%
Depreciation and amortization expense	10,114	7,980	2,134	27%
Total expenses	179,160	204,514	(25,354)	(12)%
(Loss) from continuing operations before income tax (benefit) expense	(3,201)	(21,774)	18,573	85%
Income tax (benefit)	(119)	(5,533)	5,414	(98)%
(Loss) from continuing operations, net of tax	(3,082)	(16,241)	13,159	81%
(Loss) from discontinued operations, net of tax	—	(6,029)	6,029	100%
Net (loss) attributable to common stockholders	$ (3,082)	$ (22,270)	$ 19,188	86%
Weighted average diluted shares outstanding *(in thousands)*	25,922	25,783	139	1%
Basic (loss) per share:				
From continuing operations	$ (0.12)	$ (0.63)	0.51	(81)%
From discontinued operations	—	(0.23)	0.23	(100)%
Total basic (loss) per share	$ (0.12)	$ (0.86)	0.74	(86)%
Diluted (loss) per share:				
From continuing operations	$ (0.12)	$ (0.63)	0.51	(81)%
From discontinued operations	—	(0.23)	0.23	(100)%
Total diluted (loss) per share	$ (0.12)	$ (0.86)	0.74	(86)%

Continuing Operations

Revenues

During the year ended December 31, 2016 , total revenues from continuing operations decreased $6,781 , or 4% , as compared to the year ended December 31, 2015 . The decrease in revenues was predominantly the result of decreases in gains on mortgage loans held for sale, loan servicing fees, interest and other income and loan origination and other loan fees, partially offset by a lower negative change in the fair value of our MSRs and a decline in loan payoffs and principal amortization of MSRs.

Our gains on mortgage loans held for sale, net, from continuing operations, decreased $23,593 , or 17% , during the year ended December 31, 2016 , as compared to the year ended December 31, 2015 , primarily due to a 17% decrease in origination volume. Our gains on mortgage loans held for sale, net, from continuing operations during both the years ended December 31, 2016 and 2015 were 126 basis points of loan originations. The increase in basis point gain on sale was due primarily to increases in our government insured loan production, which generate higher revenue margins than our other loan products, partially offset by a lower MSR capitalization rate, as further discussed in the Originations Segment Results section.

The decrease in our loan servicing fees was a direct result of our lower average servicing portfolio of $16.46 billion during the year ended December 31, 2016 as compared to $18.00 billion during the year ended December 31, 2015 . Our average loan servicing fees, as a percentage of our average servicing portfolio, were 31 and 30 bps for the years ended December 31, 2016 and 2015, respectively.

The decrease in interest and other income from continuing operations was primarily a result of the 17% decrease in mortgage loan originations during the year ended December 31, 2016 as compared to December 31, 2015 , as there is a direct correlation between interest and other income and mortgage loan origination activity.

Loan origination and other loan fees from continuing operations decreased primarily as a result of the decrease in the amount of loans originated during the year ended December 31, 2016 compared to the year ended December 31, 2015 .

The value of our MSRs increased during the year ended December 31, 2016 , driven primarily by the increases in market interest rates and the volatility of the yield curve during the year. 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. These factors also drove the decrease in the fair value of our MSRs during the year ended December 31, 2015 , but to a greater extent. The increase in the current year was also driven by realized gains related to sales of mortgage servicing rights during the year ended December 31, 2016 of $5,514, primarily related to 1) the change in fair value of the underlying MSRs from the time of the transaction bid to the date the assets are derecognized; 2) estimated prepayment protection provisions; and 3) costs associated with the sales. During the year ended December 31, 2015 , we realized losses on sales of MSRs of $7,034, net of such provisions and transaction costs.

The decline in payoffs and principal amortization of our MSRs was driven primarily by a 9% decrease in our average servicing portfolio, as well as a decrease in constant prepayment speeds from 18.00% during the year ended December 31, 2015 to 17.11% during the year ended December 31, 2016 .

Expenses

Total expenses from continuing operations decreased $25,354 , or 12% , for the year ended December 31, 2016 , compared to the year ended December 31, 2015 . Total expenses have decreased due to lower salaries, commissions and benefits, as well as a 12% decline in interest expense primarily due to lower volume of mortgage loans originated and funded. This was partially offset by higher depreciation and amortization expenses primarily due to increased property and equipment and software expenditures during 2015 related to major additions to our information technology systems for regulatory compliance, accounting, and operations.

Salaries, commissions and benefits expense from continuing operations decreased $20,903 , or 18% , during the year ended December 31, 2016 compared to the year ended December 31, 2015 , primarily as a result of decreased commission and incentive compensation expense related to the decline in origination volume and decreased salaries and payroll taxes due to reduced headcount. Our total headcount decreased from 927 employees at December 31, 2015 to 863 employees at December 31, 2016.

General and administrative expenses from continuing operations decreased $2,406 , or 7% , during the year ended December 31, 2016 compared to the year ended December 31, 2015 . During the current period, the Company settled a certain legal matter, as discussed in Note 18 "Commitments and Contingencies." Concurrently with the recognition of the settlement in revenue, the Company recorded an impairment of $4,233, which represented the carrying value of the purchased loans at the time of the settlement. Excluding this impairment, general and administrative expenses decreased $6,639, which was primarily due to recent cost control focus, lower headcount, and less reliance on outside services. Significant declines occurred in outside services, dues and subscriptions, travel and entertainment expenses and a decrease in the provision for mortgage repurchases and indemnifications - change in estimate.
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Interest expense from continuing operations decreased $3,800 , or 12% , during the year ended December 31, 2016 , compared to the year ended December 31, 2015 , primarily due to decreased borrowings as a result of the decrease in the volume of mortgage loans originated and funded in the current period, partially offset by a higher cost of funds related to LIBOR based borrowings. We expect that interest expense will generally move in direct correlation to changes in our origination and servicing portfolio trends in future periods.

Depreciation and amortization expense from continuing operations increased $2,134 , or 27% , during the year ended December 31, 2016 , compared to the year ended December 31, 2015 , primarily due to increased property and equipment and software expenditures during 2015 related to major additions to our information technology systems for regulatory compliance, accounting, and operations. Additionally, during the current period, we recognized incremental expense of $1,063 for the acceleration of the useful lives of assets related to certain of our loan origination and servicing systems as a result of our decision to replace these systems during 2017.

Occupancy, equipment and communication expenses from continuing operations decreased $379 , or 2% , during the year ended December 31, 2016 , compared to the year ended December 31, 2015 , primarily due to decreased information technology costs resulting from our prior year investment in additional infrastructure to increase efficiencies and effectiveness within our systems.

We reported an income tax benefit from continuing operations of $119 for the year ended December 31, 2016 , compared to $5,533 for the year ended December 31, 2015 , with an effective tax rate of 3.7% and 25.4% , respectively. The income tax benefit from continuing operations for the year ended December 31, 2015 includes the impact of recording a $1,554 valuation allowance to offset our deferred tax assets, as we determined that it was more likely than not that a portion of our deferred tax assets will not be realized. Additionally, the decrease in the effective tax rate during the year ended December 31, 2016 is due to adjustments to state net deferred tax liabilities based on an increased state effective tax rate and provision to tax return adjustments.

In 2016, we released $657 of the valuation allowance after consideration of relevant current facts and circumstances and made a determination that the federal valuation allowance recorded in prior quarters during 2016 was no longer required. The remaining balance of $896 as of December 31, 2016 reflects the state valuation allowance. Reversal of the valuation allowance is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. As of December 31, 2016 , we had total company federal and state net operating loss carryforwards of $182,979 and $142,143 , respectively. In future periods, the allowance could be adjusted if sufficient evidence exists indicating that it is more likely than not that a portion or all of these deferred tax assets will or will not be realized.

Discontinued Operations

In 2015, we disposed of certain retail branches, or components of our Originations segment, either by sale or closure. We completed the closure of 62 of our retail branches as of December 31, 2015. Additionally, on October 29, 2015, we sold to an unrelated third party certain assets associated with 14 retail branches. The Company determined that the disposal of these retail branches met the criteria for being reported as discontinued operations under ASU No. 2014-08, and has been reclassified as such in our results of operations. There were no additional material amounts classified as discontinued operations during the year ended December 31, 2016. The following table provides the components of loss from discontinued operations, net of tax for the year ended December 31, 2015 :

	Year Ended December 31, 2015
Gains on mortgage loans held for sale, net	$ 28,117
Loan origination and other loan fees	4,091
Interest and other income	2,163
Total revenues	34,371
Salaries, commissions and benefits	30,294
General and administrative expense	4,874
Interest expense	1,555
Occupancy, equipment and communications	6,491
Depreciation and amortization expense	855
Total expenses	44,069
(Loss) from discontinued operations before income tax (benefit) expense	(9,698)
Income tax (benefit)	(3,669)
(Loss) from discontinued operations, net of tax	$ (6,029)

During the year ended December 31, 2015 , our net loss from discontinued operations was $6,029 and was primarily due to expenses related to salaries, commissions and benefits, general and administrative, and occupancy, equipment and communications. These expenses were partially offset by gains on mortgage loans held for sale, net and other revenue associated with the discontinued operations.

Originations

The following table sets forth the results of operations for the years ended December 31, 2016 and 2015 for our originations segment.

	Years Ended December 31,

	2016	2015	$ Change	% Change
Revenues				
Gains on mortgage loans held for sale, net	$ 117,068	$ 142,772	$ (25,704)	(18)%
Loan origination and other loan fees	19,661	22,751	(3,090)	(14)%
Interest and other income	20,504	26,729	(6,225)	(23)%
Total revenues	157,233	192,252	(35,019)	(18)%
Expenses				
Salaries, commissions and benefits	62,272	78,885	(16,613)	(21)%
General and administrative expense	10,306	13,851	(3,545)	(26)%
Interest expense	18,189	19,347	(1,158)	(6)%
Occupancy, equipment and communications	7,710	7,422	288	4%
Depreciation and amortization expense	7,837	5,581	2,256	40%
Corporate allocations	22,018	25,313	(3,295)	(13)%
Total expenses	128,332	150,399	(22,067)	(15)%
Income (loss) from continuing operations before taxes	$ 28,901	$ 41,853	$ (12,952)	(31)%

Originations segment reported income from continuing operations before taxes of $28,901 during the year ended December 31, 2016 , compared to $41,853 for the year ended December 31, 2015 . This decrease was the result of a 17% decrease in mortgage loan originations offset by higher revenue margins from a strategic change in mix of originations to government insured loans.

Origination segment revenues

Gains on Mortgage Loans Held for Sale, Net
Our gains on mortgage loans held for sale, net, from continuing operations, during the year ended December 31, 2016 decreased $25,704 or 18% as compared to the year ended December 31, 2015 primarily due to a 17% decrease in mortgage loan originations. Our gains on mortgage loans held for sale, net during the year ended December 31, 2016 were 125 bps of loan originations compared to 127 bps for the year ended December 31, 2015 . Gains on mortgage loans held for sale, net consisted of the following components for the years ended December 31, 2016 and 2015 :

	Years Ended December 31,				
	2016		2015		Variance
	$	bps [2]	$	bps [2]	
Realized gains on sales of loans	$ 18,154	19	$ 15,979	14	$ 2,175
Capitalized servicing rights	112,102	120	146,763	131	(34,661)
Economic hedge results	856	1	(1,356)	(1)	2,212
Provision for repurchases	(2,649)	(3)	(3,007)	(3)	358
Direct loan origination costs [1]	(11,395)	(12)	(15,607)	(14)	4,212
Gains on mortgage loans held for sale, net	$ 117,068	125	$ 142,772	127	$ (25,704)

[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.

The components of Gains on mortgage loans held for sale, net are described 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 year ended December 31, 2016 , compared to the year ended December 31, 2015 , was primarily due to improved margins from an increase in the percentage mix of government loan production which produces higher margins.

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). Utilizing a third party valuation model, the Company estimates this initial MSRs fair value at the time of sale using internally derived portfolio specific inputs and assumptions. The decrease in our capitalized servicing rights component for year ended December 31, 2016 , as compared to the year ended December 31, 2015 , relates to the decrease in our loan shipment volume and a decrease in the average 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. A decrease in loan origination volume results in a lower level of MSRs asset creation. The interest rate environment which we capitalize these servicing rights decreased for the majority of the year resulting in lower valuation at time of initial capitalization.

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 increase in our economic hedge results for the year ended December 31, 2016 , as compared to the year ended December 31, 2015 , primarily relates to favorable changes in the fair value of the loans held for sale driven by increased interest rates, partially offset by a lower notional value of interest rate lock commitments.

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 representations 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 on sale line item. We expect that the provision for mortgage repurchases and indemnifications may fluctuate in relation to changes in our origination volume and mix of loan products originated; however, changing market conditions will also influence any trends in our provision. The decline in the provision for the year ended December 31, 2016 , as compared to the year ended December 31, 2015 , is related to the decline in volume of loans originated and subsequently sold during the year and outstanding at December 31, 2016.

Subsequently, based on changing facts and circumstances or changes in certain estimates and assumptions, the reserve liability may be adjusted if there is a reasonable possibility that future losses may be different from the initial reserve liability, with a corresponding amount recorded to provision for mortgage repurchases and indemnifications - change in estimate within the general and administrative expense in the Consolidated Statements of Operations. As such, 2016 includes the release of $1,500 of the repurchase reserve, which is described further in Note 15, "Reserve for Mortgage Repurchases and Indemnifications," to our audited consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

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 year ended December 31, 2016 , as compared to the year ended December 31, 2015 , relates to the decrease in mortgage loan origination volume.

Loan Origination and Other Loan Fees

Our loan origination and other loan fees from continuing operations during the year ended December 31, 2016 decreased $3,090 , or 14% , compared to the year ended December 31, 2015 , due to a 17% decrease in mortgage loan originations. However, our loan origination and other loan fees increased slightly on a per loan basis to $0.496 for the year ended December 31, 2016 from $0.467 for the year ended December 31, 2015 due to an increase in fees charged.

The following table illustrates mortgage loan originations by type for the years ended December 31, 2016 and 2015 :

	Years Ended December 31,			
	2016		2015	
	$	% Total	$	% Total
Conventional	$ 3,814,286	41 %	$ 4,591,744	41%
Government insured	5,380,652	57 %	6,178,541	55 %
Non-agency/Other	168,065	2 %	467,756	4 %
Total mortgage loan originations	$ 9,363,003	100 %	$ 11,238,041	100%

The following is a summary of mortgage loan origination volume by channel for the years ended December 31, 2016 and 2015 :

	Years Ended December 31,					
	2016			2015		
	# of Loans	$	% Total	# of Loans	$	% Total
Retail	5,233	$ 1,189,065	13 %	7,302	$ 1,533,254	13%
Wholesale	7,583	2,146,435	23 %	9,027	2,550,580	23 %
Correspondent	26,826	6,027,503	64 %	32,405	7,154,207	64 %
Total mortgage loan originations	39,642	$ 9,363,003	100 %	48,734	$ 11,238,041	100%

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 years ended December 31, 2016 and 2015 is as follows:

	Year Ended December 31, 2016						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 2,676	$ 6,032	$ 8,209	$ 42,802	$ 1,292	$ 61,011	1%
620-680	134,375	244,544	354,053	1,824,339	19,324	2,576,635	27 %
681-719	199,575	324,874	346,109	1,109,895	14,919	1,995,372	21 %
>719	1,131,243	1,372,006	682,304	1,517,704	26,728	4,729,985	51 %
Total mortgage loan originations	$ 1,467,869	$ 1,947,456	$ 1,390,675	$ 4,494,740	$ 62,263	$ 9,363,003	100%
% Total	15%	21%	15%	48%	1%	100%	

	Year Ended December 31, 2015						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 6,739	$ 10,112	$ 13,115	$ 95,008	$ 4,092	$ 129,066	1%
620-680	157,707	290,009	362,534	2,026,922	21,876	2,859,048	25 %
681-719	239,606	410,834	363,524	1,415,444	22,035	2,451,443	22 %
>719	1,283,478	1,787,783	786,908	1,907,774	32,541	5,798,484	52 %
Total mortgage loan originations	$ 1,687,530	$ 2,498,738	$ 1,526,081	$ 5,445,148	$ 80,544	$ 11,238,041	100%
% Total	15%	22%	14%	48%	1%	100%	

Interest and Other Income

Interest and other income from continuing operations related to our Originations segment decreased $6,225 , or 23% , during the year ended December 31, 2016 compared to the year ended December 31, 2015 . The decrease in interest and other income was primarily a result of lower average coupon rates during the year ended December 31, 2016 , compared to the year ended December 31, 2015 , and decreased mortgage loan originations, as there is a direct correlation between interest and other income and mortgage loan origination. The average coupon rate related to our Originations segment was 3.72% during the year ended December 31, 2016 , compared to 3.84% during the year ended December 31, 2015 .

Origination segment expenses

Salaries, Commissions and Benefits Expense
Salaries, commissions and benefits expense from continuing operations related to our Originations segment decreased $16,613 , or 21% , during the year ended December 31, 2016 , compared to the year ended December 31, 2015 . This decrease was primarily a result of decreased commissions and incentives related to the decreased volume of originations, and reduced salaries and related benefit costs due to the reduction of revenue-producing and support positions. Headcount related to our originations segment decreased from 592 employees at December 31, 2015 to 557 employees at December 31, 2016 .

General and Administrative Expenses
General and administrative expenses from continuing operations related to our Originations segment decreased $3,545 , or 26% , during the year ended December 31, 2016 , compared to the year ended December 31, 2015 , primarily due to management's focus on cost reductions, increased operational efficiencies and a decrease in the provision for mortgage repurchases and indemnifications - change in estimate.

Interest Expense
Interest expense from continuing operations related to our Originations segment decreased $1,158 , or 6% during the year ended December 31, 2016 , compared to the year ended December 31, 2015 , primarily as a result of the decrease in the volume of mortgage loans originated and funded in the current period, partially offset by a higher cost of funds on borrowing lines tied to LIBOR. We expect that interest expense will move in direct correlation to changes in our origination trends and borrowings in future periods.

Depreciation and Amortization Expense
Depreciation and amortization expense from continuing operations related to our Originations segment increased $2,256 , or 40% , during the year ended December 31, 2016 , compared to the year ended December 31, 2015 , primarily due to increased capital expenditures during 2015 related to major additions to our information technology systems for regulatory compliance, accounting and operations. We expect to see continued increased expenses in our efforts to adhere to the increasing regulatory environment. Additionally, during the current period, we recognized incremental expense of $1,063 for the acceleration of the useful lives of assets related to certain of our loan origination and servicing systems as a result of our decision to replace these systems during 2017.

Servicing

The following table sets forth the results of operations for the years ended December 31, 2016 and 2015 for our servicing segment.

	Years Ended December 31,			
	2016	2015	$ Change	% Change
Revenues				
Gains on mortgage loans held for sale, net	$ 1,168	$ (1,088)	$ 2,256	207%
Changes in mortgage servicing rights valuation	(12,666)	(30,395)	17,729	58%
Payoffs and principal amortization of mortgage servicing rights	(34,247)	(41,529)	7,282	18%
Loan servicing fees	50,233	54,772	(4,539)	(8)%
Interest and other income	618	124	494	398%
Total revenues	5,106	(18,116)	23,222	128%
Expenses				
Salaries, commissions and benefits	6,518	8,200	(1,682)	(21)%
General and administrative expense	2,654	2,063	591	29%
Interest expense	2,760	7,904	(5,144)	(65)%
Occupancy, equipment and communications	1,663	1,976	(313)	(16)%
Depreciation and amortization expense	575	455	120	26%
Corporate allocations	3,468	3,571	(103)	(3)%
Total expenses	17,638	24,169	(6,531)	(27)%
Income (loss) from continuing operations before taxes	$ (12,532)	$ (42,285)	$ 29,753	70%

The Servicing segment incurred a loss before taxes of $12,532 during the year ended December 31, 2016 , compared to $42,285 during the year ended December 31, 2015 , due primarily to the change in our MSRs valuation, as discussed below, decreased amortization of MSRs expense related to payoffs and principal reductions experienced during the current period, coupled with lower expenses. The decrease in principal runoff was due to the higher interest environment present throughout the year ended December 31, 2016 , during which refinance activity and prepayment speeds decreased. This was partially offset by lower loan servicing revenues resulting from a lower average mortgage servicing portfolio.

The following is a summary of certain metrics specific to the Servicing segment for the years ended December 31, 2016 and 2015 :

	As of December 31,	
	2016	2015
Servicing Portfolio UPB	$ 16,286,839	$ 17,520,731
Number of Loans Serviced (units)	83,668	90,408
Weighted Average Coupon	3.72%	4.02%
Weighted Average Age (in months)	17	16
90+ day Delinquency Rate	0.83%	0.60%
Weighted Average FICO score	722	725
Weighted Average Servicing Fee (in basis points)	30	30
Capitalized Loan Servicing Portfolio	$ 211,532	$ 199,637
Capitalized Servicing Rate [1]	1.30%	1.14%
Capitalized Servicing Multiple	4.28	3.92

1 Represents MSR value divided by ending UPB servicing portfolio.

	Years Ended December 31,	
	2016	2015
Gross Constant Prepayment Rate [1]	17.11%	18.00%
Average Total Loan Servicing Portfolio	$ 16,455,791	$ 18,001,777
Average Capitalized Loan Servicing Portfolio	$ 170,740	$ 199,510
Payoffs and Principal Curtailments of Capitalized Portfolio	$ 3,089,366	$ 3,594,722
Sales of Capitalized Portfolio	$ 6,907,732	$ 8,731,001

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.

Servicing segment revenues

Changes in Mortgage Servicing Rights Valuation

The improvement in the negative fair value adjustment during the year ended December 31, 2016 was driven primarily by the volatility in market interest rates and the yield curve during the year. 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 year ended December 31, 2016 , the weighted average coupon of our MSRs portfolio was lower in comparison to December 31, 2015 and mortgage rates were also lower on average during the year ended December 31, 2016 than they were at during the year ended December 31, 2015 . In addition, there were several MSR sales between these two periods, which changed the mix and characteristics of the overall portfolio. The combination of these factors increased 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.

The improvement was also driven by realized gains related to sales of mortgage servicing rights during the year ended December 31, 2016 of $5,514, primarily related to 1) the change in fair value of the underlying MSRs from the time of the transaction bid to the date the assets are derecognized; 2) estimated prepayment protection provisions; and 3) costs associated with the sales. During the year ended December 31, 2015 , we realized a loss on sale of MSRs of $7,034, net of protection provisions and transaction costs.

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 year ended December 31, 2016 , this amount decreased the value of our MSRs by $34,247 , compared to $41,529 during the year ended December 31, 2015 , a difference of 18% . The decrease in run-off and paid off loans correlates with a 5% decrease in prepayment speeds from December 31, 2015 to December 31, 2016 as well as a 9% decrease in our average servicing portfolio.

Loan Servicing Fees

The following is a summary of loan servicing fee income by component for the years ended December 31, 2016 and 2015 :

	Years Ended December 31,	
	2016	2015
Contractual servicing fees	$ 47,534	$ 51,775
Late fees	2,699	2,997
Loan servicing fees	$ 50,233	$ 54,772
Servicing fees as a percentage of average portfolio	0.31%	0.30%

Our loan servicing fees decreased to $50,233 during the year ended December 31, 2016 from $54,772 during the year ended December 31, 2015 . The 8% decrease in our loan servicing fees was primarily the result of our lower average servicing portfolio $16.46 billion during the year ended December 31, 2016 compared to $18.0 billion during the year ended December 31, 2015 . Our loan servicing fees, as a percentage of our average servicing portfolio, were 31 bps for the year ended December 31, 2016 , compared to 30 bps for the year ended December 31, 2015 .

Gains (Losses) on Mortgage Loans Held for Sale

During the year ended December 31, 2016 , the Servicing segment recorded gains on mortgage loans held for sale of $1,168 compared to losses on mortgage loans held for sale of $1,088 for the year ended December 31, 2015 . This relates to the loans we actually repurchased out of GNMA pools (versus those eligible for repurchase) in connection with our unilateral right, as servicer, to repurchase such GNMA loans we have previously sold. Our right to repurchase such loans arises as the result of the borrower's failure to make payments for at least 90 days preceding the month of repurchase by us and provides an alternative to our obligation to continue advancing principal and interest at the coupon rate of the related GNMA security. As we make the underlying GNMA loan re-salable, by the loan becoming current either through the borrower's performance or through completion of a modification of the loan's terms, we expect to be able to resell the loan in the future.

Servicing segment expenses

Salaries, Commissions and Benefits Expense

Salaries, commissions and benefits expense related to our Servicing segment decreased $1,682 , or 21% , during the year ended December 31, 2016 , compared to the year ended December 31, 2015 , primarily as a result of reduced costs related to a reduction in staffing. Headcount related to our Servicing segment decreased from 96 employees at December 31, 2015 to 82 employees at December 31, 2016 .

Interest Expense
Interest expense related to our Servicing segment decreased $5,144 , or 65% , during the year ended December 31, 2016 , compared to the year ended December 31, 2015 , primarily due to lower borrowings on our MSR portfolio.

Financing

The following table sets forth the results of operations for the years ended December 31, 2016 and 2015 for our financing segment.

	Years Ended December 31,			
	2016	2015	$ Change	% Change
Revenues				
Loan origination and other loan fees	$ 1,751	$ 1,205	$ 546	45%
Interest and other income	7,535	7,111	424	6%
Total revenues	9,286	8,316	970	12%
Expenses				
Salaries, commissions and benefits	1,715	1,962	(247)	(13)%
General and administrative expense	855	866	(11)	(1)%
Interest expense	2,235	3,259	(1,024)	(31)%
Occupancy, equipment and communications	244	250	(6)	(2)%

Depreciation and amortization expense	407	411	(4)	(1)%
Corporate allocations	506	361	145	40%
Total expenses	5,962	7,109	(1,147)	(16)%
Income (loss) from continuing operations before taxes	$ 3,324	$ 1,207	$ 2,117	175%

The Financing segment provides warehouse lending activities to correspondent customers through our NattyMac subsidiary. The Financing segment reported income before income taxes of $3,324 and $1,207 during the years ended December 31, 2016 and 2015 , respectively. The higher income in the current period is primarily due to increased interest and other income resulting from higher volume of warehouse loan originations. Originations funded by our NattyMac subsidiary increased to $4.73 billion during the year ended December 31, 2016 from $3.22 billion during the year ended December 31, 2015 . The increased income before taxes for Financing was also the result of reduced expenses, primarily interest and salaries, commissions and benefits expenses.

Other/Eliminations

The following table sets forth the results of operations for the years ended December 31, 2016 and 2015 for Other/Eliminations.

	Years Ended December 31,			
	2016	**2015**	**$ Change**	**% Change**
Revenues				
Gains on mortgage loans held for sale, net	$ (10)	$ 135	$ (145)	(107)%
Loan origination and other loan fees	21	—	21	100%
Interest and other income	4,323	153	4,170	2,725%
Total revenues	4,334	288	4,046	1,405%
Expenses				
Salaries, commissions and benefits	24,933	27,294	(2,361)	(9)%
General and administrative expense	16,039	15,480	559	4%
Interest expense	4,079	553	3,526	638%
Occupancy, equipment and communications	6,874	7,222	(348)	(5)%
Depreciation and amortization expense	1,295	1,533	(238)	(16)%
Corporate allocations	(25,992)	(29,245)	3,253	11%
Total expenses	27,228	22,837	4,391	19%
Income (loss) from continuing operations before taxes	$ (22,894)	$ (22,549)	$ (345)	(2)%

Other/Eliminations includes 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. The loss before taxes was materially consistent at $22,894 for the year ended December 31, 2016 compared to $22,549 for the year ended December 31, 2015.

Results for the year ended December 31, 2016 include cash consideration received in connection with the settlement of a certain legal matter (as discussed in Note 18 "Commitments and Contingencies"), which was recognized in "Interest and other income." Concurrently with the recognition of the settlement in revenue, we recorded an impairment of $4,233 in "General and administrative expense", which was substantially the same amount as the settlement income recognized and represented the carrying value of the purchased loans at the time of the settlement.

<u>Year Ended December 31, 2015 Compared to Year Ended December 31, 2014</u>

Our consolidated results of operations for the years ended December 31, 2015 and 2014 are presented below. We will then discuss the results of continuing operations separately from the results of discontinued operations for each respective period.

	Years Ended December 31,			
	2015	**2014**	**$ Change**	**% Change**
Gains on mortgage loans held for sale, net	$ 141,819	$ 133,390	$ 8,429	6%
Changes in mortgage servicing rights valuation	(30,395)	(55,842)	25,447	46%
Payoffs and principal amortization of mortgage servicing rights	(41,529)	(23,735)	(17,794)	(75)%
Loan origination and other loan fees	23,956	24,581	(625)	(3)%

Loan servicing fees	54,772	44,407	10,365	23%
Interest income	34,117	35,236	(1,119)	(3)%
Total revenues	182,740	158,037	24,703	16%
Salaries, commissions and benefits	116,341	116,200	141	—%
General and administrative expense	32,260	34,545	(2,285)	(7)%
Interest expense	31,063	26,007	5,056	19%
Occupancy, equipment and communications	16,870	14,601	2,269	16%
Depreciation and amortization expense	7,980	5,048	2,932	58%
Total expenses	204,514	196,401	8,113	4%
(Loss) income from continuing operations before income tax (benefit) expense	(21,774)	(38,364)	16,590	43%
Income tax (benefit) expense	(5,533)	(12,936)	7,403	57%
(Loss) income from continuing operations, net of tax	(16,241)	(25,428)	9,187	36%
(Loss) income from discontinued operations, net of tax	(6,029)	(5,251)	(778)	(15)%
Net (loss) income attributable to common stockholders	$ (22,270)	$ (30,679)	$ 8,409	27%
Weighted average diluted shares outstanding *(in thousands)*	25,783	25,770	13	—%
Basic (loss) earnings per share:				
From continuing operations	$ (0.63)	$ (0.99)	0.36	36%
From discontinued operations	(0.23)	(0.20)	(0.03)	(15)%
Total basic (loss) earnings per share	$ (0.86)	$ (1.19)	0.33	28%
Diluted (loss) earnings per share:				
From continuing operations	$ (0.63)	$ (0.99)	0.36	36%
From discontinued operations	(0.23)	(0.20)	(0.03)	(15)%
Total diluted (loss) earnings per share	$ (0.86)	$ (1.19)	0.33	28%

Continuing Operations

Revenues

During the year ended December 31, 2015, total revenues from continuing operations increased $24,703, or 16%, as compared to the year ended December 31, 2014. The increase in revenues resulted from a smaller decline in the fair value of our MSRs, increased loan servicing fees and increases in gains on mortgage loans held for sale, net, offset by increased loan payoffs and principal amortization of MSRs and decreases in interest and other income and loan origination and other loan fees.

The value of our MSRs declined during the year ended December 31, 2015, driven primarily by the decrease in market interest rates and flattening of the yield curve during the year. Decreasing interest rates generally result in decreased MSRs values, as the assumption for prepayment speeds of the underlying mortgage loans tends to increase (mortgage loans prepay faster) and a flattening yield curve decreases the expected value of interest and other income from the escrow balances we maintain. These factors also drove the decrease in the fair value of our MSRs during the year ended December 31, 2014, but to a greater extent. The decrease in the current year was also driven by realized losses related to sales of mortgage servicing rights during the year ended December 31, 2015 of $7,034, primarily related to 1) the change in fair value of the underlying MSRs from the time of the transaction bid to the date the assets are derecognized; 2) estimated prepayment protection provisions; and 3) costs associated with the sales. During the year ended December 31, 2014, we realized a gain on sale of MSRs of $1,082, net of such provisions and transaction costs.

The increase in our loan servicing fees was a direct result of our higher average servicing portfolio of $18.0 billion during the year ended December 31, 2015, compared to an average servicing portfolio of $15.8 billion during the year ended December 31, 2014. Our average loan servicing fees, as a percentage of our average servicing portfolio, were 30 bps for the year ended December 31, 2015, compared to 28 bps for the year ended December 31, 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, as well as increased late fees resulting from delinquencies.

Our gains on mortgage loans held for sale, net, from continuing operations, increased $8,429, or 6%, during the year ended December 31, 2015, as compared to the year ended December 31, 2014, primarily due to shifts in our product and channel mix. Our gains on mortgage loans held for sale, net, from continuing operations during the year ended December 31, 2015 were 126 basis points of loan originations, compared to 112 basis points for the comparable period in 2014. The increase in basis point gain on sale was due primarily to increases in our government insured loan production, which generate higher revenue margins than our other loan products.

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 year ended December 31, 2015, as well as the higher refinancing activity discussed in the Market Considerations, Recent Industry Trends and Our Outlook section.

The decrease in interest and other income from continuing operations was primarily a result of the 6% decrease in mortgage loan originations during the year ended December 31, 2015 as compared to December 31, 2014, as there is a direct correlation between interest and other income and mortgage loan origination activity.

Loan origination and other loan fees from continuing operations decreased primarily as a result of the decrease in the amount of loans originated during the year ended December 31, 2015 compared to the year ended December 31, 2014, offset by the shifts in our product and channel mix. Government insured loans provide higher fees than our other products.

Expenses

Total expenses from continuing operations increased $8,113, or 4%, for the year ended December 31, 2015, compared to the same period ended December 31, 2014. Total expenses have increased due to 1) a 14% increase in our average servicing portfolio and the related costs during the year ended December 31, 2015, compared to the year ended December 31, 2014, including increased specialized servicing expertise required to manage the increased age of our servicing, which increases delinquencies and defaults; 2) higher regulatory compliance costs; 3) increased information technology costs and 4) executive severance expense.

Interest expense from continuing operations increased $5,056, or 19%, during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily due to interest costs associated with increased borrowings related to financing our MSRs portfolio and increased borrowings as a result of the increase in the volume of mortgage loans originated and funded through our Financing segment 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.

Depreciation and amortization expense from continuing operations increased $2,932, or 58%, during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily due to increased property and equipment expenditures resulting from our overall growth and investments in technology.

Occupancy, equipment and communication expenses from continuing operations increased $2,269, or 16%, during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily due to increased information technology costs resulting from our investment in additional infrastructure to increase efficiencies and effectiveness within our systems. We expect expenses will decrease in future periods, now that we have substantially completed this investment in additional infrastructure to manage our growth and increase automation within our systems.

Salaries, commissions and benefits expense from continuing operations increased $141 during the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily as a result of increased headcount in segment and corporate support areas, as well as the payment of executive severance. This increase was partially offset by cost savings recognized during the fourth quarter of 2015, as part of our personnel changes to refine our strategy.

General and administrative expenses from continuing operations decreased $2,285, or 7%, during the year ended December 31, 2015 compared to the year ended December 31, 2014. The year ended December 31, 2014 included increased expenses related to our full transition to a publicly-traded company, such as outside consulting fees and travel, for the development of policies and procedures, enhancement of internal controls and testing procedures related to these controls. Additionally, we experienced an increase in expenses related to the integration of our acquisitions during that time. During the year ended December 31, 2015, we did not experience the same types of expenses and were able to focus on the management of expenses.

We reported an income tax benefit from continuing operations of $5,533 for the year ended December 31, 2015, compared to $12,936 for the year ended December 31, 2014, with an effective tax rate of 25.4% and 33.7%, respectively. The decrease in income tax benefit is due primarily to a decrease in our loss before taxes for the year ended December 31, 2015, compared to the year ended December 31, 2014. The income tax benefit of $5,533 for the year ended December 31, 2015 includes the net impact of establishing a $1,554 valuation allowance to offset our deferred tax assets, as we determined that it is more likely than not that a portion of our deferred tax assets will not be realized. The decrease in effective tax rate was due primarily to equity compensation forfeitures, the establishment of a valuation allowance and an adjustment to state net deferred tax liabilities recognized during the year ended December 31, 2015.

Discontinued Operations

In September 2015, we made the decision to dispose of certain retail branches, or components of our Originations segment, either by sale or closure. We completed the closure of 62 of our retail branches as of December 31, 2015 . Additionally, on October 29, 2015, we sold to an unrelated third party certain assets associated with 14 retail branches. Under the new guidance of Accounting Standards Update ("ASU") No. 2014-08, we determined that the disposal of these retail branches represented a major strategic shift in our operations and, therefore, should be presented and disclosed as discontinued operations.

Our consolidated results of discontinued operations for the years ended December 31, 2015 and 2014 are as follows:

	Years Ended December 31,

	2015	2014	$ Change	% Change
Gains on mortgage loans held for sale, net	$ 28,117	$ 23,535	$ 4,582	19%
Loan origination and other loan fees	4,091	2,236	1,855	83%
Interest and other income	2,163	1,809	354	20%
Total revenues	34,371	27,580	6,791	25%
Salaries, commissions and benefits	30,294	26,425	3,869	15%
General and administrative expense	4,874	4,467	407	9%
Interest expense	1,555	1,218	337	28%
Occupancy, equipment and communications	6,491	4,065	2,426	60%
Depreciation and amortization expense	855	153	702	459%
Total expenses	44,069	36,328	7,741	21%
(Loss) income from discontinued operations before income tax (benefit) expense	(9,698)	(8,748)	(950)	(11)%
Income tax (benefit) expense	(3,669)	(3,497)	(172)	(5)%
(Loss) income from discontinued operations, net of tax	$ (6,029)	$ (5,251)	$ (778)	(15)%

During the year ended December 31, 2015, our net loss from discontinued operations increased $778, or 15%, compared to the year ended December 31, 2014, primarily due to increased expenses related to salaries, commissions and benefits and occupancy, equipment and communications. These increased expenses were partially offset by increases in our gains on mortgage loans held for sale, net. Salaries, commissions and benefits included severance expenses related to our personnel changes to refine our strategy, as well as increased incentive compensation resulting from the increased revenue-producing positions added during the latter half of 2014. Occupancy, equipment and communication expenses includes early termination contractual charges of $1,144. Gains on mortgage loans held for sale, net increased due to increased mortgage loan origination volume. We originated loans of $918 million during the year ended December 31, 2015, compared to $660 million during year ended December 31, 2014.

Originations

The following table sets forth the results of operations for the years ended December 31, 2015 and 2014 for our originations segment.

	Years Ended December 31,			
	2015	2014	$ Change	% Change
Revenues				
Gains on mortgage loans held for sale, net	$ 142,772	$ 133,405	$ 9,367	7%
Loan origination and other loan fees	22,751	24,193	(1,442)	(6)%
Interest and other income	26,729	32,271	(5,542)	(17)%
Total revenues	192,252	189,869	2,383	1%
Expenses				
Salaries, commissions and benefits	78,885	84,722	(5,837)	(7)%
General and administrative expense	13,851	10,593	3,258	31%
Interest expense	19,347	21,904	(2,557)	(12)%
Occupancy, equipment and communications	7,422	6,793	629	9%
Depreciation and amortization expense	5,581	1,093	4,488	411%
Corporate allocations	25,313	26,619	(1,306)	(5)%
Total expenses	150,399	151,724	(1,325)	(1)%
Income (loss) from continuing operations before taxes	$ 41,853	$ 38,145	$ 3,708	10%

Originations segment reported income from continuing operations before taxes of $41,853 during the year ended December 31, 2015, compared to $38,145 for the year ended December 31, 2014. This increase was the result of higher revenue margins from a strategic change in mix of originations to government insured loans, offset by decreased mortgage loan originations. Our mortgage loan originations decreased 6% period over period. Given the actions taken in the fourth quarter of 2015 to reduce our retail branch footprint and manage the expenses associated with the retail channels, we expect operational results from our Originations segment to improve in future periods.

Origination segment revenues

Gains on Mortgage Loans Held for Sale, Net

Our gains on mortgage loans held for sale, net, from continuing operations, during the year ended December 31, 2015 increased $8,429 or 6% as compared to the year ended December 31, 2014 primarily due to the mix shift toward more government insured loan production, which generate higher revenue margins than our other loan products. Our gains on mortgage loans held for sale, net during the year ended December 31, 2015 were 126 bps of loan originations compared to 112 bps for the year ended December 31, 2014. Gains on mortgage loans held for sale, net consisted of the following components for the years ended December 31, 2015 and 2014:

	Years Ended December 31,				
	2015		2014		Variance
	$	bps [2]	$	bps [2]	
Realized gains (losses) on sales of loans	$ 15,979	14	$ (1,780)	(1)	$ 17,759
Capitalized servicing rights	146,696	131	150,520	126	(3,824)
Economic hedge results	(2,233)	(2)	8,341	7	(10,574)
Provision for repurchases	(3,007)	(3)	(2,724)	(2)	(283)
Direct loan origination costs [1]	(15,616)	(14)	(20,967)	(18)	5,351
Gains on mortgage loans held for sale, net	141,819	126	$ 133,390	112	$ 8,429

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.

The components of Gains on mortgage loans held for sale, net are described 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 year ended December 31, 2015, compared to the year ended December 31, 2014, was primarily due to the mix shift toward more government insured 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 year ended December 31, 2015, as compared to the year ended December 31, 2014, relates to 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. 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 year ended December 31, 2015, as compared to the year ended December 31, 2014, primarily relates to the decrease attributed to the net volume change period over period of IRLCs 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 fluctuate in relation to changes in our origination volume and mix of loan products originated;

however, changing market conditions will also influence any trends in our provision. The increase in our provision for repurchase/indemnification obligation for the year ended December 31, 2015, as compared to the year ended December 31, 2014, relates to a 3.07% 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 year ended December 31, 2015, as compared to the year ended December 31, 2014, relates to our decrease in mortgage loan originations and a change in FNMA fee structure in the current period.

Loan Origination and Other Loan Fees

Our loan origination and other loan fees from continuing operations during the year ended December 31, 2015 decreased $1,442, or 6%, compared to the year ended December 31, 2014, due to a 6% decrease in mortgage loan originations. Our loan origination and other loan fees as a percentage of total originations remained flat at 20 bps for both the years ended December 31, 2015 and 2014. This was due to a higher mix of government insured loans, which have higher fees than conventional mortgages, and an increase in retail direct (Stonegate Direct), which have higher fees than correspondent originations, which partially offset the decrease in loan originations. The following table illustrates mortgage loan originations by type for the years ended December 31, 2015 and 2014:

	Years Ended December 31,			
	2015		2014	
	$	% Total	$	% Total
Conventional	$ 4,591,744	41 %	$ 6,360,792	53%
Government insured	6,178,541	55 %	5,281,709	44 %
Non-agency/Other	467,756	4 %	332,632	3 %
Total mortgage loan originations	$ 11,238,041	100 %	$ 11,975,133	100 %

The following is a summary of mortgage loan origination volume by channel for the years ended December 31, 2015 and 2014 :

	Years Ended December 31,					
	2015			2014		
	# of Loans	$	% Total	# of Loans	$	% Total
Retail	7,302	$ 1,533,254	13 %	5,474	$ 1,209,325	10%
Wholesale	9,027	2,550,580	23 %	11,510	2,841,700	24 %
Correspondent	32,405	7,154,207	64 %	39,530	7,924,108	66 %
Total mortgage loan originations	48,734	$ 11,238,041	100 %	56,514	$ 11,975,133	100%

The increased volume in the retail channel, particularly Stonegate Direct, during the year ended December 31, 2015, is reflective of our strategy to grow this type of origination volume. We believe Stonegate Direct 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 years ended December 31, 2015 and 2014 is as follows:

	Year Ended December 31, 2015						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 6,739	$ 10,112	$ 13,115	$ 95,008	$ 4,092	$ 129,066	1%
620-680	157,707	290,009	362,534	2,026,922	21,876	2,859,048	25 %
681-719	239,606	410,834	363,524	1,415,444	22,035	2,451,443	22 %
>719	1,283,478	1,787,783	786,908	1,907,774	32,541	5,798,484	52 %
Total mortgage loan originations	$ 1,687,530	$ 2,498,738	$ 1,526,081	$ 5,445,148	$ 80,544	$ 11,238,041	100%
% Total	15%	22%	14%	48%	1%	100%	

	Year Ended December 31, 2014						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 8,052	$ 11,205	$ 6,866	$ 31,690	$ 1,493	$ 59,306	—%
620-680	267,238	514,821	354,672	1,914,891	32,456	3,084,078	26 %
681-719	329,907	583,585	332,680	1,367,567	25,634	2,639,373	22 %
>719	1,241,960	2,010,780	768,422	2,130,698	40,516	6,192,376	52 %
Total mortgage loan originations	$ 1,847,157	$ 3,120,391	$ 1,462,640	$ 5,444,846	$ 100,099	$ 11,975,133	100%
% Total	15%	26%	12%	46%	1%	100%	

Interest and Other Income
Interest and other income from continuing operations related to our Originations segment decreased $5,542, or 17%, during the year ended December 31, 2015 compared to the year ended December 31, 2014. The decrease in interest and other income was primarily a result of lower average coupon rates during the year ended December 31, 2015, compared to the year ended December 31, 2014, and decreased mortgage loan originations, as there is a direct correlation between interest and other income and mortgage loan origination. The average coupon rate related to our Originations segment was 3.84% during the year ended December 31, 2015, compared to 4.04% during the year ended December 31, 2014.

Origination segment expenses

Salaries, Commissions and Benefits Expense
Salaries, commissions and benefits expense from continuing operations related to our Originations segment decreased $5,837, or 7%, during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily as a result of personnel changes to refine our strategy in the latter half of 2015, as well as increased revenue-producing positions during the latter half of 2014, resulting in higher incentive compensation in that period. Headcount related to our originations segment decreased from 696 employees at December 31, 2014 to 592 employees at December 31, 2015, due to the changes made to our retail distributed strategy.

General and Administrative Expenses
General and administrative expenses from continuing operations related to our Originations segment increased $3,258, or 31%, during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily due to an increase in sales support expenses related to Stonegate Direct, which was created in October 2014, and higher regulatory compliance expenses. We expect that general and administrative costs will decrease in future quarters, especially as we carry out our strategy refinements, due to management's focus on cost reductions and increased operational efficiencies.

Interest Expense
Interest expense from continuing operations related to our Originations segment decreased $2,557, or 12% during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily as a result of the decrease 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 from continuing operations related to our Originations segment increased $629, or 9%, during the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily due to increased information technology costs resulting from our investment in additional infrastructure to increase efficiencies within our systems, both in our core operations and corporate support areas.

Depreciation and Amortization Expense
Depreciation and amortization expense from continuing operations related to our Originations segment increased $4,488 during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily due to increased amortization of software placed into use during the year ended December 31, 2015 as part of our investment in our infrastructure to increase efficiencies.

Servicing

The following table sets forth the results of operations for the years ended December 31, 2015 and 2014 for our servicing segment.

	Years Ended December 31,			
	2015	2014	$ Change	% Change
Revenues				
Gains on mortgage loans held for sale, net	$ (1,088)	$ —	$ (1,088)	(100)%
Changes in mortgage servicing rights valuation	(30,395)	(55,842)	25,447	46%
Payoffs and principal amortization of mortgage servicing rights	(41,529)	(23,735)	(17,794)	(75)%
Loan servicing fees	54,772	44,407	10,365	23%
Interest and other income	124	—	124	100%
Total revenues	(18,116)	(35,170)	17,054	48%
Expenses				
Salaries, commissions and benefits	8,200	5,972	2,228	37%
General and administrative expense	2,063	1,378	685	50%
Interest expense	7,904	3,251	4,653	143%
Occupancy, equipment and communications	1,976	1,794	182	10%
Depreciation and amortization expense	455	84	371	442%
Corporate allocations	3,571	3,279	292	9%
Total expenses	24,169	15,758	8,411	53%
Income (loss) from continuing operations before taxes	$ (42,285)	$ (50,928)	$ 8,643	17%

The Servicing segment incurred a loss before taxes of $42,285 during the year ended December 31, 2015, compared to $50,928 during the year ended December 31, 2014, due primarily to the change in our MSRs valuation, as discussed below, and increased loan servicing fees driven by our increased servicing portfolio, partially offset by increased amortization of MSRs expense related to payoffs and principal reductions experienced during the current period. The increase in principal runoff was due to the lower interest environment present throughout the year ended December 31, 2015, during which refinance activity and prepayment speeds increased. Additionally, we experienced higher loan servicing revenues and expenses resulting from the growth in the UPB amount of our average mortgage servicing portfolio.

The following is a summary of certain metrics specific to the Servicing segment for the years ended December 31, 2015 and 2014 :

	As of December 31,	
	2015	2014
Servicing Portfolio UPB	$ 17,520,731	$ 18,336,745
Number of Loans Serviced (units)	90,408	99,711
Weighted Average Coupon	4.02%	4.10%
Weighted Average Age (in months)	16	12
90+ day Delinquency Rate	0.60%	0.63%
Weighted Average FICO score	725	720
Weighted Average Servicing Fee (in basis points)	30	28
Capitalized Loan Servicing Portfolio	$ 199,637	$ 204,217

Capitalized Servicing Rate	1.14%	1.11%
Capitalized Servicing Multiple	3.92	3.91

	Years Ended December 31,	
	2015	2014
Gross Constant Prepayment Rate [1]	18.00%	9.45%
Average Total Loan Servicing Portfolio	$ 18,001,777	$ 15,752,085
Average Capitalized Loan Servicing Portfolio	$ 199,510	$ 201,341
Payoffs and Principal Curtailments of Capitalized Portfolio	$ 3,594,722	$ 1,528,740
Sales of Capitalized Portfolio	$ 8,731,001	$ 3,791,007

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.

Servicing segment revenues

Changes in Mortgage Servicing Rights Valuation

The decrease in the fair value of our MSRs during the year ended December 31, 2015 was driven primarily by the decrease in market interest rates and flattening of the yield curve during the year. 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 year ended December 31, 2015, the weighted average coupon of our MSRs portfolio remained flat in comparison to December 31, 2014 and, at December 31, 2015, mortgage rates were lower during the year ended December 31, 2015 than they were at during the year ended December 31, 2014. The combination of these factors increased current prepayment estimates and prepayment estimates in the interest rate shifts. The weighted average coupon of our MSRs portfolio also remained flat during the year ended December 31, 2014 and mortgage rates were lower in comparison to rates at December 31, 2013. 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.

The decrease was also driven by realized losses related to sales of mortgage servicing rights during the year ended December 31, 2015 of $7,034, primarily related to 1) the change in fair value of the underlying MSRs from the time of the transaction bid to the date the assets are derecognized; 2) estimated prepayment protection provisions; and 3) costs associated with the sales. During the year ended December 31, 2014, we realized a gain on sale of MSRs of $1,082, net of protection provisions and transaction costs.

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 year ended December 31, 2015, this amount decreased the value of our MSRs by $41,529, compared to $23,735 during the year ended December 31, 2014, a difference of 75%. The increase in run-off and paid off loans correlates with a 90% increase in prepayment speeds from December 31, 2014 to December 31, 2015 as well as a 14% increase in our average servicing portfolio.

Loan Servicing Fees
The following is a summary of loan servicing fee income by component for the years ended December 31, 2015 and 2014 :

	Years Ended December 31,	
	2015	2014
Contractual servicing fees	$ 51,775	$ 42,429
Late fees	2,997	1,978
Loan servicing fees	$ 54,772	$ 44,407
Servicing fees as a percentage of average portfolio *(annualized)*	0.30%	0.28%

Our loan servicing fees increased to $54,772 during the year ended December 31, 2015 from $44,407 during the year ended December 31, 2014. The 23% increase in our loan servicing fees was primarily the result of our higher average servicing portfolio of $18.0 billion during the year ended December 31, 2015, compared to an average servicing portfolio of $15.8 billion during the year ended December 31, 2014. Our loan servicing fees, as a percentage of our average servicing portfolio, were 30 bps for the year ended December 31, 2015, compared to 28 bps for the year ended December 31, 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, as well as increased late fees resulting from delinquencies.

Gains (Losses) on Mortgage Loans Held for Sale and Interest Income
The losses on mortgage loans held for sale of $1,088 and interest income of $124, attributable to our Servicing segment, relates to the loans we repurchased out of GNMA pools in connection with our unilateral right, as servicer, to repurchase such GNMA loans we have previously sold. Our right to repurchase such loans arises as the result of the borrower's failure to make payments for at least 90 days preceding the month of repurchase by us and provides an alternative to our obligation to continue advancing principal and interest at the coupon rate of the related GNMA security. As we make the underlying GNMA loan re-salable, by the loan becoming current either through the borrower's performance or through completion of a modification of the loan's terms, we expect to be able to resell the loan in the future.

Servicing segment expenses

Salaries, Commissions and Benefits Expense
Salaries, commissions and benefits expense related to our Servicing segment increased $2,228, or 37%, during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily as a result of increased headcount due to the growth in our average 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. We also incurred executive severance related to our personnel changes to refine our strategy during the year ended December 31, 2015. Headcount related to our Servicing segment increased from 84 employees at December 31, 2014 to 96 employees at December 31, 2015, as we continued to add support staff in the quality control and default management areas.

Interest Expense
Interest expense related to our Servicing segment increased $4,653 during the year ended December 31, 2015, compared to the year ended December 31, 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.

General and Administrative Expense
General and administrative expenses related to our Servicing segment increased $685, or 50%, during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily as a result of losses related to foreclosed properties resulting from the seasoning of our MSRs portfolio and the shift to government-backed loans, which result in higher delinquencies and default costs, as well as increased expenses attributable to our growth, such as those related to increased professional fees, printing of statements required to service the loans and quality control.

Depreciation and Amortization Expense
Depreciation and amortization expenses increased $371 during the year ended December 31, 2015, compared to the year ended December 31, 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 following table sets forth the results of operations for the years ended December 31, 2015 and 2014 for our financing segment.

	Years Ended December 31,			
	2015	2014	$ Change	% Change
Revenues				
Loan origination and other loan fees	$ 1,205	$ 455	$ 750	165%
Interest and other income	7,111	3,280	3,831	117%
Total revenues	8,316	3,735	4,581	123%
Expenses				
Salaries, commissions and benefits	1,962	1,726	236	14%
General and administrative expense	866	596	270	45%
Interest expense	3,259	1,049	2,210	211%
Occupancy, equipment and communications	250	231	19	8%
Depreciation and amortization expense	411	479	(68)	(14)%
Corporate allocations	361	160	201	126%
Total expenses	7,109	4,241	2,868	68%
Income (loss) from continuing operations before taxes	$ 1,207	$ (506)	$ 1,713	339%

The Financing segment provides warehouse lending activities to correspondent customers through our NattyMac subsidiary. The Financing segment reported income before income taxes of $1,207 and a loss before income taxes of $506 during the years ended December 31, 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 $3.2 billion during the year ended December 31, 2015 from $1.7 billion during the year ended December 31, 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 revenues we are seeing in the current year. 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.

Financing segment revenues

Total revenues related to our Financing segment increased $4,581 during the year ended December 31, 2015 compared to the year ended December 31, 2014, due to overall lending activity growth. The following details the increases in total revenues:

- The increase in interest and other income was primarily a result of the increase in warehouse loan originations funded during the year ended December 31, 2015 as compared to December 31, 2014, as there is a direct correlation between interest and other income and warehouse loan origination activity.
- Our loan origination and other loan fees during the year ended December 31, 2015 increased $750, compared to the comparable period in 2014, due to higher origination volume, as discussed above.

Financing segment expenses

Total expenses related to our Financing segment increased $2,667 during the year ended December 31, 2015 compared to the year ended December 31, 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:

- The interest expense of $3,259 attributable to our Financing segment is related to the utilization of our NattyMac Funding ("NMF") line with Merchants Bancorp.
- Salaries, commissions and benefits expense related to our Financing segment increased $236. Headcount related to our Financing segment increased to 21 employees at December 31, 2015 from 20 employees at December 31, 2014.
- General and administrative expenses related to our Financing segment increased $270 .

Other/Eliminations

The following table sets forth the results of operations for the years ended December 31, 2015 and 2014 for Other/Eliminations.

	Years Ended December 31,			
	2015	2014	$ Change	% Change
Revenues				
Gains on mortgage loans held for sale, net	$ 135	$ (15)	$ 150	1,000%
Loan origination and other loan fees	—	(67)	67	100%
Interest and other income	153	(315)	468	149%
Total revenues	288	(397)	685	173%
Expenses				
Salaries, commissions and benefits	27,294	23,780	3,514	15%
General and administrative expense	15,480	21,978	(6,498)	(30)%
Interest expense	553	(197)	750	381%
Occupancy, equipment and communications	7,222	5,783	1,439	25%
Depreciation and amortization expense	1,533	3,392	(1,859)	(55)%
Corporate allocations	(29,245)	(30,058)	813	3%
Total expenses	22,837	24,678	(1,841)	(7)%
Income (loss) from continuing operations before taxes	$ (22,549)	$ (25,075)	$ 2,526	10%

Other/Eliminations includes 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. The loss before taxes improved $2,526 , or 10% , for the year ended December 31, 2015 compared to the year ended December 31, 2014. This was primarily as a result of a $6,498 , or 30% , decrease in general and administrative expenses as the year ended December 31, 2014 included costs related to our full transition to a publicly-traded company and acquisition integration costs that were not present during the year ended December 31, 2015. This was partially offset by a $3,514 , or 15% , increase in salaries, commissions and benefits as a result of increased corporate support headcount and the payment of executive severance during the year ended December 31, 2015.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires us to make estimates, judgments and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. 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 reserve 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 included in Part II, Item 8 of this Annual Report on Form 10-K.

Reserve for Mortgage Repurchases and Indemnifications

Loans sold to investors by us, and which met investor and agency underwriting guidelines at the time of sale, may be subject to repurchase or indemnification in the event of specific default by the borrower or subsequent discovery that underwriting standards were not met. We may, upon mutual agreement, agree to repurchase the loans or indemnify the investor against future losses on such loans. In such cases, we bear the full risk of loss on loans sold to the extent the liquidation of the underlying collateral is insufficient.

We establish an initial reserve liability for expected losses related to these representations and warranties at the date of the loans are sold and de-recognized from the balance sheet based on the fair value of such reserve liability. Subsequently, based on changing facts and circumstances or changes in certain estimates and assumptions, the reserve liability may be adjusted if there is a reasonable possibility that future losses may be in excess of the initial reserve liability, with a corresponding amount recorded to provision for mortgage repurchases and indemnifications - change in estimate within the general and administrative expense in the Consolidated Statements of Operations. In assessing the adequacy of the reserve, management evaluates various unobservable factors which are generally subjective and involve a high degree of management judgment and assumptions. These judgments and assumptions may have a significant effect on our measurements of the liability, and the use of different judgments and assumptions, as well as changes in market conditions, could have a material effect on our statements of operations as well as our balance sheets.

For additional information regarding our reserve for mortgage repurchases and indemnifications, refer to Note 15, "Reserve for Mortgage Repurchases and Indemnifications," to our audited consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Fair Value Measurements

We use fair value measurements in fair value disclosures and to record certain assets and liabilities at fair value on a recurring basis, such as mortgage loans held for sale, derivative financial instruments, MSRs, and loans eligible for repurchase from GNMA, and on a non-recurring basis, such as when measuring intangible assets and long-lived assets. We have elected fair value accounting for mortgage loans held for sale to more closely align our accounting with our interest rate risk management strategies without having to apply the operational complexities of hedge accounting.

When observable market prices do not exist for our assets and liabilities, we estimate fair value primarily by using cash flow and other valuation models. Our valuation models may include adjustments, such as market liquidity and credit quality, where appropriate. Valuations of products using models or other techniques are sensitive to assumptions used for the significant inputs. The process for determining fair value using unobservable inputs, such as discount rates, prepayment speeds, default rates and cost of servicing is generally more subjective and involves a higher degree of management judgment and assumptions than the measurement of fair value using observable inputs. These judgments and assumptions may have a significant effect on our measurements of fair value, and the use of different judgments and assumptions, as well as changes in market conditions, could have a material effect on our statements of operations as well as our balance sheets.

For additional information regarding the fair values of our assets and liabilities, refer to Note 9, "Fair Value Measurements," to our audited consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Mortgage Servicing Rights

MSRs are non-financial assets that are created when a mortgage loan is sold and we retain the right to service the loan. The servicing of these loans includes payment processing, remittance of funds to investors, payment of taxes and insurance, collection of delinquent payments, and disposition of foreclosed properties. In return for these services, we receive servicing fee income and ancillary fee income. The MSRs are initially recorded at fair value, which is estimated using a valuation model that calculates the present value of future servicing cash flows. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, including estimates of the cost of servicing, the discount rate, the float value, the inflation rate, estimated prepayment speeds, and default rates. We use a dynamic model to estimate the fair value of our MSRs. The model is validated internally and senior management reviews all significant assumptions monthly. In addition, we benchmark the performance of our internal model against the results obtained from a third party valuation specialist firm and other market participant information such as surveys, broker quotes, trades in the marketplace, and other observable data.

For additional information regarding our mortgage servicing rights, refer to Note 8, "Mortgage Servicing Rights," to our audited consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Derivative Financial Instruments

We enter into derivative instruments to reduce our risk exposure to fluctuations in interest rates. For example, we enter into IRLCs with certain customers to originate residential mortgage loans at specified interest rates and within a specified period of time. IRLCs on mortgage loans that are intended to be sold are accounted for as derivatives, with changes in fair value recorded in the statement of operations as part of gain or loss on sale of mortgage loans. The fair value of an IRLC is based on the value of the underlying mortgage loan, quoted MBS prices, 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, net of commission expenses; our estimate of this percentage will vary based on the age of the underlying commitment and changes in mortgage interest rates.

The primary factor influencing the probability that a loan will fund within the terms of the IRLC is the change, if any, in mortgage rates subsequent to the commitment date. In general, the probability of funding increases if mortgage rates rise and decreases if mortgage rates fall. This is due primarily to the relative attractiveness of current mortgage rates compared to the applicant's committed rate. The probability that a loan will fund within the terms of the IRLC also is influenced by the source of the application, age of the application, purpose of the loan (purchase or refinance) and the application approval rate.

We manage the interest rate and price risk associated with our outstanding IRLCs and loans held for sale by entering into derivative instruments, such as forward loan sales commitments and mandatory delivery commitments. For exchange-traded contracts, fair value is based on quoted market prices. For non-exchange traded contracts, fair value is based on dealer quotes, pricing models, and discounted cash flow methodologies. Fair value estimates also take into account counterparty credit risk and our own credit standing.

For additional information regarding our derivative financial instruments, refer to Note 6, "Derivative Financial Instruments," to our audited consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Mortgage Loans Held for Sale

Mortgage loans that are intended to be sold primarily to the GSEs in the foreseeable future are reported as mortgage loans held for sale. We account for mortgage loans held for sale under the fair value option. Fair value of mortgage loans held for sale is typically calculated using observable market information, including pricing from actual market transactions or observable market prices from other loans that have similar collateral, credit, and interest rate characteristics.

A smaller portion of our mortgage loans held for sale consist of 1) loans deemed non-saleable prior to sale to the GSEs; 2) loans repurchased from the GSEs that have subsequently been deemed to be non-saleable to GSEs when certain representations and warranties are breached; 3) loans repurchased from the GSE in our loan modification program; and 4) loans repurchased from GNMA securities pursuant to our unilateral right, as servicer, to repurchase such GNMA loans we have previously sold. For loans deemed non-saleable prior to sale and loans repurchased from the GSEs, we estimate the fair values 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. The fair value of loans repurchased from GNMA pools are estimated using a liquidation based discount cash flow analysis with significant unobservable inputs, such as our historical ability to make the GNMA loan saleable, by becoming current either through the borrower's performance or through completion of a modification of the loan's terms, and our historical ability to receive insurance reimbursements for related claims filed.

Gains or losses from the sale of mortgages are recognized based upon the difference between the selling price and carrying value of the related loans upon the sale of such loans. Direct loan origination costs are recognized as noninterest expense at origination.

In order to facilitate the origination and sale of mortgage loans held for sale, we have entered into various agreements with lenders. These agreements are in the form of loan participation agreements, repurchase agreements, warehouse lines of credit and other credit arrangements with banks and other financial institutions. Mortgage loans held for sale are considered sold when we surrender control over the financial assets and those financial assets are legally isolated from us in the event of our bankruptcy. If the sale criteria are met, 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. We account for all participation, repurchase, warehouse lines of credit and other credit arrangements as secured borrowings.

For additional information regarding our mortgage loans held for sale, refer to Note 7, "Mortgage Loans Held for Sale," to our audited consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Loans Eligible for Repurchase from GNMA

As discussed above, we routinely sell loans into GNMA guaranteed MBS by pooling eligible loans through a pool custodian and assigning rights to the loans to GNMA. When these GNMA loans are initially pooled and securitized, we meet the criteria for sale treatment and de-recognize the loans. Subsequently, when we have the unconditional right, as servicer, to repurchase GNMA pool loans we have previously sold (generally loans that are more than 90 days past due), we then put back the loans on our balance sheet, initially reflected at fair value. An offsetting liability is also recorded.

Goodwill and Other Intangible Assets

We account for business combinations using the acquisition method, under which the total consideration transferred (including contingent consideration) is allocated to the fair value of the assets acquired (including identifiable intangible assets) and liabilities assumed. The excess of the consideration transferred over the fair value of the assets acquired and liabilities assumed results in goodwill. In certain of our acquisitions, the fair value of the assets acquired and liabilities assumed exceeded the consideration transferred, resulting in a bargain purchase gain.

In determining the total consideration transferred in a business combination, contingent consideration is a significant factor. The fair value of the contingent consideration arrangements are determined by management, with assistance from a third party valuation provider, using either the income approach (Crossline contingent on-boarding payment and NattyMac contingent earnout) or a calibrated Monte-Carlo simulation (Crossline and Medallion contingent earnouts); these methods require management to estimate the amount and timing of future production levels, volatility factors and discount rates. The fair values of the trade names, customer relationship and non-compete intangible assets are determined using a discounted cash flow method. This method requires management to make estimates related to future revenues, expenses, income tax rates and discount rates. The fair values of the agent list and state license intangible assets were determined using a cost-to-recreate approach, which required management to estimate the costs and amounts of time it would take to replace those assets, as well as future income tax rates.

Intangible assets with finite lives are amortized over their estimated lives using an amortization method that reflects the pattern in which the economic benefits of the asset are consumed. We evaluate the estimated remaining useful lives of these intangible assets to determine whether events or changes in circumstances warrant a revision to the remaining periods of amortization. If an intangible asset's estimated useful life is changed, the remaining net carrying amount of the intangible asset is amortized prospectively over that revised remaining useful life. Additionally, an intangible asset that initially is deemed to have a finite useful life would cease being amortized if it is subsequently determined to have an indefinite useful life. Such intangible assets are then tested for impairment. We review such intangibles for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable, in which case any impairment charge would be recorded to earnings.

Indefinite-lived purchased intangible assets consist of the NattyMac trade name. Goodwill and other intangible assets with an indefinite useful life are not subject to amortization but are reviewed for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. For indefinite-lived intangible assets other than goodwill, we first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that is more likely than not the assets are impaired. If we determine that it is more likely than not that the intangible assets are impaired, a quantitative impairment test is performed. For the quantitative impairment test, we estimate and compare the fair value of the indefinite-lived intangible asset with its carrying amount. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, the amount of the impairment is measured as the difference between the carrying amount of the asset and its fair value. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value. During the year ended December 31, 2016 , no impairment was recorded for other intangible assets.

Our goodwill relates to the Retail reporting unit of our Originations segment. For goodwill, GAAP allows us to perform a qualitative assessment of possible impairment to our goodwill balance. We then typically perform a quantitative impairment test. At the reporting unit level, we estimate and compare the fair value to the book value. If the reporting unit's book value exceeds its fair value, we then perform a hypothetical purchase price allocation for the reporting unit. This is done by marking all assets and liabilities to fair value and calculating an implied goodwill value. If the implied goodwill value is less than the carrying value of the goodwill, the amount of impairment is measured as the difference and is permanently recognized by writing down the goodwill to the extent the carrying value exceeds the implied value.

We performed our annual assessment of goodwill impairment during the fourth quarter. This assessment is performed more frequently if events and circumstances indicate that impairment may have occurred. Our goodwill is allocated to and tested at the Retail reporting unit level, a component of our Originations segment inclusive of our retail direct and remaining retail distributed operations. No impairment was noted as a result of this analysis.

For additional information regarding our business combinations and goodwill and other intangible assets, refer to Note 5, "Business Combinations," and Note 11, "Goodwill and Other Intangible Assets," to our audited consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Transfers of Financial Assets

We primarily sell residential mortgage loans to Fannie Mae, Freddie Mac or into pools of Ginnie Mae. We have continuing involvement in mortgage loans sold through servicing arrangements and the liability for loan indemnifications and repurchases under the representations and warranties we make to the investors and insurers of the loans we sell. We are exposed to interest rate risk through our continuing involvement with mortgage loans sold, including the mortgage servicing right asset, as the value of the asset fluctuates as changes in interest rates impact borrower prepayment.

We also sell non-agency residential mortgage loans to non-GSE third parties generally without retaining the servicing rights to such loans.

All mortgage loans we sell are sold on a non-recourse basis; however, certain representations and warranties are 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.

Mortgage loans held for sale are considered de-recognized, or sold, when we surrender control over the financial assets. Control is considered to have been surrendered when the transferred assets have been isolated from us, are beyond our reach and that of our creditors; the purchaser obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and we do not maintain effective control over the transferred assets through an agreement that both entitles and obligates us to repurchase or redeem the transferred assets before their maturity or the ability to unilaterally cause the holder to return specific assets. Such transfers may involve securitizations, participation agreements or repurchase agreements. If the criteria above are not met, such transfers are accounted for as secured borrowings, in which the assets remain on the balance sheet, the proceeds from the transaction are recognized as a liability and no MSRs are recorded for those transferred loans.

In order to facilitate the origination and sale of mortgage loans held for sale, we have entered into various agreements with lenders. These 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 we surrender control over the financial assets and those financial assets are legally isolated from us in the event of our bankruptcy. 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, we 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. We will receive a marketing fee paid by the participating entity upon completion of the sale. In addition, we will also subservice the underlying mortgage loans to the participation agreement for the period that the participating interests are outstanding. As of December 31, 2016 and 2015 , all transfers pursuant to our mortgage funding arrangements are accounted for by us as secured borrowings.

Income Taxes

We determine deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on future tax consequences attributable to the differences between the book and tax bases of assets and liabilities, as well as operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods.

Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. We determine whether a deferred tax asset is realizable based on currently available facts and circumstances. On a quarterly basis, we evaluate our deferred tax assets to assess whether they are more likely than not to be realized in the future. If we were to experience either reduced profitability or operating losses in a future period, the realization of our deferred tax assets may no longer be considered more likely than not to be realized. In such an instance, we record a valuation allowance on our deferred tax assets by charging earnings.

Our income tax expense also includes assessments related to uncertain tax positions taken or expected to be taken by us. ASC 740-10, *Income Taxes* , requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. We assess this as facts and circumstances related to our business and operations change in a period. If applicable, we will recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. The open tax years subject to examination by taxing authorities include the years ended December 31, 2015 , 2014 , 2013 and 2012 . We had no federal or state tax examinations in process as of December 31, 2016 . For additional information regarding our income taxes, refer to Note 17, "Income Taxes," to our audited consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Recent Accounting Developments

During 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *"Revenue from Contracts with Customers (Topic 606)"* , which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. During 2015, the FASB voted to delay the effective date one year. ASU 2014-09 is now effective for annual and interim periods for fiscal years beginning after December 15, 2017, though companies have an option of adopting the standard for fiscal years beginning after December 15, 2016. During 2016, the FASB issued ASU 2016-08, *"Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations"* , ASU 2016-10, *"Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing"* and ASU 2016-12, *"Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients"* . The amendments in ASU's 2016-08, 2016-10 and 2016-12 do not change the core principle of ASU 2014-09 but instead clarify the implementation guidance on principle versus agent considerations, identify performance obligations and the licensing implementation guidance, and provide narrow-scope improvements, respectively. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP and may be adopted using a retrospective, modified retrospective or prospective with a cumulative catch-up approach. We do not expect the adoption of the new guidance to have a material impact on our consolidated financial statements.

ASU No. 2016-01 *"Financial Instruments - Overall (Subtopic 825-10): Recognition and measurement of financial assets and financial liabilities"* was issued in January 2016. The amendments in this update require an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available for sale debt securities in combination with other deferred tax assets. The update provides an election to subsequently measure certain non-marketable equity investments at cost less any impairment and adjusted for certain observable price changes. The update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The new guidance will be effective for us beginning on January 1, 2018. We do not expect the adoption of the new guidance to have a material impact on our consolidated financial statements.

ASU 2016-02, *"Leases (Topic 842)"* was issued in February 2016. This update amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require companies to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The new guidance will be effective for us beginning on January 1, 2019 and early adoption is permitted. We are evaluating the impact of the adoption of the new guidance on our consolidated financial statements.

ASU 2016-05, *"Derivatives and Hedging (Topic 815)"* was issued in March 2016. This update relates to "Novation," replacing one of the parties to a derivative financial instrument with a new party. The issue is whether this change results in a requirement to dedesignate that hedging relationship and therefore discontinue the application of hedge accounting. The amendments apply to hedging instruments under Topic 815. The new guidance will be effective for us beginning on January 1, 2017 and early adoption is permitted. We do not expect the adoption of the new guidance to have a material impact on our consolidated financial statements.

ASU 2016-06, *"Derivatives and Hedging (Topic 815)"* was issued in March 2016. The amendments in this update clarify the requirements for assessing whether contingent call (put) options that accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The new guidance will be effective for us beginning on January 1, 2017 and early adoption is permitted. We do not expect the adoption of the new guidance to have a material impact on our consolidated financial statements.

ASU 2016-07, *"Investments-Equity Method and Joint Ventures"* was issued March 2016. The amendments in this Update affect all entities that have an investment that becomes qualified for the equity method of accounting as a result in the increase in the level of ownership interest. The amendments eliminates requirements for the investor to adjust the financials retroactively for previous periods. The new guidance will be effective for us beginning on January 1, 2017 and early adoption is permitted. We do not expect the adoption of the new guidance to have a material impact on our consolidated financial statements.

ASU 2016-09, *"Compensation-Stock Compensation (Topic 718)"* was issued March 2016. The amendments in this Update affect all entities that issue share-based payment awards to their employees. The amendments simplify the accounting in various aspects for these type of transactions: i.e. Accounting for Income Taxes, Excess tax benefits on the Statements of Cash Flows, Forfeitures, Employee taxes and Intrinsic Value. The new guidance will be effective for us beginning on January 1, 2017 and early adoption is permitted. We do not expect the adoption of the new guidance to have a material impact on our consolidated financial statements.

ASU 2016-13, *"Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"* was issued June 2016. This update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. The amendments replace the incurred loss impairment methodology in current GAAP with one that reflects expected credit losses and requires consideration of a broader range of information to estimate credit losses. Previously, when credit losses were measured under GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss. The new guidance will be effective for us beginning on January 1, 2020 and early adoption is permitted. We are evaluating the impact of the adoption of the new guidance on our consolidated financial statements.

ASU 2016-15, " *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ," was issued in August 2016. The amendments in this update clarify how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The new guidance will be effective for us beginning on January 1, 2018 and early adoption is permitted. We are evaluating the impact of the adoption of the new guidance on our consolidated financial statements.

ASU 2016-16, *"Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory"* was issued in October 2016. This update requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transaction occurs as opposed to deferring tax consequences and amortizing them into future periods. The new guidance will be effective for us beginning on January 1, 2018 and early adoption is permitted. A modified retrospective approach with a cumulative-effect adjustment directly to retained earnings at the beginning of the period of adoption is required. We do not expect the adoption of the new guidance to have a material impact on our consolidated financial statements.

ASU 2016-17, *"Consolidation (Topic 810): Interests Held through Related Parties that are Under Common Control"* was issued in October 2016. This update amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity ("VIE") should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The new guidance will be effective for us beginning on January 1, 2017 and early adoption is permitted. We do not expect the adoption of the new guidance to have a material impact on our consolidated financial statements.

ASU 2016-18, *"Statement of Cash Flow (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)"* was issued in November 2016. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. We had restricted cash in the amount of $1,500 as of December 31, 2016 . The new guidance will be effective for us beginning on January 1, 2018 and early adoption is permitted. We are evaluating the impact of the adoption of the new guidance on our consolidated financial statements.

ASU 2017-01, *"Business Combinations (Topic 805): Clarifying the Definition of a Business"* was issued in January 2017. The amendments in this Update provide a screen to determine when an integrated set of assets and activities (a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. The new guidance will be effective for us beginning on January 1, 2018 and early adoption is permitted. We are evaluating the impact of the adoption of the new guidance on our consolidated financial statements.

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 entering into various mortgage funding arrangements 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.

As of December 31, 2016 , we were in breach of certain debt covenants with respect to the master repurchase and master loan purchase and servicing agreements with Barclays and Guaranty Bank, respectively, due to failure to report certain loss mitigation data to HUD timely, leading to our Tier II rating being lowered temporarily to Tier III during the current reporting period. We have corrected the reporting submission failure and waivers were obtained from both lenders for third-quarter reporting; however, the reporting errors carried over into the fourth quarter reporting period, leaving the rating at Tier III. The Barclays agreement has been amended to allow for a Tier III ranking through the extended maturity date of the debt agreement of February 20, 2017 and a waiver of the covenant is effective through March 31, 2017 for the Guaranty Bank agreement. We do not anticipate that the breach will have a material effect on our financial condition or our ability to utilize these funding sources going forward.

The mortgage funding and operating lines of credit agreements contain covenants which include certain customary financial requirements, including maintenance of minimum tangible net worth, maximum debt to tangible net worth ratio, minimum liquidity, minimum current ratio, minimum profitability and limitations on additional debt and transactions with affiliates, as defined in the respective agreement. As of December 31, 2016 , we were in compliance with the covenants contained in these agreements, except as discussed above. We intend to renew the mortgage funding arrangements when they mature and have no reason to believe we will be unable to do so.

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 total unrestricted cash balance decreased from $32,463 as of December 31, 2015 to $26,258 as of December 31, 2016 . The following discussion summarizes the changes in our unrestricted cash balance for our continuing and discontinued operations for the years ended December 31, 2016 and 2015 :

Operating Activities

Our operating activities provided $92,700 and $165,600 of cash flow for the years ended December 31, 2016 and 2015 , respectively. The decrease in cash from operating activities was primarily due to timing of cash payments received to fund and originate loans compared to the payments we receive from sales of the loans to our investors during the period.

Investing Activities

Our investing activities provided $54,625 and $71,227 of cash flow for the years ended December 31, 2016 and 2015 , respectively. The decrease in cash provided by investing activities was primarily due to lower proceeds from sale of mortgage servicing rights during the period.

Financing Activities

Our financing activities used $153,530 and $249,746 of cash flow for the years ended December 31, 2016 and 2015 , respectively. The decrease in cash used by financing activities was primarily due to the timing of borrowings versus repayments under our various mortgage funding arrangements, as well as lower mortgage loan origination volume. The timing of our borrowings and repayments fluctuates based on the needs of our operations.

Capital Resources

We are subject to various regulatory capital requirements administered by the Department of Housing and Urban Development (“HUD”), which governs non-supervised, direct endorsement mortgagees, and GNMA, which governs issuers of GNMA securities. Additionally, we are required to maintain minimum net worth requirements for many of the states in which we sell and service loans. Each state has its own minimum net worth requirement, which range from $0 to $1 million, depending on the state. Also, on January 30, 2015, the Federal Housing Finance Agency ("FHFA"), regulator of FNMA and FHLMC, proposed new minimum financial eligibility rules for non-bank mortgage sellers who originate and service mortgages for FNMA and FHLMC which set additional standards for net worth, capital ratio and liquidity.

Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary remedial actions by regulators that, if undertaken, could (i) remove our ability to sell and service loans to or on behalf of the agencies and (ii) have a direct material effect on our financial statements. In accordance with the regulatory capital guidelines, we must meet specific quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Further, changes in regulatory and accounting standards, as well as the impact of future events on our results, may significantly affect our net worth adequacy. As of December 31, 2016 , we met all minimum net worth requirements to which we were subject.

Financings

Our financing strategy primarily consists of entering into various mortgage funding arrangements 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. We continually evaluate opportunities, based upon market conditions, to finance our operations by accessing the capital markets or other types of indebtedness with institutional lenders, as well as to refinance our outstanding indebtedness in order to reduce our borrowing costs, extend maturities and/or increase our operating flexibility. There can be no guarantee that any such financing or refinancing opportunities will be available on acceptable terms or at all.

For information regarding our various mortgage funding arrangements as of December 31, 2016 and 2015, see Note 14, "Debt" to our audited consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Contractual Obligations and Commitments and Off-Balance Sheet Arrangements

Our estimated contractual obligations and commitments as of December 31, 2016 are as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Secured borrowings-mortgage loans [1]	$ 109,333	$ 109,333	$ —	$ —	$ —
Secured borrowings - NattyMac Funding [1]	179,400	—	179,400	—	—
Secured borrowings - eligible GNMA loan repurchases [1]	25,525	25,525	—	—	—
Secured borrowings - MSRs [1]	59,841	59,841	—	—	—
Mortgage repurchase borrowings [1]	381,008	381,008	—	—	—
Warehouse lines of credit [1]	177	177	—	—	—
Operating lines of credit [1]	10,325	10,325	—	—	—
Operating lease commitments [2]	20,760	6,532	9,308	3,681	1,239
Liability for mortgage repurchases and indemnifications	5,533	—	941	2,767	1,825
Purchase obligation [3]	10,212	1,648	6,777	1,786	1,340
Total contractual obligations and commitments	$ 802,114	$ 594,389	$ 196,426	$ 8,234	$ 4,404

[1] Includes estimated interest expense.

[2] Represents lease obligations for office space and equipment under non-cancelable operating lease agreements. Amounts presented above do not include sublease revenue amounts. Sublease revenue amounts for the years 2017 through 2020 are $763 , $659 , $567 and $131 , respectively.

[3] Includes purchase obligations for certain back office support systems software.

In addition to the above contractual obligations, we also had commitments to originate mortgage loans of $800,168 as of December 31, 2016 . Commitments to originate mortgage loans do not necessarily reflect future cash requirements as some commitments are expected to expire without being drawn upon and, therefore, those commitments have been excluded from the table above. The related fair value of these commitments is recognized in the consolidated balance sheet within either “Derivative assets" or "Derivative liabilities".

ITEM 7A. 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 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 interest 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 6 "Derivative Financial Instruments" to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

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.

We have exposure related to servicing advances made in accordance with the servicing agreements which are recoverable upon collection of future borrower payments or foreclosure of the underlying loans. Our exposure to credit losses is only to the extent that the respective servicing guidelines are not followed or in the event there is a shortfall in liquidation proceeds and records a reserve against the advances when it is probable that the servicing advance will be uncollectible. In certain circumstances, we may be required to remit funds on a non-recoverable basis, which are expensed as incurred. We periodically review our servicing advances for collectability based on historical 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 December 31, 2016 , approximately $313,524 , or 43% , of our total $731,130 in outstanding adjustable rate mortgage funding arrangements had interest rates that were equal to the underlying mortgage loans. The remaining 57% of the adjustable rate mortgage funding arrangements carried a weighted average interest rate of 3.17% , which was well below the weighted average interest rate on the related mortgage loans held for sale as of December 31, 2016 . In addition, mortgage loans held for sale are carried on our balance sheet on average for only 18 to 25 days after closing and prior to transfer to FNMA, to 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 year ended December 31, 2016 .

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 our 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 we want 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 December 31, 2016 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 our 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 channels 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 December 31, 2016 and December 31, 2015 , given hypothetical instantaneous parallel shifts in the yield curve:

Mortgage loans pipeline [1]	**Down 25 bps**	**Up 25 bps**
2016	$ (1,228)	$ 225
2015	$ (1,771)	$ 86

[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 the 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 an independent third party valuation on a monthly basis, to support the reasonableness of the fair value estimate generated by our internal model. We also have a 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 December 31, 2016 , refer to Note 8, "Mortgage Servicing Rights," to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

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 MSR portfolio. The spread between the weighted average coupon and current market rates determines modeled prepayment speed. During 2016 , the weighted average coupon of our MSRs portfolio remained flat in comparison to December 31, 2015 and, at December 31, 2016 , mortgage rates were lower during the year ended December 31, 2016 than they were at during the year ended December 31, 2015 . 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 December 31, 2016 and December 31, 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
2016	$ (58,309)	$ (24,429)	$ (11,324)	$ 9,672	$ 17,804	$ 30,557
2015	$ (87,458)	$ (39,339)	$ (18,650)	$ 16,992	$ 32,200	$ 56,414

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, but also due to the market demand for the particular asset.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are filed in this Item 8:

Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Stonegate Mortgage Corporation:

We have audited the accompanying consolidated balance sheets of Stonegate Mortgage Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stonegate Mortgage Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted FASB ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* , in connection with the presentation of discontinued operations in the consolidated financial statements.

/s/ KPMG LLP

Indianapolis, Indiana
March 9, 2017

Stonegate Mortgage Corporation
Consolidated Balance Sheets

(In thousands, except share and per share data)	December 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 26,258	$ 32,463
Restricted cash	1,500	4,045
Mortgage loans held for sale, at fair value	578,390	645,696
Servicing advances, net	24,364	19,374
Derivative assets	21,271	12,160
Mortgage servicing rights, at fair value	211,532	199,637
Property and equipment, net	14,839	22,923
Loans eligible for repurchase from GNMA	118,748	80,794
Warehouse lending receivables	125,839	199,215
Goodwill and other intangible assets, net	6,416	6,902
Subordinated loan receivable	30,000	30,000
Other assets	17,585	27,417
Total assets	$ 1,176,742	$ 1,280,626
Liabilities and stockholders' equity		
Liabilities		
Secured borrowings - mortgage loans	277,789	492,799
Secured borrowings - mortgage servicing rights	56,898	77,069
Secured borrowings - eligible GNMA loan repurchases	24,738	37,615
Mortgage repurchase borrowings	371,534	279,421
Warehouse lines of credit	170	1,306
Operating lines of credit	9,928	5,000
Accounts payable and accrued expenses	23,657	23,544
Derivative liabilities	4,536	2,517
Reserve for mortgage repurchases and indemnifications	5,533	5,536
Liability for loans eligible for repurchase from GNMA	118,748	80,794
Deferred income tax liabilities, net	2,458	2,364
Other liabilities	20,804	11,033
Total liabilities	$ 916,793	$ 1,018,998
Commitments and contingencies - Note 18		
Stockholders' equity		
Common stock, par value $0.01, shares authorized - 100,000,000; shares issued: 25,988,457 and outstanding: 25,854,022 at December 31, 2016; shares issued: 25,845,566 and outstanding: 25,796,193 at December 31, 2015	266	264
Additional paid-in capital	272,307	270,906
Accumulated deficit	(12,624)	(9,542)
Total stockholders' equity	259,949	261,628
Total liabilities and stockholders' equity	$ 1,176,742	$ 1,280,626

See accompanying notes to the consolidated financial statements.

Stonegate Mortgage Corporation
Consolidated Statements of Operations

(In thousands, except per share data)	Years Ended December 31,		
	2016	2015	2014
Revenues			
Gains on mortgage loans held for sale, net	$ 118,226	$ 141,819	$ 133,390
Changes in mortgage servicing rights valuation	(12,666)	(30,395)	(55,842)
Payoffs and principal amortization of mortgage servicing rights	(34,247)	(41,529)	(23,735)
Loan origination and other loan fees	21,433	23,956	24,581
Loan servicing fees	50,233	54,772	44,407
Interest and other income	32,980	34,117	35,236
Total revenues	175,959	182,740	158,037
Expenses			
Salaries, commissions and benefits	95,438	116,341	116,200
General and administrative expense	29,854	32,260	34,545
Interest expense	27,263	31,063	26,007
Occupancy, equipment and communication	16,491	16,870	14,601
Depreciation and amortization expense	10,114	7,980	5,048
Total expenses	179,160	204,514	196,401
(Loss) before income taxes	(3,201)	(21,774)	(38,364)
Income tax (benefit)	(119)	(5,533)	(12,936)
(Loss) from continuing operations, net of tax	(3,082)	(16,241)	(25,428)
(Loss) from discontinued operations, net of tax	—	(6,029)	(5,251)
Net (loss) attributable to common stockholders	$ (3,082)	$ (22,270)	$ (30,679)
Basic (loss) per share:			
From continuing operations	$ (0.12)	$ (0.63)	$ (0.99)
From discontinued operations	—	(0.23)	(0.20)
Total basic (loss) per share	$ (0.12)	$ (0.86)	$ (1.19)
Diluted (loss) per share:			
From continuing operations	$ (0.12)	$ (0.63)	$ (0.99)
From discontinued operations	—	(0.23)	(0.20)
Total diluted (loss) per share	$ (0.12)	$ (0.86)	$ (1.19)

See accompanying notes to the consolidated financial statements.

Stonegate Mortgage Corporation
Consolidated Statements of Changes in Stockholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings/(Accumulated Deficit)	Total Stockholders' Equity
Balance at December 31, 2013	25,769	$ 264	$ 263,830	$ 43,407	$ 307,501
Net loss	—	—	—	(30,679)	(30,679)
Stock-based compensation expense	—	—	3,253	—	3,253
Issuance of common stock	12	—	—	—	—
Balance at December 31, 2014	25,781	$ 264	$ 267,083	$ 12,728	$ 280,075
Net loss	—	—	—	(22,270)	(22,270)
Stock-based compensation expense	—	—	3,823	—	3,823
Issuance of common stock	15	—	—	—	—
Balance at December 31, 2015	25,796	$ 264	$ 270,906	$ (9,542)	$ 261,628
Net loss	—	—	—	(3,082)	(3,082)
Stock-based compensation expense	—	—	1,403	—	1,403
Issuance of common stock	58	2	(2)	—	—
Balance at December 31, 2016	25,854	$ 266	$ 272,307	$ (12,624)	$ 259,949

See accompanying notes to the consolidated financial statements.

Stonegate Mortgage Corporation
Consolidated Statements of Cash Flows

(In thousands)	Years Ended December 31,		
	2016	2015	2014
Operating activities			
Net (loss)	$ (3,082)	$ (22,270)	$ (30,679)
Adjustments to reconcile net (loss) to net cash provided by(used in) operating activities:			
Depreciation and amortization expense	10,114	8,835	5,201
Loss on disposal and impairment of long lived assets	195	2,336	1,527
Amortization of debt issuance facility fees	1,446	1,426	—
Gains on mortgage loans held for sale, net	(118,226)	(169,935)	(156,925)
Changes in mortgage servicing rights valuation	12,666	30,395	55,842
Payoffs and principal amortization of mortgage servicing rights	34,247	41,529	23,735
Provision for mortgage repurchases and indemnifications - change in estimate	(1,500)	592	822
Stock-based compensation expense	1,403	3,823	3,253
Income tax benefit	(119)	(9,202)	(16,433)
Change in fair value of contingent earn-out liabilities	—	(103)	(28)
Payments of contingent earn-out liabilities in excess of original fair value estimate	(155)	(406)	—
Proceeds from sales and principal payments of mortgage loans held for sale	9,733,674	12,994,854	12,299,824
Originations and purchases of mortgage loans held for sale	(9,651,065)	(12,499,203)	(12,635,574)
Repurchases and indemnifications of previously sold loans	(23,371)	(48,882)	(16,784)
Repurchases of eligible GNMA loans	(2,207)	(41,627)	—
Principal payments on repurchased GNMA loans	4,545	2,969	—
Impairment of loans	4,233	—	—
Changes in operating assets and liabilities:			
Restricted cash	2,545	437	(3,752)
Servicing advances	(1,609)	(5,335)	(7,016)
Warehouse lending receivables	73,376	(113,784)	(73,342)
Other assets	2,600	(8,674)	(6,482)
Accounts payable and accrued expenses	2,156	(6,448)	2,530
Other liabilities	10,834	4,273	(6,260)
Due to related parties	—	—	(608)
Net cash provided by (used in) operating activities	92,700	165,600	(561,149)
Investing activities			
Proceeds from sale of property and equipment	117	288	—
Net proceeds from sales of mortgage servicing rights	56,791	86,977	41,653
Subordinated loan receivable	—	—	(30,000)
Purchases of property and equipment	(1,707)	(13,532)	(8,634)
Capitalized long-lived assets	(576)	(2,420)	—
Purchases in a business combination, net of cash acquired	—	—	(258)
Purchase of mortgage servicing rights	—	(86)	(2,009)
Net cash provided by investing activities	54,625	71,227	752

(Continued on Next Page)

Stonegate Mortgage Corporation
Consolidated Statements of Cash Flows
(Continued)

(In thousands)	Years Ended December 31,		
	2016	**2015**	**2014**
Financing activities			
Proceeds from borrowings under mortgage funding arrangements - mortgage loans and operating lines of credit	14,978,668	18,892,440	19,086,599
Repayments of borrowings under mortgage funding arrangements - mortgage loans and operating lines of credit	(15,110,650)	(19,144,186)	(18,521,273)
Proceeds from borrowings under mortgage funding arrangements - MSRs	64,750	77,500	—
Repayments of borrowings under mortgage funding arrangements - MSRs	(84,920)	(76,401)	—
Payments of contingent earn-out liabilities not exceeding original fair value estimate	(909)	(1,432)	(1,361)
Payments of debt issuance costs	(469)	2,333	(1,290)
Net cash (used in) provided by financing activities	(153,530)	(249,746)	562,675
Change in cash and cash equivalents	(6,205)	(12,919)	2,278
Cash and cash equivalents at beginning of period	32,463	45,382	43,104
Total cash and cash equivalents at end of period	$ 26,258	$ 32,463	$ 45,382
Supplemental Cash Flow Information:			
Cash paid for interest	$ 29,413	$ 32,836	$ 26,142
Cash paid for taxes	$ 274	$ 704	$ 118

See accompanying notes to the consolidated financial statements.

1. Organization and Operations

References to the terms “we”, “our”, “us”, “Stonegate” or the “Company” used throughout these Notes to 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. The Company operates in three segments: Originations, Servicing and Financing. 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.

Proposed Merger with Home Point Financial Corporation

On January 26, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Home Point Financial Corporation, a New Jersey Corporation (“Home Point Financial”) and Longhorn Merger Sub, Inc. an Ohio corporation and wholly owned subsidiary of Home Point Financial (“Merger Sub”), pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving entity (the “Merger”). See Note 24, "Subsequent Events" for additional information.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation: The accompanying 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”) and in accordance with the instructions to Annual Report on Form 10-K as promulgated by the Securities and Exchange Commission. All intercompany accounts and transactions have been eliminated in consolidation.

Prior Period Reclassifications: During 2015, the Company disposed of certain retail branches, or components of its Originations segment, and the assets associated with them, either through sale or disposal other than by sale. The Company has determined that the disposal of these retail branches met the criteria for presentation and disclosure as discontinued operations and has been reclassified as such in our results of operations. Discontinued operation amounts for the year ended December 31, 2016 are immaterial and are therefore not being presented separately. In addition, certain prior period amounts have been reclassified to conform to the current period presentation on the Consolidated Statements of Operations, Consolidated Statements of Cash Flows and within the Notes to Consolidated Financial Statements. Refer to Note 3 "Discontinued Operations" for additional information related to the Company's discontinued operations for the years ended December 31, 2016, 2015 and 2014.

Immaterial Error Corrections: During 2015, the Company identified immaterial errors in its previously issued Consolidated Statement of Cash Flows for the year ended December 31, 2014 . These immaterial errors impacted the line items “Proceeds from borrowings under mortgage funding arrangements - mortgage loans and operating lines of credit” and “Repayments of borrowings under mortgage funding arrangements - mortgage loans and operating lines of credit” in an exact offsetting manner, such that the subtotal “Net cash provided by financing activities” was not misstated. For the year ended December 31, 2014 , the offsetting misstatement was $20,919,704 .

Use of Estimates: The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the Company’s consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly significant relate to the Company’s fair value measurements of mortgage loans held for sale, mortgage servicing rights (“MSRs”), loans eligible for repurchase from GNMA and the related liability, derivative assets and liabilities, goodwill and other intangible assets, as well as its estimates for the reserve for mortgage repurchases and indemnifications and income tax estimates for deferred tax assets valuation allowance considerations.

Risks and Uncertainties: 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 mortgage 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.

Consolidation: The Company sells loans to FNMA and FHLMC, as well as in GNMA MBS by pooling eligible loans through a pool custodian and assigning rights to the loans to GNMA. FNMA, FHLMC and GNMA provide credit enhancement of the loans through certain guarantee provisions. These securitizations involve variable interest entities (“VIEs”) as the trusts or similar vehicles, by design, that either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity’s operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

The primary beneficiary of a VIE (i.e., the party that has a controlling financial interest) is required to consolidate the assets and liabilities of the VIE. The primary beneficiary is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE’s economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company typically retains the right to service the loans. Because of the power of FNMA, FHLMC and GNMA over the VIEs that hold the assets from these residential mortgage loan securitizations, principally through its rights and responsibilities as master servicer for FNMA and FHLMC, and as approver of issuers for GNMA, and the guarantee provisions provided by FNMA, FHLMC and GNMA, the Company is not the primary beneficiary of the VIEs and, therefore, the VIEs are not consolidated by the Company.

The Company has concluded that on a consolidated basis it has a variable interest in NattyMac Funding ("NMF") resulting from any potential interest it may earn from the 49% NMF earnings participation, as described in Note 14, "Debt". 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 in Note 14, "Debt", the primary beneficiary conclusion may change. The Company believes that its maximum exposure to loss as a result of this arrangement is the $30,000 in subordinated loan receivable as of December 31, 2016 .

The Company performs on-going reassessments of: (1) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and therefore become subject to the VIE consolidation framework; and (2) whether changes in the facts and circumstances regarding the Company's involvement with a VIE cause the Company's consolidation determination to change.

Revenue Recognition:

Mortgage Loans Held for Sale: Loan originations that are intended to be sold in the foreseeable future, including residential mortgages, are reported as mortgage loans held for sale. Mortgage loans held for sale are carried at fair value under the fair value option with changes in fair value recognized in current period earnings. At the date of funding of the mortgage loan held for sale, the funded amount of the loan, the related derivative asset or liability of the associated interest rate lock commitment, less direct loan costs (including but not limited to correspondent fees, broker premiums and underwriting expenses) becomes the initial recorded investment in the mortgage loan held for sale. Such amount approximates the fair value of the loan.

Mortgage loans held for sale are considered de-recognized, or sold, when the Company surrenders control over the financial assets. Control is considered to have been surrendered when the transferred assets have been isolated from the Company, beyond the reach of the Company and its creditors; the purchaser obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and the Company does not maintain effective control over the transferred assets through an agreement that both entitles and obligates the Company to repurchase or redeem the transferred assets before their maturity or the ability to unilaterally cause the holder to return specific assets. Such transfers may involve securitizations, participation agreements or repurchase agreements. If the criteria above are not met, such transfers are accounted for as secured borrowings, in which the assets remain on the balance sheet, the proceeds from the transaction are recognized as a liability and no MSRs are recorded for those transferred loans.

Gains and losses from the sale of mortgages are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale and is recorded in "Gains on mortgage loans held for sale, net" in the Consolidated Statements of Operations. The sales proceeds reflect the cash received and the initial fair value of the separately recognized mortgage servicing rights less the fair value of the liability for mortgage repurchases and indemnifications. Gain on mortgage loans held for sale also includes the unrealized gains and losses associated with the mortgage loans held for sale and the realized and unrealized gains and losses from derivatives.

Mortgage Servicing Rights and Change in Mortgage Servicing Rights Valuation: The Company capitalizes MSRs at fair value when purchased or at the time the underlying loans are de-recognized, or sold, and when the Company retains the right to service such loans. To determine the fair value of the MSRs, the Company uses a valuation model that calculates the present value of future cash flows generated by the rights to service. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, including estimates of the cost of servicing, the discount rate, float value, the inflation rate, estimated prepayment speeds, and default rates. MSRs currently are not actively traded in the markets, accordingly, considerable judgment is required to estimate their fair value and the exercise of that judgment can materially impact current period earnings.

The Company may sell from time to time a certain portion of its MSRs. At the time of the sale, based on the structure of the arrangement, the Company typically records a gain or loss on such sale based on the selling price of the MSRs less the carrying value and transaction costs. The MSRs are sold in separate transactions from the sale of the underlying loans. The MSRs sales are assessed to determine if they qualify as a sale transaction. A transfer of servicing rights related to loans previously sold qualifies as a sale at the date on which title passes, if substantially all risks and rewards of ownership have irrevocably passed to the transferee, and any protection provisions retained by the transferor are minor and can be reasonably estimated. In addition, if a sale is recognized and only minor protection provisions exist, a liability should be accrued for the estimated obligation associated with those provisions. As MSRs are not considered financial assets for accounting purposes, the accounting model used to determine if the transfer of an MSRs asset qualifies as a sale is based on a risks and rewards approach. Upon completion of a sale, the Company would account for the transaction as a sale and derecognize the mortgage servicing rights from the Consolidated Balance Sheets.

Loan Origination and Other Loan Fees: Loan origination and other loan fee income represents revenue earned from originating mortgage loans. Loan origination and other loan fees generally represent flat, per-loan fee amounts and are recognized as revenue, net of loan origination costs (excluding those direct loan origination costs that are recorded as a component of the recorded investment in mortgage loans held for sale), at the time the loans are funded.

Loan Servicing Fees: Loan servicing fee income represents revenue earned for servicing mortgage loans. The servicing fees are based on a contractual percentage of the outstanding principal balance and recognized as revenue as earned, which is generally upon collection of the payments from the borrower. Corresponding loan servicing costs are charged to expense as incurred.

Interest Income: Interest income on mortgage loans is accrued to income based upon the principal amount outstanding and contractual interest rates. Income recognition is discontinued when loans become 90 days delinquent or when in management’s opinion, the collectability of principal and income becomes doubtful.

Warehouse Lending Receivables: During the year ended December 31, 2013, the Company introduced its warehouse lending products to its correspondent customers through warehouse line of credit agreements. Under the warehouse line of credit agreements, the Company lends funds to its correspondent customers to finance those correspondents' mortgage loan originations. The correspondent customers pledge, as security to the Company, the underlying mortgage loans, and pay interest on the related outstanding borrowings at a specified interest rate plus a margin, as defined in the underlying line of credit agreements with each correspondent customer. As of December 31, 2016 , the Company had outstanding warehouse lending receivables from its correspondent customers of $125,839 and recognized interest income from its warehouse lending activities of $5,475 during the year ended December 31, 2016 . As of December 31, 2015 , the Company had outstanding warehouse lending receivables from its correspondent customers of $199,215 and recognized interest income from its warehouse lending activities of $5,325 during the year ended December 31, 2015 . The Company periodically reviews the warehouse lending receivables for collectability based on a review of the counterparty, historical collection trends and management judgment regarding the ability to collect specific accounts. The Company has determined that no allowance for doubtful accounts was necessary as of December 31, 2016 or December 31, 2015 .

Derivative Financial Instruments: All derivative financial instruments are recognized as either assets or liabilities and measured at fair value. The Company accounts for all of its derivatives as free-standing derivatives and does not designate any of these instruments for hedge accounting. Therefore, the gain or loss resulting from the change in the fair value of the derivative is recognized in the Company’s results of operations during the period of change.

The Company enters into commitments to originate residential mortgage loans held for sale, at specified interest rates and within a specified period of time, with customers who have applied for a loan and meet certain credit and underwriting criteria (interest rate lock commitments). These interest rate lock commitments (“IRLCs”) meet the definition of a derivative financial instrument and are reflected in the balance sheet at fair value with changes in fair value recognized in current period earnings. Unrealized gains and losses on the IRLCs are recorded as derivative assets and derivative liabilities, respectively, and are measured based on the value of the underlying mortgage loan, quoted MBS prices, estimates of the fair value of the mortgage servicing rights and an estimate of the probability that the mortgage loan will fund within the terms of the interest rate lock commitment, net of estimated commission expenses.

The Company manages the interest rate and price risk associated with its outstanding IRLCs and loans held for sale by entering into derivative instruments such as forward loan sales commitments and mandatory delivery commitments, including TBA mortgage securities. Management expects these derivatives will experience changes in fair value opposite to changes in fair value of the IRLCs and loans held for sale, thereby reducing earnings volatility. The Company takes into account various factors and strategies in determining the portion of the mortgage pipeline (IRLCs and loans held for sale) it wants to economically hedge.

Reserve for Loan Repurchases and Indemnifications: Loans sold to investors by the Company, and which were believed to have met investor and agency underwriting guidelines at the time of sale, may be subject to repurchase or indemnification in the event of specific default by the borrower or subsequent discovery that underwriting standards were not met. The Company may, upon mutual agreement, agree to repurchase the loans or indemnify the investor against future losses on such loans. In such cases, the Company bears any subsequent credit loss on the loans. The Company has established an initial reserve liability for expected losses related to these representations and warranties at the date the loans are de-recognized from the balance sheet based on the fair value of such reserve liability. Subsequently, based on changing facts and circumstances or changes in certain estimates and assumptions, the reserve liability may be adjusted if there is a reasonable possibility that future losses may be different from the initial reserve liability, with a corresponding amount recorded to provision for mortgage repurchases and indemnifications - change in estimate within the general and administrative expense in the Consolidated Statements of Operations. 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 year ended December 31, 2016 includes the release of $1,500 of the repurchase reserve, which is described further in Note 15, "Reserve for Mortgage Repurchases and Indemnifications." Actual losses incurred are reflected as charge-offs against the reserve liability.

Loans Eligible for Repurchase from GNMA: As discussed above, the Company routinely sells loans in GNMA guaranteed MBS by pooling eligible loans through a pool custodian and assigning rights to the loans to GNMA. When these GNMA loans are initially pooled and securitized, the Company meets the criteria for sale treatment and de-recognizes the loans. Subsequently, when the Company has the unconditional right, as servicer, to repurchase GNMA pool loans it has previously sold (generally loans that are more than 90 days past due), the Company then puts back the loans on its balance sheet, initially reflected at fair value. An offsetting liability is also recorded.

Servicing Advances, net: Servicing advances, net represent principal, interest, escrow and corporate advances paid by the Company on behalf of customers to cover delinquent balances for principal, interest, property taxes, insurance premiums and other out-of-pocket costs. Advances are made in accordance with the servicing agreements and are recoverable upon collection of future borrower payments or foreclosure of the underlying loans. The Company is exposed to losses only to the extent that the respective servicing guidelines are not followed or in the event there is a shortfall in liquidation proceeds and records a reserve against the advances when it is probable that the servicing advance will be uncollectible. In certain circumstances, the Company may be required to remit funds on a non-recoverable basis, which are expensed as incurred. As of December 31, 2016 and 2015, the recorded reserve for uncollectible servicing advances was $2,084 and $1,424 , respectively.

Property and Equipment: Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to 10 years for furniture and office equipment, three to five years for purchased computer software and equipment, and the shorter of the related lease term or useful life for leasehold improvements. The Company capitalizes internally developed computer software costs during the development stage, which include external direct costs of materials and services, as well as employee costs related to time spent on the project. Capitalized costs related to internally developed software are amortized using the straight-line method over the estimated useful lives of the assets, which range from one to three years .

The Company periodically assesses property and equipment for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If management identifies an impairment indicator, it assesses recoverability by comparing the carrying amount of the asset to the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment loss is recognized in earnings whenever the carrying amount is not recoverable. During the years ended December 31, 2016 and 2015, the Company recognized impairment charges of $195 and $1,726 , respectively. The prior year expense is primarily associated with the assets related to the discontinued operations discussed above. No such impairment was recognized during the year ended December 31, 2014 .

Goodwill and Other Intangible Assets: Business combinations are accounted for using the acquisition method of accounting. Acquired intangible assets are recognized and reported separately from goodwill. Goodwill represents the excess cost of acquisition over the fair value of net assets acquired. Finite-lived purchased intangible assets consist of customer relationships, non-compete agreement and an active agent list, which have useful lives of eight years , three years and five years , respectively. Intangible assets with finite lives are amortized over their estimated lives using an amortization method that reflects the pattern in which the economic benefits of the asset are consumed. The Company evaluates the estimated remaining useful lives on intangible assets to determine whether events or changes in circumstances warrant a revision to the remaining periods of amortization. If an intangible asset’s estimated useful life is changed, the remaining net carrying amount of the intangible asset is amortized prospectively over that revised remaining useful life. Additionally, an intangible asset that initially is deemed to have a finite useful life would cease being amortized if it is subsequently determined to have an indefinite useful life. Such intangible assets are then tested for impairment. The Company reviews such intangibles for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable, in which case any impairment charge would be recorded to earnings.

Indefinite-lived purchased intangible assets consist of the NattyMac trade name. Goodwill and other intangible assets with an indefinite useful life are not subject to amortization, but are reviewed for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. For indefinite-lived intangible assets other than goodwill, the Company first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that is more likely than not the assets are impaired. If the

Company determines that it is more likely than not that the intangible assets are impaired, a quantitative impairment test is performed. For the quantitative impairment test, the Company estimates and compares the fair value of the indefinite-lived intangible asset with its carrying amount. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, the amount of the impairment is measured as the difference between the carrying amount of the asset and its fair value. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

The Company's goodwill relates to the Retail reporting unit of its Originations segment. For goodwill, GAAP allows a qualitative assessment prior to requiring a quantitative impairment test. For the quantitative impairment test, at the reporting unit level, the Company estimates and compares the fair value to the book value. If the reporting unit's book value exceeds its fair value, the Company then performs a hypothetical purchase price allocation for the reporting unit. This is done by marking all assets and liabilities to fair value and calculating an implied goodwill value. If the implied goodwill value is less than the carrying value of the goodwill, the amount of impairment is measured as the difference and is permanently recognized by writing down the goodwill to the extent the carrying value exceeds the implied value.

Stock-Based Compensation: The Company grants stock options and restricted stock units to certain executive officers, key employees and independent directors. Stock options have been granted for a fixed number of shares with an exercise price at least equal to the fair value of the shares at the date of grant. Restricted stock units have been granted for a fixed number of shares with a fair value equal to the fair value of the Company's common stock on the grant date. The stock options and restricted stock units granted are recognized as compensation expense in the statement of operations based on their grant-date fair values.

Advertising and Marketing: The Company uses primarily print, broadcast and web-based advertising and marketing to promote its products. These expenses also include purchased leads of mortgage loans related to our retail channel and are expensed as incurred. Advertising and marketing expenses related to continuing operations totaled $634 , $2,067 and $2,347 for the years ended December 31, 2016 , 2015 and 2014 . Advertising and marketing expenses related to discontinued operations totaled $1,148 and $869 for the years ended December 31, 2015 and 2014 . No advertising and marketing expenses related to discontinued operations were incurred during the year ended December 31, 2016 .

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Company recorded a valuation allowance in the amount of $1,554 as of December 31, 2015 and released $657 during the period ending December 31, 2016 related to its continuing operations. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company’s income tax expense includes assessments related to uncertain tax positions taken or expected to be taken by the Company. ASC 740-10, *Income Taxes* , requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. Management assesses this as facts and circumstances related to the Company's business and operations change in a period. If applicable, the Company will recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. The open tax years subject to examination by taxing authorities include the years ended December 31, 2015 , 2014 , 2013 and 2012 . The Company had no federal or state tax examinations in process as of December 31, 2016 .

Cash and Cash Equivalents: The Company classifies cash and temporary investments with original maturities of three months or less as cash and cash equivalents. The Company typically maintains cash in financial institutions in excess of FDIC limits. The Company evaluates the creditworthiness of these financial institutions in determining the risk associated with these cash balances.

Restricted Cash: The Company maintains certain cash balances that are restricted under broker margin account agreements associated with its derivative activities. Additionally, certain funding received for the repurchase of eligible loans from GNMA, as discussed above, is reflected as restricted cash on the consolidated balance sheets until such repurchases are made.

3. Discontinued Operations

As discussed in Note 2, during 2015, the Company disposed of certain retail branches, or components of its Originations segment, and the assets associated with them, either through sale or disposal other than by sale to better manage the expenses associated with retail originations. During 2015, the Company completed the closure of 62 of its retail branches and sale of an additional 14 retail branches. The Company determined that the disposal of these retail branches met the criteria for being reported as discontinued operations under ASU No. 2014-08, and has been reclassified as such in our results of operations. There were no additional material amounts classified as discontinued operations during the year ended December 31, 2016. The following table provides the components of loss from discontinued operations, net of tax for the years ended December 31, 2015 and 2014:

	Years Ended December 31,	
	2015	2014
Total revenues	$ 34,371	$ 27,580
Total expenses	44,069	36,328
Income before income taxes	(9,698)	(8,748)
Income tax expense	(3,669)	(3,497)
Income from discontinued operations, net of tax	$ (6,029)	$ (5,251)

Total expenses for the year ended December 31, 2015 includes impairment charges, based on estimated future recoverable amounts related to the associated assets, of approximately $1,009 , early termination contractual charges of $1,144 and the write off of certain guaranteed incentive payments for $782 .

In connection with the sale, the Company is entitled to a contingent consideration, which payment is contingent upon the buyer's ability to close mortgage loans in the pipeline but unlocked by the Company prior to the sale date. If such loans are closed by the buyer, the Company will receive from the buyer two annual payments equal to a multiple of this actual total mortgage loan volume of the buyer. During the year ended December 31, 2016, the Company received payments totaling $224 , which are included in "Interest and other income" on the Company's consolidated statements of operations. No amounts were recognized during the year ended December 31, 2015.

Cash flows from discontinued operations related to depreciation expense were $855 and $187 for the years ended December 31, 2015 and 2014 , respectively. Capital expenditures related to discontinued operations were $760 and $1,515 for the years ended December 31, 2015 and 2014 , respectively.

4. (Loss) Per Share

The following is a reconciliation of net (loss) income attributable to common stockholders and a table summarizing the basic and diluted (loss) earnings per share calculations for the years ended December 31, 2016 , 2015 and 2014 :

	Years Ended December 31,		
	2016	2015	2014
Numerator:			
Net (loss)			
(Loss) from continuing operations, net of tax	$ (3,082)	$ (16,241)	$ (25,428)
(Loss) from discontinued operations, net of tax	—	(6,029)	(5,251)
Net (loss) attributable to common stockholders	$ (3,082)	$ (22,270)	$ (30,679)

Denominator:			
Weighted average shares outstanding *(in thousands)* **:**			
Weighted average shares outstanding - Basic	25,922	25,783	25,770
Weighted average shares outstanding - Diluted	25,922	25,783	25,770
Basic (loss) per share:			
From continuing operations	$ (0.12)	$ (0.63)	$ (0.99)
From discontinued operations	—	(0.23)	(0.20)
Total (loss) attributable to common stockholders	$ (0.12)	$ (0.86)	$ (1.19)
Diluted (loss) per share:			
From continuing operations	$ (0.12)	$ (0.63)	$ (0.99)
From discontinued operations	—	(0.23)	(0.20)
Total (loss) attributable to common stockholders	$ (0.12)	$ (0.86)	$ (1.19)

During the years ended December 31, 2016 , 2015 and 2014 weighted average shares of 756,469 , 1,471,920 and 1,818,049 , respectively, 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.

5. Business Combinations

Acquisition of Medallion Mortgage Company

On February 4, 2014, 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.

As part of the acquisition of Medallion, the Company agreed to pay Medallion's seller a contingent consideration, which payment was contingent upon Medallion achieving certain predetermined minimum mortgage loan origination goals during the two year period following the acquisition date (the "earnout"). If such goals were met by Medallion, the Company would pay the seller two annual payments equal to a multiple of the actual total mortgage loan volume of Medallion. The earn-out was 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 earn-out 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. Based on the mortgage loan origination volume of Medallion during 2015, the Company would not need to pay the second of the two potential earn-out payments, as the predetermined minimum mortgage loan origination goals were not met. As such, a liability was no longer reflected on the consolidated balance sheets as of December 31, 2015 .

Acquisition of Crossline Capital, Inc.

On December 19, 2013, the Company completed its acquisition of Crossline Capital, Inc. ("Crossline"), a California-based mortgage lender that originated, funded, and serviced residential mortgages. The acquisition of Crossline allowed the Company to increase its origination volume through geographic expansion. At the time of the acquisition, Crossline was licensed to originate mortgages in 20 states including Arizona, California, Colorado, Connecticut, Florida, Georgia, Idaho, Maryland, Massachusetts, New Hampshire, New Mexico, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, Texas, Utah, Virginia and Washington, and was an approved FNMA Seller Servicer. In addition, it operated two national mortgage origination call centers in Lake Forest, CA and Scottsdale, AZ and also operated retail mortgage origination branches in seven other locations in Southern California.

The following table summarizes the total consideration transferred to acquire Crossline and the fair values of assets acquired and liabilities assumed on the acquisition date:

Consideration:		
Cash consideration	$	9,765
Fair value of contingent consideration		1,706
Total consideration		11,471
Fair value of assets acquired:		
Cash and cash equivalents (including restricted cash)		3,688
Mortgage loans held for sale		28,394
Identified intangible assets		2,204
MSRs		344
Other assets		2,333
Total fair value of assets acquired		36,963
Fair value of liabilities assumed:		
Warehouse lines of credit		27,454
Other liabilities		1,676
Total fair value of liabilities assumed		29,130
Fair value of net assets acquired		7,833
Goodwill	$	3,638
Acquisition-related expenses	$	122

As part of the acquisition of Crossline, the Company agreed to pay Crossline's seller a deferred purchase price, which payment was contingent upon the seller meeting certain conditions. The first contingent payment was conditional upon the following: during the six month period following the acquisition, the seller must sign letters of intent with at least two mortgage loan origination businesses who employ at least five licensed mortgage loan originators and whose total mortgage loan origination volume during the prior twelve month period was at least $50,000 in aggregate unpaid principal balance. If such conditions were met, the seller would be due a payment equal to a multiple of the actual total mortgage loan volume of Crossline during such six month period, not to exceed $500 (the "on-boarding payment"). During the year ended December 31, 2014 , the Company paid the seller $167 in contingent on-boarding payments.

In addition, the Company agreed to pay Crossline's seller a second contingent payment that was conditional upon Crossline achieving certain predetermined minimum mortgage loan origination goals during the two year period following the acquisition date (the "earnout"). If such goals were met by Crossline, the Company would pay the seller quarterly payments equal to a multiple of the actual total mortgage loan volume of Crossline. The earnout was uncapped in amount. Effective September 30, 2014, the Company amended the agreement governing the earn-out provisions related to the acquisition of Crossline. As a result of the amendment, the remaining earn-out amount to be paid to the original seller was fixed and was no longer contingent. During the year ended December 31, 2014 , the Company paid the seller $1,094 in contingent earn-out payments. The remaining payment of $722 was paid in February 2015.

6. Derivative Financial Instruments

The Company does not designate any of its derivative financial instruments as hedges for accounting purposes. The following summarizes the Company's outstanding derivative instruments as of December 31, 2016 and 2015 :

December 31, 2016:			Fair Value	
	Notional	Balance Sheet Location	Asset	(Liability)
Interest rate lock commitments	$ 800,168	Derivative assets/liabilities	$ 7,035	$ (1,672)
MBS forward sales contracts	1,473,514			
MBS forward purchase contracts	491,600			
Total MBS forward trades	1,965,114	Derivative assets/liabilities	14,236	(2,864)
Total derivative financial instruments	$ 2,765,282		$ 21,271	$ (4,536)

December 31, 2015:			Fair Value	
	Notional	Balance Sheet Location	Asset	(Liability)
Interest rate lock commitments	$ 1,169,768	Derivative assets/liabilities	$ 10,596	$ (334)
MBS forward sales contracts	1,705,995			
MBS forward purchase contracts	522,800			
Total MBS forward trades	2,228,795	Derivative assets/liabilities	1,564	(2,183)
Total derivative financial instruments	$ 3,398,563		$ 12,160	$ (2,517)

The following summarizes the net gains (losses) recognized by the Company on its derivative financial instruments, which are included in "Gains on mortgage loans held for sale, net" on its consolidated statements of operations, for the years ended December 31, 2016 , 2015 and 2014 :

	Years Ended December 31,		
	2016	2015	2014
Interest rate lock commitments	$ (4,900)	$ (1,942)	$ 10,945
MBS forward trades [1]	(3,593)	8,069	(23,581)
Net derivative (losses) gains	$ (8,493)	$ 6,127	$ (12,636)

[1] Amount includes pair-off settlements.

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, a portion of which include netting arrangements whereby the counterparties are entitled to settle their positions on a net basis. However, with respect to this portion of its derivatives, the Company presents such amounts on a gross basis as shown in the table above. In certain circumstances, the Company is required to provide certain derivative counterparties collateral against derivative financial instruments. As of December 31, 2016 and 2015 , counterparties held $0 and $4,045 , 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 $11,372 and $3,426 at December 31, 2016 and 2015 , respectively, to those counterparties. For the years ended December 31, 2016 and 2015 , the Company incurred no credit losses due to non-performance of any of its counterparties.

7. Mortgage Loans Held for Sale, at Fair Value

The following summarizes mortgage loans held for sale at fair value as of December 31, 2016 and December 31, 2015 :

	December 31, 2016	December 31, 2015
Conventional [1]	$ 199,350	$ 230,438
Government insured [2]	355,131	357,442
Non-agency/Other	23,909	57,816
Total mortgage loans held for sale, at fair value	$ 578,390	$ 645,696

[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 Agricultural ("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 December 31, 2016 , the Company had pledged $548,392 ($611,926 as of December 31, 2015) in fair value of mortgage loans held for sale as collateral to secure debt under its mortgage funding arrangements, with the remaining $29,998 ($33,770 as of December 31, 2015) 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 14 "Debt" for additional information related to the Company's outstanding borrowings as of December 31, 2016 and December 31, 2015 .

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 December 31, 2016 and December 31, 2015 :

	December 31, 2016		December 31, 2015	
	Fair Value	UPB	Fair Value	UPB
Current through 89 days delinquent	$ 548,794	$ 538,331	$ 603,778	$ 588,189
90 or more days delinquent [1]	29,596	30,217	41,918	42,918
Total	$ 578,390	$ 568,548	$ 645,696	$ 631,107

[1] Includes $20,868 and $21,472 in fair value and related UPB, respectively, of eligible loans repurchased out of GNMA pools, as described in Note 9 - Fair Value Measurements, as of December 31, 2016 , and $34,540 and $35,547 in fair value and related UPB, respectively, of eligible loans repurchased out of GNMA pools, as of December 31, 2015 .

8. 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 the servicing activities.

The Company's total mortgage servicing portfolio as of December 31, 2016 and December 31, 2015 is summarized as follows (based on the unpaid principal balance ("UPB") of the underlying mortgage loans):

	December 31, 2016	December 31, 2015
FNMA	$ 4,046,750	$ 5,468,904
GNMA:		
FHA	4,875,867	3,990,276
VA	3,475,218	2,731,822
USDA	883,696	805,783
FHLMC	2,917,616	4,449,796
Other investors	87,692	74,150
Total mortgage servicing portfolio	$ 16,286,839	$ 17,520,731
MSRs balance	$ 211,532	$ 199,637
MSRs balance as a percentage of total mortgage servicing portfolio	1.30%	1.14%

At December 31, 2016 and December 31, 2015 , the Company held $311,329 and $342,474 of escrow funds in custodial bank accounts for its customers for which it services mortgage loans.

A summary of the changes in the balance of MSRs for the years ended December 31, 2016 , 2015 and 2014 is as follows:

	Years Ended December 31,		
	2016	2015	2014
Balance at beginning of period	$ 199,637	$ 204,216	$ 170,294
MSRs originated in connection with loan sales	112,102	157,749	157,264
MSRs sold and derecognized	(47,780)	(97,524)	(44,692)
Purchased MSRs	—	86	2,009
Changes in valuation inputs and assumptions [1]	(18,180)	(23,361)	(56,924)
Actual portfolio runoff (payoffs and principal amortization)	(34,247)	(41,529)	(23,735)
Balance at end of period	$ 211,532	$ 199,637	$ 204,216

[1] Represents the unrealized portion of the "Changes in mortgage servicing rights valuation" on the Company's consolidated statements of operations. The Company realized a gain of $5,514 , a loss of $7,034 and a gain of $1,082 related to its MSRs sales for the years ended December 31, 2016 , 2015 and 2014 , respectively.

On March 31, 2015, the Company completed a sale of MSRs with a UPB 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, September 30, 2015 and December 31, 2015, in separate transactions, the Company completed sales of MSRs with an underlying UPB of $1.9 billion , $1.5 billion and $2.0 billion , respectively, in GNMA loans to an unrelated party. These pools of MSRs 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.

In 2015, the Company entered into a flow sale agreement for the sale of MSRs in $0.7 billion in GNMA loans to an unrelated party. The sales occurred monthly during the covered period, from September 2015 through April 2016. The flow sales occurring in 2015 totaled .7 billion and in 2016 totaled .6 billion . The characteristics of the pools sold are similar to those associated with the Company's current GNMA production.

On June 30, 2016, the Company completed a bulk sale of MSRs with an underlying unpaid principal balance of $5.1 billion in FNMA and FHLMC loans to an unrelated party. This pool of MSRs had average mortgage interest rates that were higher than current mortgage rates, and did not include any GNMA MSRs, which have a different historical performance than FNMA and FHLMC MSRs.

On September 30, 2016, the Company completed a bulk sale of MSRs with an underlying unpaid principal balance of $1.2 billion in GNMA loans to an unrelated party. This pool of MSRs had average mortgage interest rates that were higher than current mortgage rates, and did not include any FNMA and FHLMC MSRs, which have a different historical performance than GNMA MSRs.

The Company performs temporary sub-servicing activities with respect to the pools of underlying loans described above through the established loan file transfer dates of each sale for a fee, during which time the Company is entitled to certain other ancillary income amounts. The Company uses the proceeds to reinvest back into newly originated MSRs through its origination platform. Each of these MSRs sale transactions met the criteria for derecognition as of their respective sale dates, allowing for the MSRs assets to be derecognized and a gain or loss to be recorded at the time of derecognition, based on the respective fair values as of the sale dates. The recognized gains or losses were recorded net of direct transaction expenses and estimated protection provisions.

The following table sets forth information related to outstanding loans sold as of December 31, 2016 and December 31, 2015 for which the Company has continuing involvement through servicing agreements:

	December 31, 2016	December 31, 2015
Total unpaid principal balance	$ 16,286,839	$ 17,520,731
Loans 30-89 days delinquent	$ 358,300	$ 307,736
Loans delinquent 90 or more days or in foreclosure	$ 160,706	$ 114,298

The key weighted average assumptions (or range of assumptions), based on market participant inputs for the industry, used in determining the fair value of the Company's MSRs as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Discount rates	9.25% - 11.00%	9.25% - 11.00%
Annual prepayment speeds (by investor type):		
FNMA	10.1%	13.0%
GNMA:		
FHA	9.6%	11.5%
VA	9.6%	8.8%
USDA	9.9%	10.5%
FHLMC	9.2%	11.6%
Other investors	11.1%	12.4%
Cost of servicing (per loan)	$91	$85

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 expected 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 delinquency 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 lifetime delinquency rates for FNMA, GNMA, FHLMC and Other Investors mortgage loans as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
FNMA	4.05%	4.01%
GNMA:		
FHA	6.52%	6.58%
VA	6.46%	6.52%
USDA	6.51%	6.53%
FHLMC	4.01%	3.94%
Other investors	6.61%	6.37%

The delinquency rates represent the Company’s estimate of the loans that will eventually enter delinquency 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 delinquencies 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 December 31, 2016 and December 31, 2015 :

	December 31, 2016	% of Average Portfolio	December 31, 2015	% of Average Portfolio
Discount rates:				
Impact of discount rate + 1%	$ (9,027)	4%	$ (8,578)	4%
Impact of discount rate + 2%	$ (17,351)	8%	$ (16,470)	8%
Impact of discount rate + 3%	$ (25,045)	12%	$ (23,753)	12%
Prepayment speeds:				
Impact of prepayment speed * 105%	$ (4,744)	2%	$ (5,502)	3%
Impact of prepayment speed * 110%	$ (9,322)	4%	$ (10,792)	5%
Impact of prepayment speed * 120%	$ (18,010)	9%	$ (20,778)	10%
Cost of servicing:				
Impact of cost of servicing * 105%	$ (1,415)	1%	$ (1,365)	1%
Impact of cost of servicing * 110%	$ (2,830)	1%	$ (2,731)	1%
Impact of cost of servicing * 120%	$ (5,660)	3%	$ (5,462)	3%

As the table demonstrates, the Company’s methodology for estimating the fair value of MSRs is 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.

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 December 31, 2016 and December 31, 2015 , the Company had pledged $210,734 and $199,007 , respectively, in fair value of mortgage servicing rights as collateral to secure debt under certain of its secured borrowing arrangements. However, the financial institutions would be limited to selling the pledged

MSRs to the amount needed to satisfy their respective debt, including any accrued but unpaid interest and fees, as applicable. As of December 31, 2016 and December 31, 2015 , the outstanding borrowings secured by MSRs were $56,898 and $77,069 , respectively. Refer to Note 14 “Debt” for additional information related to the Company’s outstanding borrowings as of December 31, 2016 and December 31, 2015 .

The following is a summary of the components of loan servicing fees as reported in the Company’s consolidated statements of operations for the years ended December 31, 2016 , 2015 and 2014 :

	Years Ended December 31,		
	2016	**2015**	**2014**
Contractual servicing fees	$ 47,534	$ 51,775	$ 42,429
Late fees	2,699	2,997	1,978
Loan servicing fees	$ 50,233	$ 54,772	$ 44,407
Servicing fees as a percentage of average portfolio *(annualized)*	0.31%	0.30%	0.28%

9. 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 mortgage loans held for sale, derivative financial instruments, MSRs and loans eligible for repurchase from GNMA, 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. These saleable loans are considered Level 2. A smaller portion of the Company's mortgage loans held for sale consist of 1) loans deemed non-saleable prior to sale to the GSEs; 2) loans repurchased from the GSEs that have subsequently been deemed to be non-saleable to GSEs when certain representations and warranties are breached; 3) loans repurchased from the GSE in our loan modification program; and 4) loans repurchased from GNMA securities pursuant to our unilateral right, as servicer, to repurchase such GNMA loans we have previously sold. The fair values of these 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, which are identified as Level 3 inputs. Changes in fair value of the Company's mortgage loans held for sale are recognized through "Gains on mortgage loans held for sale, net" on its consolidated statements of operations.

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, 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, net of commission expenses. The Company estimates the fair value of forward sales commitments based on quoted MBS prices, which are considered Level 2. With respect to its interest rate lock commitments ("IRLCs"), management determined that a Level 3 classification was most appropriate based on the various significant unobservable inputs utilized in estimating the fair value of its IRLCs. Changes in fair value of the Company's derivative financial instruments are recognized through "Gains on mortgage loans held for sale, net" on its consolidated statements of operations.

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. Therefore, the Company classifies MSRs as Level 3. 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 flat rate environment. 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. Changes in fair value of the Company's mortgage servicing rights are recognized through "Changes in mortgage servicing rights valuation" on its consolidated statements of operations.

Loans Eligible for Repurchase from GNMA: The Company uses a liquidation based discounted cash flow analysis to estimate the fair value of the assets and liabilities on the consolidated balance sheet for certain delinquent government guaranteed or insured mortgage loans from GNMA guaranteed pools in its servicing portfolio. Therefore, the Company classifies loans from GNMA as Level 3. The Company's right to purchase such loans arises as the result of the borrower's failure to make payments for at least 90 days preceding the month of repurchase by the Company and provides an alternative to the Company's obligation to continue advancing principal and interest at the coupon rate of the related GNMA security. The key assumptions used in the discounted cash flow analysis include the Company's historical ability to make the GNMA loan salable, by becoming current either through the borrower's performance or through completion of a modification of the loan's terms, and the Company's historical ability to receive insurance reimbursements for related claims filed. Changes in fair value of the Company's loans eligible for repurchase from GNMA are recognized between "Loans eligible for repurchase from GNMA" and "Liability for loans eligible for repurchase from GNMA" on its consolidated balance sheets.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 :

	Level 1	Level 2	Level 3	Total
Assets:				
Mortgage loans held for sale - saleable to GSEs	$ —	$ 503,300	$ —	$ 503,300
Mortgage loans held for sale - non-saleable to GSEs	—	—	49,346	49,346
Mortgage loans held for sale - repurchased GNMA loans	—	—	25,744	25,744
Derivative assets (IRLCs)	—		7,035	7,035
Derivative assets (MBS forward trades)	—	14,236	—	14,236
MSRs	—	—	211,532	211,532
Loans eligible for repurchase from GNMA	—	—	118,748	118,748
Total assets	$ —	$ 517,536	$ 412,405	$ 929,941
Liabilities:				

	Level 1	Level 2	Level 3	Total
Derivative liabilities (IRLCs)	$ —	$ —	$ 1,672	$ 1,672
Derivative liabilities (MBS forward trades)	—	2,864	—	2,864
Liability for loans eligible for repurchase from GNMA	—	—	118,748	118,748
Total liabilities	$ —	$ 2,864	$ 120,420	$ 123,284

The following are the major categories of assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 :

	Level 1	Level 2	Level 3	Total
Assets:				
Mortgage loans held for sale - saleable to GSEs	$ —	$ 549,561	$ —	$ 549,561
Mortgage loans held for sale - non-saleable to GSEs			58,799	58,799
Mortgage loans held for sale - repurchased GNMA loans	—	—	37,336	37,336
Derivative assets (IRLCs)	—		10,596	10,596
Derivative assets (MBS forward trades)	—	1,564	—	1,564
MSRs	—	—	199,637	199,637
Loans eligible for repurchase from GNMA	—	—	80,794	80,794
Total assets	$ —	$ 551,125	$ 387,162	$ 938,287
Liabilities:				
Derivative liabilities (IRLCs)	$ —	$ —	$ 334	$ 334
Derivative liabilities (MBS forward trades)	—	2,183	—	2,183
Liability for loans eligible for repurchase from GNMA	—	—	80,794	80,794
Total liabilities	$ —	$ 2,183	$ 81,128	$ 83,311

A reconciliation of the beginning and ending balances of the Company’s assets and liabilities classified within Level 3 of the valuation hierarchy for the years ended December 31, 2016 and 2015 are as follows:

	Year Ended December 31, 2016					
	Mortgage Loans Held for Sale - non-saleable to GSEs	**Mortgage Loans Held for Sale - Repurchased GNMA Loans**	**Derivative Assets**	**Derivative Liabilities**	**Loans eligible for repurchase from GNMA**	**Liability for loans eligible for repurchase from GNMA**
Balance at beginning of period	$ 58,799	$ 37,336	$ 10,596	$ 334	$ 80,794	$ 80,794
Changes in fair value	1,413	412	(3,561)	1,338	(4,606)	(4,606)
Purchases	34,327	2,207	—	—	—	—
Sales	(38,847)	(7,774)	—	—	(2,207)	(2,207)
Issuances	—	—	—	—	—	—
Settlements	(35,311)	(4,545)	—	—	44,767	44,767
Transfers into Level 3 [1]	31,081	—	—	—	—	—
Transfers out of Level 3 [2]	(2,116)	(1,892)	—	—	—	—
Balance at end of period	$ 49,346	$ 25,744	$ 7,035	$ 1,672	$ 118,748	$ 118,748

[1] On an ongoing basis, for Mortgage Loans Held for Sale - non-saleable to GSEs measured at fair value, transfers into Level 3 represent those deemed unsaleable to GSEs in the current period. Transfers between levels are deemed to have occurred on the last day of the quarter in which a change in classification is determined.
[2] On an ongoing basis, for Mortgage Loans Held for Sale - Repurchased GNMA Loans, transfers out of Level 3 represent those which the Company has moved to real estate owned ("REO").

Year Ended December 31, 2015

	Mortgage Loans Held for Sale - non-saleable to GSEs	Mortgage Loans Held for Sale - Repurchased GNMA Loans	Derivative Assets	Derivative Liabilities	Loans eligible for repurchase from GNMA	Liability for loans eligible for repurchase from GNMA
Balance at beginning of period	$ —	$ —	$ —	$ —	$ 109,397	$ 109,397
Changes in fair value	(5,580)	(1,089)	—	—	(2,314)	(2,314)
Purchases	45,688	40,209	—	—	—	—
Sales	(5,581)	(1,560)	—	—	(40,209)	(40,209)
Issuances	—	—	—	—	—	—
Settlements	(19,750)	(1,204)	—	—	13,920	13,920
Transfers into Level 3 [1]	45,308	1,286	10,596	334	—	—
Transfers out of Level 3 [2]	(1,286)	(306)	—	—	—	—
Balance at end of period	$ 58,799	$ 37,336	$ 10,596	$ 334	$ 80,794	$ 80,794

[1] On an ongoing basis, for Mortgage Loans Held for Sale - non-saleable to GSEs measured at fair value, transfers into Level 3 represent those deemed unsaleable to GSEs in the current period. For Mortgage Loans Held for Sale - Repurchased GNMA Loans, purchases represent those sales out of Loans Eligible for Repurchase from GNMA and the related liability, in the current period. For the Company's Derivative Financial Instruments, transfers into Level 3 represent interest rate lock commitments. Management determined in 2015 that a Level 3 classification was most appropriate based on the various significant unobservable inputs utilized in estimating the fair value of its IRLCs. Transfers between levels are deemed to have occurred on the last day of the quarter in which a change in classification is determined.
[2] On an ongoing basis, for Mortgage Loans Held for Sale - Repurchased GNMA Loans, transfers out of Level 3 represent those which the Company has moved to REO.

Refer to Note 8, "Mortgage Servicing Rights", for a reconciliation of the beginning and ending balances for the years ended December 31, 2016 , 2015 and 2014 , as well as a discussion of significant observable inputs related to the Company's MSRs and relative ranges of those used in determining their fair value.

Fair Value of Other Financial Instruments

As of December 31, 2016 and December 31, 2015 , 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.

10. Property and Equipment

The following summarizes property and equipment as of December 31, 2016 and December 31, 2015 :

	December 31, 2016	December 31, 2015
Computer software and equipment	$ 30,116	$ 28,765
Furniture and office equipment	5,222	5,287
Leasehold improvements	1,331	1,429
Property and equipment, gross	36,669	35,481
Accumulated depreciation and amortization	(21,830)	(12,558)
Property and equipment, net	$ 14,839	$ 22,923

Total depreciation and amortization expense from continuing operations related to property and equipment for the years ended December 31, 2016 , 2015 and 2014 was $9,628 , $7,200 and $4,028 , respectively. Total depreciation and amortization expense from discontinued operations related to property and equipment for the years ended December 31, 2015 and 2014 was $1,148 and $152 , respectively. There was no depreciation and amortization expense related to discontinued operations during the year ended December 31, 2016 .

11. Goodwill and Other Intangible Assets

Total goodwill was $4,265 at both December 31, 2016 and 2015. As described in Note 5, "Business Combinations," the Company's goodwill relates to its acquisitions of Crossline in 2013 and Medallion in 2014. Goodwill recognized from the acquisition of Medallion primarily related to the expected future growth of Medallion's business. Goodwill recognized from the acquisition of Crossline primarily related to the expected future growth of Crossline's business and future economic benefits arising from expected synergies. The Company performed its annual assessment of goodwill impairment during the fourth quarter. This assessment is performed more frequently if events and circumstances indicate that impairment may have occurred. The Company's goodwill is allocated to and tested at the Retail reporting unit level, a component of the Originations segment of the business, inclusive of the Company's retail direct and remaining retail distributed operations. No impairment was noted as a result of this analysis for each of the years ended December 31, 2016, 2015 or 2014.

The Company's other intangible assets relate to its asset acquisition of NattyMac, LLC. in 2013, and the acquisition of Crossline in 2013 as described in Note 5, "Business Combinations." The components of the Company's other intangible assets as of December 31, 2016 and 2015 are as follows:

	December 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:						
Customer relationships	$ 2,350	$ (1,273)	$ 1,077	$ 2,350	$ (979)	$ 1,371
Non-compete agreement	380	(380)	—	380	(254)	126
Active agent list	330	(286)	44	330	(220)	110
Total finite-lived intangible assets	$ 3,060	$ (1,939)	$ 1,121	$ 3,060	$ (1,453)	$ 1,607
Indefinite-lived intangible assets:						
Trade name	$ 1,030	$ —	$ 1,030	$ 1,030	$ —	$ 1,030
Total indefinite-lived intangible assets	1,030	—	1,030	1,030	—	1,030
Total other intangible assets	$ 4,090	$ (1,939)	$ 2,151	$ 4,090	$ (1,453)	$ 2,637

The Company recorded amortization expense related to its definite-lived intangible assets of $486 , $486 and $1,019 during the years ended December 31, 2016 , 2015 and 2014 , respectively, all related to its continuing operations. Estimated future amortization expense for each of the years ended December 31, is as follows: 2017 , $338 ; 2018 , $294 ; 2019 , $294 ; 2020 , $195 ; thereafter, $0 . Estimated amortization expense was based on existing intangible asset balances as of December 31, 2016 . Actual amortization expense may vary from these estimates.

The Company performed its annual impairment test of existing other intangible assets with indefinite lives during the fourth quarter. No impairment was noted as a result of this analysis for each of the years ended December 31, 2016, 2015 or 2014. Additionally, no impairment was recorded related to the Company's existing other intangible assets with finite lives during the years ended December 31, 2016 or 2015.

During the year ended December 31, 2014, the Company recognized an impairment charge of $1,290 related to the Crossline trade name, which represented the remaining net carrying amount of the asset at that time. Given the formation of Stonegate Direct in October 2014, which was integrated through the call center operations of Crossline, the Company determined there was a significant change in the manner in which the Crossline trade name was used and as a result determined the change to be a triggering event for an impairment analysis to be performed in accordance with the guidance of long-lived assets. The Crossline trade name and associated impairment charge related to our Originations segment.

12. Other Assets

The following summarizes other assets as of December 31, 2016 and December 31, 2015 :

	December 31, 2016	December 31, 2015
Receivables from servicing sales, interest and loan related payments, net	$ 11,748	$ 18,739
Prepaid expenses and other	4,411	6,431
Real estate owned, net [1]	1,005	1,446
Deposits	421	801
Total other assets	$ 17,585	$ 27,417

[1] Real estate owned assets are reflected at their net realizable value.

13. 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. 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 December 31, 2016 and 2015 , all transfers pursuant to the Company's mortgage funding arrangements (the collective term for the Company's mortgage loan participation, warehouse lines of credit, repurchase and other credit arrangements) are accounted for by the Company as secured borrowings.

The following table sets forth information regarding cash flows for the years ended December 31, 2016 , 2015 and 2014 relating to loan sales in which the Company has continuing involvement:

	Years Ended December 31,		
	2016	2015	2014
Proceeds from new loan sales [1]	$ 9,400,745	$ 12,643,769	$ 12,239,776

[1] Represents proceeds from sales and excludes payments received from borrowers.

14. Debt

Borrowings outstanding as of December 31, 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Secured borrowings - mortgage loans [1]	$ 277,789	3.94%	$ 492,799	4.16%
Secured borrowings - mortgage servicing rights	56,898	5.17%	77,069	5.58%
Secured borrowings - eligible GNMA loan repurchases [2]	24,738	3.18%	37,615	3.17%
Mortgage repurchase borrowings	371,534	2.55%	279,421	2.47%
Warehouse lines of credit	170	4.25%	1,306	4.25%
Operating lines of credit	9,928	4.00%	5,000	4.00%
Total mortgage funding arrangements and operating lines of credit	$ 741,057		$ 893,210	

[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.
[2] The Company's costs for financing GNMA loan repurchases under this funding arrangement (remittance rate) are based on a borrowing rate over and above the debenture rate, which is set on each loan by HUD at a required spread to the constant maturity 10-year treasury at that point in time.

The Company maintains mortgage loan participation, warehouse lines of credit, repurchase and other credit arrangements listed above (collectively referred to as "mortgage funding arrangements") with various financial institutions, primarily to fund the origination and purchase of mortgage loans. As of December 31, 2016 , the Company held mortgage funding arrangements with six separate financial institutions and a total maximum borrowing capacity of $1,652,000 , including the operating lines of credit and funding arrangement for GNMA loan repurchases. 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, maximum borrowing capacity, interest rates and maturity dates under the Company's various mortgage funding arrangements as of December 31, 2016 and December 31, 2015 :

As of December 31, 2016:

Mortgage Funding Arrangements [1]	Amount Outstanding	Maximum Borrowing Capacity	Interest Rate	Maturity Date
Merchants Bank of Indiana - Participation Agreement	$ 105,189	$ 600,000 [2]	Same as the underlying mortgage rates, less contractual service fee	July 2017
Merchants Bank of Indiana - NattyMac Funding	172,600	— [3]	Same as the underlying mortgage rates, less 49% of facility earnings	March 2017
Total secured borrowings - mortgage loans	277,789	600,000		
Guaranty Bank	24,738	50,000	Coupon rate of underlying loans, less debenture rate [7]	N/A [8]
Total secured borrowings - eligible GNMA loan repurchases	24,738	50,000		
Barclays Bank PLC	64,691	300,000	LIBOR plus applicable margin	February 2017 [11]
Bank of America, N.A.	214,969	425,000 [4]	LIBOR plus applicable margin	August 2017
EverBank	35,734	125,000	LIBOR plus applicable margin	January 2017 [9]

Wells Fargo Bank N.A.	56,140	140,000		LIBOR plus applicable margin	January 2017 [10]
Total mortgage repurchase borrowings	371,534	990,000			
Merchants Bank of Indiana - Warehouse Line of Credit	170	2,000		Prime plus 1.00%	July 2017
Total warehouse lines of credit	170	2,000			
Barclays Bank PLC - MSRs Secured	15,128	—	5	LIBOR plus applicable margin	February 2017 [11]
EverBank - MSRs Secured	41,770	—	6	LIBOR plus applicable margin	January 2017 [9]
Total secured borrowings - MSRs	56,898	—			
Total	$ 731,129	$ 1,642,000			

[1] Does not include our operating lines of credit for which we have a maximum borrowing capacity of $10,000 .
[2] Merchants Bank of Indiana will periodically constrain the aggregate maximum borrowing capacity. During the year ended December 31, 2016 , the lowest amount to which the aggregate maximum borrowing capacity was limited approximated $550,000 . The highest amount to which it was expanded approximated $700,000 . At December 31, 2016 , the aggregate maximum borrowing capacity was $600,000 .
[3] The maximum borrowing capacity is a sublimit of the Merchants Participation Agreement maximum borrowing capacity referred to in Note 2 above.
[4] The Bank of America maximum borrowing includes $200,000 of mortgage repurchase and $225,000 of mortgage gestation repurchase facilities.
[5] Governed by the Barclays Bank PLC maximum borrowing capacity of $300,000 , with a sub-limit of $60,000 .
[6] Governed by the EverBank maximum borrowing capacity of $125,000 , with a sub-limit of $60,000 .
[7] Borrowing carries an interest rate of the coupon rate of the underlying mortgage loans, less the debenture rate funded by Guaranty Bank.
[8] Borrowing matures no later than four years from the date of most recent purchase from GNMA pools.
[9] On January 6, 2017 the Company amended its mortgage repurchase financing agreement with EverBank to extend the maturity date to January 5, 2018.
[10] On January 18, 2017 the Company amended its mortgage repurchase agreement with Wells Fargo Bank N.A. to extend the maturity date to January 30, 2018.
[11] On February 21, 2017 the Company amended its agreements with Barclays Bank to extend the maturity date to July 31, 2017.

As of December 31, 2015:

Mortgage Funding Arrangements [1]	Amount Outstanding	Maximum Borrowing Capacity		Interest Rate	Maturity Date
Merchants Bank of Indiana - Participation Agreement	$ 169,589	$ 600,000	2	Same as the underlying mortgage rates, less contractual service fee	July 2016
Merchants Bank of Indiana - NattyMac Funding	323,210	—	3	Same as the underlying mortgage rates, less 49% of facility earnings	March 2017
Total secured borrowings - mortgage loans	492,799	600,000			
Guaranty Bank	37,615	50,000		Coupon rate of underlying loans, less debenture rate [7]	N/A [8]
Total secured borrowings - eligible GNMA loan repurchases	37,615	50,000			
Barclays Bank PLC	45,956	300,000		LIBOR plus applicable margin	December 2016
Bank of America, N.A.	184,804	700,000	4	LIBOR plus applicable margin	June 2016

EverBank	—	150,000	LIBOR plus applicable margin	November 2016
Wells Fargo Bank N.A.	48,661	140,000	LIBOR plus applicable margin	January 2017
Total mortgage repurchase borrowings	279,421	1,290,000		
Merchants Bank of Indiana - Warehouse Line of Credit	1,306	2,000	Prime plus 1.00%	July 2016
Total warehouse lines of credit	1,306	2,000		
Barclays Bank PLC - MSRs Secured	58,979	— [5]	LIBOR plus applicable margin	December 2016
EverBank - MSRs Secured	18,090	— [6]	LIBOR plus applicable margin	November 2016
Total secured borrowings - MSRs	77,069	—		
Total	$ 888,210	$ 1,942,000		

[1] Does not include our operating lines of credit for which we have a maximum borrowing capacity of $5,000 as of December 31, 2015.
[2] Merchants Bank of Indiana will periodically constrain the aggregate maximum borrowing capacity. During the year ended December 31, 2015, the lowest amount to which the aggregate maximum borrowing capacity was limited approximated $550,000 . The highest amount to which it was expanded approximated $700,000 . At December 31, 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 referred to in Note 2 above.
[4] The Bank of America maximum borrowing includes $400,000 of mortgage repurchase and $300,000 of mortgage gestation repurchase facilities.
[5] Governed by the Barclays Bank PLC maximum borrowing capacity of $300,000 , with a sub-limit of $60,000 .
[6] Governed by the EverBank maximum borrowing capacity of $150,000 , with a sub-limit of $70,000 .
[7] Borrowing carries an interest rate of the coupon rate of the underlying mortgage loans, less the debenture rate funded by Guaranty Bank.
[8] Borrowing matures no later than four years from the date of most recent purchase from GNMA pools.

On February 29, 2016, the Company amended its mortgage repurchase financing with Bank of America, N.A. to decrease the amount available under the line from $400,000 to $300,000 and on March 31, 2016, the Company amended its mortgage repurchase financing with Bank of America, N.A. to decrease the amount available under the line from $300,000 to $250,000 , decreasing the maximum borrowing capacity of the mortgage funding arrangements with Bank of America from $700,000 to $550,000 .

On March 1, 2016, the Company amended its mortgage repurchase financing with EverBank to decrease the amount available under the line from $150,000 to $125,000 , and decrease the MSR sublimit from $70,000 to $60,000 . On October 24, 2016, the Company amended this facility to extend the maturity date to January 7, 2017. On January 6, 2017 the Company amended its mortgage repurchase financing agreement with EverBank to extend the maturity date to January 5, 2018.

On June 3, 2016, the Company amended its mortgage repurchase financing agreement with Bank of America, N.A. to extend the maturity date to July 8, 2016. On July 8, 2016, the Company amended its mortgage repurchase financing agreement with Bank of America, N.A. to extend the maturity date to August 5, 2016. On August 3, 2016, the Company renewed and amended its mortgage repurchase financing agreement with Bank of America, N.A. to extend the maturity date to August 2, 2017. The renewed agreement has a repurchase facility size of $200,000 and a gestation facility size of $225,000 . The repurchase and gestation facility sizes were $250,000 and $300,000 , respectively, prior to the renewal.

On June 17, 2016, the Company amended its operating line of credit agreement with Merchants to temporarily increase the maximum borrowing capacity from $5,000 to $10,000 through August 31, 2016, which was extended on August 30, 2016 through November 15, 2016 when it reverted back to $5,000 . On November 30, 2016, the Company renewed at $10,000 through January 15, 2017, reverting to $5,000 after January 15, 2017 through the remainder of the renewal period. On December 31, 2016, the Company renewed its operating line of credit agreement with Merchants at $10,000 through its maturity date of July 31, 2017.

On July 29, 2016, 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, 2017.

On December 15, 2016, the Company amended its master repurchase agreement with Barclays to extend the maturity date to February 20, 2017.

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.

As of December 31, 2016 , the Company was in breach of certain debt covenants with respect to the master repurchase and master loan purchase and servicing agreements with Barclays and Guaranty Bank, respectively, due to failure to reporting certain loss mitigation data to HUD timely, leading to the Company's Tier II rating being lowered temporarily to Tier III during the current reporting period. The Company has corrected the reporting submission failure and waivers were obtained from both lenders for third-quarter reporting; however, the reporting errors carried over into the fourth quarter reporting period, leaving the rating at Tier III. The Barclays agreement has been amended to allow for a Tier III ranking through the extended maturity date of the debt agreement of February 20, 2017 and a waiver of the covenant is effective through March 31, 2017 for the Guaranty Bank agreement. The Company does not anticipate that the breach will have a material effect on the Company's financial condition or the Company's ability to utilize these funding sources going forward.

The above mortgage funding and operating lines of credit agreements contain covenants which include certain customary financial requirements, including maintenance of minimum tangible net worth, maximum debt to tangible net worth ratio, minimum liquidity, minimum current ratio, minimum profitability and limitations on additional debt and transactions with affiliates, as defined in the respective agreement. As of December 31, 2016 and December 31, 2015 , the Company was in compliance with the covenants contained in these agreements, except as discussed above. 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.

15. 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-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 years ended December 31, 2016 , 2015 and 2014 :

	Years Ended December 31,		
	2016	**2015**	**2014**
Balance at beginning of period	$ 5,536	$ 4,967	$ 3,709
Provision for mortgage repurchases and indemnifications - new loan sales [1]	2,649	3,378	2,415
Provision for mortgage repurchases and indemnifications - change in estimate [2]	(1,500)	592	822
Losses on repurchases and indemnifications	(1,152)	(3,401)	(1,979)
Balance at end of period	$ 5,533	$ 5,536	$ 4,967

[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.

As part of our ongoing risk management and monitoring activities, we continuously evaluate and make necessary enhancements to our methodology and assumptions to estimate the losses inherent from our repurchase and indemnification exposure. Such changes generally reflect changes in key assumptions, such as the level of loan sales, the party to whom the loans are sold, the expectation of severity of loss on repurchases and indemnifications, our success rate at appealing repurchase demands and our ability to recover any losses from third parties. After evaluating the assumptions, the composition of loans originated, quality control standards, current trends, historical repurchase requests and the passage of time, we reduced our repurchase reserve by $1,500 during the year ended December 31, 2016 to reflect loans where the repurchase provision expired and to reflect our best estimate of possible future requests. We believe the analysis used to evaluate future expected repurchase exposure is appropriate and our period-end repurchase reserve balance is adequate.

16. Related Party Transactions

On September 1, 2015, the Company entered into a consulting agreement with its former CEO for services following the termination of his employment with the Company, commencing September 11, 2015 through March 11, 2016, for which he received a monthly retainer of $10 for up to 40 hours of service per month, with services exceeding forty hours in any month to be compensated at an hourly rate. The total fees amounted to $30 for both the years ended December 31, 2016 and 2015 , and are included in "General and administrative expenses" on the Company's consolidated statements of operations. As of December 31, 2015 , the Company had $10 of amounts due to the former CEO related to this agreement, which is included in "Other liabilities" on the Company's consolidated balance sheets. There were no amounts due to the former CEO as of December 31, 2016 .

On September 1, 2015, the Company entered into a letter agreement with its Chairman of the Board to employ him, effective as of September 10, 2015, on an at-will basis as Interim Chief Executive Officer, for which he received a base salary at a weekly rate of $11 (effective as of August 31, 2015). On April 27, 2016, he was granted a special transition award at the completion of his service as Interim Chief Executive Officer paid in the form of a restricted stock unit award for 178,891 shares of common stock, that vests in full on the third anniversary of grant (or earlier upon a change in control, termination for death or disability, or termination (other than for cause or separation) after the first anniversary of the grant date). He was also entitled to reimbursement of reasonable expenses incurred for his travel and housing in connection with the performance of his duties. During the period of his employment, he was also entitled to all standard employee benefits afforded to Stonegate's executive employees. The total compensation amounted to $183 and $185 for the years ended December 31, 2016 and 2015 , respectively, and is included in "Salaries, commissions and benefits" on the Company's consolidated statements of operations. He served as Interim Chief Executive Officer until April 18, 2016 and as an employee until April 30, 2016.

17. Income Taxes

The components of income tax (benefit) from continuing operations are as follows for the years ended December 31, 2016 , 2015 and 2014 :

	Years ended December 31,		
	2016	2015	2014
Current federal income tax expense	$ —	$ —	$ —
Current state income tax (benefit) expense	(122)	217	115
Deferred federal income tax (benefit) expense	954	(5,714)	(12,851)
Deferred state income tax (benefit) expense	(951)	(36)	(200)
Total income tax (benefit)	$ (119)	$ (5,533)	$ (12,936)

The following is a reconciliation of income tax (benefit) from continuing operations recorded on the Company's consolidated statements of operations to the expected statutory federal corporate income tax rates for the years ended December 31, 2016 , 2015 and 2014 :

	Years ended December 31,					
	2016		2015		2014	
	$	%	$	%	$	%
Statutory federal income tax (benefit)	$ (1,120)	35.0 %	$ (7,620)	35.0 %	$ (13,427)	35.0 %
State income tax (benefit) expense, net of federal tax (benefit)	(122)	3.8 %	(779)	3.6 %	(1,520)	4.0 %
State tax refunds - amended returns	(219)	6.8 %	—	— %	—	— %
Non-deductible expenses	104	(3.2)%	124	(0.6)%	171	(0.5)%
Equity compensation forfeiture	71	(2.2)%	2,070	(9.5)%	—	— %
Valuation allowance	(657)	20.5 %	1,554	(7.1)%	—	— %
Uncertain tax positions	(329)	10.3 %	583	(2.7)%	—	— %
State tax rate adjustment to state deferred	2,110	(65.9)%	(1,234)	5.7 %	1,801	(4.7)%
Other	43	(1.4)%	(231)	1.0 %	39	(0.1)%
Total income tax (benefit)	$ (119)	3.7 %	$ (5,533)	25.4 %	$ (12,936)	33.7 %

The tax effects of significant temporary differences which gave rise to the Company's deferred tax assets and liabilities are as follows as of December 31, 2016 and 2015 :

	December 31,	
	2016	2015
Deferred tax assets relating to:		
Net operating loss carryforwards	$ 71,478	$ 68,996
Intangible assets	495	533
Reserve for mortgage repurchases and indemnifications	2,194	2,134
Stock-based compensation	1,724	1,302
Deferred rent and leasehold improvements	730	706
Vacation accrual and contributions	293	536
Loans held for sale and related derivatives	31,973	22,342
Accrued Other	$ 582	$ —
Bad debts	—	240
Tax credits	5	5
Total gross deferred tax assets	$ 109,474	$ 96,794
Less: valuation allowance	(896)	(1,554)
Less: FIN 48 reserve	(255)	(582)

	December 31,	
	2016	2015
Total net deferred tax assets	$ 108,323	$ 94,658
Deferred tax liabilities relating to:		
Mortgage servicing rights	$ 110,316	$ 96,392
Property and equipment	189	514
Goodwill	205	116
Other intangible assets	71	—
Total deferred tax liabilities	$ 110,781	$ 97,022
Net deferred tax liabilities	$ 2,458	$ 2,364

During the years ended December 31, 2016 and 2015, the Company recognized an income tax benefit from continuing operations of $119 and $5,533 , respectively, which represented effective tax rates of 3.7% and 25.4% , respectively. The income tax benefit from continuing operations for the year ended December 31, 2015 includes the impact of recording a $1,554 valuation allowance to offset our deferred tax assets, as we determined that it was more likely than not that a portion of our deferred tax assets will not be realized (see additional discussion below). In 2016, the Company released $657 after consideration of relevant current facts and circumstances and made a determination that the federal valuation allowance recorded in prior quarters during 2016 was no longer required. The remaining balance of $896 as of December 31, 2016 reflects the state valuation allowance. Additionally, the decrease in the effective tax rate in the current period is due to adjustments to state net deferred tax liabilities based on an increased state effective tax rate and provision to tax return adjustments.

As of December 31, 2016 , the Company had total company federal and state net operating loss carryforwards of $182,979 and $142,143 , respectively. The Company's federal and state net operating loss carryforwards are available to offset future taxable income and expiring from 2029 to 2036 . As of December 31, 2015 , the Company had total company federal and state net operating loss carryforwards of $176,137 and $150,481 , respectively. During the year ended December 31, 2015 , the Company entered into a three-year cumulative loss position. As a result of the cumulative loss position and changes in the Company's level of activity in various states, the Company has recorded a state valuation allowance of $896 as of December 31, 2016 and $1,554 as of December 31, 2015 . In future periods, the allowance could be adjusted if sufficient evidence exists indicating that it is more likely than not that a portion or all of these deferred tax assets will or will not be realized.

ASC 740-10, *Income Taxes* , requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. As of December 31, 2016, the Company accrued a liability for uncertain tax positions of $254 against the Company’s state NOL carryforward balances. The following is a reconciliation of the ASC 740-10 unrecognized tax positions:

	Years Ended December 31,		
	2016	2015	2014
Balance at the beginning of year	$ 583	$ —	$ —
Increases/(decreases) for tax positions of prior years	(329)	583	—
Balance at end of year	$ 254	$ 583	$ —

As of December 31, 2016, the Company had $254 of gross unrecognized tax benefits which, if recognized, would affect our effective tax rate. It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain of our uncertain tax positions will increase or decrease during the next 12 months; however, we do not expect the change to have a significant effect on our results of operations, financial condition or cash flows.

The Company is subject to U.S. federal income tax as well as income tax of multiple states and local jurisdictions. With a few insignificant exceptions, we are no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2012.

18. Commitments and Contingencies

Commitments to Extend Credit

The Company enters into 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 December 31, 2016 and December 31, 2015 approximated $800,168 and $1,169,768 , respectively, in estimated principal loan amount. The related fair value of these commitments are recognized in the consolidated balance sheet within either "Derivative assets" or "Derivative liabilities".

Leases

The Company leases office space and equipment under non-cancelable operating agreements expiring through October 2022. Rent expense related to continuing operations amounted to $4,371 , $5,621 and $5,936 for the years ended December 31, 2016 , 2015 and 2014 , respectively. Rent expense related to discontinued operations amounted to $4,956 and $3,301 for the years ended December 31, 2015 and 2014 , respectively. Future minimum rental payments under the leases having an initial or remaining non-cancelable term in excess of one year are as follows at December 31, 2016 :

2017	$	6,532
2018		5,420
2019		3,888
2020		2,194
2021		1,487
Thereafter		1,239
Total minimum rental payments [1]	$	20,760

[1] Total minimum rental payments presented above do not include sublease revenue amounts. Sublease revenue amounts for the years 2017 through 2020 are $763 , $659 , $567 and $131 , respectively.

Regulatory Net Worth Requirements

The Company is subject to various regulatory capital requirements administered by the Department of Housing and Urban Development ("HUD"), which governs non-supervised, direct endorsement mortgagees, and GNMA, FNMA and FHLMC, which governs issuers of GNMA, FNMA and FHLMC securities. Additionally, the Company is required to maintain minimum net worth requirements for many of the states in which it sells and services loans. Each state has its own minimum net worth requirement; these range from $0 to $1,000 , depending on the state.

Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary remedial actions by regulators that, if undertaken, could (i) remove the Company's ability to sell and service loans to or on behalf of the agencies and (ii) have a direct material effect on the Company's financial statements. In accordance with the regulatory capital guidelines, the Company must meet specific quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Further, changes in regulatory and accounting standards, as well as the impact of future events on the Company's results, may significantly affect the Company's net worth adequacy.

The Company met all minimum net worth requirements to which it was subject as of December 31, 2016 and 2015 . The Company's required and actual net worth amounts are presented in the following table:

	December 31, 2016				December 31, 2015			
	Net Worth [1]		Net Worth Required		Net Worth [1]		Net Worth Required	
HUD	$	253,532	$	2,500	$	254,725	$	2,500
GNMA	$	253,532	$	36,631	$	254,725	$	29,742
FNMA	$	253,532	$	12,617	$	254,725	$	16,172
FHLMC	$	253,532	$	9,794	$	254,725	$	13,624
Various States	$	253,532		$ 0-1,000	$	254,725		$ 0-1,000

[1] Calculated in compliance with the respective agencies' or states' requirements.

Litigation

The Company is subject to various legal proceedings arising out of the ordinary course of business. As of December 31, 2016 , 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 reached a settlement with the title company during 2016. The Company received cash consideration in connection with this settlement, which was recognized in "Interest and other income" on its consolidated statements of operations. During the year ended December 31, 2016, the Company also recorded an impairment of the purchased loans in substantially the same amount as the settlement income recognized. This impairment was recorded in "General and administrative expense" on its consolidated statements of operations, and represented the carrying value of the purchased loans at the time of the settlement. As a result of recording the settlement income and the impairment for substantially the same amount, there was an immaterial impact to the Company's overall consolidated statements of operations.

19. Capital Stock

Initial Public Offering

On October 16, 2013, the Company completed its initial public offering of 8,165,000 shares of common stock (including 1,065,000 shares exercised pursuant to an overallotment option granted to the underwriters) at a price to the public of $16.00 per share, resulting in gross proceeds of approximately $130,640 . The underwriting discounts and commissions related to this offering totaled $6,712 and the Company incurred additional equity issuance costs totaling $3,259 related to the initial public offering.

Equity Restructuring

On May 14, 2013, all outstanding shares of the Company’s convertible preferred stock (Series B, C and D) were converted into shares of the Company’s common stock on a one -for-one basis. On May 14, 2013, immediately following the conversion of preferred stock to common stock, each share of common stock held was split into 13.861519 shares of common stock.

On May 15, 2013, the Company sold 6,388,889 shares of its common stock at a per share price of $18.00 , for total gross proceeds of $115,000 , under a private offering under the exemptions of the Securities Act of 1933, as amended (the

“Securities Act”). The initial purchaser’s discount and placement fee related to the May 2013 offering totaled $7,700 and the Company incurred additional equity issuance costs totaling $2,700 related to the May 2013 offering.

Issuance of Warrants

On March 29, 2013 , in conjunction with a $10,000 term loan the Company entered into with a stockholder, the Company issued warrants to the stockholder for the right to purchase 277,777 shares of its common stock at a price of $18.00 per share. The warrants are exercisable at any time through May 15, 2018 . Because the warrants met the criteria of a derivative financial instrument that is indexed to the Company's own stock, the warrants' allocable fair value of $1,522 was recorded as a component of "Additional paid in capital" and resulted in a debt discount in the same amount. The debt discount was fully amortized into interest expense upon the repayment of the term loan in full, resulting in $1,522 of interest expense during the year ended December 31, 2014 .

Use of Capital and Common Stock Repurchases

The Company had no preferred stockholders during the years ended December 31, 2016 , 2015 and 2014. The Company does not expect to pay dividends on its common stock for the foreseeable future. The declaration of future dividends and the establishment of the per share amount, record dates and payment dates for any such future dividends are subject to the final determination of the Company’s Board of Directors and will be dependent upon future earnings, cash flows, financial requirements and other factors.

Common stock repurchases are discretionary as the Company is under no obligation to repurchase shares. The Company may repurchase shares when it believes it is a prudent use of capital. There were no repurchases of common stock during the years ended December 31, 2016 , 2015 or 2014.

20. Stock-Based Compensation

During 2011, the Company adopted the 2011 Omnibus Incentive Plan (the “2011 Plan”) for employees, consultants and non-employee directors. The Plan provided for the grant of stock options (both incentive stock options and nonqualified stock options), stock appreciation rights ("SARs"), restricted stock, performance units, phantom stock, restricted stock units and stock awards.

On August 29, 2013, the Company adopted the 2013 Omnibus Incentive Plan (the "2013 Plan") for employees and consultants. The 2013 Plan provides for the grant of stock options (both incentive stock options and non-qualified stock options), SARs, restricted stock, restricted stock units, dividend equivalent rights, other stock-based or cash-based awards (collectively, “awards”), with each grant evidenced by an award agreement providing the terms of the award. Incentive stock options may be granted only to employees; all other awards may be granted to employees and consultants. Non-employee directors are not permitted to participate in the 2013 Plan. The 2013 Plan is applicable to all awards granted on or after August 29, 2013 and replaced the 2011 Plan. No new stock-based compensation grants were made under the 2011 Plan after the adoption of the 2013 Plan. The terms and conditions of awards granted under the 2011 Plan prior to the adoption of the 2013 will not be affected by the adoption of the 2013 Plan, and the 2011 Plan will remain effective with respect to such awards. Upon adoption on August 29, 2013, a total of 419,250 shares of the Company's common stock were reserved and available for issuance under the 2013 Plan, which included the 315,925 remaining number of shares available for grant under the 2011 Plan.

On June 29, 2016, the Company adopted the 2016 Omnibus Incentive Plan (the "2016 Plan") for employees and consultants. The 2016 Plan does not contain any material substantive differences from the 2013 Omnibus Incentive Compensation Plan (the "2013 Plan"), other than the shares available for issuance. Upon adoption on June 29, 2016, a total of 200,000 shares of the Company's common stock were reserved and available for issuance under the 2016 Plan. As of December 31, 2016 , 104,418 shares and 100,000 shares were available for future grants under the 2013 Plan and 2016 Plan, respectively.

Additionally, on June 29, 2016, the Company amended the 2013 Non-Employee Director Plan to increase the number of shares available for issuance by 200,000 shares to 304,812 shares. As of December 31, 2016 , 123,133 shares were available for future grants under this plan.

The Company’s current policy for issuing shares of its common stock upon exercise of stock options or vesting of restricted stock units is to either issue new shares or repurchase outstanding shares of its common stock to settle stock option exercises. The Company currently has no plans to repurchase shares of its common stock.

Stock Options

Nonqualified stock options are granted for a fixed number of shares with an exercise price at least equal to the fair value of the shares at the grant date. Nonqualified stock options generally vest over four equal installments and have a term of ten years from the grant date. Stock options granted do not contain any voting or dividend rights prior to exercise. The Company recognizes compensation expense associated with the stock option grants using the straight-line method over the requisite service period.

A summary of stock option activity for the year ended December 31, 2016 is as follows:

	Number of Shares Underlying Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	361,594	$ 13.72		
Forfeited or expired	(53,740)	15.69		
Outstanding at December 31, 2016	307,854	13.37	6.0	$ 203
Exercisable at December 31, 2016	256,265	$ 12.44	5.9	$ 203

There were no options exercised during the years ended December 31, 2016, 2015 or 2014.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options granted. There were no options granted during the years ended December 31, 2016 and 2015. The following assumptions were used to estimate the fair value of options granted during the year ended December 31, 2014 :

	Years Ended December 31, 2014
Fair value of underlying common stock	$ 14.04
Volatility	41.30%
Dividend yield	—%
Risk-free interest rate	2.01%
Expected term (years)	6.25

The weighted average grant-date fair value per share of the stock options granted during the year ended December 31, 2014 was $6.07 .

Volatility was estimated based on the historical volatility of comparable publicly traded companies. The dividend yield was based on an estimate of future dividend yields. The risk-free interest rate was based on the U.S. Treasury zero-coupon yield curve in effect at the time of the grants. The expected term was calculated for each grant using the simplified method, as the Company's outstanding stock option grant met certain SEC criteria for the use of the simplified method.

A summary of the nonvested stock option activity for the year ended December 31, 2016 is as follows:

	Number of Shares Underlying Options	Weighted Average Grant Date Fair Value Per Share
Nonvested at December 31, 2015	126,661	$ 7.05
Vested	(51,588)	7.27
Forfeited or expired	(23,484)	6.07
Nonvested at December 31, 2016	51,589	$ 7.27

Restricted Stock Units

Restricted stock units are granted for a fixed number of shares with a fair value equal to the fair value of the Company's common stock at the grant date and generally vest over three equal installments. Restricted stock units granted do not contain any voting or dividend rights prior to vesting. The Company recognizes compensation expense associated with the restricted stock units using the straight-line method over the requisite service period.

A summary of the restricted stock unit grants for each of the years in the period ended December 31 is as follows:

	2016	2015	2014
Units granted	418,379	151,843	10,448
Weighted average grant date fair value per share	$ 4.90	$ 8.82	$ 13.65
Weighted average vesting period (years)	2.4	1.1	2.9

A summary of the nonvested restricted stock unit activity for the year ended December 31, 2016 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share
Nonvested at December 31, 2015	94,630	$ 9.37
Granted	418,379	4.90
Vested	(123,982)	6.32
Forfeited	(11,737)	17.04
Nonvested at December 31, 2016	377,290	$ 5.16

The total fair value of restricted stock units converted into common stock was $248 , $89 and $200 during the years ended December 31, 2016 , 2015 and 2014, respectively.

During the years ended December 31, 2016 , 2015 and 2014 , the Company recognized total stock-based compensation expense related to stock options and restricted stock units of $1,403 , $ 3,823 and $3,253 , respectively. As of December 31, 2016 , 2015 and 2014 , the Company recognized related tax benefits of $1,724 , $1,302 and $2,087 , respectively. Total unrecognized stock-based compensation costs related to nonvested stock options and restricted stock units as of December 31, 2016 was $141 and $1,502 , respectively, and will be recognized using the straight-line method over the weighted average remaining requisite service periods of 0.4 and 2.0 years, respectively.

21. Retirement Benefit Plans

The Company maintains 401(k) profit sharing plans covering substantially all employees. Employees may contribute amounts subject to certain IRS and plan limitations. The Company may make discretionary matching and non-elective contributions, subject to certain limitations. During the years ended December 31, 2016 , 2015 and 2014 , the Company contributed $1,800 , $2,574 and $1,873 , respectively, to the 401(k) profit sharing plans related to its continuing operations. During the years ended December 31, 2015 and 2014 , the Company contributed $620 and $402 , respectively, to the 401(k) profit sharing plans related to its discontinued operations. The Company did not contribute to the 401(k) profit sharing plans related to discontinued operations during the year ended December 31, 2016 .

22. Segment Information

The Company's organizational structure is currently comprised of three operating segments: Originations, Servicing and Financing. This determination is based on the Company's current organizational structure, which reflects how the chief operating decision maker evaluates the performance of the business and focuses primarily on the services performed.

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. Other/Eliminations 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.

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	
	December 31, 2016	December 31, 2015
Originations	$ 589,938	$ 647,287
Servicing	391,967	353,097
Financing	158,199	232,061
Other/Eliminations [1]	36,638	48,181
Total	$ 1,176,742	$ 1,280,626

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

	Year Ended December 31, 2016				
	Originations	Servicing	Financing	Other/Eliminations	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 117,068	$ 1,168	$ —	$ (10)	$ 118,226
Changes in mortgage servicing rights valuation	—	(12,666)	—	—	(12,666)
Payoffs and principal amortization of mortgage servicing rights	—	(34,247)	—	—	(34,247)
Loan origination and other loan fees	19,661	—	1,751	21	21,433
Loan servicing fees	—	50,233	—	—	50,233
Interest income	20,504	618	7,535	4,323	32,980
Total revenues	157,233	5,106	9,286	4,334	175,959
Expenses					
Salaries, commissions and benefits	62,272	6,518	1,715	24,933	95,438
General and administrative expense	10,306	2,654	855	16,039	29,854
Interest expense	18,189	2,760	2,235	4,079	27,263
Occupancy, equipment and communication	7,710	1,663	244	6,874	16,491
Depreciation and amortization	7,837	575	407	1,295	10,114
Corporate allocations	22,018	3,468	506	(25,992)	—
Total expenses	128,332	17,638	5,962	27,228	179,160
Income (loss) from continuing operations before taxes	$ 28,901	$ (12,532)	$ 3,324	$ (22,894)	$ (3,201)

	Year Ended December 31, 2015				
	Originations	Servicing	Financing	Other/Eliminations	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 142,772	$ (1,088)	$ —	$ 135	$ 141,819
Changes in mortgage servicing rights valuation	—	(30,395)	—	—	(30,395)
Payoffs and principal amortization of mortgage servicing rights	—	(41,529)	—	—	(41,529)
Loan origination and other loan fees	22,751	—	1,205	—	23,956
Loan servicing fees	—	54,772	—	—	54,772
Interest income	26,729	124	7,111	153	34,117
Total revenues	192,252	(18,116)	8,316	288	182,740
Expenses					

Salaries, commissions and benefits	78,885	8,200	1,962	27,294	116,341
General and administrative expense	13,851	2,063	866	15,480	32,260
Interest expense	19,347	7,904	3,259	553	31,063
Occupancy, equipment and communication	7,422	1,976	250	7,222	16,870
Depreciation and amortization	5,581	455	411	1,533	7,980
Corporate allocations	25,313	3,571	361	(29,245)	—
Total expenses	150,399	24,169	7,109	22,837	204,514
Income (loss) from continuing operations before taxes	$ 41,853	$ (42,285)	$ 1,207	$ (22,549)	$ (21,774)

	Year Ended December 31, 2014				
	Originations	Servicing	Financing	Other/Eliminations	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 133,405	$ —	$ —	$ (15)	$ 133,390
Changes in mortgage servicing rights valuation	—	(55,842)	—	—	(55,842)
Payoffs and principal amortization of mortgage servicing rights	—	(23,735)	—	—	(23,735)
Loan origination and other loan fees	24,193	—	455	(67)	24,581
Loan servicing fees	—	44,407	—	—	44,407
Interest income	32,271	—	3,280	(315)	35,236
Total revenues	189,869	(35,170)	3,735	(397)	158,037
Expenses					
Salaries, commissions and benefits	84,722	5,972	1,726	23,780	116,200
General and administrative expense	10,593	1,378	596	21,978	34,545
Interest expense	21,904	3,251	1,049	(197)	26,007
Occupancy, equipment and communication	6,793	1,794	231	5,783	14,601
Depreciation and amortization	1,093	84	479	3,392	5,048
Corporate allocations	26,619	3,279	160	(30,058)	—
Total expenses	151,724	15,758	4,241	24,678	196,401
Income (loss) from continuing operations before taxes	$ 38,145	$ (50,928)	$ (506)	$ (25,075)	$ (38,364)

23. Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data is as follows:

	For the Three Months Ended			
	March 31	June 30	September 30	December 31
2016				
Total revenues	$ 4,976	$ 26,494	$ 66,277	$ 78,212
Total expenses	$ 44,282	$ 43,617	$ 50,421	$ 40,840
(Loss) income from continuing operations before income tax expenses	$ (39,306)	$ (17,123)	$ 15,856	$ 37,372
(Loss) income from continuing operations, net of tax	$ (37,523)	$ (17,152)	$ 15,574	$ 36,019
(Loss) income from discontinued operations, net of tax	$ —	$ —	$ —	$ —
Net (loss) income	$ (37,523)	$ (17,152)	$ 15,574	$ 36,019
Basic (loss) earnings per share [1] :				
From continuing operations	$ (1.45)	$ (0.66)	$ 0.60	$ 1.39
From discontinued operations	$ —	$ —	$ —	$ —
Total basic (loss) earnings per share	$ (1.45)	$ (0.66)	$ 0.60	$ 1.39
Diluted (loss) earnings per share [1] :				

From continuing operations	$	(1.45)	$	(0.66)	$	0.60	$	1.39
From discontinued operations	$	—	$	—	$	—	$	—
Total diluted (loss) earnings per share	$	(1.45)	$	(0.66)	$	0.60	$	1.39
2015								
Total revenues	$	34,920	$	75,446	$	25,557	$	46,817
Total expenses	$	50,799	$	54,702	$	54,852	$	44,161
(Loss) income from continuing operations before income tax expenses	$	(15,879)	$	20,744	$	(29,295)	$	2,656
(Loss) income from continuing operations, net of tax	$	(9,668)	$	12,564	$	(20,190)	$	1,053
(Loss) income from discontinued operations, net of tax	$	(1,451)	$	(1,430)	$	(2,614)	$	(534)
Net (loss) income	$	(11,119)	$	11,134	$	(22,804)	$	519
Basic (loss) earnings per share [1] :								
From continuing operations	$	(0.38)	$	0.49	$	(0.78)	$	0.04
From discontinued operations	$	(0.05)	$	(0.06)	$	(0.10)	$	(0.02)
Total basic (loss) earnings per share	$	(0.43)	$	0.43	$	(0.88)	$	0.02
Diluted (loss) earnings per share [1] :								
From continuing operations	$	(0.38)	$	0.49	$	(0.78)	$	0.04
From discontinued operations	$	(0.05)	$	(0.06)	$	(0.10)	$	(0.02)
Total diluted (loss) earnings per share	$	(0.43)	$	0.43	$	(0.88)	$	0.02

[1] Basic and diluted earnings (loss) per share are computed independently for each of the quarters presented. Therefore, the sum of the quarters' earnings (loss) per share may not equal the total computed for the year.

24. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through March 9, 2017, the date on which the financial statements were issued.

Proposed Merger with Home Point Financial

As discussed in Note 1, "Organization and Operations", on January 26, 2017, the Company entered into a Merger Agreement with Home Point Financial and Merger Sub, pursuant to which Merger Sub will merge with and into the Company, with the Company as the surviving entity. Under the terms of the Merger Agreement, each outstanding share of our common stock (other than certain excluded shares) will be converted into the right to receive $8.00 in cash, without interest, less any applicable tax withholdings, which represents a per share premium of approximately 61 percent over our 90 -day volume weighted average price on January 26, 2017 and 34 percent over our closing price per share on January 26, 2017.

The Company's Board of Directors unanimously approved the Merger following a comprehensive review of the transaction and strategic alternatives. The Merger is subject to certain customary closing conditions, including, among other things, approval by the Company's stockholders and regulatory approvals. The Merger is expected to close by the end of the second quarter of 2017.

In connection with the entry by the Company into the Merger Agreement, on January 26, 2017, the Board of Directors of the Company adopted a Tax Asset Protection Plan (the “Plan”) with Broadridge Corporate Issuer Solutions, Inc., as Rights Agent. The Plan is designed to protect the Company's tax assets during the period prior to the closing of the Merger. As of December 31, 2016 , the Company had approximately $183.0 million in net operating loss carryforwards for U.S. federal income tax purposes.

Other Subsequent Events

On January 6, 2017 the Company amended its mortgage repurchase financing agreement with EverBank to extend the maturity date to January 5, 2018.

On January 18, 2017 the Company amended its mortgage repurchase agreement with Wells Fargo Bank N.A. to extend the maturity date to January 30, 2018.

On February 21, 2017 the Company amended its agreements with Barclays Bank to extend the maturity date to July 31, 2017.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There have been no changes in or disagreements with our independent registered public accounting firm on accounting or financial disclosures.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2016 . Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2016 , our disclosure controls and procedures are effective. Disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined by Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016 . In making this assessment, we used the criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). A control system, no matter how well conceived, implemented and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of such inherent limitations, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Based on our assessment and those criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2016 .

Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2016, we implemented a new general ledger which was integrated into our financial reporting process. The implementation was not made in response to any deficiency in our internal controls. Implementation of this new system involved changes to our financial reporting procedures and controls. Our management believes that appropriate internal controls are in place with the new system.

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item concerning our Executive Officers, Directors and nominees for Director, Audit Committee members and financial expert(s) and concerning disclosure of delinquent filers under Section 16(a) of the Exchange Act and our Standards of Business Conduct is incorporated herein by reference from our Form 10-K/A, which will be filed with the Securities and Exchange Commission ("SEC") on or prior to May 1, 2017.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item concerning remuneration of our Executive Officers and Directors, material transactions involving such Executive Officers and Directors and Compensation Committee interlocks, as well as Compensation Committee Report, are incorporated herein by reference from our Form 10-K/A, which will be filed with the SEC on or prior to May 1, 2017.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item concerning the stock ownership of management and five percent beneficial owners and securities authorized for issuance under equity compensation plans is incorporated herein by reference from our Proxy Statement filed on February 28, 2017.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item concerning certain relationships and related person transactions and director independence, is incorporated herein by reference from our Form 10-K/A, which will be filed with the SEC on or prior to May 1, 2017.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item concerning principal accounting fees and services is incorporated herein by reference from our Form 10-K/A, which will be filed with the SEC on or prior to May 1, 2017.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Annual Report on Form 10-K:

1. Financial Statements:

   Our consolidated financial statements as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 and the notes thereto, together with the reports of the independent registered public accounting firms on those consolidated financial statements are filed within Item 8 in Part II of this Annual Report on Form 10-K.

2. Financial Statement Schedules:

   No financial statement schedules are presented since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements and accompanying notes.

3. Exhibits:

   The documents listed in the Exhibit Index of this report are incorporated by reference or are filed with this report, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

ITEM 16. FORM 10-K SUMMARY

None.

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: March 9, 2017

By: / s / Carrie P. Preston
Carrie P. Preston
Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/ s / James V. Smith James V. Smith	President and Chief Executive Officer	March 9, 2017
/ s / Carrie P. Preston Carrie P. Preston	Chief Financial Officer (Principal Financial and Accounting Officer)	March 9, 2017
/ s / Richard A. Kraemer Richard A. Kraemer	Director	March 9, 2017
/ s / Kevin B. Bhatt Kevin B. Bhatt	Director	March 9, 2017
/ s / James G. Brown James G. Brown	Director	March 9, 2017
/ s / Sam Levinson Sam Levinson	Director	March 9, 2017
/ s / Richard A. Mirro Richard A. Mirro	Director	March 9, 2017
/ s / Joseph Scott Mumphrey Joseph Scott Mumphrey	Director	March 9, 2017

INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated January 26, 2017, by and among Stonegate Mortgage Corporation, Home Point Financial Corporation and Longhorn Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on January 27, 2017)
2.2	Stock Purchase Agreement, dated as of November 13, 2013, by and among Stonegate Mortgage Corporation, Crossline Capital, Inc. and Timothy R. Elkins (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on November 19, 2013 (File No. 001-36116))
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	Fourth Amended and Restated Code of Regulations of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on January 27, 2017)
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))
4.3	Tax Asset Protection Plan, dated as of January 26, 2017, between the Registrant and Broadridge Corporate Issuer Solutions, Inc., as Rights Agent, including as Exhibit A the forms of Rights Certificate and of Election to Exercise and as Exhibit B the form of Certificate of Designation and Terms of the Participating Preferred Stock of the Registrant (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the SEC on January 27, 2017)
10.1	Registration Rights Agreement, dated as of May 15, 2013, between Stonegate Mortgage Corporation and FBR Capital Markets & Co. (incorporated by reference to Exhibit 10.1 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.2†	Stonegate Mortgage Corporation Amended and Restated 2011 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.3†	Option Agreement, dated as of May 15, 2013, between Stonegate Mortgage Corporation and James J. Cutillo (incorporated by reference to Exhibit 10.3 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.4†	Form of Option Agreement (incorporated by reference to Exhibit 10.4 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.5†	First Amendment to Employment Agreement, dated as of May 14, 2013, between Stonegate Mortgage Corporation and James J. Cutillo (incorporated by reference to Exhibit 10.6 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.6†	Stonegate Mortgage Corporation 2013 Non-Employee Director Plan (incorporated by reference to Exhibit 10.25 to Stonegate Mortgage Corporation Amendment No. 1 to S-1 filed September 30, 2013 (File No. 333-191047))
10.7†	Stonegate Mortgage Corporation 2013 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.26 to Stonegate Mortgage Corporation Amendment No. 1 to S-1 filed September 30, 2013 (File No. 333-191047))
10.8†	Stonegate Mortgage Corporation Annual Incentive Plan (incorporated by reference to Exhibit 10.27 to Stonegate Mortgage Corporation S-1 filed December 6, 2013 (File No. 333-192715))
10.9†	Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 filed on November 26, 2013 (File No. 333-192557))
10.10†	Form of Option Agreement (incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-8 filed on November 26, 2013 (File No. 333-192557))
10.11†	Letter Agreement, dated as of August 7, 2014, between Stonegate Mortgage Corporation and Robert Eastep (incorporated by reference to Exhibit 10.11 to Stonegate Mortgage Corporation's Annual Report on Form 10-K filed for the year ended December 31, 2014)

Exhibit Number	Description
10.12	Purchase/Placement Agreement, dated as of May 8, 2013, between Stonegate Mortgage Corporation and FBR Capital Markets & Co. (incorporated by reference to Exhibit 10.10 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.13	Amendment No. 1 to Investor Rights Agreement, dated as of May 15, 2013, between Stonegate Mortgage Corporation and Stonegate Investors Holdings LLC (incorporated by reference to Exhibit 10.12 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.14	Amendment No. 2 to Investor Rights Agreement, dated as of September 29, 2013, between Stonegate Mortgage Corporation and Stonegate Investors Holdings LLC (incorporated by reference to Exhibit 10.23 to Stonegate Mortgage Corporation Amendment No. 1 to S-1 filed September 30, 2013 (File No. 333-191047))
10.15	Amendment No. 1 to Amended and Restated Shareholders' Agreement, dated as of May 15, 2013, among Stonegate Mortgage Corporation, Stonegate Investors Holdings LLC, and certain Other Stockholders (incorporated by reference to Exhibit 10.14 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.16	Amendment No. 2 to Amended and Restated Shareholders' Agreement, dated as of September 29, 2013, among Stonegate Mortgage Corporation, Stonegate Investors Holdings LLC, and certain Other Stockholders (incorporated by reference to Exhibit 10.24 to Stonegate Mortgage Corporation Amendment No. 1 to S-1 filed September 30, 2013 (File No. 333-191047))
10.17	Master Repurchase Agreement, dated as of February 28, 2013, by and between Bank of America, N.A. and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.16 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.18	Amendment No. 1 to Master Repurchase Agreement, dated as of May 12, 2014, by and between Bank of America, N.A. and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.19 to Stonegate Mortgage Corporation's Annual Report on Form 10-K filed for the year ended December 31, 2014)
10.19	Amendment No. 2 to Master Repurchase Agreement dated as of June 10, 2015, by and between Bank of America, N.A. and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.20 to Stonegate Mortgage Corporation's Annual Report on Form 10-K filed for the year ended December 31, 2015)
10.20	Mortgage Loan Participation Purchase and Sale Agreement, dated June 24, 2013, by and between Stonegate Mortgage Corporation and Bank of America, N.A. (incorporated by reference to Exhibit 10.17 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.21	Amendment No. 4 to Master Loan Participation Purchase and Sale Agreement, dated as of May 12, 2014, by and between Bank of America, N.A. and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.21 to Stonegate Mortgage Corporation's Annual Report on Form 10-K filed for the year ended December 31, 2014)
10.22	Amendment No. 5 to Master Loan Participation Purchase and Sale Agreement, dated as of November 4, 2014, by and between Bank of America, N.A. and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.22 to Stonegate Mortgage Corporation's Annual Report on Form 10-K filed for the year ended December 31, 2014)
10.23	Amendment No. 6 to Master Loan Participation Purchase and Sale Agreement, dated as of March 2, 2015, by and between Bank of America, N.A. and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.3 to Stonegate Mortgage Corporation's Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2015)
10.24	Amendment No. 8 to Master Loan Participation Purchase and Sale Agreement, dated as of June 10, 2015, by and between Bank of America, N.A. and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.25 to Stonegate Mortgage Corporation's Annual Report on Form 10-K filed for the year ended December 31, 2015)
10.25	Amendment No. 10 to Master Loan Participation Purchase and Sale Agreement, dated as of November 27, 2015, by and between Bank of America, N.A. and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.25 to Stonegate Mortgage Corporation's Annual Report on Form 10-K filed for the year ended December 31, 2015)
10.26	Master Repurchase Agreement, dated as of December 24, 2012, between Barclays Bank PLC and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.19 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
10.27	Amendment No. 2 to Master Repurchase Agreement, dated as of December 16, 2014, between Stonegate Mortgage Corporation and Barclays Bank PLC (incorporated by reference to Exhibit 10.24 to Stonegate Mortgage Corporation's Annual Report on Form 10-K filed for the year ended December 31, 2014)
10.28	Mortgage Loan Participation Purchase and Sale Agreement, dated as of December 24, 2012, between Stonegate Mortgage Corporation and Barclays Bank PLC (incorporated by reference to Exhibit 10.20 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))

Exhibit Number	Description
10.29	Amended and Restated Master Participation Agreement, dated as of July 1, 2013, between Stonegate Mortgage Corporation and Merchants Bank of Indiana (incorporated by reference to Exhibit 10.22 to Stonegate Mortgage Corporation Amendment No. 1 to S-1 filed September 30, 2013 (File No. 333-191047))
10.30	Revolving Subordinated Loan Agreement, dated April 15, 2014, between Merchants Bancorp and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.27 to Stonegate Mortgage Corporation's Annual Report on Form 10-K filed for the year ended December 31, 2014)
10.31	Line of Credit Promissory Note, dated August 29, 2014, by Stonegate Mortgage Corporation for the benefit of Merchants Bank of Indiana (incorporated by reference to Exhibit 10.28 to Stonegate Mortgage Corporation's Annual Report on Form 10-K filed for the year ended December 31, 2014)
10.32	Master Repurchase Agreement and Securities Contract, dated January 29, 2015, by and between Wells Fargo Bank, N.A. and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.1 to Stonegate Mortgage Corporation's Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2015)
10.33	Amendment No. 1 to Master Repurchase Agreement and Securities Contract, dated as of January 29, 2015, by and between Wells Fargo, N.A. and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.2 to Stonegate Mortgage Corporation's Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2015)
10.34	Participation Agreement, dated April 23, 2015, by and between Citizens Bank and Trust Company and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.1 to Stonegate Mortgage Corporation's Quarterly Report on Form 10-Q filed for the quarter ended June 30, 2015)
10.35	Master Loan Purchase and Servicing Agreement, dated September 11, 2015, by and between Guaranty Bank and Stonegate Mortgage Corporation (incorporated by reference to Exhibit 10.1 to Stonegate Mortgage Corporation's Quarterly Report on Form 10-Q filed for the quarter ended September 30, 2015)
10.36	Fourth Amended and Restated Loan and Security Agreement, dated as of January 6, 2017, between EverBank and Stonegate Mortgage Corporation
10.37	Amended and Restated Master Repurchase Agreement, dated as of November 10, 2015, between EverBank and Stonegate Mortgage Corporation
10.38†	Separation and Release Agreement, by and between Stonegate Mortgage Corporation and James J. Cutillo, dated September 1, 2015 (incorporated by reference to Exhibit 10.1 to Stonegate Mortgage Corporation's Form 8-K filed on September 2, 2015)
10.39†	Consulting Agreement, by and between Stonegate Mortgage Corporation and James J. Cutillo, dated September 1, 2015 (incorporated by reference to Exhibit 10.2 to Stonegate Mortgage Corporation's Form 8-K filed on September 2, 2015)
10.40†	Letter Agreement between Stonegate Mortgage Corporation and Richard A. Kraemer, dated September 1, 2015 (incorporated by reference to Exhibit 10.3 to Stonegate Mortgage Corporation's Form 8-K filed on September 2, 2015)
10.41†	Offer Letter from Stonegate Mortgage Corporation to James V. Smith, dated August 28, 2015 (incorporated by reference to Exhibit 10.4 to Stonegate Mortgage Corporation's Form 8-K filed on September 2, 2015)
10.42†	Stonegate Mortgage Corporation 2016 Omnibus Incentive Compensation Plan (incorporated by reference to Annex I to the 2016 Proxy Statement on Schedule 14A filed on May 19, 2016)
10.43†	Amendment No. 1 to the Stonegate Mortgage Corporation 2013 Non-Employee Director Plan (incorporated by reference to Annex II to the 2016 Proxy Statement on Schedule 14A filed on May 19, 2016)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of KPMG LLP
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

Exhibit Number	Description
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

† Indicates management contract or compensation plan

Exhibit 21.1

STONEGATE MORTGAGE CORPORATION

List of Subsidiaries as of December 31, 2016

Name	Jurisdiction of Organization
NattyMac, LLC	Indiana
Stonegate Mortgage Acceptance, LLC	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Stonegate Mortgage Corporation:

We consent to the incorporation by reference in the registration statement (No. 333-201507) on Form S-3 and the registration statements (Nos. 333-192554, 333-192556, 333-192557, 333-213055, and 333-213056) on Form S-8 of Stonegate Mortgage Corporation of our report dated March 9, 2017, with respect to the consolidated balance sheets of Stonegate Mortgage Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, which report appears in the December 31, 2016 annual report on Form 10-K of Stonegate Mortgage Corporation. Our report refers to the adoption FASB ASU No. 2014-8, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, in connection with the presentation of discontinued operations in the consolidated financial statements.

/s/ KPMG LLP

Indianapolis, Indiana
March 9, 2017

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 V. Smith, certify that:

1. I have reviewed this report on Form 10-K 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: March 9, 2017

/s/ James V. Smith

President and 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, Carrie P. Preston, certify that:

1. I have reviewed this report on Form 10-K 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: March 9, 2017

/s/ Carrie P. Preston

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 Annual Report of Stonegate Mortgage Corporation (the “Company”) on Form 10-K for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James V. Smith, President and 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 V. Smith

James V. Smith

President and Chief Executive Officer

March 9, 2017

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 Annual Report of Stonegate Mortgage Corporation (the "Company") on Form 10-K for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carrie P. Preston, 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/ Carrie P. Preston

Carrie P. Preston

Chief Financial Officer

March 9, 2017