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STONEGATE MORTGAGE CORP

FORM 10-Q
(Quarterly Report)

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Symbol	SGM
SIC Code	6162 - Mortgage Bankers and Loan Correspondents
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period ended September 30, 2015

OR

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

For the transition period from to

Commission file number: 001-36116

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

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

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

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

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

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

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

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

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

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

Title of Each Class	**Outstanding at November 2, 2015**
Common Stock, $0.01 par value	25,784,456 shares

Stonegate Mortgage Corporation

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Stonegate Mortgage Corporation
Consolidated Balance Sheets
(Unaudited)

(In thousands, except share and per share data)	**September 30, 2015**	**December 31, 2014**
Assets		
Cash and cash equivalents	$ 40,527	$ 45,382
Restricted cash	42,180	4,482
Mortgage loans held for sale, at fair value	838,854	1,048,347
Servicing advances	10,015	11,193
Derivative assets	20,678	12,560
Mortgage servicing rights, at fair value	201,661	204,216
Property and equipment, net	23,794	17,047
Loans eligible for repurchase from GNMA	100,052	109,397
Warehouse lending receivables	139,117	85,431
Goodwill and other intangible assets, net	7,024	7,390
Subordinated loan receivable	30,000	30,000
Other assets	26,776	21,106
Total assets	$ 1,480,678	$ 1,596,551
Liabilities and stockholders' equity		
Liabilities		
Secured borrowings - mortgage loans	525,884	592,798
Secured borrowings - mortgage servicing rights	86,558	75,970
Secured borrowings - eligible GNMA loan repurchases	35,017	—
Mortgage repurchase borrowings	395,002	472,045
Warehouse lines of credit	988	1,374
Operating lines of credit	8,000	2,000
Accounts payable and accrued expenses	38,516	28,350
Derivative liabilities	14,797	9,044
Reserve for mortgage repurchases and indemnifications	5,286	4,967
Contingent earn-out liabilities	1,496	3,005
Liability for loans eligible for repurchase from GNMA	100,052	109,397
Deferred income tax liabilities, net	1,349	11,831
Other liabilities	6,902	5,695
Total liabilities	$ 1,219,847	$ 1,316,476
Commitments and contingencies - Note 15		
Stockholders' equity		
Common stock, par value $0.01, shares authorized – 100,000,000; shares issued and outstanding: 25,784,456 and 25,780,973	264	264
Additional paid-in capital	270,628	267,083
Retained earnings	(10,061)	12,728
Total stockholders' equity	260,831	280,075
Total liabilities and stockholders' equity	$ 1,480,678	$ 1,596,551

See accompanying notes to the unaudited consolidated financial statements.

Stonegate Mortgage Corporation
Consolidated Statements of Operations
(Unaudited)

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Revenues				
Gains on mortgage loans held for sale, net	$ 40,290	$ 44,031	$ 144,465	$ 119,303
Changes in mortgage servicing rights valuation	(28,088)	(4,796)	(34,525)	(23,439)
Payoffs and principal amortization of mortgage servicing rights	(9,215)	(6,941)	(34,303)	(14,319)
Loan origination and other loan fees	7,999	7,752	22,067	19,560
Loan servicing fees	14,051	12,350	41,001	32,315
Interest and other income	9,867	10,658	27,961	25,652
Total revenues	34,904	63,054	166,666	159,072
Expenses				
Salaries, commissions and benefits	40,605	37,644	121,502	106,206
General and administrative expense	11,101	9,044	29,086	26,691
Interest expense	7,957	7,984	24,661	18,153
Occupancy, equipment and communication	5,834	4,540	17,628	13,444
Provision for mortgage repurchases and indemnifications - change in estimate	66	801	589	1,706
Depreciation and amortization expense	2,841	1,395	6,468	3,671
Total expenses	68,404	61,408	199,934	169,871
(Loss) income before income tax (benefit) expense	(33,500)	1,646	(33,268)	(10,799)
Income tax (benefit) expense	(10,696)	3,325	(10,479)	(1,504)
Net loss attributable to common stockholders	(22,804)	(1,679)	(22,789)	(9,295)
Loss per share				
Basic	$ (0.88)	$ (0.07)	$ (0.88)	$ (0.36)
Diluted	$ (0.88)	$ (0.07)	$ (0.88)	$ (0.36)

See accompanying notes to the unaudited consolidated financial statements.

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

(In thousands)	Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2013	—	$ —	25,769	$ 264	$ —	$ 263,830	$ 43,407	$ 307,501
Net loss	—	—	—	—	—	—	(9,295)	(9,295)
Stock-based compensation expense	—	—	—	—	—	2,555	—	2,555
Balance at September 30, 2014	—	$ —	25,769	$ 264	$ —	$ 266,385	$ 34,112	$ 300,761
Balance at December 31, 2014	—	$ —	25,781	$ 264	$ —	$ 267,083	$ 12,728	$ 280,075
Net loss	—	—	—	—	—	—	(22,789)	(22,789)
Stock-based compensation expense	—	—	—	—	—	3,545	—	3,545
Issuance of common stock	—	—	3	—	—	—	—	—
Balance at September 30, 2015	—	$ —	25,784	264	$ —	270,628	(10,061)	260,831

See accompanying notes to the unaudited consolidated financial statements.

Stonegate Mortgage Corporation
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Nine Months Ended September 30,	
	2015	2014
Operating activities		
Net loss	$ (22,789)	$ (9,295)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	6,468	3,671
Losses on disposal and impairment of long lived assets	1,511	222
Gains on mortgage loans held for sale, net	(121,904)	(119,303)
Changes in mortgage servicing rights valuation	34,525	23,439
Payoffs and principal amortization of mortgage servicing rights	34,303	14,319
Provision for reserve for mortgage repurchases and indemnifications - change in estimate	589	1,706
Stock-based compensation expense	3,545	2,555
Deferred income tax expense	(10,479)	(1,504)
Change in fair value of contingent earn-out liabilities	36	(217)
Payments of contingent earn-out liabilities in excess of original fair value estimate	(406)	—
Proceeds from sales and principal payments of mortgage loans held for sale	11,043,439	8,812,481
Originations and purchases of mortgage loans held for sale	(10,800,239)	(9,266,719)
Repurchases and indemnifications of previously sold loans	(41,169)	(13,521)
Changes in operating assets and liabilities:		
Restricted cash	(37,698)	(320)
Servicing advances	1,178	(1,015)
Warehouse lending receivables	(53,686)	(47,742)
Other assets	(2,601)	(2,007)
Accounts payable and accrued expenses	7,800	3,425
Other liabilities	1,207	—
Due to related parties	—	(608)
Net cash provided by (used in) operating activities	43,630	(600,433)
Investing activities		
Net proceeds from sale of mortgage servicing rights	58,891	21,541
Subordinated loan receivable	—	(29,428)
Purchases of property and equipment	(11,039)	(5,067)
Capitalized long-lived assets	(1,858)	—
Purchases in a business combination, net of cash acquired	—	(258)
Purchase of mortgage servicing rights	(86)	(1,811)
Net cash provided by (used in) investing activities	45,908	(15,023)
Financing activities		
Proceeds from borrowings under mortgage funding arrangements - mortgage loans and operating lines of credit	28,342,728	29,760,288
Repayments of borrowings under mortgage funding arrangements - mortgage loans and operating lines of credit	(28,445,867)	(29,127,592)
Proceeds from borrowings under mortgage funding arrangements - MSRs	20,500	—
Repayments of borrowings under mortgage funding arrangements - MSRs	(9,911)	—
Payments of contingent earn-out liabilities not exceeding original fair value estimate	(1,139)	(450)
Payments of debt issuance costs	(704)	(1,146)
Net cash (used in) provided by financing activities	(94,393)	631,100
Change in cash and cash equivalents	(4,855)	15,644
Cash and cash equivalents at beginning of period	45,382	43,104
Cash and cash equivalents at end of period	$ 40,527	$ 58,748
Supplemental Cash Flow Information:		
Cash paid for interest	$ 25,191	$ 17,376
Cash paid for taxes	$ 589	$ 66

See accompanying notes to the unaudited consolidated financial statements.

1. Organization and Operations

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

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

2. Basis of Presentation and Significant Accounting Policies

The accompanying unaudited consolidated financial statements include the accounts of Stonegate and its subsidiaries and have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Company has omitted certain financial disclosures that would substantially duplicate the disclosures in its audited consolidated financial statements as of and for the year ended December 31, 2014 , unless the information contained in those disclosures materially changed or is required by GAAP. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements as of and for the three and nine months ended September 30, 2015 and 2014 have been recorded. All intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2015 . These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements as of and for the year ended December 31, 2014 included in its 2014 Annual Report on Form 10-K.

In the normal course of business, companies in the mortgage banking industry encounter certain economic and regulatory risks. Economic risks include interest rate risk and credit risk. In an interest rate cycle in which rates decline over an extended period of time, the Company's mortgage origination activities’ results of operations could be positively impacted by higher loan origination volumes and gain on sale margins. In contrast, the Company's results of operations of its mortgage servicing activities could decline due to higher actual and projected loan prepayments related to its loan servicing portfolio. In an interest rate cycle in which rates rise over an extended period of time, the Company's mortgage origination activities' results of operations could be negatively impacted and its mortgage servicing activities’ results of operations could be positively impacted. Credit risk is the risk of default that may result from the borrowers’ inability or unwillingness to make contractually required payments during the period in which loans are being held for sale. The Company manages these various risks through a variety of policies and procedures, such as the hedging of the loans held for sale and interest rate lock commitments using forward sales of MBS, such as To Be Announced (“TBA”) securities, designed to quantify and mitigate the operational and

financial risk to the Company to the extent possible. Specifically, the Company engages in hedging of interest rate risk of its mortgage loans held for sale and interest rate lock commitments with the use of TBA securities.

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

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

Recent Accounting Developments:

ASU No. 2015-14 "Revenue from Contracts with Customers (Topic 606): *Deferral of the Effective Date* " was issued in August 2015. This update extends the effective date of ASU 2014-09 by one year. The new guidance will be effective for the Company beginning on January 1, 2018. The Company does not expect the adoption of the new guidance to have a material impact on its consolidated financial statements.

ASU No. 2015-16 "Business Combinations (Topic 805): *Simplifying the Accounting for Measurement-Period Adjustments"* was issued in September 2015. This update requires that an acquirer 1) recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, 2) record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts calculated as if the accounting had been completed at the acquisition date, and 3) present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current period earnings by the line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The new guidance will be effective for the Company beginning on January 1, 2016. The Company does not expect the adoption of the new guidance to have a material impact on its consolidated financial statements.

3. Loss Per Share

The following is a reconciliation of net loss attributable to common stockholders and a table summarizing the basic and diluted loss per share calculations for the three and nine months ended September 30, 2015 and 2014 :

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss:				
Net loss attributable to common stockholders	$ (22,804)	$ (1,679)	$ (22,789)	$ (9,295)
Weighted average shares outstanding *(in thousands)* **:**				
Denominator for basic loss per share – weighted average common shares outstanding	25,782	25,769	25,782	25,769
Effect of dilutive shares—employee and director stock options, restricted stock units, warrants and convertible preferred stock	—	—	—	—
Denominator for diluted loss per share	25,782	25,769	25,782	25,769
Loss per share:				
Basic	$ (0.88)	$ (0.07)	$ (0.88)	$ (0.36)
Diluted	$ (0.88)	$ (0.07)	$ (0.88)	$ (0.36)

During the three and nine months ended September 30, 2015 , weighted average shares of 1,556 and 1,558 , respectively, were excluded from the denominator for diluted loss per share because the shares (which related to stock options, restricted stock units and stock warrants) were anti-dilutive. During the three and nine months ended September 30, 2014 , weighted average shares of 1,780 and 1,838 , respectively, were excluded from the denominator for diluted loss per share because the shares (which related to stock options, restricted stock units and stock warrants) were anti-dilutive.

4. Business Combinations

Acquisition of Medallion Mortgage Company

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

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

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

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

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

As part of the acquisition of Medallion, the Company agreed to pay Medallion's seller a contingent consideration, which payment is contingent upon Medallion achieving certain predetermined minimum mortgage loan origination goals during the two year period following the acquisition date (the "earn-out"). If such goals are met by Medallion, the Company will pay the seller two annual payments equal to a multiple of the actual total mortgage loan volume of Medallion. The earn-out is uncapped in amount. The fair value of the earn-out was estimated to be approximately $603 as of the acquisition date and was estimated using a calibrated Monte-Carlo simulation. The fair value was primarily based on (i) the Company's estimate of the mortgage loan origination volume of Medallion over the two year 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. As of September 30, 2015 , the Company estimated the fair value of the remaining earn-out to be approximately $180 .

5. Long-lived Assets Held for Sale and Disposed of Other Than by Sale

On October 5, 2015, the Company entered into a definitive agreement with an unrelated third party to sell certain assets associated with several retail branches within its Originations segment, which closed on October 29, 2015. This sale consisted primarily of property and equipment and security deposits related to these branches. The total related assets, approximating $443 at both September 30, 2015 and December 31, 2014, have been classified as held for sale as of September 30, 2015 and are included within "Property and equipment, net" on the Company's consolidated balance sheets, respectively. The Company determined that all criteria for the held for sale classification had been met as of this date. There are no liabilities associated with these assets for the periods presented on the Company's consolidated balance sheets, respectively. 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. Due to the uncertainty regarding the amount and timing of these payments, the Company considers this payment a gain contingency and has not recognized any amounts in its unaudited consolidated financial statements as of September 30, 2015.

Additionally as of September 30, 2015, the Company has decided to dispose of certain other retail branches, or components of it Originations segment, other than by sale. The Company completed the closure of seven of its retail branch locations as of September 30, 2015 and estimates it will close 47 locations in the fourth quarter of 2015. Impairment charges, based on estimated future recoverable amounts related to the associated assets, approximated $1,145 for both the three and nine months ended September 30, 2015. Additionally, the Company incurred early termination contractual charges of $ 46 and $ 365 for the three and nine months ended September 30, 2015, respectively. Both the impairment charges and early termination contractual charges are recognized within "General and administrative expenses" on the consolidated statements of operations, respectively. The Company expects to close additional retail branches during the fourth quarter 2015 for which it expects to incur additional impairment, severance, early termination contractual charges and other such expenses. The Company expects to incur up to $2,200 of these expenses beginning in the fourth quarter 2015. Because of these planned disposals, management determined it necessary to perform a goodwill impairment test as of September 30, 2015. Based on the Company's analysis, the estimated fair value of the retail reporting unit exceeded its carrying value and no goodwill impairment was recorded.

The Company has determined that the combination of retail branches and their related assets held for sale, along with the seven retail branches closed as of September 30, 2015, did not meet the quantitative thresholds to require presentation and disclosure as discontinued operations. However, the Company expects such thresholds will be met at its fiscal yearend.

6. Derivative Financial Instruments

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

September 30, 2015:			**Fair Value**	
	Notional	**Balance Sheet Location**	**Asset**	**(Liability)**
Interest rate lock commitments	$ 1,751,701	Derivative assets/liabilities	$ 20,414	$ (132)
MBS forward sales contracts	2,428,443			
MBS forward purchase contracts	826,900			
Total MBS forward trades	3,255,343	Derivative assets/liabilities	264	(14,665)
Total derivative financial instruments	$ 5,007,044		$ 20,678	$ (14,797)

December 31, 2014:			**Fair Value**	
	Notional	**Balance Sheet Location**	**Asset**	**(Liability)**
Interest rate lock commitments	$ 1,211,675	Derivative assets/liabilities	$ 12,300	$ (96)
MBS forward sales contracts	1,860,768			
MBS forward purchase contracts	457,481			
Total MBS forward trades	2,318,249	Derivative assets/liabilities	260	(8,948)
Total derivative financial instruments	$ 3,529,924		$ 12,560	$ (9,044)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest rate lock commitments	$ 6,538	$ (8,558)	$ 8,079	$ 12,099
MBS forward trades	(24,829)	14,760	(5,714)	(17,414)
Net derivative gains (losses)	(18,291)	6,202	2,365	(5,315)
Gains (losses) from changes in estimated fair value of mortgage loans held for sale [1]	7,587	(10,209)	(3,385)	16,532
	$ (10,704)	$ (4,007)	$ (1,020)	$ 11,217

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

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

The Company has entered into agreements with derivative counterparties, 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 show in the table above. In certain circumstances, the Company is required to provide certain derivative counterparties collateral against derivative financial instruments. As of September 30, 2015 and December 31, 2014 , counterparties held $6,663 and $4,482 , respectively, of the Company's cash and cash equivalents in margin accounts as collateral (which is classified as "Restricted cash" on the Company's consolidated balance sheets), after which the Company was in a net credit loss position of $7,739 and a net credit loss position of $4,562 at September 30, 2015 and December 31, 2014 , respectively, to those counterparties. For the nine months ended September 30, 2015 and 2014 , 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 September 30, 2015 and December 31, 2014 :

	September 30, 2015	December 31, 2014
Conventional [1]	$ 314,762	$ 507,297
Government insured [2]	454,714	444,955
Non-agency/Other	69,378	96,095
Total mortgage loans held for sale, at fair value	$ 838,854	$ 1,048,347

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

Under certain of the Company's mortgage funding arrangements (including secured borrowings and warehouse lines of credit), the Company is required to pledge mortgage loans as collateral to secure borrowings. The mortgage loans pledged as collateral must equal at least 100% of the related outstanding borrowings under the mortgage funding arrangements. The outstanding borrowings are monitored and the Company is required to deliver additional collateral if the amount of the outstanding borrowings exceeds the fair value of the pledged mortgage loans. As of September 30, 2015 , the Company had pledged $782,757 in fair value of mortgage loans held for sale as collateral to secure debt under its mortgage funding arrangements, with the remaining $56,097 of mortgage loans held for sale funded with the Company's excess cash. As of December 31, 2014 , the Company had pledged $981,015 in fair value of mortgage loans held for sale as collateral to secure debt under its mortgage funding arrangements, with the remaining $67,332 of mortgage loans held for sale funded with the

Company's excess cash. The mortgage loans held as collateral by the respective lenders are restricted solely to satisfy the Company's borrowings under those mortgage funding arrangements. Refer to Note 12 "Debt" for additional information related to the Company's outstanding borrowings as of September 30, 2015 and December 31, 2014 .

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

	September 30, 2015		December 31, 2014	
	Fair Value	UPB	Fair Value	UPB
Current through 89 days delinquent	$ 832,858	$ 819,537	$ 1,044,005	$ 1,025,374
90 or more days delinquent	5,996	6,996	4,342	5,342
Total	$ 838,854	$ 826,533	$ 1,048,347	$ 1,030,716

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 servicing activities. The Company may also purchase MSRs directly from third parties.

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

	September 30, 2015	December 31, 2014
FNMA	$ 5,112,205	$ 5,797,883
GNMA:		
FHA	4,850,133	5,365,627
VA	3,218,178	2,652,678
USDA	856,433	974,501
FHLMC	4,065,604	3,500,321
Other Investors	62,472	45,735
Total mortgage servicing portfolio	$ 18,165,025	$ 18,336,745
MSRs balance	$ 201,661	$ 204,216
MSRs balance as a percentage of total mortgage servicing portfolio	1.11%	1.11%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Balance at beginning of period	$ 209,343	$ 217,493	$ 204,216	$ 170,294
MSRs originated in connection with loan sales	45,334	45,115	126,459	116,650
MSRs sold and derecognized	(15,700)	(22,044)	(63,128)	(22,044)
Purchased MSRs	—	126	86	1,811
Changes in valuation inputs and assumptions [1]	(28,101)	(5,954)	(31,669)	(24,597)
Actual portfolio runoff (payoffs and principal amortization)	(9,215)	(6,941)	(34,303)	(14,319)
Balance at end of period	$ 201,661	$ 227,795	$ 201,661	$ 227,795

[1] Represents the unrealized portion of the "Changes in mortgage servicing rights valuation" on the Company's consolidated statements of operations The Company realized $13 and $1,158 related to gains on the sale of MSRs for the three months ended September 30, 2015 and 2014 , respectively. For the nine months ended September 30, 2015 and 2014 , the Company realized a loss of $2,856 and a gain of $1,158 related to its MSRs sales, respectively.

On March 31, 2015, the Company completed a sale of MSRs with an underlying unpaid principal balance of $2.7 billion in FNMA and FHLMC loans to an unrelated party. This pool of MSRs was somewhat geographically focused, had average mortgage interest rates that were different than current mortgage rates, and did not include any GNMA MSRs, which have a different historical performance than FNMA and FHLMC MSRs. On April 30, 2015 and September 30, 2015, in separate transactions, the Company completed sales of MSRs with an underlying UPB of $1.9 billion and $1.5 billion , respectively, in GNMA loans to an unrelated party. These pools of MSRs had average mortgage interest rates that were higher than the current GNMA mortgage interest rates and did not include any FNMA or FHLMC MSRs, which have a different historical performance than GNMA MSRs. Thus, the characteristics of each sold pool do not represent the characteristics of the Company's MSRs portfolio as a whole.

Also on September 30, 2015, the Company entered into a flow sale agreement for the sale of MSRs in GNMA loans to an unrelated party. The sales will occur monthly during the covered period, from September 2015 through December 2015. The first of these four sales was completed on September 30, 2015, with an underlying UPB of $225 . The characteristics of the pools sold are similar to those associated with the Company's current GNMA production.

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 closing 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 September 30, 2015 and December 31, 2014 for which the Company has continuing involvement:

	September 30, 2015	December 31, 2014
Total unpaid principal balance	$ 18,165,025	$ 18,336,745
Loans 30-89 days delinquent	$ 288,886	$ 379,881
Loans delinquent 90 or more days or in foreclosure [1]	$ 123,524	$ 127,751

[1] Includes GNMA mortgage loans eligible for repurchase, for which the right to repurchase is recorded in the consolidated balance sheet, which are government-insured, of $100,052 and $109,397 , respectively, as of September 30, 2015 and December 31, 2014 .

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 September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
Discount rates	9.25% - 11.00%	9.25% - 11.00%
Annual prepayment speeds (by investor type):		
FNMA	14.1%	13.9%
GNMA:		
FHA	11.6%	11.2%
VA	9.0%	10.1%
USDA	10.9%	11.8%
FHLMC	12.2%	13.1%
Other Investors	13.0%	12.4%
Cost of servicing (per loan)	$87	$83

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

In addition to the assumptions provided above, the Company uses assumptions for 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 delinquency

rates for FNMA, GNMA, FHLMC and Other Investors mortgage loans as of September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
FNMA	3.97%	3.93%
GNMA:		
FHA	6.47%	6.42%
VA	6.42%	6.31%
USDA	6.44%	6.29%
FHLMC	3.90%	3.80%
Other Investors	6.33%	6.14%

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 September 30, 2015 and December 31, 2014 :

	September 30, 2015	% of Average Portfolio	December 31, 2014	% of Average Portfolio
Discount rates:				
Impact of discount rate + 1%	$ (8,732)	4%	$ (8,345)	4%
Impact of discount rate + 2%	$ (16,764)	8%	$ (16,063)	8%
Impact of discount rate + 3%	$ (24,172)	12%	$ (23,222)	11%
Prepayment speeds:				
Impact of prepayment speed * 105%	$ (5,903)	3%	$ (5,445)	3%
Impact of prepayment speed * 110%	$ (11,574)	6%	$ (10,668)	5%
Impact of prepayment speed * 120%	$ (22,273)	11%	$ (20,508)	10%
Cost of servicing:				
Impact of cost of servicing * 105%	$ (1,392)	1%	$ (1,529)	1%
Impact of cost of servicing * 110%	$ (2,784)	1%	$ (3,058)	1%
Impact of cost of servicing * 120%	$ (5,567)	3%	$ (6,116)	3%

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

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 September 30, 2015 , the Company had pledged $201,153 in fair value of mortgage servicing rights as collateral to secure debt under certain of its secured borrowing arrangements. As of December 31, 2014 , $203,811 in fair value of mortgage servicing rights were pledged as collateral to the Company's secured borrowing arrangements. Refer to Note 12 "Debt" for additional information related to the Company's outstanding borrowings as of September 30, 2015 and December 31, 2014 .

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Contractual servicing fees	$ 13,370	$ 11,860	$ 38,740	$ 31,025
Late fees	681	490	2,261	1,290
Loan servicing fees	$ 14,051	$ 12,350	$ 41,001	$ 32,315
Servicing fees as a percentage of average portfolio *(annualized)*	0.31%	0.29%	0.46%	0.42%

9. Other Assets

The following summarizes other assets as of September 30, 2015 and December 31, 2014 :

	September 30, 2015	December 31, 2014
Receivables from servicing sales, interest and loan related payments, net	$ 17,716	$ 13,059
Prepaid expenses	5,753	5,109
Real estate owned, net [1]	1,860	1,242
Deposits	1,007	1,340
Miscellaneous	440	356
Total other assets	$ 26,776	$ 21,106

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

10. Fair Value Measurements

The Company uses fair value measurements in fair value disclosures and to record certain assets and liabilities at fair value on a recurring basis, such as MSRs, derivatives and loans held for sale; or on a nonrecurring basis, such as when measuring intangible assets and long-lived assets. The Company has elected fair value accounting for loans held for sale to more closely align the Company's accounting with its interest rate risk strategies without having to apply the operational complexities of hedge accounting.

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

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

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

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

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
Assets:				
Mortgage loans held for sale	$ —	$ 785,847	$ 53,007	$ 838,854
Derivative assets (IRLCs)	—	20,414	—	20,414
Derivative assets (MBS forward trades)	—	264	—	264
MSRs	—	—	201,661	201,661
Total assets	$ —	$ 806,525	$ 254,668	$ 1,061,193
Liabilities:				
Derivative liabilities (IRLCs)	$ —	$ 132	$ —	$ 132
Derivative liabilities (MBS forward trades)	—	14,665	—	14,665
Contingent earn-out liability	—	—	1,496	1,496
Total liabilities	$ —	$ 14,797	$ 1,496	$ 16,293

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

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

Mortgage Loans Held for Sale

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

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Balance at beginning of period	$ 40,788	$ —
Changes in fair value recognized in earnings	(964)	(884)
Purchases	15,873	27,757
Sales	(5,618)	(5,618)
Issuances	—	—
Settlements	(4,725)	(9,792)
Transfers into Level 3 [1]	7,653	41,544
Transfers out of Level 3	—	—
Balance at end of period	$ 53,007	$ 53,007

[1] On an ongoing basis, transfers into Level 3 represent mortgage loans held for sale deemed unsaleable in the current period.

MSRs

Refer to Note 8, "Mortgage Servicing Rights", for a reconciliation of the beginning and ending balances during the three and nine months ended September 30, 2015 and 2014 . Refer to Note 11, "Transfers and Servicing of Financial Assets" for a discussion of significant observable inputs related to the Company's MSRs and relative ranges of those used in determining their fair value.

Contingent Earn-out Liability

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Balance at beginning of period	$ 1,769	$ 4,184	$ 3,005	$ 3,791
Changes in fair value recognized in earnings [1]	3	(75)	36	(217)
Purchases [2]	—	—	—	603
Sales	—	—	—	—
Issuances	—	—	—	—
Settlements	(276)	(382)	(1,545)	(450)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	(1,330)		(1,330)
Balance at end of period	$ 1,496	$ 2,397	$ 1,496	$ 2,397

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

The Company estimated the fair value of its NattyMac earn-out as of September 30, 2015 using the same method as at acquisition date. For the three and nine months ended September 30, 2015 , the Company adjusted its earn-out liability for NattyMac by an increase of $23 and $107 , respectively, primarily due to the estimated timing of mortgage loan fundings from the NattyMac warehousing business.

The Company estimated the fair value of its Medallion earn-out using forecasted information that it believes approximates the fair value of the liability as of September 30, 2015 . For the three and nine months ended September 30, 2015 , the Company decreased its earn-out liability for Medallion by $20 and $71 , respectively.

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

Fair Value of Other Financial Instruments

As of September 30, 2015 and December 31, 2014 , all financial instruments were either recorded at fair value or the carrying value approximated fair value. For assets and liabilities 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.

11. 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 September 30, 2015 and December 31, 2014 , all transfers pursuant to our 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 nine months ended September 30, 2015 and 2014 relating to loan sales in which the Company has continuing involvement:

	Nine Months Ended September 30,	
	2015	2014
Proceeds from new loan sales [1]	$ 33,505	$ 10,716
Proceeds from loan servicing fees	$ 39,058	$ 31,329
Cash outflows from servicing advances	$ 1,202	$ 1,015
Cash outflows from repurchases and indemnifications of previously sold loans	$ 11,065	$ 13,521

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

12. Debt

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

	September 30, 2015		December 31, 2014	
	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Secured borrowings - mortgage loans	$ 525,884	4.02% [1]	$ 592,798	3.97%
Secured borrowings - eligible GNMA loan repurchases	35,017	—% [2]	—	—%
Mortgage repurchase borrowings	395,002	2.24%	472,045	2.23%
Warehouse lines of credit	988	4.25%	1,374	4.25%
Secured borrowings - mortgage servicing rights	86,558	5.14%	75,970	5.49%
Operating lines of credit	8,000	4.00%	2,000	4.00%
Total mortgage funding arrangements	$ 1,051,449		$ 1,144,187	

[1] The Company’s costs for secured borrowings on mortgage loans are shown in the table above based on the average underlying mortgage rates. These costs are reduced by earnings and fees specific to each of the secured borrowing facilities.
[2] The Company's costs for financing GNMA loan repurchases under this funding arrangement (remittance rate) is 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 ten -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 September 30, 2015 , the Company held mortgage funding arrangements with five separate financial institutions and a total maximum borrowing capacity of $1,980,017 , 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, interest rates and maturity dates under the Company's various mortgage funding arrangements as of September 30, 2015 and December 31, 2014 :

As of September 30, 2015:

Mortgage Funding Arrangements [1]	Amount Outstanding	Maximum Borrowing Capacity	Interest Rate	Maturity Date
Merchants Bank of Indiana - Participation Agreement	$ 238,486	$ 600,000 [2]	Same as the underlying mortgage rates, less contractual service fee	July 2016
Merchants Bank of Indiana - NattyMac Funding	287,398	— [3]	LIBOR plus applicable margin	March 2016
Total secured borrowings - mortgage loans	525,884	600,000		
Guaranty Bank	35,017	35,017	Coupon rate of underlying loans, less debenture rate [6]	N/A [7]
Total secured borrowings - eligible GNMA loan repurchases	35,017	35,017		
Barclays Bank PLC	69,676	400,000	LIBOR plus applicable margin	December 2015
Bank of America, N.A.	239,467	700,000 [5]	LIBOR plus applicable margin	June 2016
Wells Fargo	85,859	200,000	LIBOR plus applicable margin	January 2016
Total mortgage repurchase borrowings	395,002	1,300,000		
Merchants Bank of Indiana - Warehouse Line of Credit	988	2,000	Prime plus 1.00%	July 2016
Total warehouse lines of credit	988	2,000		
Barclays Bank PLC - MSRs Secured	51,558	— [4]	LIBOR plus applicable margin	December 2015
Merchants Bank of Indiana - MSRs Secured	35,000	35,000	LIBOR plus applicable margin	June 2017
Total secured borrowings - MSRs	86,558	35,000		
Total	1,043,449	1,972,017		

[1] Does not include our operating lines of credit for which we have a maximum borrowing capacity of $8,000 .

[2] Merchants Bank of Indiana will periodically limit or expand the aggregate maximum borrowing capacity. During the nine months ended September 30, 2015 , the most the aggregate borrowing capacity was limited or expanded approximated $550,000 or $700,000 , respectively. At September 30, 2015 , the aggregate maximum borrowing capacity was $600,000 .

[3] The maximum borrowing capacity is a sublimit of the Merchants Participation Agreement maximum borrowing capacity referred to in Note 2 above.

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

[5] The Bank of America maximum borrowing includes $400,000 of mortgage repurchase and $300,000 of mortgage gestation repurchase facilities.

[6] Borrowing carries an interest rate of the coupon rate of the underlying mortgage loans, less the debenture rate funded by Guaranty Bank.

[7] Borrowing matures no later than four years from the date of most recent purchase from GNMA pools.

As of December 31, 2014:

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

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

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

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

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

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

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

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

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

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

On September 11, 2015, the Company entered into a Master Loan Purchase and Servicing Agreement with Guaranty Bank, which has an operating line of credit secured by certain FHA mortgage loans repurchased from GNMA pools. These loans have been repurchased, or will be, by the Company out of GNMA pools in connection with its unilateral right, as servicer, to repurchase such GNMA loans it has previously sold (generally loans that are more than 90 days past due). The borrowing matures no later than four years from the date of purchase from GNMA pools and carries an interest rate of coupon rate of the mortgage loans, less the debenture rate funded by Guaranty Bank. The first funding under the agreement occurred on

September 30, 2015; however, these funds were not utilized for the loan repurchase until October 1, 2015. As the funds are specifically for the repurchase of eligible loans from GNMA, the funds are reflected as restricted cash on the consolidated balance sheets until such repurchases are made.

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

The Company has concluded that on a consolidated basis it has a variable interest in NattyMac Funding ("NMF") resulting from any potential interest it may earn from the 49% NMF earnings participation. The Company has further concluded that it is not considered the primary beneficiary of its variable interest in NMF based on the fact that it does not have the power to direct the activities of NMF that most significantly impact NMF's economic performance. NMF has the final authority over its operating policies. If at any time in the future the Company claims the right to the common capital stock of NMF in a default scenario as described above, the primary beneficiary conclusion may change.

13. 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 three and nine months ended September 30, 2015 and 2014 :

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Balance at beginning of period	$ 5,289	$ 4,787	$ 4,967	$ 3,709
Provision for mortgage repurchases and indemnifications - new loan sales [1]	859	742	2,555	1,775
Provision for mortgage repurchases and indemnifications - change in estimate [2]	66	801	589	1,706
Losses on repurchases and indemnifications	(928)	(889)	(2,825)	(1,749)
Balance at end of period	$ 5,286	$ 5,441	$ 5,286	$ 5,441

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

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

14. Income Taxes

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	$	%	$	%	$	%	$	%
Statutory federal income tax (benefit) expense	$ (11,726)	35.0 %	$ 576	35.0 %	$ (11,644)	35.0 %	$ (3,780)	35.0 %
State income tax (benefit) expense, net of federal tax (benefit) expense	(1,503)	4.5 %	69	4.2 %	(1,480)	4.5 %	(449)	4.2 %
Non-deductible expenses	49	(0.2)%	(28)	(1.7)%	160	(0.5)%	187	(1.7)%
Provision to return adjustments	—	— %	659	40.0 %	—	— %	659	(6.1)%
Adjustment to state net deferred tax liabilities	(168)	0.5 %	1,889	114.4 %	(168)	0.5 %	1,889	(17.4)%
YTD impact of change in effective tax rate	—	— %	170	10.2 %	—	— %	—	— %
Valuation allowance	2,645	(7.9)%	—	— %	2,645	(8.0)%	—	— %
Other	7	— %	(10)	(0.1)%	8	— %	(10)	(0.1)%
Total income tax (benefit) expense	$ (10,696)	31.9 %	$ 3,325	202.0 %	$ (10,479)	31.5 %	$ (1,504)	13.9 %

During the three months ended September 30, 2015 and 2014 , the Company recognized an income tax benefit and expense of $10,696 and $3,325 , respectively, which represented effective tax rates of 31.9% and 202.0% , respectively. During the nine months ended September 30, 2015 and 2014 , the Company recognized income tax benefits of $10,479 and $1,504 , respectively, which represented effective tax rates of 31.5% and 13.9% , respectively. The income tax benefits for the three and nine months ended September 30, 2015 includes the impact of establishing a $2,645 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 (see additional discussion below). Additionally, the increase in benefit and decrease in effective tax rates in the current periods are due to adjustments to state net deferred tax liabilities based on an increased state effective tax rate and provision to tax return adjustments, both of which were recorded as discrete items during the three months ended September 30, 2014 .

As of September 30, 2015 , the Company had federal and state net operating loss carryforwards of $177,756 and $145,139 , respectively. The Company's federal and state net operating loss carryforwards are available to offset future taxable income and expire from 2027 through 2034 . During the three months ended September 30, 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 federal valuation allowance in the amount of $1,171 and a state valuation allowance of $1,474 as of September 30, 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.

15. Commitments and Contingencies

Commitments to Extend Credit

The Company enters into interest rate lock commitments ("IRLCs") with customers who have applied for residential mortgage loans and meet certain credit and underwriting criteria. These commitments expose the Company to market risk if interest rates change and the loan is not economically hedged or committed to an investor. The Company is also exposed to credit loss if the loan is originated and not sold to an investor and the customer does not perform. The collateral upon extension of credit typically consists of a first deed of trust in the mortgagor's residential property. Commitments to originate loans do not necessarily reflect future cash requirements as some commitments are expected to expire without being drawn upon. Total commitments to originate loans as of September 30, 2015 and December 31, 2014 approximated $1,751,701 and $1,211,675 , respectively, in estimated principal loan amount. The related fair value of these commitments is recognized in the balance sheet within "Derivatives".

Litigation

The Company is subject to various legal proceedings arising out of the ordinary course of business. As of September 30, 2015 , there were no current or pending claims against the Company, which could have a material impact on the

Company's statement of financial position, net income or cash flows. Any liabilities which are probable to occur and estimable have been recorded in the balance sheet.

Regulatory Contingencies

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

Other Contingencies

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

16. Stock-Based Compensation

Stock Options

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

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2014	1,405,206	$ 16.90		
Granted	—	N/A		
Exercised	—	N/A		
Forfeited or expired	(294,434)	$ 18.00		
Outstanding at September 30, 2015	1,110,772	$ 16.61	7.6	$ 319
Exercisable at September 30, 2015	961,679	$ 16.49	7.5	$ 319

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

Restricted Stock Units

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

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share
Nonvested at December 31, 2014	33,922	$ 16.00
Granted	151,843	$ 8.82
Vested	(65,462)	9.74
Forfeited	—	N/A
Nonvested at September 30, 2015	120,303	$ 10.34

During the nine months ended September 30, 2015 , the Company recognized total stock-based compensation expense related to stock options and restricted stock units of $3,545 .

17. 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 operation 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.

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	
	September 30, 2015	December 31, 2014
Originations	$ 897,066	$ 1,199,727
Servicing	358,185	223,058
Financing	172,780	118,593
Other [1]	52,647	55,173
Total	$ 1,480,678	$ 1,596,551

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

	Three Months Ended September 30, 2015				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 40,329	$ —	$ —	$ (39)	$ 40,290
Changes in mortgage servicing rights valuation	—	(28,088)	—	—	(28,088)
Payoffs and principal amortization of mortgage servicing rights	—	(9,215)	—	—	(9,215)
Loan origination and other loan fees	7,689	—	310	—	7,999
Loan servicing fees	—	14,051	—	—	14,051
Interest and other income	7,991	—	1,854	22	9,867
Total revenues	56,009	(23,252)	2,164	(17)	34,904
Expenses					
Salaries, commissions and benefits	29,791	2,153	486	8,175	40,605
General and administrative	6,218	460	180	4,243	11,101
Interest expense	5,520	1,526	778	133	7,957
Occupancy, equipment and communication	3,568	490	71	1,705	5,834
Provision for mortgage repurchases and indemnifications	66	—	—	—	66
Depreciation and amortization	2,171	155	105	410	2,841
Corporate allocations	6,458	895	98	(7,450)	—
Total expenses	53,792	5,679	1,718	7,216	68,404
Income (loss) before taxes	$ 2,217	$ (28,931)	$ 446	$ (7,233)	$ (33,500)

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

	Three Months Ended September 30, 2014				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 44,031	$ —	$ —	$ —	$ 44,031
Changes in mortgage servicing rights valuation	—	(4,796)	—	—	(4,796)
Payoffs and principal amortization of mortgage servicing rights	—	(6,941)	—	—	(6,941)
Loan origination and other loan fees	7,696	—	72	(16)	7,752
Loan servicing fees	—	12,350	—	—	12,350
Interest and other income	9,890	—	759	9	10,658
Total revenues	61,617	613	831	(7)	63,054
Expenses					
Salaries, commissions and benefits	29,141	1,685	465	6,353	37,644
General and administrative	3,499	344	179	5,022	9,044
Interest expense	6,711	369	—	904	7,984
Occupancy, equipment and communication	2,891	528	53	1,068	4,540
Provision for mortgage repurchases and indemnifications	801	—	—	—	801
Depreciation and amortization	417	32	103	843	1,395
Corporate allocations	6,781	844	52	(7,677)	—
Total expenses	50,241	3,802	852	6,513	61,408
Income (loss) before taxes	$ 11,376	$ (3,189)	$ (21)	$ (6,520)	$ 1,646

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

	Nine Months Ended September 30, 2015				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 144,456	$ —	$ —	$ 9	$ 144,465
Changes in mortgage servicing rights valuation	—	(34,525)	—	—	(34,525)
Payoffs and principal amortization of mortgage servicing rights	—	(34,303)	—	—	(34,303)
Loan origination and other loan fees	21,180	—	887	—	22,067
Loan servicing fees	—	41,001	—	—	41,001
Interest and other income	22,554	—	5,282	125	27,961
Total revenues	188,190	(27,827)	6,169	134	166,666
Expenses					
Salaries, commissions and benefits	90,704	6,554	1,582	22,662	121,502
General and administrative	14,346	1,738	485	12,517	29,086
Interest expense	16,005	5,830	2,438	388	24,661
Occupancy, equipment and communication	10,759	1,478	189	5,202	17,628
Provision for mortgage repurchases and indemnifications	589	—	—	—	589
Depreciation and amortization	4,678	354	308	1,128	6,468
Corporate allocations	19,742	2,735	249	(22,726)	—
Total expenses	156,823	18,689	5,251	19,171	199,934
Income (loss) before taxes	$ 31,367	$ (46,516)	$ 918	$ (19,037)	$ (33,268)

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

	Nine Months Ended September 30, 2014				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 119,289	$ —	$ —	$ 14	$ 119,303
Changes in mortgage servicing rights valuation	—	(23,439)	—	—	(23,439)
Payoffs and principal amortization of mortgage servicing rights	—	(14,319)	—	—	(14,319)
Loan origination and other loan fees	19,325	—	303	(68)	19,560
Loan servicing fees	—	32,315	—	—	32,315
Interest and other income	24,398	—	1,575	(321)	25,652
Total revenues	163,012	(5,443)	1,878	(375)	159,072
Expenses					
Salaries, commissions and benefits	82,733	4,265	1,253	17,955	106,206
General and administrative	9,695	1,025	452	15,519	26,691
Interest expense	16,841	623	—	689	18,153
Occupancy, equipment and communication	7,879	1,333	150	4,082	13,444
Provision for mortgage repurchases and indemnifications	1,706	—	—	—	1,706
Depreciation and amortization	878	43	286	2,464	3,671
Corporate allocations	19,698	2,402	116	(22,216)	—
Total expenses	139,430	9,691	2,257	18,493	169,871
Income (loss) before taxes	$ 23,582	$ (15,134)	(379)	$ (18,868)	$ (10,799)

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

18. Capital Stock

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

19. Subsequent Events

In October 2015, using the restricted cash monies collateralizing its outstanding borrowings under the Guaranty Bank arrangement as of September 30, 2015, the Company purchased delinquent FHA-insured loans with a UPB of $35.2 million from GNMA guaranteed securitizations under the terms of a conditional repurchase option whereby, as servicer, the Company has the right, but not the obligation, to repurchase delinquent loans at par plus delinquent interest (the GNMA early buy-out program).

On October 5, 2015, the Company entered into a definitive agreement with an unrelated third party to sell certain components of its Originations segment, which closed October 29, 2015. Estimated proceeds from the sale were approximately $300 . Refer to Note 5, "Long-lived Assets Held for Sale and Disposed of Other Than by Sale" for further discussion.

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

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

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

Overview

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

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

Recent Industry Trends and Our Outlook

The U.S. residential mortgage industry continues to experience mixed trends in loan applications and activity in recent months. The 30-year fixed mortgage rates remain at relatively low levels, and steadily declined overall throughout the third quarter. For the majority of the third quarter, the 30-year fixed rates remained below 4.00% ending the quarter at 3.85%. During the third quarter, the MBA Weekly Refinance Application Index increased from 1307.7 on June 26, 2015 to 1995.9 on September 25, 2015. The purchase application data showed relative stability as the MBA Weekly Purchase Application Index went from 199.2 on June 26, 2015 to 202.1 on September 25, 2015. The first quarter 2015 rate levels and reductions in Federal Housing Administration ("FHA") mortgage insurance premiums resulted in higher industry-wide refinance volume, which continued into early second quarter 2015, but began to subside during the second quarter 2015 as rates began to climb to levels consistent with fourth quarter 2014. In the third quarter 2015, refinance volume continued to decrease to levels below fourth quarter 2014. Applications serve as a leading indicator for mortgage originations as applications turn into originations within a couple months. The MBA announced that application volume had increased sharply industry-wide in the last week of the quarter, only to decline again the following week. This recent volatility is likely due to application volume increasing just prior to October 3, 2015, the effective date for the new TILA-RESPA Integrated Disclosure rule. The MBA has estimated in their October 2015 Economic forecast that third quarter mortgage origination volume was $381 billion, compared to $395 billion in the second quarter 2015 and $330 billion in the first quarter 2015. Changing interest rate and origination activity have varying impacts on our business and segments. Elevated purchase and refinance originations volume typically results in higher gains from mortgage loan sales.

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

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

Performance Summary and Outlook

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

	Three Months Ended September 30,		Change	
	2015	2014	$	%
Mortgage loan originations	$ 3,483,161	$ 3,537,221	$ (54,060)	(2)%
Gain on sale revenue	$ 40,290	$ 44,031	$ (3,741)	(8)%
Gain on sale revenue, bps [1]	116	125	-9	(7)%
Total Expenses related to Originations segment, bps [1]	154	142	12	8 %
Total Expenses related to Servicing segment, bps [2]	3	2	1	50 %

	Nine Months Ended September 30,		Change	
	2015	2014	$	%
Mortgage loan originations	$ 9,761,319	$ 9,265,932	$ 495,387	5 %
Gain on sale revenue	$ 144,465	$ 119,303	$ 25,162	21 %
Gain on sale revenue, bps [1]	147	128	19	15 %
Total Expenses related to Originations segment, bps [1]	161	150	11	7 %
Total Expenses related to Servicing segment, bps [2]	10	6	4	67 %

	Three Months Ended		Change	
	September 30, 2015	June 30, 2015	$	%
Mortgage loan originations	$ 3,483,161	$ 3,440,205	$ 42,956	1 %
Gain on sale revenue	$ 40,290	$ 51,334	$ (11,044)	(22)%
Gain on sale revenue, bps [1]	116	149	(33)	(22)%
Total Expenses related to Originations segment, bps [1]	154	159	(5)	(3)%
Total Expenses related to Servicing segment, bps [2]	3	4	(1)	(25)%

	As of		Change	
	September 30, 2015	December 31, 2014	$	%
Mortgage Service Portfolio ("UPB")	$ 18,165,025	$18,336,745	$ (171,720)	(1)%

	As of		Change	
	September 30, 2015	June 30, 2015	$	%
Mortgage Service Portfolio ("UPB")	$ 18,165,025	$ 17,244,304	$ 920,721	5 %

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

We operate a diversified originations business, consisting of retail, wholesale and correspondent channels. These channels each offer varying risk and return characteristics. Our retail channel operates via a distributed network of branches and direct-to-consumer call centers (our "retail direct" or "Stonegate Direct" division), which we created in October 2014, to allow us to reach customers directly through the Internet and call centers using a lower cost platform. Retail originations generally produce higher revenues than originations from third party originators. We also expect to see an increase in our government-insured loan originations.

During the third quarter, the composition of our executive team changed. Jim Cutillo resigned as CEO, effective September 10, 2015, and will be assisting us as a consultant into the first quarter of 2016 to facilitate his departure. Our Chairman, Richard A. Kraemer was appointed Interim CEO and will be overseeing the day-to-day management of Stonegate until our search for a permanent CEO with the requisite leadership and mortgage industry experience is complete. In addition, James V. Smith was appointed as President and COO, and he will be responsible for overseeing all of our operations. Secondly, to better manage the expenses associated with retail originations, we have decided to decrease our retail branch footprint, either by sale or closure. We closed seven retail branches as of September 30, 2015 and expect to close approximately 47 more branches during the fourth quarter 2015. In addition, we sold certain retail branches to an unrelated third party buyer in the fourth quarter.

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

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

We have experienced increased expenses associated with our investments in technology and the growth of headcount necessary to support our originations volume and MSRs average servicing portfolio growth. We would expect expenses to decrease as we dispose of portions of our retail channel, but expect more profitable retail originations from the remaining operations. Any retail expansion and strategic growth going forward is focused on the retail direct side of the retail channel. We plan to maximize our potential return by focusing on lowering expenses through creating system automation efficiencies through information technology investments and process enhancements and through managing expenses through the sale or disposal of retail branches. We will invest in additional information technology infrastructure to manage our growth and to increase automation within our systems surrounding both critical operational areas and corporate support areas. We believe these investments will eventually lead to a decrease in expenses over the long-term.

We have also experienced increased expenses related to industry regulatory compliance. We are monitoring a number of developments in regulations that are expected to impact us, and there has been a heightened focus of regulators on the practices of the mortgage industry. The full impact of regulatory developments remains uncertain, although we expect the higher level of legislative and regulatory focus on mortgage origination and servicing practices will result in higher legal, compliance, and servicing related costs, heightened risk of potential regulatory fines and penalties, or an increase in mortgage origination or servicing related litigation. In particular, we have devoted significant operational and technological resources to comply with the TILA-RESPA Integrated Disclosure rule that integrates the mortgage loan disclosures required under TILA and sections 4 and 5 of RESPA. This rule became effective for nearly all mortgage applications received on or after October 3, 2015.

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

Financial Condition Summary

Changes in the composition and balance of our assets and liabilities during the nine months ended September 30, 2015 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.

Non-GAAP Financial Measures

Our results of operations discussed throughout this MD&A are determined in accordance with U.S. generally accepted accounting principles ("GAAP"). We also calculate adjusted net income (loss) and adjusted diluted EPS (LPS) as performance measures, which are considered non-GAAP financial measures under Regulation G and Item 10(e) of Regulation S-K, to further aid our investors in understanding and analyzing our core operating results and comparing them among periods. Adjusted net income (loss) and adjusted diluted EPS (LPS) 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, severance expenses, sale or disposal of long-lived assets, other non-routine costs and acquisition related costs. Other non-routine costs consists primarily of expenses associated with the write down of certain assets in the third quarter of 2015 and guarantees and other compensation expense prior to the period of meaningful origination production during the first quarter of 2014. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for (loss) income before income taxes, net (loss) income or diluted (LPS) EPS prepared in accordance with GAAP.

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

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

	Three Months Ended September 30,		Change	
	2015	2014	$	%
Net loss	$ (22,804)	$ (1,679)	$ (21,125)	1,258 %
Adjustments:				
Changes in valuation inputs and assumptions on MSRs [1]	28,088	4,796	23,292	486 %
Stock-based compensation expense	1,900	783	1,117	143 %
Severance expense	1,605	—	1,605	N/A
Sale or disposal of long-lived assets	1,191	—	1,191	N/A
Other non-routine expenses [2]	221	—	221	N/A
Tax effect of adjustments	(9,730)	(775)	(8,955)	1,155 %
Adjusted net (loss) income	$ 471	$ 3,125	$ (2,654)	(85)%
Diluted LPS	$ (0.88)	$ (0.07)	$ (0.81)	1,157 %
Adjustments:				
Changes in valuation inputs and assumptions on MSRs	1.09	0.19	0.90	474 %
Stock-based compensation expense	0.07	0.03	0.04	133 %
Severance expense	0.06	—	0.06	N/A
Sale or disposal of long-lived assets	0.05	—	0.05	N/A
Other non-routine expenses [1]	0.01	—	0.01	N/A
Tax effect of adjustments	(0.38)	(0.03)	(0.35)	1,167 %
Adjusted diluted (LPS) EPS	$ 0.02	$ 0.12	$ (0.10)	(83)%

[1] Changes in valuation inputs and assumptions on MSRs includes realized gains of $13 and $1,158 for the three months ended September 30, 2015 and 2014 , respectively.
[2] For the three months ended September 30, 2015 , amount consists primarily of expenses associated with the write down of certain assets.

Adjusted net income decreased $2,654 during the three months ended September 30, 2015 , as compared to the three months ended September 30, 2014 . Adjusted diluted EPS decreased $0.10 , or 83% , during the three months ended September 30, 2015 , as compared to the three months ended September 30, 2014 . The decrease was primarily attributable to increased headcount in revenue producing positions and in segment and corporate support areas related to the growth in both the originations and servicing segments. The decrease was also attributable to the increased amortization of MSRs expense related to payoffs and principal reductions experienced during the current period due to the lower interest rate environment present throughout the three months ended September 30, 2015 , as compared to the three months ended September 30, 2014 , during which refinance activity and prepayment speeds increased. Additionally, we experienced decreased margins resulting from price competition and the impact of regulations on production levels.

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

	Nine Months Ended September 30,		Change	
	2015	2014	$	%
Net loss	$ (22,789)	$ (9,295)	$ (13,494)	145 %
Adjustments:				
Changes in valuation inputs and assumptions on MSRs [1]	34,525	23,439	11,086	(47)%
Stock-based compensation expense	3,545	2,555	990	39 %
Acquisition related expenses	—	49	(49)	(100)%
Severance expense	1,605	—	1,605	N/A
Sale or disposal of long-lived assets	1,510	—	1,510	N/A
Other non-routine expenses [2]	221	9,593	(9,372)	(98)%
Tax effect of adjustments	(12,959)	(4,953)	(8,006)	162 %
Adjusted net income	$ 5,658	$ 21,388	$ (15,730)	(74)%
Diluted LPS	$ (0.88)	$ (0.36)	$ (0.52)	144 %
Adjustments:				
Changes in valuation inputs and assumptions on MSRs	1.34	0.91	0.43	(47)%
Stock-based compensation expense	0.14	0.10	0.04	(40)%
Acquisition related expenses	—	—	—	— %
Severance expense	0.06	—	0.06	N/A
Sale or disposal of long-lived assets	0.06	—	0.06	N/A
Other non-routine expenses	0.01	0.37	(0.36)	97 %
Tax effect of adjustments	(0.50)	(0.19)	(0.31)	163 %
Adjusted diluted EPS	$ 0.23	$ 0.83	$ (0.60)	(72)%

[1] Changes in valuation inputs and assumptions on MSRs includes a realized loss of $2,856 and a realized gain of $1,158 for the nine months ended September 30, 2015 and 2014 , respectively.
[2] For the nine months ended September 30, 2015 , amount consists primarily of expenses associated with the write down of certain assets. For the nine months ended September 30, 2014 , amount consists primarily of guarantees and other compensation expense prior to the period of meaningful origination production.

Adjusted net income decreased $15,730 , or 74% , during the nine months ended September 30, 2015 , as compared to the nine months ended September 30, 2014 . Adjusted diluted EPS decreased $0.60 , or 72% , during the nine months ended September 30, 2015 , as compared to the nine months ended September 30, 2014 . The decrease was primarily attributable to increased amortization of MSRs expense related to payoffs and principal reductions experienced during the current period due to the lower interest rate environment present throughout the nine months ended September 30, 2015 , during which refinance activity and prepayment speeds increased, as well as increased headcount in revenue producing positions and in segment and corporate support areas related to the growth in both the originations and servicing segments.

Recent Developments and Significant Transactions

We continue to execute our strategies in each segment through development of new investor and product offerings, a focus on higher margin volume and selling MSRs when the market conditions are favorable. Our MSRs are created through our originations channels. We successfully executed on this strategy by selling nearly $6.1 billion of MSRs to date in 2015, freeing up capital to reinvest in originations, which we believe has higher return potential over the course of an interest rate cycle. These three MSRs pools were sold to unrelated third parties, in three separate transactions. The composition of our executive team also changed during the third quarter, as discussed in the Performance Summary and Outlook section. In addition, we initiated a plan to decrease our retail branch footprint, to better manage the expenses associated with retail originations. As of September 30, 2015, we classified the assets associated with certain retail branches as held for sale and had completed the closure of seven other branches. We expect to complete the sale of these branches, as well as the closure of 47 more branches, in the fourth quarter of 2015. We further expect to present such disposal activities as discontinued operations in its 2015 year-end financial statements.

In terms of MSRs sale activity thus far in 2015, the first sale, in the first quarter of 2015, consisted of an underlying UPB of $2.7 billion in FNMA and FHLMC loans. The second and third sales of MSRs, in the second and third quarters of 2015, consisted of an underlying UPB of approximately $1.9 billion and $1.5 billion in GNMA loans. These pools of MSRs had average mortgage interest rates that were different than the current mortgage interest rates and did not represent the characteristics of our MSRs portfolio as a whole. We performed temporary sub-serving activities for a fee with respect to the

underlying loans through the established loan file transfer dates, during which time we were also entitled to certain other ancillary income amounts. We will re-deploy the proceeds from these sales back into our originations platform to create newly originated MSRs with the intent of improving our returns.

Also on September 30, 2015, we entered into a flow agreement for the sale of MSRs in GNMA loans to an unrelated party. The flow sales will occur monthly during the covered period, from September 2015 through December 2015. The first of these four sales was completed on September 30, 2015, with an underlying UPB of $225. The characteristics of the pools sold are similar to those associated with the GNMA MSRs sales described above.

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

- On January 29, 2015, we signed a Mortgage Repurchase Agreement with Wells Fargo with a maximum borrowing capacity of $200,000. The borrowing facility is comparable to the repurchase facilities that we have in place with other financial institutions, and is designed to finance newly originated conventional, government and jumbo residential mortgages originated or purchased by us. The facility is uncommitted and matures on January 30, 2016. With this additional borrowing facility, we now have a total maximum borrowing capacity of $2.0 billion , including the operating lines of credit.

- On April 23, 2015, we, through our NattyMac subsidiary, entered into a Participation Agreement with Citizens Bank & Trust Company ("Citizens"), in which we will sell participation interests in certain of our warehouse lines of credit in an amount not to exceed $100,000 and on an individual warehouse lender basis not to exceed $7,500. There was no activity during the three or six months ended September 30, 2015 .

- On June 10, 2015, we amended our mortgage repurchase financing facility with Bank of America to extend the maturity date to June 2016. Additionally, we increased the maximum borrowing capacity of our mortgage gestation repurchase facility from $200 to $300.

- On July 30, 2015, we amended our master participation agreement, warehouse and security agreement and operating line of credit facilities with Merchants to extend their maturity dates through July 2016.

- On September 11, 2015, we entered into a Master Loan Purchase and Servicing Agreement with Guaranty Bank, which has an operating line of credit secured by certain FHA mortgage loans repurchased from GNMA pools. These loans have been, or will be, repurchased by us out of GNMA pools in connection with our unilateral right, as servicer, to repurchase such GNMA loans we have previously sold (generally loans that are more than 90 days past due). The maximum borrowing capacity is $50,000, but can be expanded upon with the addition of FHA loans purchased from the GNMA pools. The borrowing matures no later than four years from the date of purchase from GNMA pools and carries an interest rate of coupon rate of the mortgage loans, less the debenture rate funded by Guaranty Bank. The first funding under the agreement occurred on September 30, 2015; however, these funds were not utilized for the loan repurchase until October 1, 2015.

Other Factors Influencing Our Results

Prepayment Speeds. A significant driver of our servicing business is prepayment speed, which is the measurement of how quickly unpaid principal balance on mortgage loans is reduced by borrower payments. Prepayment speeds, as reflected by the constant prepayment rate, vary according to interest rates, the type of loan, conditions in the housing and financial markets, competition and other factors, none of which can be predicted with any certainty. Prepayment 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 efficiently we are able to maintain the credit quality of our portfolio of serviced mortgage loans and service the mortgage loans where the borrower has defaulted influences the level of expenses that we incur in the mortgage loan servicing process.

Results of Operations

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

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

	Three Months Ended September 30,			
	2015	2014	$ Change	% Change
Gains on mortgage loans held for sale, net	$ 40,290	$ 44,031	$ (3,741)	(8)%
Changes in mortgage servicing rights valuation	(28,088)	(4,796)	(23,292)	486%
Payoffs and principal amortization of mortgage servicing rights	(9,215)	(6,941)	(2,274)	33%
Loan origination and other loan fees	7,999	7,752	247	3%
Loan servicing fees	14,051	12,350	1,701	14%
Interest and other income	9,867	10,658	(791)	(7)%
Total revenues	34,904	63,054	(28,150)	(45)%
Salaries, commissions and benefits	40,605	37,644	2,961	8%
General and administrative	11,101	9,044	2,057	23%
Interest expense	7,957	7,984	(27)	—%
Occupancy, equipment and communications	5,834	4,540	1,294	29%
Provision for mortgage repurchases and indemnifications - change in estimate	66	801	(735)	(92)%
Depreciation and amortization expense	2,841	1,395	1,446	104%
Total expenses	68,404	61,408	6,996	11%
(Loss) income before income tax (benefit) expense	(33,500)	1,646	(35,146)	(2,135)%
Income tax (benefit) expense	(10,696)	3,325	(14,021)	(422)%
Net loss	$ (22,804)	$ (1,679)	$ (21,125)	1,258%
Weighted average diluted shares outstanding *(in thousands)*	25,782	25,769	13	—%
Diluted LPS	$ (0.88)	$ (0.07)	$ (0.81)	1,157%

Revenues

During the three months ended September 30, 2015 , total revenues decreased $28,150 , or 45% , as compared to the three months ended September 30, 2014 . The decrease in revenues resulted primarily from decreases in the fair value of our MSRs, lower gains on mortgage loans held for sale, net, and increases in loan payoffs and principal amortization of our MSRs, offset by increases in loan servicing fees.

The decrease in the fair value of our MSRs was driven primarily by the decrease in market interest rates and flattening of the yield curve during the three months ended September 30, 2015 . 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. The decrease in the fair value of our MSRs during the three months ended September 30, 2015 and 2014 was partially offset by gains on sales of our MSRs recognized during both periods.

Our gains on mortgage loans held for sale, net during the three months ended September 30, 2015 decreased $3,741 , or 8% , as compared to the three months ended September 30, 2014 primarily due to decreased margins resulting from price competition and the impact of regulations on production levels. Our gains on mortgage loans held for sale, net during the three months ended September 30, 2015 were 116 basis points of loan originations compared to 125 basis points for the comparable period in 2014. The decrease in basis point gain on sale was due primarily to a decrease in our government insured loan originations, offset by an increase in our retail originations, as further discussed in the Segment Results section. Government insured loans and loans originated in our retail channel generate higher revenue margins than our other loan products or loans originated through our other channels.

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

The increase in our loan servicing fees was a direct result of our higher average servicing portfolio of $18.1 billion during the three months ended September 30, 2015 , compared to an average servicing portfolio of $17.2 billion during the three months ended September 30, 2014 . The increase in our average servicing portfolio was the result of our increase in originations volume. Our loan servicing fees, as an annualized percentage of our average servicing portfolio, were 31 bps for the three months ended September 30, 2015 , compared to 29 bps for the three months ended September 30, 2014 . The increase in servicing fees in basis points is due to the increase in the percentage of the portfolio that is government-backed loans, which have a higher servicing fee than conventional mortgages.

Expenses

Total expenses increased $6,996 or 11% for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 . Total expenses have increased due to 1) our strategy refinements in the current quarter; 2) an increase in retail originations, which is a higher cost origination channel with higher revenue as compared to our correspondent and wholesale channels; 3) a 5% increase in our average servicing portfolio and the related costs during the three months ended September 30, 2015 , compared to the three months ended September 30, 2014 , including increased specialized servicing expertise required to manage the increased age of our servicing, which increases delinquencies and defaults; and 4) higher regulatory compliance costs.

With the expected growth in compliance costs related to increased industry regulations, we expect to see an increase in total expenses. We plan to maximize our potential return by focusing on lowering expenses through continued investments in information technology and enhancing process efficiencies. We will invest in additional infrastructure to increase automation within our systems surrounding critical areas, particularly related to core operating systems, as well as corporate support areas. We believe these increases in investments will eventually lead to a decrease in expenses in relation to our origination volume over the long-term.

Salaries, commissions and benefits expense increased $2,961 , or 8% , during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 , primarily as a result of executive severance related to our personnel changes to refine our strategy, as well as increased headcount in revenue producing positions and in segment and corporate support areas related to the growth in both the originations and servicing segments. Our total headcount increased from 1,095 employees at September 30, 2014 to 1,324 employees at September 30, 2015 .

General and administrative expenses increased $2,057 , or 23% , during the three months ended September 30, 2015 , compared to the three months ended September 30, 2014 , primarily due to the $1,191 impairment of certain long-lived assets related to the completed closures of seven of our retail branch locations as of September 30, 2015 and estimated expected closures of an additional 47 retail branch locations during the upcoming fourth quarter of 2015.

Depreciation and amortization expense increased $1,446 , or 104% , during the three months ended September 30, 2015 , compared to the three months ended September 30, 2014 , primarily due to increased property and equipment expenditures resulting from our overall growth.

Occupancy, equipment and communication expenses increased $1,294 , or 29% , during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 . The number of retail branches increased from 101 during the three months ended September 30, 2014 to 107 during the three months ended September 30, 2015 , including the impact of closing seven branches during the current period. We expect occupancy levels to decrease in future periods, given the disposal of certain retail branches. However, we expect to see increases from comparable prior periods due to information technology costs resulting from our investment in additional infrastructure to increase automation within our systems, both in our core operations and corporate support areas.

We reported an income tax benefit of $10,696 and an income tax expense of $3,325 for the three months ended September 30, 2015 and 2014, respectively, with an effective tax rate of 32% and 202% , respectively. The decrease in income tax expense is due primarily to our loss before income taxes position for the three months ended September 30, 2015 , compared to the income before income taxes position for the three months ended September 30, 2014 . The decrease in tax rate is primarily due to provision to tax return adjustments and an adjustment to state net deferred tax liabilities recognized during the three months ended September 30, 2014 . The income tax benefit of $10,696 for the three months ended September 30, 2015 includes the net impact of establishing a $2,645 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.

Segment Results

	Three Months Ended September 30, 2015				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 40,329	$ —	$ —	$ (39)	$ 40,290
Changes in mortgage servicing rights valuation	—	(28,088)	—	—	(28,088)
Payoffs and principal amortization of mortgage servicing rights	—	(9,215)	—	—	(9,215)
Loan origination and other loan fees	7,689	—	310	—	7,999
Loan servicing fees	—	14,051	—	—	14,051
Interest and other income	7,991	—	1,854	22	9,867
Total revenues	56,009	(23,252)	2,164	(17)	34,904
Expenses					
Salaries, commissions and benefits	29,791	2,153	486	8,175	40,605
General and administrative	6,218	460	180	4,243	11,101
Interest expense	5,520	1,526	778	133	7,957
Occupancy, equipment and communication	3,568	490	71	1,705	5,834
Provision for mortgage repurchases and indemnifications	66	—	—	—	66
Depreciation and amortization	2,171	155	105	410	2,841
Corporate allocations	6,458	895	98	(7,450)	—
Total expenses	53,792	5,679	1,718	7,216	68,404
Income (loss) before taxes	$ 2,217	$ (28,931)	$ 446	$ (7,233)	$ (33,500)

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

	Three Months Ended September 30, 2014				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 44,031	$ —	$ —	$ —	$ 44,031
Changes in mortgage servicing rights valuation	—	(4,796)	—	—	(4,796)
Payoffs and principal amortization of mortgage servicing rights	—	(6,941)	—	—	(6,941)
Loan origination and other loan fees	7,696	—	72	(16)	7,752
Loan servicing fees	—	12,350	—	—	12,350
Interest and other income	9,890	—	759	9	10,658
Total revenues	61,617	613	831	(7)	63,054
Expenses					
Salaries, commissions and benefits	29,141	1,685	465	6,353	37,644
General and administrative	3,499	344	179	5,022	9,044
Interest expense	6,711	369	—	904	7,984
Occupancy, equipment and communication	2,891	528	53	1,068	4,540
Provision for mortgage repurchases and indemnifications	801	—	—	—	801
Depreciation and amortization	417	32	103	843	1,395
Corporate allocations	6,781	844	52	(7,677)	—
Total expenses	50,241	3,802	852	6,513	61,408
Income (loss) before taxes	$ 11,376	$ (3,189)	$ (21)	$ (6,520)	$ 1,646

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

Originations

The Originations segment reported income before taxes of $2,217 during the three months ended September 30, 2015 , compared to $11,376 during the three months ended September 30, 2014 . This decrease was the result of increased costs associated with slightly higher originations, such as increased commissions and incentive compensation, an increased number of branch locations and other costs associated with managing growth of our retail channel and other regulatory costs. These increased costs were offset by an increase in gains on sale of mortgage loans. Our mortgage loan originations increased 2% period over period.

Gains on Mortgage Loans Held for Sale, Net

Our gains on mortgage loans held for sale, net during the three months ended September 30, 2015 decreased $3,702 or 8% as compared to the three months ended September 30, 2014 primarily due to decreased margins resulting from price competition and the impact of regulations on production levels. Our gains on mortgage loans held for sale, net during the three months ended September 30, 2015 were 116 bps of loan originations compared to 125 bps for the comparable period in 2014. Additionally, the decreased gain on sale, in dollars and basis points, was driven by the shift in production mix to a decrease in our government insured loans, partially offset by an increase in loans originated in our retail channel, which both generate higher revenue margins than our other loan products or loans originated in other channels. Gains on mortgage loans held for sale, net consisted of the following components for the three months ended September 30, 2015 and 2014:

	Three Months Ended September 30,				
	2015		2014		Variance
	$	bps [2]	$	bps [2]	$
Realized gains on sales of loans	$ 12,894	37	$ 11,500	33	$ 1,394
Capitalized servicing rights	45,262	130	45,044	127	218
Economic hedge results	(12,407)	(36)	(5,482)	(15)	(6,925)
Provision for repurchases	(859)	(2)	(741)	(2)	(118)
Direct loan origination costs [1]	(4,600)	(13)	(6,290)	(18)	1,690
Gains on mortgage loans held for sale, net	$ 40,290	116	$ 44,031	125	$ (3,741)

[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 borrowers and represent the core "margin" elements of the loan sales. The increase in our realized gains on sales of loans during the three months ended September 30, 2015 , compared to the comparable period in 2014 , was primarily due to the mix shift toward more retail production. These increases were partially offset by the decrease in our loan origination volume, as well as increases in the cost basis in acquiring/producing the higher loan volume.

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

Provision for repurchase/indemnification obligation - Certain representations and warranties are made by Stonegate to investors and insurers on loans sold. In the event of a breach of these reps and warranties, the Company may incur losses and/or be required to repurchase loans from the investor. A provision is made at the time of sale for an estimate of such expected losses, the amount of which is offset against this gain line item. We expect that the provision for mortgage repurchases and indemnifications may increase in relation to the expected growth in our originations; however, changing market conditions will also influence any trends in our provision. The increase in our provision for repurchase/indemnification obligation for the three months ended September 30, 2015 , as compared to the three months ended September 30, 2014 , relates to the 4% increase in loan sales period over period and an increase in the rate at which we reserve upon loan sale.

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

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

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

The decrease in direct loan origination costs for the for the three months ended September 30, 2015 , as compared to the three months ended September 30, 2014 , relates to our decrease in mortgage loan originations and a change in FNMA fee structure in the current period, compared to the prior period.

Loan Origination and Other Loan Fees

Our loan origination and other loan fees during the three months ended September 30, 2015 remained flat when compared to the comparable period in 2014, due to an increase in retail originations, driven by Stonegate Direct, which have higher fees than correspondent originations, offset by a higher mix of conventional mortgages, which have lower fees than government insured loans. Our loan origination and other loan fees as a percentage of total originations were 22 bps for both of the three months ended September 30, 2015 and 2014 . The following table illustrates mortgage loan originations by type for the three months ended September 30, 2015 and 2014:

	Three Months Ended September 30,			
	2015		2014	
	$	% Total	$	% Total
Conventional	$ 1,940,908	56 %	$ 1,786,029	50%
Government insured	1,430,932	41 %	1,599,785	46 %
Non-agency/Other	111,321	3 %	151,407	4 %
Total mortgage loan originations	$ 3,483,161	100%	$ 3,537,221	100%

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

	Three Months Ended September 30,					
	2015			2014		
	# of Loans	$	% Total	# of Loans	$	% Total
Retail	3,081	$ 686,086	20 %	2,536	$ 573,679	16%
Wholesale	2,136	574,622	16 %	3,413	871,258	25 %
Correspondent	9,922	2,222,453	64 %	10,490	2,092,284	59 %
Total mortgage loan originations	15,139	$ 3,483,161	100 %	16,439	$ 3,537,221	100%

The increased volume in the retail channel, particularly Stonegate Direct, during the three months ended September 30, 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 three months ended September 30, 2015 and 2014 is as follows:

	Three Months Ended September 30, 2015						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 1,865	$ 1,717	$ 3,915	$ 31,526	$ 313	$ 39,336	1%
620-680	46,220	85,715	101,194	647,089	5,568	885,786	26 %
681-719	77,812	125,661	104,558	456,405	6,473	770,909	22 %
>719	335,810	539,973	242,950	658,720	9,677	1,787,130	51 %
Total mortgage loan originations	$ 461,707	$ 753,066	$ 452,617	$ 1,793,740	$ 22,031	$ 3,483,161	100%
% Total	13%	22%	13%	51%	1%	100%	

	Three Months Ended September 30, 2014						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 1,177	$ 1,394	$ 1,678	$ 11,405	$ 722	$ 16,376	—%
620-680	57,924	128,234	102,367	617,945	8,508	$ 914,978	26 %
681-719	82,003	164,018	100,490	427,978	7,420	$ 781,909	22 %
>719	366,036	611,605	228,272	604,218	13,827	$ 1,823,958	52 %
Total mortgage loan originations	$ 507,140	$ 905,251	$ 432,807	$ 1,661,546	$ 30,477	$ 3,537,221	100%
% Total	14%	26%	12%	47%	1%	100%	

Interest and Other Income

Interest and other income related to our Originations segment decreased $1,899 , or 19% , during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 . This decrease in interest and other income was primarily a result of lower average coupon rates, partially offset by an increase in mortgage loan originations, during the three months ended September 30, 2015 , as compared to the three months ended September 30, 2014 . The average coupon rate related to our originations volume was 3.95% during the three months ended September 30, 2015 compared to

4.09% during the three months ended September 30, 2014 . There is a direct correlation between interest and other income and mortgage loan originations.

Salaries, Commissions and Benefits Expense

Salaries, commissions and benefits expense related to our Originations segment increased $650 , or 2% , during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily as a result of severance related to our personnel changes to refine our strategy, as well as increased revenue-producing positions during the latter half of 2014, resulting in higher incentive compensation. Headcount related to our Originations segment increased from 797 employees at September 30, 2014 to 962 employees at September 30, 2015 .

General and Administrative Expenses

General and administrative expenses related to our Originations segment increased $2,719 , or 78% , during the three months ended September 30, 2015 , compared to the three months ended September 30, 2014 , due primarily to the $1,191 impairment of certain long-lived assets related to the completed closures of seven of our retail branch locations as of September 30, 2015 and estimated expected closures of an additional 47 retail branch locations during the upcoming fourth quarter of 2015. Additionally, we have experienced an increase in sales support expenses and regulatory expenses, as we continue to manage our origination growth. 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 related to our Originations segment decreased $1,191 , or 18% , during the three months ended September 30, 2015 , compared to the three months ended September 30, 2014 , primarily due to increased payoffs given the favorable interest rate environment for the borrower, offset by the increase in the volume of mortgage loans originated and funded in the current period. We expect that interest expense will move in direct correlation to changes in our origination trends and borrowings in future periods.

Occupancy, Equipment and Communication Expenses

Occupancy, equipment and communication expenses increased $677 , or 23% , during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 . Our number of branch locations increased from 101 during the three months ended September 30, 2014 to 107 during the three months ended September 30, 2015 . We expect occupancy levels to decrease in future periods given the completed and expected disposal and closure of certain retail branches. In addition to the seven branches already closed as of September 30, 2015, we expect to close or sell approximately 67 more retail branches during the fourth quarter 2015. However, we expect to see increases from comparable prior periods due to information technology costs resulting from our investment in additional infrastructure to increase automation within our systems, both in our core operations and corporate support areas.

Provision for Mortgage Repurchases and Indemnification - Change in Estimate

Provision for mortgage repurchases and indemnification - change in estimate is recorded in the current period when the Company determines that additional reserve is needed for actual or estimated losses to be incurred with respect to representations, warranties and indemnifications made in connection with our loan sales that may likely exceed the initial reserve established at the time of the sale. This initial reserve is included within the gains on mortgage loans held for sale, net line item in our consolidated statements of operations. The provision for mortgage repurchases and indemnification - change in estimate decreased $735 , or 92% , during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 . As our loan originations increased throughout 2014 and the first half of 2015, we have been able to gather information and trends which allow us to better forecast our estimated losses and we expect our provision for mortgage repurchases and indemnifications - change in estimate to continue to decrease in comparison to prior periods.

Depreciation and Amortization Expense

Depreciation and amortization expense related to our Originations segment increased $1,754 during the three months ended September 30, 2015 , compared to the three months ended September 30, 2014 , primarily due to increased property and equipment expenditures resulting from our overall growth.

Servicing

The Servicing segment reported losses before taxes of $28,931 and $3,189 during the three months ended September 30, 2015 and 2014, respectively, due primarily to the change in our MSRs valuation as discussed below. Excluding the impact of the change in MSRs valuation, the Servicing segment incurred a loss of $843 before income taxes during the three months ended September 30, 2015 , compared to income of $1,607 before income taxes during the three months ended September 30, 2014 . This decrease was the result of increased amortization of MSRs expense related to payoffs and principal reductions experienced during the current period due to the lower interest rate environment present throughout the three months ended September 30, 2015 , during which refinance activity and prepayment speeds increased. We also experienced higher loan servicing revenues and expenses as the UPB amount of our servicing portfolio increased.

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

	As of September 30,			
	2015		2014	
Servicing Portfolio UPB	$	18,165,025		17,667,017
Number of Loans Serviced (units)		92,740		95,650
Weighted Average Coupon		4.00%		4.05%
Weighted Average Age (in months)		13		12
90+ day Delinquency Rate		0.59%		0.62%
Weighted Average FICO score		722		731
Weighted Average Servicing Fee (in basis points)		30		28
Capitalized Loan Servicing Portfolio	$	201,661	$	227,795
Capitalized Servicing Rate		1.11%		1.29%
Capitalized Servicing Multiple		3.75		4.61

	Three Months Ended September 30,			
	2015		2014	
Gross Constant Prepayment Rate [1]		16.00%		9.40%
Adjusted Constant Prepayment Rate [2]		11.43%		7.80%
Average Total Loan Servicing Portfolio	$	16,613,832	$	17,237,415
Average Capitalized Loan Servicing Portfolio	$	185,500	$	221,690
Payoffs and Principal Curtailments of Capitalized Portfolio	$	713,979	$	447,358
Sales of Capitalized Portfolio	$	1,729,988	$	1,932,431

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

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

Changes in Mortgage Servicing Rights Valuation

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

The spread between the weighted average coupon and current market rates determines modeled prepayment speed. During the three months ended September 30, 2015 , the weighted average coupon of our MSRs portfolio remained flat in comparison to June 30, 2015 and, at September 30, 2015 , mortgage rates were lower than they were at June 30, 2015. 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 decrease in the fair value of our MSRs for the three months ended September 30, 2015 and 2014 was partially offset by gains on sales of our MSRs recognized during both periods.

Payoffs and Principal Amortization of Mortgage Servicing Rights Portfolio

Payoffs and principal amortization of our MSRs portfolio related to our Servicing segment represents the value of our portfolio run-off, including paid off loans. During the three months ended September 30, 2015 , this amount decreased the value of our MSRs by $9,215 , compared to $6,941 during the three months ended September 30, 2014 . The increase in run-off and paid off loans correlates with a 70% increase in constant prepayment speeds during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 , as well as a 5.2% increase in our average servicing portfolio.

Loan Servicing Fees

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

	Three Months Ended September 30,	
	2015	**2014**
Contractual servicing fees	$ 13,370	$ 11,860
Late fees	681	490
Loan servicing fees	$ 14,051	$ 12,350
Servicing fees as a percentage of average portfolio *(annualized)*	0.31%	0.29%

Our loan servicing fees increased to $14,051 during the three months ended September 30, 2015 from $12,350 during the three months ended September 30, 2014 . The 14% increase in our loan servicing fees was primarily the result of our higher average servicing portfolio of $18.1 billion during the three months ended September 30, 2015 , compared to an average servicing portfolio of $17.2 billion during the three months ended September 30, 2014 . Our loan servicing fees, as a percentage of our average servicing portfolio and annualized, were 31 bps for the three months ended September 30, 2015 , compared to 29 bps for the three months ended September 30, 2014 . The increase in servicing fees in basis points is due to the increase in the percentage of the portfolio that are government backed loans, which have a higher servicing fee than conventional mortgages.

Salaries, Commissions and Benefits Expense

Salaries, commissions and benefits expense related to our Servicing segment increased $468 , or 28% , during the three months ended September 30, 2015 , compared to the three months ended September 30, 2014 , primarily as a result of increased headcount due to growth in our servicing portfolio and the increased age of the portfolio, which increases delinquencies and defaults on the portfolio. In addition, the shift toward more government insured origination volume may require more specialized servicing expertise. We also incurred executive severance related to our personnel changes to refine our strategy during the three months ended September 30, 2015 . Headcount related to our Servicing segment increased from 81 employees at September 30, 2014 to 99 employees at September 30, 2015 , as we continue to add support staff in the quality control and default management areas.

Interest Expense

Interest expense related to our Servicing segment increased $1,157 during the three months ended September 30, 2015 , compared to the three months ended September 30, 2014 , primarily due to interest associated with our MSRs secured borrowings entered into during June and December of 2014, as well as increased loans paid off by customers during the period, for which we are responsible for remitting to the investors the interest accrued between the payoff date and month end.

Depreciation and Amortization Expense

Depreciation and amortization expenses increased $123 during the three months ended September 30, 2015 , compared to the three months ended September 30, 2014 , primarily as a result of amortization of software attributable to our increased investment in information technology to support our servicing portfolio growth and the related increase in staffing.

Financing

The Financing segment provides warehouse lending activities to correspondent customers through our NattyMac subsidiary. The Financing segment reported income before taxes of $446 and a loss before income taxes of $21 during the three months ended September 30, 2015 and 2014 , respectively. The income in the current period is primarily due to increased interest and other income resulting from higher volume of warehouse loan originations as we continue to grow with new customer applications and increased warehouse line commitments within our existing customer base. Originations funded by our NattyMac subsidiary increased to $0.9 billion during the three months ended September 30, 2015 from $0.6 billion during the three months ended September 30, 2014 . The loss in the prior period is due to the increased expenses associated with growing the business, including indirect costs allocated to the segment in 2014 as a result of increased headcount to support the fulfillment services needed to generate the revenues we are seeing in the current period. As operations continue to grow, we expect revenues to increase in line with originations that are funded by NattyMac and the related expenses, on a per loan basis, to decrease due to the anticipated continued increase in volume.

Total Revenues

Total revenues related to our Financing segment increased $1,333 during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 , due to overall lending activity growth. The following details the increases in total revenues:

- Our loan origination and other loan fees during the three months ended September 30, 2015 increased $238 , compared to the comparable period in 2014 , due to higher origination volume, as discussed above.

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

Total Expenses

Total expenses related to our Financing segment increased $866 during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 , due to our overall lending activity growth and directly allocating headcount to support the growth of the business. The following details the increases in total expenses:

- Salaries, commissions and benefits increased $21 . Headcount related to our Financing segment increased to 23 employees at September 30, 2015 from 21 employees at September 30, 2014 .

- The interest expense of $778 is attributable to our Financing segment is related to the utilization of our NattyMac Funding ("NMF") line with Merchants Bancorp, entered into on April 15, 2014.

<u>Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014</u>

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

	Nine Months Ended September 30,			
	2015	2014	$ Change	% Change
Gains on mortgage loans held for sale, net	$ 144,465	$ 119,303	$ 25,162	21%
Changes in mortgage servicing rights valuation	(34,525)	(23,439)	(11,086)	47%
Payoffs and principal amortization of mortgage servicing rights	(34,303)	(14,319)	(19,984)	140%
Loan origination and other loan fees	22,067	19,560	2,507	13%
Loan servicing fees	41,001	32,315	8,686	27%
Interest and other income	27,961	25,652	2,309	9%
Total revenues	166,666	159,072	7,594	5%
Salaries, commissions and benefits	121,502	106,206	15,296	14%
General and administrative	29,086	26,691	2,395	9%
Interest expense	24,661	18,153	6,508	36%
Occupancy, equipment and communications	17,628	13,444	4,184	31%
Provision for mortgage repurchases and indemnifications - change in estimate	589	1,706	(1,117)	(65)%
Depreciation and amortization expense	6,468	3,671	2,797	76%
Total expenses	199,934	169,871	30,063	18%
Loss before income tax benefit	(33,268)	(10,799)	(22,469)	208%
Income tax benefit	(10,479)	(1,504)	(8,975)	597%
Net loss	$ (22,789)	$ (9,295)	$ (13,494)	145%
Weighted average diluted shares outstanding *(in thousands)*	25,782	25,769	13	—%
Diluted LPS	$ (0.88)	$ (0.36)	$ (0.52)	144%

Revenues

During the nine months ended September 30, 2015 , total revenues increased $7,594 , or 5% , as compared to the nine months ended September 30, 2014 . The increase in revenues resulted from increases in gains on mortgage loans held for sale, net, loan servicing fees, loan origination fees and interest and other income, offset by increased loan payoffs and principal amortization of MSRs and a negative change in the fair value of our MSRs.

Our gains on mortgage loans held for sale, net during the nine months ended September 30, 2015 increased $25,162 , or 21% , as compared to the nine months ended September 30, 2014 , primarily due to the 5% increase in our originations volume and shifts in our channel mix. Our gains on mortgage loans held for sale, net during the nine months ended September 30, 2015 were 147 basis points of loan originations compared to 128 basis points for the comparable period in 2014 . The increase in basis point gain on sale was due primarily to an increase in our retail channel originations and a decrease in our correspondent originations, as further discussed in the Segment Results section. Loans originated in our retail channel generate higher revenue margins than loans originated through our other channels.

The increase in our loan servicing fees was a direct result of our higher average servicing portfolio of $17.9 billion during the nine months ended September 30, 2015 , compared to an average servicing portfolio of $15.2 during the nine months ended September 30, 2014 . The increase in our average servicing portfolio was the result of our increase in originations volume, partially offset by our sales of MSRs in the second half of 2014 and year to date 2015. Our loan servicing fees, as a percentage of our average servicing portfolio and annualized, were 46 bps for the nine months ended September 30, 2015 , compared to 42 bps for the nine months ended September 30, 2014 . The increase in servicing fees in basis points is due to the increase in the percentage of the portfolio that is government-backed loans, which have a higher servicing fee than conventional mortgages.

The increase in interest and other income was primarily a result of the 5% increase in mortgage loan originations during the nine months ended September 30, 2015 compared to September 30, 2014 , as there is a direct correlation between interest and other income and mortgage loan origination activity.

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

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

The decrease in the fair value of our MSRs was driven primarily by the decrease in market interest rates as well as the flattening of the yield curve during nine months ended September 30, 2015 . 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. The decrease was also driven by a loss on sale of mortgage servicing rights in the current period of $2,856 , primarily related to our second quarter sale of GNMA MSRs and the estimated prepayment protection provision, given the fact that this GNMA pool consisted of mortgage loans with higher average mortgage rates. During the nine months ended September 30, 2014 , we realized a gain on sale of MSRs of $1,158 .

Expenses

Total expenses increased $30,063 or 18% for the nine months ended September 30, 2015 , compared to the same period ended September 30, 2014 . Total expenses have increased due to 1) a 5% increase in total originations and the related costs associated with higher originations; 2) an increase in retail originations, which is a higher cost origination channel with higher revenue as compared to our correspondent and wholesale channels; 3) a 17.4% increase in our average servicing portfolio and the related costs during the nine months ended September 30, 2015 , compared to the same period ended September 30, 2014 , including increased specialized servicing expertise required to manage the increased age of our servicing, which increases delinquencies and defaults; 4) higher regulatory compliance costs; and 5) executive severance expense.

With the expected compliance costs related to increased industry regulations, we expect to see an increase in total expenses. We plan to maximize our potential return by focusing on lowering expenses through continued investments in information technology and enhancing process efficiencies. We will invest in additional infrastructure to increase automation within our systems surrounding critical areas, particularly related to core operating systems, as well as corporate support areas. We believe these increases in investments will eventually lead to a decrease in expenses in relation to our origination volume over the long-term.

Salaries, commissions and benefits expense increased $15,296 , or 14% , during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 , primarily as a result of increased headcount in revenue producing positions and in segment and corporate support areas related to the growth in all our segments, as well as executive severance related to our personnel changes to refine our strategy. Our total headcount increased from 1,095 employees at September 30, 2014 to 1,324 employees at September 30, 2015 .

Interest expense increased $6,508 , or 36% , during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , primarily due to increased borrowings as a result of the increase in the volume of mortgage loans originated and funded in the current period and interest associated with increased borrowings related to financing our MSRs portfolio in the current period. We expect that interest expense will generally move in direct correlation to changes in our origination and servicing portfolio trends in future periods.

Occupancy, equipment and communication expenses increased $4,184 , or 31% , during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 . The number of retail branches increased from 101 during the nine months ended September 30, 2014 to 107 during the nine months ended September 30, 2015 . We expect occupancy levels to decrease in future periods, given the disposal of certain retail branches. However, we expect to see increases from comparable prior periods due to information technology costs resulting from our investment in additional infrastructure to increase automation within our systems, both in our core operations and corporate support areas.

Depreciation and amortization expense increased $2,797 , or 76% , during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , primarily due to increased property and equipment expenditures resulting from our overall growth.

Provision for mortgage repurchases and indemnification - change in estimate is recorded in the current period when the Company determines that additional reserve is needed for actual or estimated losses with respect to representations, warranties and indemnifications made in connection with our loan sales that may likely exceed the initial reserve established at the time of the sale. This initial reserve is included within the gains on mortgage loans held for sale, net line item in our consolidated statements of operations. The provision for mortgage repurchases and indemnification - change in estimate decreased $1,117 , or 65% , during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 . As our loan originations increased throughout 2014 and the first half of 2015, we have been able to gather

information and trends which allow us to better forecast our estimated losses and we expect our provision for mortgage repurchases and indemnifications - change in estimate to continue to decrease in comparison to prior periods.

General and administrative expenses increased $2,395 , or 9% , during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , primarily due to the $1,191 impairment of certain long-lived assets related to the completed closures of seven of our retail branch locations as of September 30, 2015 and estimated expected closures of an additional 47 retail branch locations during the upcoming fourth quarter of 2015. Additionally, we incurred early termination contractual charges of $ 365 related to the seven closures that had occurred as of September 30, 2015. We have also experienced an increase in professional fees, regulatory expenses, marketing expenses, sales support expenses and travel expenses related to our originations and servicing portfolio growth.

We reported income tax benefits of $10,479 and $1,504 for the nine months ended September 30, 2015 and 2014 , respectively, with an effective tax rate of 31.5% and 13.9% , respectively. The increase in income tax benefit is due primarily to an increase in our loss before income taxes for the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 . The increase in the effective tax rate was primarily due to the tax effect of temporary differences and the establishment of a $2,645 valuation allowance to offset our deferred tax assets at September 30, 2015.

Segment Results

	Nine Months Ended September 30, 2015				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 144,456	$ —	$ —	$ 9	$ 144,465
Changes in mortgage servicing rights valuation	—	(34,525)	—	—	(34,525)
Payoffs and principal amortization of mortgage servicing rights	—	(34,303)	—	—	(34,303)
Loan origination and other loan fees	21,180	—	887	—	22,067
Loan servicing fees	—	41,001	—	—	41,001
Interest and other income	22,554	—	5,282	125	27,961
Total revenues	188,190	(27,827)	6,169	134	166,666
Expenses					
Salaries, commissions and benefits	90,704	6,554	1,582	22,662	121,502
General and administrative	14,346	1,738	485	12,517	29,086
Interest expense	16,005	5,830	2,438	388	24,661
Occupancy, equipment and communication	10,759	1,478	189	5,202	17,628
Provision for mortgage repurchases and indemnifications	589	—	—	—	589
Depreciation and amortization	4,678	354	308	1,128	6,468
Corporate allocations	19,742	2,735	249	(22,726)	—
Total expenses	156,823	18,689	5,251	19,171	199,934
Income (loss) before taxes	$ 31,367	$ (46,516)	$ 918	$ (19,037)	$ (33,268)

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

	Nine Months Ended September 30, 2014				
	Originations	Servicing	Financing	Other/Eliminations [1]	Consolidated
Revenues					
Gains on mortgage loans held for sale, net	$ 119,289	$ —	$ —	$ 14	$ 119,303
Changes in mortgage servicing rights valuation	—	(23,439)	—	—	(23,439)
Payoffs and principal amortization of mortgage servicing rights	—	(14,319)	—	—	(14,319)
Loan origination and other loan fees	19,325	—	303	(68)	19,560
Loan servicing fees	—	32,315	—	—	32,315
Interest and other income	24,398	—	1,575	(321)	25,652
Total revenues	163,012	(5,443)	1,878	(375)	159,072
Expenses					
Salaries, commissions and benefits	82,733	4,265	1,253	17,955	106,206
General and administrative	9,695	1,025	452	15,519	26,691
Interest expense	16,841	623	—	689	18,153
Occupancy, equipment and communication	7,879	1,333	150	4,082	13,444
Provision for mortgage repurchases and indemnifications	1,706	—	—	—	1,706
Depreciation and amortization	878	43	286	2,464	3,671
Corporate allocations	19,698	2,402	116	(22,216)	—
Total expenses	139,430	9,691	2,257	18,493	169,871
Income (loss) before taxes	$ 23,582	$ (15,134)	$ (379)	$ (18,868)	$ (10,799)

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

Originations

The Originations segment reported income before taxes of $31,367 and $23,582 during the nine months ended September 30, 2015 and 2014 , respectively. This increase was the result of mortgage loan originations increasing 5% period over period and higher revenue margins from a strategic change in mix of originations to retail, offset by increased costs associated with higher originations, such as increased incentive compensation, an increased number of branch locations and other costs associated with managing growth of our retail channel and other regulatory costs.

Gains on Mortgage Loans Held for Sale, Net

Our gains on mortgage loans held for sale, net during the nine months ended September 30, 2015 increased $25,167 , or 21% , as compared to the nine months ended September 30, 2014 primarily due to the 5% increase in our originations volume. Our gains on mortgage loans held for sale, net during the nine months ended September 30, 2015 were 147 bps of loan originations compared to 128 bps for the comparable period in 2014 . The increased gain on sale in basis points was due primarily to an increase in our retail originations volume as seen in the tables below. Loans originated in our retail channel generate higher revenue margins than loans originated in other channels. Gains on mortgage loans held for sale, net consisted of the following components for the nine months ended September 30, 2015 and 2014 :

	Nine Months Ended September 30,				
	2015		2014		Variance
	$	bps [2]	$	bps [2]	
Realized gains on sales of loans	$ 33,505	34	$ 10,716	12	$ 22,789
Capitalized servicing rights	126,241	129	116,440	126	9,801
Economic hedge results	1,389	1	10,375	10	(8,986)
Provision for repurchases	(2,555)	(3)	(1,837)	(2)	(718)
Direct loan origination costs [1]	(14,115)	(14)	(16,391)	(18)	2,276
Gains on mortgage loans held for sale, net	$ 144,465	147	$ 119,303	128	$ 25,162

[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 nine months ended September 30, 2015 , compared to the comparable period in 2014 , was primarily due to the increase in our loan origination volume, as well as the mix shift toward more retail production. These increases were partially offset by increases in the cost basis in acquiring/producing the higher loan volume.

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

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

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

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

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

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

The decrease in direct loan origination costs for the for the nine months ended September 30, 2015 , as compared to the nine months ended September 30, 2014 , relates to a change in FNMA fee structure in the current period.

Loan Origination and Other Loan Fees

Our loan origination and other loan fees during the nine months ended September 30, 2015 increased $1,855 , or 10% , compared to the comparable period in 2014 , due to higher origination volume and an increase in retail direct (Stonegate Direct) originations, which have higher fees than correspondent originations. Our loan origination and other loan fees as a percentage of total originations were 22 bps and 21 bps for the nine months ended September 30, 2015 and 2014 , respectively. The following table illustrates mortgage loan originations by type for the nine months ended September 30, 2015 and 2014 :

	Nine Months Ended September 30,			
	2015		2014	
	$	% Total	$	% Total
Conventional	$ 5,218,664	54 %	$ 5,089,751	55%
Government insured	4,113,179	42 %	3,934,638	42 %
Non-agency/Other	429,476	4 %	241,543	3 %
Total mortgage loan originations	$ 9,761,319	100 %	$ 9,265,932	100%

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

	Nine Months Ended September 30,					
	2015			2014		
	# of Loans	$	% Total	# of Loans	$	% Total
Retail	9,049	$ 2,035,216	21 %	5,824	$ 1,303,658	14%
Wholesale	7,090	2,005,116	20 %	8,478	2,023,318	22 %
Correspondent	25,752	5,720,987	59 %	29,857	5,938,956	64 %
Total mortgage loan originations	41,891	$ 9,761,319	100 %	44,159	$ 9,265,932	100%

The increased volume in the retail channel, particularly Stonegate Direct, during the nine months ended September 30, 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 nine months ended September 30, 2015 and 2014 is as follows:

	Nine Months Ended September 30, 2015						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 5,963	$ 8,089	$ 11,286	$ 90,129	$ 3,690	$ 119,157	1%
620-680	134,704	249,507	296,954	1,723,887	16,227	2,421,279	25 %
681-719	213,657	362,984	315,525	1,242,558	19,021	2,153,745	22 %
>719	1,139,482	1,589,648	676,282	1,633,505	28,221	5,067,138	52 %
Total mortgage loan originations	$ 1,493,806	$ 2,210,228	$ 1,300,047	$ 4,690,079	$ 67,159	$ 9,761,319	100%
% Total	15%	23%	13%	48%	1%	100%	

	Nine Months Ended September 30, 2014						
	LTV Range						
	<70%	70%-80%	81%-90%	91%-100%	>100%	Total	% Total
FICO Score							
<620	$ 2,040	$ 2,762	$ 3,321	$ 19,474	$ 1,614	$ 29,211	—%
620-680	167,334	333,599	251,768	1,507,610	24,839	2,285,150	25 %
681-719	254,392	449,878	258,391	1,094,159	19,080	2,075,900	22 %
>719	963,907	1,661,596	609,354	1,609,160	31,654	4,875,671	53 %
Total mortgage loan originations	$ 1,387,673	$ 2,447,835	$ 1,122,834	$ 4,230,403	$ 77,187	$ 9,265,932	100%
% Total	15%	26%	12%	46%	1%	100%	

Interest and Other Income

Interest and other income related to our Originations segment decreased $1,844 during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 . The decrease in interest and other income was primarily a result of lower average coupon rates during the nine months ended September 30, 2015 , as compared to September 30, 2014 , partially offset by an increase in mortgage loan originations, as there is a direct correlation between interest and other income and mortgage loan origination. The average coupon rate was 3.80% during the nine months ended September 30, 2015 compared to 4.05% during the nine months ended September 30, 2014 . As government insured loans carry a higher average coupon rate, we expect to see an increase in interest and other income as we continue to shift our product mix towards this type of loan origination.

Salaries, Commissions and Benefits Expense

Salaries, commissions and benefits expense related to our Originations segment increased $7,971 , or 10% , during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily as a result of increasing revenue-producing positions during the latter half of 2014, resulting in higher incentive compensation, as well as executive severance related to our personnel changes to refine our strategy. Headcount related to our Originations segment increased from 797 employees at September 30, 2014 to 962 employees at September 30, 2015 .

General and Administrative Expenses

General and administrative expenses related to our Originations segment increased $4,651 , or 48% , during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , due primarily to our originations growth. We have experienced an increase in regulatory expenses, professional fees, sales support expenses and marketing expenses, as we continue to manage our origination growth. Additionally, we recognized $1,191 impairment of certain long-lived assets related to the completed closures of seven of our retail branch locations as of September 30, 2015 and estimated expected closures of an additional 47 retail branch locations during the upcoming fourth quarter of 2015. Additionally, we incurred early termination contractual charges of $ 365 related to the seven closures that had occurred as of September 30, 2015. 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 related to our Originations segment decreased $836 , or 5% , during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , primarily due to increased payoffs given the favorable interest rate environment for the borrower, offset by the increase in the volume of mortgage loans originated and funded in the current period. We expect that interest expense will move in direct correlation to changes in our origination trends and borrowings in future periods.

Occupancy, Equipment and Communication Expenses

Occupancy, equipment and communication expenses increased $2,880 , or 37% , during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 . Our number of mortgage loan branches increased from 101 during the nine months ended September 30, 2014 to 107 during the nine months ended September 30, 2015 . We do not expect the same level of growth in occupancy levels in future periods, given the sale or disposal and closure of certain retail branches. We completed the closure of seven retail branches as of September 30, 2015 and expect to close and sell

approximately 67 more retail branches during the fourth quarter 2015. However, we expect to see increases from comparable prior periods due to information technology costs resulting from our investment in additional infrastructure to increase automation within our systems, both in our core operations and corporate support areas.

Provision for Mortgage Repurchases and Indemnification - Change in Estimate

Provision for mortgage repurchases and indemnification - change in estimate is recorded in the current period when the Company determines that additional reserve is needed for estimated losses to be incurred with respect to representations, warranties and indemnifications made in connection with our loan sales that may likely exceed the initial reserve established at the time of the sale. This initial reserve is included within the gains on mortgage loans held for sale, net line item in our consolidated statements of operations. The provision for mortgage repurchases and indemnification - change in estimate decreased $1,117 , or 65% , during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 . As our loan originations increased throughout 2014 and the first half of 2015, we have been able to gather information and trends which allow us to better forecast our estimated losses and we expect our provision for mortgage repurchases and indemnifications - change in estimate to continue to decrease in comparison to prior periods.

Depreciation and Amortization Expense

Depreciation and amortization expense related to our Originations segment increased $3,800 during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , primarily due to increased property and equipment expenditures resulting from our overall growth.

Servicing

The Servicing segment incurred losses before taxes of $46,516 and $15,134 during the nine months ended September 30, 2015 and 2014 , respectively, due primarily to increased amortization of MSRs expense related to payoffs and principal reductions experienced during the current period. This increase in principal runoff was due to the lower interest rate environment present throughout the nine months ended September 30, 2015 , during which refinance activity and prepayment speeds increased. Additionally, we experienced higher loan servicing revenues and expenses as we continue to grow the UPB amount of our mortgage servicing portfolio. The decrease was also a result of change in our MSRs valuation as discussed below.

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

	As of September 30,	
	2015	**2014**
Servicing Portfolio UPB	$ 18,165,025	17,667,017
Number of Loans Serviced (units)	92,740	95,650
Weighted Average Coupon	4.00%	4.05%
Weighted Average Age (in months)	13	12
90+ day Delinquency Rate	0.59%	0.62%
Weighted Average FICO score	722	731
Weighted Average Servicing Fee (in basis points)	30	28
Capitalized Loan Servicing Portfolio	$ 201,661	$ 227,795
Capitalized Servicing Rate	1.11%	1.30%
Capitalized Servicing Multiple	3.75	4.61

	Nine Months Ended September 30,			
	2015		2014	
Gross Constant Prepayment Rate [1]		20.33%		7.10%
Adjusted Constant Prepayment Rate [2]		15.04%		6.00%
Average Total Loan Servicing Portfolio	$	17,859,881	$	15,212,376
Average Capitalized Loan Servicing Portfolio	$	196,907	$	201,425
Payoffs and Principal Curtailments of Capitalized Portfolio	$	2,319,299	$	833,560
Sales of Capitalized Portfolio	$	6,286,256	$	1,932,431

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

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

Changes in Mortgage Servicing Rights Valuation

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

The spread between the weighted average coupon and current market rates determines modeled prepayment speed. During the nine months ended September 30, 2015 , the weighted average coupon of our MSRs portfolio remained flat in comparison to December 31, 2014 and, at September 30, 2015 , mortgage rates also remained flat in comparison to rates at 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 nine months ended September 30, 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 a loss on sale of mortgage servicing rights in the current period of $2,856 , primarily related to our second quarter sale of GNMA MSRs and the estimated prepayment protection provision, given the fact that this GNMA pool consisted of mortgage loans with higher average mortgage rates. During the nine months ended September 30, 2014 , we realized a gain on sale of MSRs of $1,158 .

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 nine months ended September 30, 2015 , this amount decreased the value of our MSRs by $34,303 , compared to $14,319 during the nine months ended September 30, 2014 . The increase in run-off and paid off loans correlates with a 186% increase in constant prepayment speeds during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 , as well as a 17.4% increase in our average servicing portfolio.

Loan Servicing Fees

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

	Nine Months Ended September 30,	
	2015	2014
Contractual servicing fees	$ 38,740	$ 31,025
Late fees	2,261	1,290
Loan servicing fees	$ 41,001	$ 32,315
Servicing fees as a percentage of average portfolio *(annualized)*	0.46%	0.42%

Our loan servicing fees increased to $41,001 during the nine months ended September 30, 2015 from $32,315 during the nine months ended September 30, 2014 . The 27% increase in our loan servicing fees was primarily the result of our higher average servicing portfolio of 17.9 billion during the nine months ended September 30, 2015 , compared to an average servicing portfolio of $15.2 during the nine months ended September 30, 2014 . Our loan servicing fees, as an annualized percentage of our average servicing portfolio, were 46 bps for the nine months ended September 30, 2015 , compared to 42 bps for the nine months ended September 30, 2014 . The increase in servicing fees in basis points is due to the increase in the percentage of the portfolio that are government backed loans, which have a higher servicing fee than conventional mortgages.

Salaries, Commissions and Benefits Expense

Salaries, commissions and benefits expense related to our Servicing segment increased $2,289 , or 54% , during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , primarily as a result of increased headcount due to growth in our servicing portfolio and the increased age of the portfolio, which increases delinquencies and defaults on the portfolio. In addition, the shift toward more government insured origination volume may require more specialized servicing expertise. We also incurred executive severance related to our personnel changes to refine our strategy during the nine months ended September 30, 2015 . Headcount related to our Servicing segment increased from 81 employees at September 30, 2014 to 99 employees at September 30, 2015 , as we continue to add support staff in the quality control and default management areas.

General and Administrative Expenses

General and administrative expenses related to our Servicing segment increased $713 , or 70% , during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , primarily as a result of increased expenses attributable to our growth, such as those related to increased professional fees, quality control and printing of statements required to service the loans.

Interest Expense

Interest expense related to our Servicing segment increased $5,207 during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , primarily due to interest associated with our MSRs secured borrowings entered into during June and December of 2014, as well as increased loans paid off by customers during the period, for which we are responsible for remitting to the investors interest accrued between the payoff date and month end.

Occupancy, Equipment and Communication Expenses

Occupancy, equipment and communication expenses increased $145 , or 11% , during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , primarily as a result of increased expenses attributable to our servicing portfolio growth and the related increase in staffing. We anticipate continued increases in information technology costs to support our strategic growth of the Servicing segment.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased $311 during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , primarily as a result of amortization of software attributable to our increased investment in information technology to support our servicing portfolio growth and the related increase in staffing.

Loss on Disposal and Impairment of Long-Lived Assets

The loss on disposal and impairment of long-lived assets attributable to our Servicing segment during the nine months ended September 30, 2015 is 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.

Financing

The Financing segment provides warehouse lending activities to correspondent customers through our NattyMac subsidiary. The Financing segment reported income before taxes of $918 and a loss before income taxes of $379 during the nine months ended September 30, 2015 and 2014 , respectively. The income in the current period is primarily due to increased interest and other income resulting from higher volume of warehouse loan originations as we continue to grow with new customer applications and increased warehouse line commitments within our existing customer base. Originations funded by our NattyMac subsidiary grew to $2.4 billion during the nine months ended September 30, 2015 from $1.3 billion during the nine months ended September 30, 2014 . The loss in the prior period is due to the increased expenses associated with growing the business, including indirect costs allocated to the segment in 2014 as a result of increased headcount to support the fulfillment services needed to generate the revenues we are seeing in the current period. As operations continue to grow, we expect revenues to increase in line with originations that are funded by NattyMac and the related expenses, on a per loan basis, to decrease due to the anticipated continued increase in volume.

Total Revenues

Total revenues related to our Financing segment increased $4,291 during the nine months ended September 30, 2015 , compared to the nine months ended September 30, 2014 , due to our overall lending activity growth. The following details the increases in total revenues:

- Our loan origination and other loan fees during the nine months ended September 30, 2015 increased $584 , compared to the comparable period in 2014 , due to higher origination volume, as discussed above.
- The increase in interest and other income was primarily a result of the increase in warehouse loan originations funded during the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014 , as there is a direct correlation between interest and other income and warehouse loan origination activity.

Total Expenses

Total expenses related to our Financing segment increased $2,994 during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 , due to our overall lending activity growth and directly allocating headcount to support the growth of the business. The following details the increases in total expenses:

- Salaries, commissions and benefits increased $329 . Headcount related to our Financing segment increased to 23 employees at September 30, 2015 from 21 employees at September 30, 2014 .
- The interest expense of $2,438 attributable to our Financing segment is related to the utilization of our NMF line with Merchants Bancorp.

Regulation

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

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

Critical Accounting Policies

Our financial accounting and reporting policies are in accordance with GAAP. Some of these accounting policies require us to make estimates and judgments about matters that are uncertain. The application of assumptions could have a material impact on our financial condition or results of operations. Critical accounting policies and related assumptions, estimates and disclosures are determined by management and reviewed periodically with the Audit Committee of the Board of Directors. We believe that the judgments, estimates and assumptions used in the preparation of the consolidated financial

statements are appropriate given the factual circumstances at the time. We consider some of our most important accounting policies that require estimates and management judgment to be those policies with respect to reserves for loan repurchases and indemnifications, fair value of financial instruments, MSRs, derivative financial instruments, mortgage loans held for sale, business combinations (including accounting for goodwill and intangible assets) and income taxes. For additional information regarding these significant accounting policies, refer to Note 2, “Basis of Presentation and Significant Accounting Policies,” to our audited consolidated financial statements as of and for the year ended December 31, 2014 , included in our 2014 Annual Report on Form 10-K.

Recent Accounting Developments:

ASU No. 2015-14 "Revenue from Contracts with Customers (Topic 606): *Deferral of the Effective Date* " was issued in August 2015. This update extends the effective date of ASU 2014-09 by one year. 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 No. 2015-16 "Business Combinations (Topic 805): *Simplifying the Accounting for Measurement-Period Adjustments"* was issued in September 2015. This update requires that an acquirer 1) recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, 2) record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts calculated as if the accounting had been completed at the acquisition date, and 3) present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current period earnings by the line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The new guidance will be effective for us beginning on January 1, 2016. We do not expect the adoption of the new guidance to have a material impact 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. On January 29, 2015, we signed a Mortgage Repurchase Agreement with Wells Fargo with a maximum borrowing capacity of $200,000. The borrowing facility is comparable to the repurchase facilities that the Company has in place with other financial institutions, and is designed to finance newly originated conventional, government and jumbo residential mortgages originated or purchased by the Company. The facility is uncommitted and matures on January 30, 2016.

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

Our servicing agreements impose on us various rights and obligations that affect our liquidity. Among the most significant of these obligations is the requirement that we advance our own funds to meet contractual principal and interest payments for certain investors and to pay taxes, insurance, foreclosure costs and various other items that are required to preserve the assets being serviced. Delinquency rates and prepayment speed affect the size of servicing advance balances. These advances are typically recovered upon weekly or monthly reimbursements or from sale in the market.

We finance these advances using cash on hand. We are not currently anticipating that the servicing advance asset will grow in the near future beyond our capacity of financing the asset using available cash. If the servicing advances become a

sizable asset on our balance sheet, we will negotiate a servicing advance facility with one or more of our financial partners, which we believe to be readily available in the market.

Cash Flows

Our unrestricted cash balance decreased from $45,382 as of December 31, 2014 to $40,527 as of September 30, 2015 . The following discussion summarizes the changes in our unrestricted cash balance for the six months ended September 30, 2015 and 2014 :

Operating Activities

Our operating activities provided $43,630 and used $600,433 of cash flow for the nine months ended September 30, 2015 and 2014 , respectively. The increase in cash provided by operating activities was primarily due to selling our loans at a faster rate than the prior period. These positive operating cash outflows were partially offset by an increase in restricted cash associated with the funding under our agreement with Guaranty Bank on September 30, 2015 for the repurchase of eligible loans from GNMA. As funds are utilized for loan repurchases, we expect our operating activities used in restricted cash to decrease.

Investing Activities

Our investing activities provided $45,908 of cash flow for the nine months ended September 30, 2015 and used $15,023 of cash flow for the same period in the prior year. The increase in cash provided by investing activities was primarily due to the proceeds received from the sales of nearly $6.3 billion of MSRs in the current period to unrelated third parties in four separate transactions and our previous investment in the subordinated debt of Merchants Bancorp entered into during the second quarter of 2014 in order to facilitate the financing of WLOCs in our Financing segment. This increase was partially offset by purchases of property and equipment.

Financing Activities

Our financing activities used $94,393 and provided $631,100 of cash flow for the nine months ended September 30, 2015 and 2014 , respectively. The increase in cash used by financing activities was primarily due to the timing of borrowings versus repayments under our various mortgage funding arrangements. The timing of our borrowings and repayments fluctuates based on the needs of our operations.

Off-Balance Sheet Arrangements

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

Quantitative and Qualitative Disclosures about Market Risk

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

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

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

- meeting day-to-day cash outflows primarily in the settlement of margin requests from trading counterparties, operating expenses, planned capital expenditures and customer demand for loans;
- ensuring sufficient sources of liquidity exist to cover commitments to originate or purchase mortgage loans, warehouse lines of credit or other credit commitments;
- funding asset growth in a cost efficient manner;
- controlling concentration of exposure to any financing source;

- minimizing the impact of market disruptions should adverse events occur which erode Stonegate's ability to fund itself; and
- surviving a major financial crisis which might result in a funding crisis.

Credit Risk

We have exposure to credit loss in the event of contractual non-performance by our trading counterparties and counterparties to the over-the-counter derivative financial instruments that we use in our rate risk management activities. We manage this credit risk by selecting only counterparties that we believe to be financially strong, spreading the credit risk among many such counterparties, by placing contractual limits on the amount of unsecured credit extended to any single counterparty and by entering into netting agreements with the counterparties, as appropriate. For additional information, refer to Note 6 “Derivative Financial Instruments” to the unaudited consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

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

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

Interest Rate Risk

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

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

Our mortgage funding arrangements (mortgage participation agreements and warehouse lines of credit) carry variable rates. As of September 30, 2015 , approximately $525,883 , or 50% , of our total $1,043,449 in outstanding adjustable rate mortgage funding arrangements had interest rates that were equal to the underlying mortgage loans. The remaining 50% of the adjustable rate mortgage funding arrangements carried a weighted average interest rate of 2.65% , which was well below the weighted average interest rate on the related mortgage loans held for sale as of September 30, 2015 . In addition, mortgage loans held for sale are carried on our balance sheet on average for only 20 to 25 days after closing and prior to transfer to FNMA, FHLMC or into pools of GNMA MBS. As a result, we believe that any negative impact related to our variable rate mortgage funding arrangements resulting from a shift in market interest rates would not be material to our consolidated financial statements as of or for the three months ended September 30, 2015 .

Interest rate lock commitments represent an agreement to extend credit to a mortgage loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to funding. Our mortgage loans

held for sale, which are held in inventory awaiting sale into the secondary market, and our interest rate lock commitments, are subject to changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. As such, we are exposed to interest rate risk and related price risk during the period from the date of the lock commitment through (i) the lock commitment cancellation or expiration date; or (ii) the date of sale into the secondary mortgage market. Loan commitments generally range between 30 and 90 days; and our holding period of the mortgage loan from funding to sale is typically within 30 days.

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

Sensitivity Analysis

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

We use financial models in determining the impact of interest rate shifts on our mortgage loan portfolio, MSRs portfolio and pipeline derivatives (IRLC and forward MBS trades). A primary assumption used in these models is that an increase or decrease in the benchmark interest rate produces a parallel shift in the yield curve across all maturities.

We utilize a discounted cash flow analysis to determine the fair value of MSRs and the impact of parallel interest rate shifts on MSRs. We obtain independent third party valuations on a quarterly basis, to support the reasonableness of the fair value estimate generated by our internal model. The primary assumptions in this model are prepayment speeds, discount rates, costs of servicing and default rates. However, this analysis ignores the impact of interest rate changes on certain material variables, such as the benefit or detriment on the value of future loan originations, non-parallel shifts in the spread relationships between MBS, swaps and U.S. Treasury rates and changes in primary and secondary mortgage market spreads. We also use a forward yield curve as an input which will impact pre-pay estimates and the value of escrows as compared to a static forward yield curve. We believe that the use of the forward yield curve better presents fair value of MSRs because the forward yield curve is the market's expectation of future interest rates based on its expectation of inflation and other economic conditions.

For mortgage loans held for sale, IRLCs and forward delivery commitments on MBS, we rely on a model in determining the impact of interest rate shifts. In addition, for IRLCs, the borrowers' likelihood to close their mortgage loans under the commitment is used as a primary assumption.

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

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

These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in fair value may not be linear.

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

Mortgage loans pipeline [1]	Down 25 bps	Up 25 bps
September 30, 2015	$ (3,314)	$ 437
December 31, 2014	(2,341)	551

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

Mortgage Servicing Rights

We use a discounted cash flow approach to estimate the fair value of MSRs. This approach consists of projecting servicing cash flows discounted at a rate that management believes market participants would use in the determination of value. The key assumptions used in the estimation of the fair value of MSRs include prepayment speeds, discount rates, default rates, cost to service, contractual servicing fees, escrow earnings and ancillary income. The shape of the forward yield curve also has an impact on the asset valuation. We believe that the use of the forward yield curve better presents fair value of MSRs because the forward yield curve is the market’s expectation of future interest rates based on its expectation of inflation and other economic conditions. We obtain independent third party valuations on a quarterly basis, to support the reasonableness of the fair value estimate generated by our internal model. We also have 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 September 30, 2015 , refer to Note 11, "Transfers and Servicing of Financial Assets," to our consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

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

MSRs	Down 100 bps	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps	Up 100 bps
September 30, 2015	$ (97,758)	$ (44,201)	$ (20,714)	$ 18,345	$ 34,749	$ 61,518
December 31, 2014	(95,045)	(48,810)	(23,505)	20,225	37,764	67,609

Prepayment Risk

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

Inflation Risk

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

Market Value Risk

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings at September 30, 2015 , see the “Litigation” section of Note 15, “Commitments and Contingencies” to our unaudited consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Stonegate Mortgage Corporation
Registrant

Date: November 5, 2015	By:	/ s / Robert B. Eastep
		Robert B. Eastep
		Chief Financial Officer
		(Principal Financial Officer and Duly Authorized Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Third Amended and Restated Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to Stonegate Mortgage Corporation Amendment No. 1 to S-1 filed September 30, 2013 (File No. 333-191047))
3.2	Third Amended and Restated Code of Regulations of the Registrant (incorporated by reference to Exhibit 3.2 to Stonegate Mortgage Corporation S-1 filed September 6, 2013 (File No. 333-191047))
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Stonegate Mortgage Corporation Amendment No. 1 to S-1 filed September 30, 2013 (File No. 333-191047))
4.2	Form of Indenture (incorporated by reference to Exhibit 4.5 of Stonegate Mortgage Corporation S-3 filed January 14, 2015 (File No. 001-201507))
10.1*	Master Loan Purchase and Servicing Agreement, dated September 11, 2015, by and between Guaranty Bank and Stonegate Mortgage Corporation
10.2†	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 (File No. 001-36116))
10.3†	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 (File No. 001-36116))
10.4†	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 (File No. 001-36116))
10.5†	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 (File No. 001-36116))
31.1*	Certification of the Company's Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Company's Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

† Indicates management contract or compensation plan

MASTER LOAN PURCHASE AND SERVICING AGREEMENT
Dated as of September 11, 2015

STONEGATE MORTGAGE CORPORATION,
as Seller
and
GUARANTY BANK,

as Purchaser

Residential FHA Mortgage Loans

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EXHIBITS

EXHIBIT A FORM OF LOST NOTE AFFIDAVIT
EXHIBIT B SELLER'S WIRE INSTRUCTIONS-SETTLEMENT FUNDING
EXHIBIT C CONTENTS OF COLLATERAL FILE
EXHIBIT D CONTENTS OF SERVICING FILE
EXHIBIT E FORM OF SERVICER NOTICE
EXHIBIT F POWER OF ATTORNEY

MASTER LOAN PURCHASE AND

SERVICING AGREEMENT

THIS MASTER LOAN PURCHASE AND SERVICING AGREEMENT for residential FHA-insured mortgage loans, dated as of September 11, 2015, between Guaranty Bank, FSB, a federally chartered savings bank (" ***Purchaser*** "), whose address is 4000 W. Brown Deer Road, Brown Deer, WI 53209 and Stonegate Mortgage Corporation, an Ohio corporation, as seller (" ***Seller*** "), whose address is 9190 Priority Way West Drive, Suite 300, Indianapolis, IN 46240 (sometimes hereinafter individually a "Party" or collectively the "Parties").

WHEREAS, Seller currently services and intends to effect an early buyout of certain fixed-rate, fully amortizing FHA-insured residential mortgage loans currently in Ginnie Mae mortgage-backed securities;

WHEREAS, simultaneously with such early buyout of the Mortgage Loans, Seller wishes to sell the Mortgage Loans to Purchaser on a servicing retained basis;

WHEREAS, Purchaser wishes to buy the Mortgage Loans and to have the Servicer service, and the Subservicer subservice, the related Mortgage Loans as so indicated on the Loan Purchase Data File, but on its behalf;

NOW, THEREFORE, in consideration of the premises and the mutual agreements hereinafter set forth, the parties hereto hereby agree as follows:

ARTICLE I

BASIC AGREEMENT

1. Basic Agreement . From time to time in accordance with the terms hereof and the Guide, Seller may offer to sell Mortgage Loans to Purchaser on the relevant Settlement Date on a servicing retained basis, with servicing provided by or on behalf of the Servicer to Seller and Purchaser in accordance with the terms hereof and of the Servicing Agreement. Purchaser may accept or reject any such offer in its sole and absolute discretion and in accordance with the terms of the Guide. Seller shall compensate the Subservicer for the performance of its servicing and administrative duties in accordance with the terms hereof and the terms of the Servicing Agreement.

2. Purchase Price . Purchaser shall pay to Seller the Purchase Price on the Settlement Date by wire transfer thereof to the account as designated on Exhibit B attached hereto in exchange for delivery of the Collateral Files relating to the purchased Mortgage Loans in accordance with Sections 3.2 and 3.3 hereof.

3. Closing . The closing for each purchase and sale of Mortgage Loans shall take place on the Settlement Date. The closing shall be by telephone, confirmed by letter or wire as the parties shall agree. The closing for the Mortgage Loans to be purchased on each Settlement Date shall be subject to each of the following conditions precedent:

(a) Seller shall have delivered to Purchaser a Loan Purchase Data File as required by the Guide;

(b) all of the representations and warranties of each party under this Agreement shall be true and correct as of the Settlement Date and no Default or Event of Default shall have occurred and be continuing;

(c) each of Purchaser and Seller shall have performed their respective obligations under

this Agreement and the other Purchase Documents required to be performed prior to the Settlement Date;

(d) Purchaser shall have received an executed Bailee Letter from each relevant Seller Custodian, in form and substance satisfactory to Purchaser;

(e) Purchaser shall have received an executed Servicer Notice from Subservicer;

(f) Seller shall have executed and delivered a Power of Attorney to Purchaser;

(g) Purchaser shall have received a Trust Receipt from each relevant Custodian with respect to the relevant Mortgage Loans; and

(h) Purchaser shall have paid the Purchase Price to Seller by wire transfer of immediately available funds to the account designated by Seller and Seller shall deliver to Purchaser an original bill of sale and notice of receipt and release (the " Confirmation Documentation") and shall deliver a copy thereof to each Seller Custodian.

ARTICLE II

DEFINITIONS

Whenever used herein, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

" Act ": The National Housing Act of 1934, as amended.

" Agreement ": This Master Loan Purchase and Servicing Agreement, including all exhibits and annexes hereto or incorporated herein, and all amendments hereof and supplements hereto, including the Guide.

" Aggregate Pool Principal Balance ": The aggregate unpaid principal balance, as of the applicable Cut-off Date, of the Mortgage Loans delivered pursuant to the relevant Commitment Letter and this Agreement.

" Appraised Value ": With respect to any Mortgaged Property, the value thereof as determined by an appraisal made for the originator of the related Mortgage Loan at the time of origination of the related Mortgage Loan by a qualified appraiser.

" Assignment of Mortgage ": With respect to any Mortgage Loan, an assignment of the related Mortgage, notice of transfer or equivalent instrument, in recordable form, sufficient under the laws of the jurisdiction wherein the related Mortgaged Property is located to effect the assignment and pledge of the related Mortgage or, in the case of a MERS Mortgage Loan, a confirmed electronic transmission to MERS, identifying a transfer of ownership of the related Mortgage to Purchaser or its designee.

" Bailee Letter ": With respect to each relevant Seller Custodian, a bailee letter from Seller and such Seller Custodian in favor of Purchaser that provides that upon payment by Purchaser to Seller of the Purchase Price as described in Section 1.3 , Seller's interest in such Mortgage Loans and the related Mortgage Files shall be deemed released and such Seller Custodian shall thereupon be deemed to act as Custodian for Purchaser, which letter shall be in the form mutually agreed by Seller and Purchaser.

" Bankruptcy Loan ": Any mortgage loan with respect to which a proceeding shall have been instituted

prior to the Settlement Date in a court having jurisdiction in the premises seeking a decree or order for relief in respect of any Mortgagor under any applicable bankruptcy, insolvency, liquidation, reorganization or other similar Requirement of Law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator, conservator or other similar official of such Mortgagor or for the Mortgaged Property.

" Business Day ": Any day which is not (i) a Saturday, (ii) a Sunday, (iii) a day on which banking institutions in Wisconsin are permitted or required by law or executive order to be closed or (iv) a day on which the Federal Reserve Bank of New York is closed.

" Code ": The Internal Revenue Code of 1986, as amended.

" Collateral File ": The mortgage submission package pertaining to a particular Mortgage Loan and including the documents set forth in Exhibit C related thereto; ***provided*** , that, if any of the documents referred to in Exhibit C has been delivered to Servicer, Subservicer or their respective designees for the purpose of servicing a Mortgage Loan, then the related Collateral File shall contain, in lieu of such documents, a copy of the related trust receipt (or a copy of the related request for release of documents or related bailee letter) from Servicer, Subservicer or their respective designees or the relevant Seller Custodian.

" Commitment Letter ": A commitment letter from Purchaser to Seller in the form of Exhibit D to the Guide.

" Condemnation Proceeds ": All awards or settlements in respect of a taking of a Mortgaged Property, whether partial or entire, by exercise of the power of eminent domain or condemnation, to the extent not required to be released to a Mortgagor in accordance with the terms of the related Mortgage Loan documents.

" Confidential Information ": Any non-public written information or data provided to or disclosed by one Party to the other Party or on its behalf, either directly or indirectly, by any medium whatsoever, including, without limitation, any business information, trade or business services, financial information, legal information, licenses, ideas, concepts, know how, techniques, strategies, specifications, flow-charts, data, computer programs, marketing plans, customer names, employee data, customer files or customer data that are identified as secret, confidential and/or proprietary to the other Party or a third party to whom either or both Parties have a duty of confidentiality.

" Confirmation Documentation ": As defined in Section 1.3(h) above , which shall be in the form mutually agreed by Seller and Purchaser.

" Custodial Agreement ": The Bi-Party Custodial Agreements by and between Purchaser and the Seller Custodians pursuant to which Seller Custodians agree to act as Custodian of the Mortgage Files on behalf of Purchaser.

" Custodian ": Each custodian under a Custodial Agreement, or any successor.

" Cut-off Date ": As provided in the relevant Commitment Letter.

" Debenture Rate ": For purposes of calculating a claim shall be the monthly average yield, for the month in which the default on the mortgage occurred, on United States Treasury Securities adjusted to a constant maturity of 10 years, and as provided in the relevant Commitment Letter.

" Debenture Interest Advance ": The amount of debenture interest funded by Purchaser as provided

in the relevant Commitment Letter calculated as the aggregate accrued interest at the respective Debenture Rate under applicable FHA Regulations for the period from the 61st day of delinquency through the Settlement Date.

" Default ": An Event of Default or an event that with notice or lapse of time or both would become an Event of Default.

" Due Date ": With respect to any Mortgage Loan, any date on which the related scheduled payment of principal and interest thereon is due, as set forth in the related Mortgage Note, exclusive of any days of grace.

" Event of Default ": The meaning set forth in Section 3.6 hereof.

" FHA ": The Federal Housing Administration, which is a subdivision of HUD, or any successor, including the Federal Housing Commissioner and the Secretary of Housing and Urban Development where appropriate under the FHA Regulations.

" FHA Claim Proceeds ": The amount of insurance proceeds received from FHA under FHA Insurance in the event of a default with respect to an FHA Mortgage Loan.

" FHA Claim Settlement Amount ": The remainder of (i) the sum of the Purchase Price plus the aggregate accrued interest calculated at the Pass-through Rate, minus (ii) the sum of the aggregate interest paid by Seller to Buyer at the Mortgage Loan Remittance Rate plus the FHA Claim Proceeds.

" FHA Insurance ": An insurance policy granted by FHA with respect to each FHA Mortgage Loan under the applicable section of the Act.

" FHA Mortgage Loan ": At any time, any Mortgage Loan that is subject to FHA Insurance and eligible for reimbursement thereunder.

" FHA Regulations ": The regulations promulgated by HUD under the Act, codified in 24 Code of Federal Regulations and other HUD written interpretative issuances, which in each case relate to FHA Mortgage Loans, including, without limitation, related handbooks, circulars, notices and mortgagee letters, all as may be amended from time to time.

" Foreclosure Loan ": Any mortgage loan with respect to which a foreclosure sale has occurred on or prior to the Settlement Date.

" Four-Year Loan ": Any Mortgage Loan that remains subject to this Agreement for more than four years.

" Ginnie Mae ": The Government National Mortgage Association and its successors.

" Guide ": Purchaser's eligibility criteria, policies, procedures and requirements for the purchase of Loans, including, without limitation, the Guaranty Bank FHA Purchase Sellers Guide, as the same may be amended from time to time in accordance with Section 4.10, which Guide is incorporated into this Agreement by reference.

" HUD ": The United States Department of Housing and Urban Development and its successors.

" Insurance Proceeds ": With respect to each Mortgage Loan, proceeds of insurance policies insuring

the Mortgage Loan or the related Mortgaged Property, including any FHA Claim Proceeds.

" Liquidation Proceeds ": Amounts received in connection with the partial or complete liquidation of a defaulted Mortgage Loan, whether through the sale or assignment of such Mortgage Loan, trustee's sale, foreclosure sale or otherwise.

" Loan Purchase Data File ": The schedule of Mortgage Loans attached to the Confirmation Documentation containing the fields required by the Guide.

" Losses ": As defined in Section 3.9 of this Agreement.

" Material Adverse Effect ": shall mean a material adverse effect on (a) the property, business, operations, condition (financial or otherwise) or prospects of Seller, Servicer, or any Subservicer, (b) the ability of Seller, Servicer, or any Subservicer to perform its obligations under any of the Purchase Documents to which it is party, (c) the validity or enforceability of any of the Purchase Documents, (d) the rights and remedies of Buyer under any of the Purchase Documents, (e) the timely payment of any amounts payable under the Purchase Documents, or (f) the Mortgage Loans taken as a whole.

" MERS ": Mortgage Electronic Registration Systems, Inc., a corporation organized and existing under the laws of the State of Delaware, or any successor thereto.

" MERS Loan ": Any Mortgage Loan registered with MERS on the MERS System.

" MERS System ": The system of recording transfers of mortgages electronically maintained by MERS.

" Monthly Payment ": The scheduled monthly payment on a Mortgage Loan due on any Due Date allocable to principal and/or interest on such Mortgage Loan pursuant to the terms of the related Mortgage Note.

" Mortgage ": The mortgage, deed of trust, deed to secure debt or other instrument of security creating a first lien on, or a first priority ownership interest in, the real property securing a Mortgage Note.

" Mortgage File ": With respect to each Mortgage Loan, the Collateral File and the Servicing File, referred to collectively.

" Mortgage Interest Rate ": The annual rate at which interest accrues on any Mortgage Loan in accordance with the provisions of the related Mortgage Note, as may be modified in accordance with applicable FHA Regulations.

" Mortgage Loan ": An FHA Mortgage Loan that is the subject of this Agreement, as identified on the Loan Purchase Data File, including, without limitation, the Mortgage File, Monthly Payments, Principal Prepayments, Liquidation Proceeds, Condemnation Proceeds, Insurance Proceeds, all escrow accounts and all other rights (other than the servicing rights), benefits, proceeds and obligations arising from or in connection with such Mortgage Loan; ***provided*** , that "Mortgage Loan" shall not include any mortgage loan (i) which is a Foreclosure Loan or (ii) for which the related Mortgaged Property as of the Settlement Date is damaged or is subject to damage (other than de minimis damage) by fire, flood, windstorm, earthquake, tornado, hurricane or any other similar casualty (and which physical damage would adversely affect (x) the value or marketability of such Mortgage Loan or Mortgaged Property, (y) the eligibility of the related Mortgage Loan for the applicable FHA Insurance or (z) the full principal recovery of the insurance or guaranty benefits under the applicable the FHA Insurance or the conveyance of the related Mortgaged Property in

accordance with applicable FHA Regulations.

" Mortgage Loan Remittance Rate ": With respect to a Mortgage Loan, the interest rate utilized to calculate the interest payment payable to Purchaser on each remittance date relating to such Mortgage Loan, as set forth in the Commitment Letter.

" Mortgage Note ": With respect to a Mortgage Loan, the original executed note or other evidence of indebtedness evidencing the indebtedness of the related Mortgagor under the related Mortgage Loan.

" Mortgaged Property ": The underlying property, including real property and improvements thereon, securing a Mortgage Loan.

" Mortgagor ": The obligor or obligors under a Mortgage Note (including without limitation, any guarantor with respect to obligations under such Mortgage Note).

" Non-Public Personal Information ": Any personal consumer information for each Mortgagor (including, without limitation, the names, addresses and social security numbers of the Mortgagors) that either Party receives from the other Party in connection with the implementation of the terms and conditions of this Agreement, or as otherwise specifically permitted under the Gramm-Leach-Bliley Act (P.L. 106-102) (15 U.S.C. Section 6801 et seq.) or its implementing regulations (" Gramm-Leach-Bliley ").

" OCC" : The Office of the Comptroller of the Currency.

" Pass Through Rate ": The agreed upon rate of interest that Seller is required to pay on the Purchase Price of each Mortgage Loan (less any Principal Prepayment) from and after the Settlement Date, as specified in the relevant Commitment Letter.

" Person ": Any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof.

" Power of Attorney ": A power of attorney in the form attached hereto as Exhibit F.

" Prime Rate " shall mean the minimum interest rate charged by a commercial bank on short term business loans to large, best rated customers or corporations.

" Principal Prepayment ": Any payment or other recovery of principal on a Mortgage Loan which is received in advance of its scheduled Due Date and which is not accompanied by an amount of interest representing scheduled interest due on any date or dates in any month or months subsequent to the month of prepayment.

" Purchase Documents ": This Agreement, the Guide, the Servicing Agreement, the Servicer Notice, the Confirmation Documentation, the Power of Attorney, the Custodial Agreement, the Commitment Letters, the Assignments of Mortgage, the Bailee Letters and each other document, instrument or agreement executed by Seller in connection herewith or therewith, as any of the same may be amended, extended or replaced from time to time.

" Purchase Price ": The amount equal to the sum of (a) the product of (i) the Purchase Price Percentage and (ii) the Aggregate Pool Principal Balance, plus (b) with respect to each Mortgage Loan, the Debenture Interest Advance.

" Purchase Price Percentage ": 100% of the Aggregate Pool Principal Balance as of the Settlement Date, or par.

" Repurchase Price ": With respect to any Mortgage Loan, the sum of (i) the Purchase Price less any Principal Prepayments plus (ii) the aggregate accrued interest at the Pass Through Rate minus (iii) the aggregate accrued interest at the Mortgage Loan Remittance Rate plus (iv) the Debenture Interest Advance.

" Seller Custodian ": With respect to each Mortgage Loan, the custodian holding the related Collateral File on behalf of Seller on the relevant Settlement Date.

" Servicer ": Seller, in its capacity as servicer of the Mortgage Loans hereunder.

" Servicer Notice ": A servicer notice in the form attached hereto as Exhibit E .

" Servicing Agreement ": That certain Subservicing Agreement by and between Servicer and Subservicer, in the event a Subservicer is employed by the Servicer.

" Servicing File ": Any and all documents customarily retained in a servicing or origination file, including, but not limited to, those documents listed on Exhibit D to this Agreement pertaining to any Mortgage Loan.

" Settlement Date ": As provided in the relevant Commitment Letter or such other date as may be agreed upon in writing by the parties.

" Subservicer ": That certain named Subservicer as subservicer under the Servicing Agreement, in the event a subservicer is employed by the Servicer.

" Three-Year Loan ": Any Mortgage Loan that remains subject to this Agreement for more than three years.

" Two-Year Loan ": Any Mortgage Loan that remains subject to this Agreement for more than two years.

" Uncovered Losses ": Mortgagor default losses on a Mortgage Loan that are attributable to any and all losses associated with the liquidation of the Mortgage Loan, including, but not limited to, standard FHA claim disallowances and any reduction or curtailment of any payment of principal, interest or fees, costs or expenses otherwise payable by the under the applicable FHA Insurance (including without limitation, FHA Claim Proceeds).

ARTICLE III

ADDITIONAL TERMS

For the purposes of this Agreement, Seller and Purchaser agree to the following additional terms and conditions:

1. Conveyance of Mortgage Loans.

(a) On the Settlement Date, upon the payment of the Purchase Price by Purchaser, Seller

does hereby sell, transfer, assign, set over and convey to Purchaser, without recourse, free and clear of any liens, security interests or other encumbrances, but subject to the terms of this Agreement, all right, title and interest in and to the Mortgage Loans other than servicing rights related thereto, which shall be retained by the Servicer subject to the terms hereof. From and after the Settlement Date, the ownership of each Mortgage Loan, including the related Mortgage Note, the related Mortgage, the contents of the related Mortgage File and all rights, benefits, proceeds and obligations arising therefrom or in connection therewith other than the servicing rights related thereto, which shall be retained by the Seller subject to the terms hereof and the Servicing Agreement, shall be vested in Purchaser. From the Settlement Date, all rights other than the servicing rights related thereto, which shall be retained by Seller subject to the terms hereof and of the Servicing Agreement, arising out of the Mortgage Loans including, but not limited to, all funds received after the Cut-off Date on or in connection with the Mortgage Loans and all records or documents with respect to the Mortgage Loans prepared by or that come into the possession of Seller, shall be received and held by Seller in trust for the benefit of Purchaser as the owner of the Mortgage Loans.

(b) Upon the payment of the Purchase Price, each Seller Custodian will hold the Collateral Files solely for and on behalf of Purchaser pursuant to the relevant Custodial Agreement and subject to the exclusive direction and control of Purchaser. Each Seller Custodian shall update its records to reflect ownership by Purchaser and the Mortgage Loans shall be segregated from Seller's Mortgage Loans.

(c) Within three (3) Business Days following the Settlement Date, Seller's books and records for the Mortgage Loans shall be appropriately identified to clearly reflect the sale of the Mortgage Loans to Purchaser and Purchaser's ownership of the Mortgage File. Seller shall cause Servicer to transfer all escrow balances into segregated accounts held in Trust for Purchaser and for the benefit of the Mortgagor.

(d) Within three (3) Business Days following the Settlement Date, Seller shall notify FHA of the mortgagee of record in the name of Purchaser as mortgagee holder of record of the Mortgage Loans and shall confirm such notification with Purchaser.

(e) Each of Purchaser and Seller shall provide to any supervisory agents or examiners that regulate such Person, including but not limited to, the OCC, the FDIC and other similar entities, access, during normal business hours, upon reasonable advance notice to such Person, to any documentation regarding the Mortgage Loans that may be required by any applicable regulator.

2. Delivery of Mortgage Loans and Collateral Files.

(a) At least ten (10) Business Days prior to the Settlement Date, each Custodian shall provide Purchaser with a data file listing all documents held by such Custodian in its capacity as Seller Custodian with respect to each Mortgage Loan listed on the relevant Loan Purchase Data File. Seller, Purchaser and each Custodian shall agree to the form and content of such data file, but such data file shall at a minimum contain a listing of any exceptions that such Custodian would be required to list as an exception on a Trust Receipt issued in accordance with the relevant Custodial Agreement. At least one Business Day prior to the Settlement Date, Seller shall cause an executed Request for Release of Documents (HUD Form 11708) to effectuate the repurchase of each Mortgage Loan from the applicable Ginnie Mae MBS pool to be delivered to the relevant Seller Custodians. On the Settlement Date, each Custodian shall deliver to Purchaser a Trust Receipt in accordance with the terms of the relevant Custodial Agreement with respect to the documents held by such Custodian on behalf of Purchaser.

(b) Purchaser may, at its option and without notice to Seller, purchase the Mortgage Loans without conducting any partial or complete examination thereof. The fact that Purchaser, its designee or any Custodian has conducted or has failed to conduct any partial or complete examination of the Collateral Files shall not affect Purchaser's (or any of its successors) rights to demand repurchase, indemnity or other relief as provided herein.

(c) With respect to each Mortgage Loan, Seller shall at Seller's expense prepare or ensure the preparation of, in recordable form, all Assignments of Mortgage necessary to assign such Mortgage Loans to Purchaser, or its designee. In connection with the transfer of any MERS Loan, Seller agrees that within three (3) Business Days after the Settlement Date it will cause, at Seller's expense, the MERS System to indicate that the related Mortgage Loans have been assigned by Seller to Purchaser in accordance with this Agreement. Within one (1) Business Day after it receives notice of completion from MERS, Seller shall provide written evidence of the ownership status change to Purchaser.

(d) Except as otherwise set forth herein or in any Commitment Letter, Seller and Purchaser shall each bear their own costs and expenses in connection with the purchase and sale of the Mortgage Loans including, without limitation, the legal fees and expenses of their respective attorneys and any due diligence expenses. Notwithstanding the foregoing, Seller shall bear any and all costs and expenses incurred in connection with transferring title to the Mortgage Loans from Seller to Purchaser, including, without limitation, any reasonable out of pocket preparation costs and recordation fees for the Assignments of Mortgages, and any expenses related to the transfer of servicing.

(e) Seller acknowledges that Purchaser generally will not purchase Mortgage Loans for which a document exception would be noted on the Trust Receipt by the relevant Custodian. If, however, Purchaser chooses to proceed with the purchase of a Mortgage Loan notwithstanding any such exception, Seller shall have 120 days (or such shorter period as Purchaser may specify when it agrees to purchase such Mortgage Loan) to cure such defect. If the Seller does not cure such defect within such timeframe, then at Purchaser's request, Seller shall repurchase such Mortgage Loan at the Repurchase Price.

3. <u>Amounts Received on the Mortgage Loans; Aggregate Principal Balance of Mortgage Loans; Proceeds and Repurchase Amount.</u>

(a) With respect to each Mortgage Loan, Purchaser shall be entitled to, and Seller shall pay (or shall cause Subservicer to pay directly to Purchaser) (i) the principal portion of all Monthly Payments collected with respect such Mortgage Loan after the Cut-off Date, (ii) all other recoveries of principal collected with respect to such Mortgage Loan after the Cut-off Date, and (iii) interest at the Mortgage Loan Remittance Rate. The unpaid principal balance of a Mortgage Loan as of the Cut-off Date is determined after application of payments of principal collected on such Mortgage Loan on or before the Cut-off Date, together with any unscheduled Principal Prepayments collected thereon prior to the Cut-off Date.

(b) With respect to each Mortgage Loan, Purchaser shall be entitled to, and Seller shall pay (or shall cause Subservicer to pay directly to Purchaser): (i) in the case of a [Part A FHA Claim], the FHA Claim Proceeds and the FHA Claim Settlement Amount, (ii) any payments required in accordance with the provisions of Section 3.13 of this Agreement and (iii) in the case of a loan repurchased by Seller, the Repurchase Price. Following the payment to Purchaser of the amounts required pursuant to this Section 3.3(b), provided that no Event of Default has occurred and subject

to the other terms of this Agreement, Purchaser shall take whatever actions are reasonably necessary to re-assign to Seller the rights to any further FHA Claim Proceeds with respect to the relevant Mortgage Loan.

(c) Any payments required under this Agreement shall be accomplished by wire transfer of immediately available funds into the following account (unless Purchaser shall have designated otherwise in writing):

Bank Name: Guaranty Bank
ABA#: 164700130471
Account Name: 275071288
Attn: GBO (Nancy Schloemer)
Credit to: Warehouse Wire In Clearing
Phone: 414-362-4002

4. Representations and Warranties of Seller.

As of each Settlement Date and at all times while Purchaser owns any Mortgage Loans hereunder, Seller hereby represents and warrants to Purchaser as follows:

(a) Seller is a corporation duly formed, validly existing and in good standing under the laws of the State of Ohio. Seller has all licenses necessary to carry out its business as now being conducted, and is licensed and qualified to transact business in and is in good standing under the laws of each state in which any Mortgaged Property is located, to the extent necessary to ensure the enforceability of each Mortgage Loan;

(b) Immediately preceding the payment of the Purchase Price, Seller is the sole beneficial owner of the Mortgage Loans and the related servicing rights and has the full power and authority and legal right to hold, transfer and convey each Mortgage Loan and to execute, deliver and perform, and to enter into and consummate, all transactions contemplated by this Agreement, the Servicing Agreement and the other Purchase Documents, and to conduct its business as presently conducted. Seller has duly authorized the execution, delivery and performance of this Agreement, the other Purchase Documents and all other instruments, documents and agreements contemplated hereby, has duly executed and delivered this Agreement, and all other instruments, documents and agreements contemplated hereby, and this Agreement and the other Purchase Documents (assuming due authorization, execution and delivery by the parties thereto other than Seller) is binding upon and enforceable against Seller, in accordance with its terms, subject to the effect of bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights and to the application of equitable principles in any proceeding, whether at law or in equity;

(c) Neither the execution and delivery of this Agreement and the other Purchase Documents, the sale of the Mortgage Loans to Purchaser as contemplated herein, the servicing of the Mortgage Loans hereunder or under the Servicing Agreement nor the consummation of the transactions contemplated hereby will conflict with any of the terms, conditions or provisions of Seller's organizational documents, or constitute a default under or result in a breach or acceleration of, any material contract, agreement or other instrument to which Seller is a party or which may be applicable to Seller or any of its properties or assets, or result in the violation of any law, rule, regulation, order, judgment or decree to which Seller or any of its properties or assets (including without limitation the Mortgage Loans) is subject, or impair the ability of Purchaser to realize on any Mortgage Loan or the related FHA Insurance;

(d) Seller is not in violation of any order or decree of any court or any order or regulation of any federal, state, municipal or governmental agency or authority, or any tax, licensing, accounting or regulatory body or other body having jurisdiction over Seller or any of its properties or assets, which violation might have consequences that would materially and adversely affect the performance of its obligations and duties hereunder;

(e) Seller does not believe, nor does it have any reason or cause to believe, that it cannot perform each and every covenant contained in this Agreement and the other Purchase Documents. Seller is solvent and the sale of the Mortgage Loans will not cause Seller to become insolvent. The sale of the Mortgage Loans is not undertaken with the intent to hinder, delay or defraud any of Seller's creditors;

(f) Seller has been servicing and causing Subservicer, if any, to subservice such Mortgage Loans in accordance with the Servicing Agreement and accepted servicing practices prior to the Cut-off Date;

(g) Immediately preceding the payment of the Purchase Price for the Mortgage Loans, Seller was the owner of the related Mortgage and the indebtedness evidenced by the related Mortgage Note, and owned the related servicing rights as indicated on the Loan Purchase Data File, subject to no claims, liens, pledges or interests of any other Person;

(h) There are no actions or proceedings against, or investigations of, Seller pending, or to Seller's knowledge, threatened before any court, administrative or other tribunal that might prohibit or materially and adversely affect the performance by Seller of its obligations under, or the validity or enforceability of, this Agreement and the other Purchase Documents;

(a) No consent, approval, authorization or order of any court or governmental agency or authority, or any tax, licensing, accounting or regulatory body or other body, is required for the execution, delivery and performance by Seller of, or compliance by Seller with, this Agreement and the other Purchase Documents or the sale of the Mortgage Loans and delivery of the Collateral Files to Purchaser (or the relevant Custodian on its behalf) as evidenced by, or the consummation of, the transactions contemplated by this Agreement and the other Purchase Documents, except for such consents, approvals, authorizations or orders, if any, that have been obtained prior to the Settlement Date and except for any notice required to be given to FHA pursuant to the applicable FHA Regulations;

(b) The consummation of the transactions contemplated by this Agreement and the other Purchase Documents are in the ordinary course of business of Seller, and the transfer, assignment and conveyance of the Mortgage Notes and the Mortgages by Seller pursuant to this Agreement and the other Purchase Documents are not subject to the bulk transfer or any similar statutory provisions in effect in any applicable jurisdiction;

(c) Seller is registered and in good standing with MERS;

(d) Seller is an FHA approved mortgagee and a Ginnie Mae approved lender. Seller is also approved by Fannie Mae as an approved lender or Freddie Mac as an approved seller/servicer, and, to the extent necessary, approved by the Secretary of HUD pursuant to Sections 203 and 211 of the Act. In each such case, Seller is in good standing, with no event having occurred or Seller having any reason whatsoever to believe or suspect will occur that would either make Seller unable to comply with the eligibility requirements for maintaining all such applicable approvals or require notification

to the relevant agency or to HUD or the FHA. Should Seller for any reason cease to possess all such applicable approvals, or should notification to the relevant agency or to HUD or FHA be required, Seller shall so notify Purchaser immediately in writing; and

(e) Seller has not dealt with any broker, investment banker, agent or other person that may be entitled to any commission or compensation from Purchaser in connection with the sale of the Mortgage Loans.

(f) No Default or Event of Default has occurred.

5. Representations and Warranties Regarding Individual Mortgage Loans.

As of each Settlement Date and at all times while this Agreement is in force and effect or Purchaser owns any Mortgage Loans (or related real-estate owned properties) hereunder, Seller hereby represents and warrants to Purchaser as follows with respect to each Mortgage Loan:

(a) The information set forth in the Loan Purchase Data File is complete, true and correct in all material respects;

(b) With respect to each Mortgage Loan, the FHA Insurance is in full force and effect. All necessary steps have been taken to keep such insurance valid, binding and enforceable as of the Settlement Date and such FHA Insurance is the binding, valid and enforceable obligation of the FHA as of the Settlement Date to the full extent thereof, without surcharge, set-off or defense, and all actions that are necessary to ensure that such FHA Insurance remains so valid, binding and enforceable have been taken;

(c) There is no valid offset, defense or counterclaim to any Mortgage Note, nor will the operation of any of the terms of any Mortgage Note and the related Mortgage, or the exercise of any right thereunder, render such Mortgage Note or the related Mortgage unenforceable, in whole or in part, or subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury, and no such right of rescission, set-off, counterclaim or defense has been asserted with respect to any Mortgage or Mortgage Note. There are no defenses, counterclaims, or rights of setoff, or other facts or circumstances affecting the eligibility of the Mortgage Loans for insurance by an insurer, or affecting the validity or enforceability of any mortgage insurance or mortgage guaranty with respect to the Mortgage Loan as a result of any act, error or omission of Seller or of any other Person including, but not limited to, the FHA insurance. The related FHA policy calls for the assignment of the Mortgage Loan to FHA as opposed to the co-insurance option. The entire amount of the insurance premium has been paid to FHA in accordance with the FHA Regulations and no portion of such premium is shared with or by Seller or, if the monthly premium option has been chosen for such Mortgage Loan, all such premiums due on or before the related Purchase Date have been duly and timely paid.;

(d) Each Mortgage Loan at origination complied in all material respects with applicable local, state and federal laws, including, without limitation, usury laws, truth- in-lending laws, consumer protection laws, licensing laws and regulations, real estate settlement procedures laws, predatory lending laws, abusive lending laws, and equal credit opportunity and disclosure laws, in each case as amended;

(e) Each Mortgage Note and the related Mortgage are genuine, and each is the legal, valid and binding obligation of the related Mortgagor enforceable against such Mortgagor by the mortgagee in accordance with its terms, except only as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors'

rights generally. All parties to each Mortgage Note and the related Mortgage had full legal capacity to execute all Mortgage Loan documents and to convey the estate purported to be conveyed by such Mortgage, and each Mortgage Note and Mortgage have been duly and validly executed by such parties;

(f) No Mortgage Loan is a (A) Foreclosure Loan or (B) mortgage loan whose related Mortgaged Property is, as of the Settlement Date, either damaged, or subject to damage (other than de minimis damage), by fire, flood, windstorm, earthquake, tornado, hurricane or any other similar casualty (and which physical damage could adversely affect (i) the value or marketability of such mortgage loan or Mortgaged Property, (ii) the eligibility of the related Mortgage Loan for FHA Insurance, or (iii) the full principal and interest recovery of the insurance or guaranty benefits under FHA Insurance or the conveyance of the related Mortgaged Property in accordance with FHA Regulations);

(g) Neither Seller nor anyone acting on its behalf has offered, transferred, pledged, sold or otherwise disposed of the Mortgage Loans or any interest in the Mortgage Loans;

(h) The origination, servicing and collection practices used by Seller, Servicer, Subservicer and, to the best of Seller's knowledge, any prior originator or servicer since origination with respect to each Mortgage Note and Mortgage (including, without limitation, the establishment, maintenance and servicing of escrow accounts and escrow payments, if any), have complied with applicable state and federal law, FHA Regulations, Ginnie Mae requirements and regulations and the documents relating to the related Mortgage Loan;

(i) To the best of Seller's knowledge, the prior servicing of the escrow accounts and escrow payments for each Mortgage have complied with applicable state and federal law, FHA Regulations, generally accepted servicing practices and the provisions of the related Mortgage Note and Mortgage.

(j) Seller has not advanced funds, or induced, solicited or knowingly received any advance of funds from a party other than the owner of the related Mortgaged Property subject to the related Mortgage, directly or indirectly, for the payment of any amount required by a Mortgage Loan;

(k) Except as disclosed on the Loan Purchase Data File (including without limitation any payment default based on the delinquency status of the Mortgage Loan), or except as provided in paragraph (u) below, there is no other default, breach, violation or event of acceleration existing under any Mortgage or the related Mortgage Note and, to the best of Seller's knowledge, there is no event that, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event permitting acceleration. Except as provided in paragraph (u) below, no such default, breach, violation or event of acceleration has been waived by Seller or, to the best of Seller's knowledge, by any other entity involved in originating or servicing a Mortgage Loan;

(l) To the best of Seller's knowledge, there is no delinquent tax or assessment lien against any Mortgaged Property;

(m) To the best of Seller's knowledge, there is no proceeding pending for the total or partial condemnation of, or eminent domain with respect to, any Mortgaged Property;

(n) Seller has complied in all material respects with all rules and procedures of MERS in connection with all Mortgage Loans registered with MERS;

(o) Each Mortgage has not been satisfied, canceled or subordinated, in whole or, except as permitted under FHA Regulations, in part, and the related Mortgaged Property has not been released from the lien of the related Mortgage, in whole or in part, nor has any instrument been executed that would affect any such release, cancellation, subordination;

(p) With respect to each Mortgage Loan, the related Mortgage Note contains a customary provision for the acceleration of the payment of the unpaid principal balance of such Mortgage Loan in the event the related Mortgaged Property is sold without the prior consent of the mortgagee thereunder;

(q) All improvements subject to a Mortgage that were considered in determining the Appraised Value of the related Mortgaged Property lie wholly within the boundaries and building restriction lines of such Mortgaged Property (and wholly within the related project, with respect to a condominium unit) and no improvements on adjoining properties encroach upon the related Mortgaged Property except those that are insured against by title insurance;

(r) None of the Mortgage Loans is a loan that, under the Home Ownership and Equity Protection Act of 1994 or any other applicable state, federal or local law in effect at the time of origination of such loan, is referred to as a (1) "high cost," "covered" loan, "high risk home" or "predatory" loan or (2) any other similar designation if the law imposes greater restrictions, heightened regulatory scrutiny or additional legal liability for residential mortgage loans having high interest rates, points and/or fees; Each Mortgage Loan is covered by either (i) an attorney's opinion of title and abstract of title the form and substance of which is acceptable to the FHA, or (ii) an ALTA mortgagee title insurance policy or other generally acceptable form of policy or insurance acceptable to the FHA, issued by a title insurer acceptable to the FHA and qualified to do business in the jurisdiction where the related Mortgaged Property is located, insuring Seller and its successors and assigns, as to the first priority lien of the related Mortgage in the original principal amount of the related Mortgage Loan, subject only to (1) the lien of current real property taxes and assessments not yet due and payable, covenants, conditions and restrictions, rights of way, easements and other matters of the public record as of the date of recording acceptable to mortgage lending institutions generally and specifically referred to in the lender's title insurance policy delivered to the originator of the related Mortgage Loan and (A) referred to or to otherwise considered in the appraisal made for the originator of the related Mortgage Loan or (B) which do not adversely affect the Appraised Value of the Mortgaged Property set forth in such appraisal; and (3) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by the mortgage or the use, enjoyment, value or marketability of the related Mortgaged Property. Such lender's title insurance policy affirmatively insures ingress and egress and insures against encroachment by or upon the related Mortgaged Property or any interest therein. No claims have been made under any such lender's title insurance policy, and no prior holder of the related Mortgage, including Seller, has done, by act or omission, anything that would impair the coverage of any such lender's title insurance policy;

(s) All taxes, governmental assessments, insurance premiums and water, sewer and municipal charges that previously became due and owing with respect to the related Mortgage Loan and Mortgaged Property have been paid. All hazard, flood and other insurance and escrow requirements with respect to the Mortgage Loan and the Mortgaged Property are, and have been maintained, in compliance with all FHA Regulations and FHA Insurance requirements;

(t) The terms of each Mortgage Note and the related Mortgage have not been impaired,

waived, altered or modified in any respect (including any forbearance), except by written instruments (i) which if necessary to maintain the lien priority of such Mortgage, have been recorded in the applicable public recording office and (ii) which complied with FHA Regulations and have been included in the related Collateral File (with the recorded copy to be included promptly following return from the public recording office). The Loan Purchase Data File reflects the terms of any loan modification. No Mortgagor has been released, in whole or in part, from the terms thereof except in connection with any assumption agreement entered into in compliance with FHA Regulations and which is included as part of the related Collateral File;

(u) Each Mortgage is a valid lien on the related Mortgaged Property securing the related Mortgage Note's original principal balance, subject only to (i) the lien of non- delinquent current real property taxes and assessments not yet due and payable, (ii) covenants, conditions and restrictions, rights of way, easements and other matters of the public record as of the date of recording that are acceptable to mortgage lending institutions generally and either (1) are referred to or otherwise considered in the appraisal made for the originator of the related Mortgage Loan, or (2) do not adversely affect the Appraised Value of the related Mortgaged Property as set forth in such appraisal, and (iii) other matters to which like properties are commonly subject that do not materially interfere with the benefits of the security intended to be provided by the related Mortgage or the use, enjoyment, value or marketability of the related Mortgaged Property;

(v) No violation of any environmental law, rule or regulation exists or existed with respect to any Mortgaged Property, and Seller has no reasonable grounds to suspect the presence of any toxic materials or other environmental hazards on, in or that could affect any Mortgaged Property. Neither Seller nor, to the best of Seller's knowledge, the related Mortgagor has received any notice of any violation or potential violation of any such law, rule or regulation;

(w) No Mortgagor has notified Seller with respect to, and Seller has no knowledge of any relief granted to any Mortgagor under, the Servicemembers Civil Relief Act, as amended, or any similar state or local law or regulation;

(x) To the best of Seller's knowledge, it is not aware of any error, omission, misrepresentation or fraud in respect of a Mortgage Loan that has taken place on the part of the originator, any prior servicer, any prior mortgagee, Seller, Servicer, Subservicer or any other Person in connection with the origination and servicing of such Mortgage Loan;

(y) None of the Mortgaged Properties are mobile homes. No Mortgage Loan is a Foreclosure Loan on or as of the relevant Settlement Date or a mortgage loan made pursuant to any provisions of the Act other than Sections 203(b) and 234(c);

(aa) Any lender placed insurance has been placed in accordance with all applicable laws, rules and regulations; and

(bb) Seller has taken all actions necessary to ensure that the FHA Claim Proceeds will be paid to Purchaser with respect to each such Mortgage Loan no more than twenty-four (24) months after the date hereof, except with respect to Bankruptcy Loans and Mortgage Loans that Seller informed Purchaser on the relevant Loan Purchase Data File are in states for which ordinary course foreclosure processes and procedures may exceed twenty-four (24) months. At all times prior to the payment of such FHA Claim Proceeds, Seller will be and remain responsible for paying all premiums related to the FHA Insurance.

(cc) No Mortgage Loan is subject to an indemnification to HUD.

(dd) Seller is an eligible seller in accordance with the requirements of the Guide, including without limitation meeting the financial requirements set forth in the Guide.

The representations and warranties of Seller contained herein shall survive delivery of the Mortgage Loans on the Settlement Date and the transfer of a Mortgage Loan by Purchaser to another Person following the Settlement Date. Moreover, with respect to the representations and warranties set forth in this Agreement which were made to the best knowledge of a Seller, to a Seller's knowledge or that contained any similar knowledge qualifier, if it is discovered that the underlying fact stated in such representation or warranty with a Seller's knowledge qualifier omitted is inaccurate, Purchaser shall be entitled to all remedies under this Agreement to which Purchaser would be entitled for breach of representation or warranty, including, without limitation, the rights to indemnification and repurchase set forth in Sections 3.7 and 3.9 of this Agreement, as if the knowledge qualifier were omitted, notwithstanding Seller's lack of actual knowledge with respect to the inaccuracy of the underlying fact stated in such representation or warranty.

1. Events of Default . If any of the following events (each an " Event of Default ") occur, Bank shall have the rights set forth in Section 3.7 hereof and as otherwise set forth herein and in the other Purchase Documents, as applicable. An Event of Default shall be deemed continuing unless specifically waiver or deemed cured by Purchaser in writing:

(a) Seller, Servicer or Subservicer shall fail to make when due any payment obligations under this Agreement or any other Purchase Document; or

(b) Any representation or warranty made or deemed made by Seller, Servicer or Subservicer in this Agreement or any other Purchase Document shall be inaccurate or incomplete in any respect on or as of the date made or deemed made; or

(c) Seller, Servicer or Subservicer shall default in the observance or performance of any covenant or agreement contained in this Agreement or any other Purchase Document; or

(d) Seller shall default in any payment of principal of or interest on any indebtedness in the aggregate principal amount of five hundred thousand dollars ($500,000) or more without regard for the dollar amount of the defaulted payment, or any other event shall occur, the effect of which is to permit such indebtedness or any portion thereof to be declared or otherwise to become due prior to its stated maturity; or

(e) (1) Seller, Servicer or Subservicer shall commence any case, proceeding or other action (i) relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to Seller, Servicer or Subservicer, or seeking to adjudicate Seller, Servicer or Subservicer a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to Seller, Servicer or Subservicer or their respective debts, or (ii) seeking appointment of a receiver, trustee, custodian or other similar official for Seller, Servicer or Subservicer or for all or any part of their respective assets, or Seller, Servicer or Subservicer shall make a general assignment for the benefit of its creditors; or (2) there shall be commenced against Seller, Servicer or Subservicer any case, proceeding or other action of a nature referred to in clause (1) above which (i) results in the entry of an order for relief or any such adjudication or appointment, or (ii) remains undismissed, undischarged or unbonded for a period of thirty (30) days; or (3) there shall be commenced against Seller, Servicer or Subservicer any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or substantially all of the assets of Seller, Servicer or Subservicer that results in

the entry of an order for any such relief which shall not have been vacated, discharged, stayed, satisfied or bonded pending appeal within thirty (30) days from the entry thereof; or (4) Seller, Servicer or Subservicer shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in (other than in connection with a final settlement), any of the acts set forth in clauses (1), (2) or (3) above; or (5) Seller, Servicer or Subservicer shall generally not, or shall be unable to, or shall admit in writing its, his, her or their inability to pay its, his, her or their debts as they become due; or one or more judgments or decrees in an aggregate amount in excess of five hundred thousand dollars ($500,000) shall be entered against Seller and all such judgments or decrees shall not have been vacated, discharged, stayed, satisfied or bonded pending appeal within thirty (30) days after the entry thereof; or

(f) For any reason, any Purchase Document at any time shall not be in full force and effect in all material respects or shall not be enforceable in all material respects in accordance with its terms, or any party thereto (other than Purchaser) shall seek to disaffirm, terminate, limit or reduce its obligations thereunder; or

(g) Seller, Servicer or Subservicer shall grant, or suffer to exist, any lien on any Mortgage Loan or the servicing rights relating thereto; or

(h) Purchaser shall have determined that a material adverse effect has occurred with respect to Seller, Servicer or Subservicer; or

(i) There shall occur the initiation of any investigation, audit, examination or review of Seller or Servicer by any governmental authority or government-sponsored enterprise or any trade association or consumer advocacy group relating to the origination, sale or servicing of Mortgage Loans by Seller or Servicer or the business operations of Seller or Servicer, with the exception of normally scheduled audits or examinations by Seller's or Servicer's regulators, if Purchaser believes that such investigation, audit, examination, or review is likely to result in a Material Adverse Effect; or

(j) Any Mortgage Loan shall become a Four-Year Mortgage Loan.

1. Repurchase; Remedies.

(a) Seller shall give Purchaser immediate notice of the occurrence of any Default or Event of Default. Promptly upon a determination by either Seller or Purchaser that an Event of Default has occurred, the party making the determination shall give written notice of breach to the other party hereto.

(b) Purchaser agrees that, in the event that any Event of Default (other than an Event of Default under Sections 3.6(d), (e), (f) or (g)) arises from acts and/or omissions by the Subservicer, Seller shall have the right, with the written consent and approval of Purchaser, to substitute and/or replace said Subservicer with a Subservicer and a Servicing Agreement acceptable to Seller in its reasonable discretion, and shall be allowed to cure any of the alleged Events of Default within the time specified in in Section 3.7(c) below. Such substitute Subservicer shall meet the requirements set forth in the FHA Regulations and the Guide. Provided that Seller meets the requirements set forth in this Section 3.7(b) and 3.7(c), the necessity for and the action of Seller's assumption of the Subservicer's duties and obligations in this regard, and in this Agreement, shall not be deemed an Event of Default.

(c) Following the delivery of notice of breach (as set forth in Section 3.7(a)) , Seller shall correct or cure such breach. If Seller has not corrected or cured such breach within thirty (30) days after receipt of notice of any such breach, then Seller shall, at Purchaser's option, promptly repurchase any affected Mortgage Loan at the Repurchase Price relating to such Mortgage Loan. Seller acknowledges and agrees that any Event of Default arising from a breach of the representations and warranties contained in Section 3.4 hereof shall be deemed to affect all Mortgage Loans for purposes of repurchase hereunder. Any repurchase under this Agreement shall be accomplished by wire transfer of immediately available funds, in an amount equal to the Repurchase Price relating to such Mortgage Loan, into the following account (unless Purchaser shall have designated otherwise in writing):

Bank Name: Guaranty Bank
ABA#: 164700130471
Account Name: 275071288
Attn: GBO (Nancy Schloemer)
Credit to: Warehouse Wire In Clearing
Phone: 414-362-4002

In the event Seller fails to repurchase any Mortgage Loan in accordance with the provisions of this Section 3.7, Purchaser shall have the right to terminate Seller as Servicer and Servicer's servicing rights, to deal directly with Subservicer or to transfer the servicing to the Purchaser or Purchaser's subservicer, and to retain all recoveries (including any FHA Claim Proceeds) relating to such servicing rights.

(d) Seller shall have the right, upon request to Buyer, to repurchase at the Repurchase Price any Mortgage Loan that has been modified or become a re-performing Mortgage Loan. In addition to the foregoing, Seller shall have the right, upon request to Buyer, to repurchase at the Repurchase Price any Mortgage Loan immediately prior to the submission under FHA Regulations of a claim for Part A proceeds under FHA Insurance. Seller's request to Buyer to repurchase any Mortgage Loan under this Section 3.7(d) shall be deemed Seller's representation and warranty that Seller has a pending sale or re- securitization of, or a pending Part A claim filing with respect to, such Mortgage Loan and that Seller does not intend to retain such Mortgage Loan for its own portfolio.

(e) Upon a repurchase of a Mortgage Loan pursuant to this Agreement (i) the Loan Purchase Data File shall be deemed amended to reflect the withdrawal of the repurchased Mortgage Loan from this Agreement, (ii) Purchaser shall, at the sole cost and expense of Seller, deliver (or cause the relevant Custodian to deliver) the Collateral File relating to such repurchased Mortgage Loan to Seller and (iii) Purchaser shall, at Seller's sole cost and expense, execute and deliver such instruments of transfer or assignment as shall be prepared by, and delivered to it by, Seller and necessary to (A) vest in Seller title to such repurchased Mortgage Loan on a servicing retained basis and (B) reassign to Seller all of Purchaser's right, title and interest in and to the Servicing Agreement with respect to such repurchased Mortgage Loan, including without limitation the FHA Insurance.

2. Representations and Warranties of Purchaser . As of the date hereof and as of the Settlement Date, Purchaser hereby represents and warrants to Seller as follows:

(a) Purchaser is a federally chartered savings bank duly organized, validly existing and in good standing under the laws of the United States of America;

(b) Purchaser has the full power and authority and legal right to execute, deliver and perform, and to enter into and consummate, all transactions contemplated by this Agreement, and to conduct its business as presently conducted. Purchaser has duly authorized the execution, delivery

and performance of this Agreement and all other instruments documents and agreements contemplated hereby and thereby, has duly executed and delivered this Agreement and all other instruments, documents and agreements contemplated hereby and thereby, and this Agreement (assuming due authorization, execution and delivery by the parties thereto other than Purchaser) is binding upon and enforceable against Purchaser in accordance with its respective terms, subject to the effect of bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights and to the application of equitable principles in any proceeding, whether at law or in equity;

(c) Purchaser does not believe, nor does it have any reason or cause to believe, that it cannot perform each and every covenant of Purchaser contained in this Agreement;

(d) There are no actions or proceedings against, or investigations of, Purchaser pending, or to Purchaser's knowledge, threatened before any court, administrative or other tribunal that might prohibit or materially and adversely affect the performance by Purchaser of its obligations under, or the validity or enforceability of, this Agreement;

(e) No consent, approval, authorization or order of any court or governmental agency or authority, or any tax, licensing, accounting or regulatory body or other body, is required for the execution, delivery and performance by Purchaser of, or compliance by Purchaser with, this Agreement, except for such consents, approvals, authorizations or orders, if any, that have been obtained prior to the Settlement Date;

(f) Purchaser is approved and is in good standing as a mortgagee by FHA under applicable FHA Regulations; and

(g) Purchaser is registered and in good standing with MERS.

The representations and warranties of Purchaser contained herein shall survive delivery of the Mortgage Loans on the Settlement Date.

3. Indemnification of Purchaser. Seller shall indemnify and hold Purchaser harmless from, and will reimburse Purchaser for, any and all out-of-pocket liabilities, losses, damages, deficiencies, claims, penalties, fines, costs or expenses, including without limitation reasonable attorneys' fees and court costs in preparation for or at trial, on appeal or in bankruptcy (" Losses ") incurred by Purchaser to the extent that such Losses result from (i) the non-delivery to Purchaser or the relevant Custodian of any document relating to a Mortgage Loan that is required to be delivered pursuant to this Agreement or the Servicing Agreement in order for the Servicer to properly service or cause the proper servicing of such Mortgage Loan in accordance with the Servicing Agreement, or the delivery to Purchaser or the relevant Custodian of any Mortgage Loan documentation that is incomplete, erroneous or inconsistent with other documentation relating to the related Mortgage Loan and that is required to be complete, correct or consistent with other documentation relating to such Mortgage Loan in order for the Servicer to properly service or cause the proper servicing of such Mortgage Loan in accordance with the Servicing Agreement, or any missing or defective document required to be included in the Collateral File for a Mortgage Loan, (ii) any breach of a representation or warranty by Seller, or the non- fulfillment of any covenant of Seller, contained in this Agreement, (iii) any improper or inadequate act or omission in connection with the origination or servicing of a Mortgage Loan prior to the Settlement Date, (iv) any Uncovered Loss, (v) Seller's sale to Purchaser of a Mortgage Loan whose related Mortgaged Property has, as of the Settlement Date, been damaged or is subject to damage (other than de minimis damage) by fire, flood, water, earth movement,

windstorm, earthquake, tornado, hurricane or any other similar casualty (and which physical damage would adversely affect the value or marketability of such Mortgage Loan or Mortgaged Property or the eligibility of the related Mortgage Loan for the applicable FHA Insurance or the full recovery of insurance or guaranty benefits under the applicable FHA Insurance) and (vi) any Default or Event of Default.

The indemnity obligations of Seller under this Section 3.9 shall survive the Settlement Date. In the event Purchaser terminates the Seller as the holder of the servicing rights related to the Mortgage Loans, Seller shall continue to have full responsibility for any Uncovered Losses arising after the effective date of termination except for any portion of such Uncovered Losses that results from the failure of the successor servicer (or the Servicer if Purchaser retains the Servicer as the successor servicer) to service the related Mortgage Loan in accordance with applicable FHA Regulations, provided, however, that such failure was not a perpetuation of the Seller's breach or failure hereunder or under the Servicing Agreement.

4. Community Reinvestment Act of 1977. Seller shall take all actions reasonably necessary to ensure that Purchaser is entitled to claim credit as owner of the Mortgage Loans in accordance with the terms of the Community Reinvestment Act of 1977.

5. Notices to Third Parties. Seller shall be responsible for preparing and delivering at its expense, on the Settlement Date, (a) letters notifying HUD as to the change of the mortgagee of record and the transfer of the ownership of the Mortgage Loans to Purchaser and shall confirm such notification with Purchaser and (b) letters in compliance with all applicable laws, rules and regulations notifying each Mortgagor of the change in ownership of the related Mortgage Loan.

1. Relationship with Servicer; Eligibility. Purchaser and Seller acknowledge that Seller is retaining the servicing rights with respect to the Mortgage Loans and Purchaser has retained Seller to service the Mortgage Loans. As a result, Seller hereby retains Servicer as servicer of the Mortgage Loans and Servicer agrees to cause Subservicer to subservice the Mortgage Loans in accordance with the terms of the Servicing Agreement. Seller agrees with Purchaser that:

(a) Seller has provided Purchaser with true, correct and complete copies of the Servicing Agreement, as amended, revised or restated, together will all reports and correspondence related thereto. Seller is not aware of any default by Seller or Servicer under the Servicing Agreement and Seller has not waiver any such default. Seller will not amend, revise or restate the Servicing Agreement or provide any waiver thereunder to Servicer without the prior written consent of Purchaser;

(b) Seller shall cause Servicer and Subservicer to service the Mortgage Loans in strict compliance with the terms of the Servicing Agreement. Seller and Servicer shall direct Subservicer that any and all payments received by Subservicer with respect to any Mortgage Loan shall be held by Subservicer in trust for, and shall be delivered directly to, Purchaser;

(c) Notwithstanding anything to the contrary contained herein or in the Servicing Agreement, Purchaser shall have no responsibility for any principal and interest, corporate, servicing, escrow or maintenance advances. To the extent required by the Servicing Agreement, Seller shall remain fully responsible for funding all such advances and for bearing the risk of recovery thereof. No such advances shall be recoverable from the principal and interest portion of any FHA Insurance;

(d) Seller shall cause Servicer to acknowledge the provisions of this Section 3.12 and shall cause Servicer to execute and deliver to Purchaser a Servicer Notice; and

(e) Seller acknowledges and agrees that Seller, Servicer and Subservicer shall have no

right to grant any person any claim, lien, pledge or other interest in the servicing rights relating to the Mortgage Loans or the proceeds of such servicing rights.

2. Agreement to Repurchase; Eligibility . Seller agrees with Purchaser that:

(a) Purchaser's intention hereunder is the use of its capital to purchase assets that are likely to resolve within two years. In connection therewith, Seller agrees that:

(i) with respect to each Two-Year Mortgage Loan as to which Seller has not met FHA or state foreclosure deadlines (thus enabling the reduction of the FHA Claim Settlement Amount), on the Business Day after such Mortgage Loan becomes a Two-Year Mortgage Loan, (A) Seller shall pay Purchaser an amount equal to ten percent (10.0%) of the then-applicable Repurchase Price with respect to such Two-Year Mortgage Loan and (B) the Mortgage Loan Remittance Rate and the Pass Through Rate shall each be increased by twenty five basis points (.25%) over the respective rates provided in the Commitment Letter; and

(ii) with respect to each Three-Year Mortgage Loan, on the Business Day after such Mortgage Loan becomes a Three-Year Mortgage Loan, (A) Seller shall pay Purchaser an amount equal to twenty five percent (25%) of the then-applicable principal balance or fifteen percent (15%) of the then-applicable principal balance if a ten percent (10%) payment was paid by Seller on a Two-Year Mortgage Loan and (B) notwithstanding anything to the contrary contained in the Commitment Letter, the Mortgage Loan Remittance Rate and the Pass Through Rate shall each be increased to the greater of fifty basis points (.50%) plus the Prime Rate or fifty basis points (.50%) over the respective rate(s) provided in the Commitment Letter.

Any payments required by this Section 3.13(a) shall be paid in accordance with the provisions of Section 3.3(c) hereof.

(b) Seller shall at all times be and remain an eligible seller in accordance with the terms of the Guide, including without limitation meeting the financial requirements set forth therein.

ARTICLE IV

MISCELLANEOUS PROVISIONS

1. Amendment . This Agreement shall not be amended, changed, or modified, in whole or in part, except by an instrument in writing signed by all parties hereto, or their respective successors or assigns, or otherwise as expressly provided herein.

2. Governing Law . THIS AGREEMENT AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS AGREEMENT, AND/OR THE INTERPRETATION AND ENFORCEMENT OF THE RIGHTS AND DUTIES OF THE PARTIES TO THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS AND DECISIONS OF THE STATE OF WISCONSIN, WITHOUT REGARD TO THE CHOICE OF LAW RULES THEREOF.

3. Arbitration . In the event a dispute arises regarding this Agreement, the parties agree that such dispute shall be submitted to final and binding arbitration before the American Arbitration Association ("AAA"). The parties to this Agreement shall initially agree on the arbitrator to hear the dispute. If the parties cannot agree, AAA will appoint an arbitrator for such purpose. The arbitration

will proceed in accordance with the Commercial Arbitration Rules of the AAA unless all parties agree to a different procedure. The parties shall share equally in the costs of the arbitration, except that each party shall be responsible for its own attorneys' fees and costs. Any such arbitration shall be conducted in Milwaukee County, Wisconsin. Any party that fails to submit to binding arbitration following a lawful demand by the other party shall bear all costs and expenses, including reasonably attorneys' fees (including those incurred in any trial, bankruptcy proceeding or an appeal), incurred by the other party or parties in obtaining a stay of any pending judicial proceeding and compelling arbitration of any dispute. Judgment on any award rendered by arbitration may be entered in any court having jurisdiction thereof. THE PARTIES UNDERSTAND THAT BY THIS AGREEMENT THEY HAVE DECIDED THAT THEIR DISPUTE SHALL BE RESOLVED BY BINDING ARBITRATION RATHER THAN IN COURT, AND ONCE DECIDED BY ARBITRATION NO DISPUTE CAN LATER BE BROUGHT, FILED OR PURSUED IN COURT

4. Notices . All notices, requests, and other communications permitted or required hereunder, other than any permitted electronic transmissions referred to herein or in the Guides, shall be in writing, addressed as provided below, and shall be deemed to have been duly given if such notice is mailed by certified mail, postage prepaid, or hand-delivered to the address of such party as provided below or if sent by facsimile transmission to the fax numbers set forth below promptly confirmed by first class mail to the addresses set forth below.

If to Purchaser, to :

Guaranty Bank
4000 West Brown Deer Road
Brown Deer, Wisconsin 53209
Attention: Steve Petersen
E-mail: Steve.Petersen@gbmail.com

If to Seller, to :

Stonegate Mortgage Corporation
9190 Priority Way West Drive, Suite 300
Indianapolis, IN 46240
Attention: Mike McElroy and copy to Derek Myers
E-mail: Mike.McElroy@stonegatemtg.com and Derek.Myers@stonegatemtg.com

Any such fax number or address may be changed by giving the other party notice thereof as provided in this Section 4.4.

5. Successors and Assigns . This Agreement shall inure to the benefit of, and be binding upon, the successors and affiliated assigns of each of Seller and Purchaser. This Agreement shall not be assigned by Seller without the prior written consent of Purchaser.

6. Headings. The section headings hereof have been inserted for convenience of reference only and shall not be construed to affect the meaning, construction, or effect of this Agreement.

7. Counterparts. This Agreement may be executed in counterparts, each of which when so executed shall together constitute but one and the same agreement. A facsimile signature shall be deemed an original for purposes of execution and delivery of this Agreement in the absence of the original ink signature of a party.

8. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9. Further Assurances. Seller agrees, upon the reasonable request of Purchaser, to do, execute, acknowledge and deliver or to cause to be done executed, acknowledged and delivered, all such further acts, assignments, transfers and assurances as may be reasonably required to carry out the terms and conditions of this Agreement.

1. Modification of Agreement; Binding Effect; Setoff . Notwithstanding the provisions of Section 4. 1 hereof, Seller agrees that Purchaser has the right to amend the Guide from time to time in its sole and absolute discretion without the consent or agreement of, or signature from, Seller. All updates, amendments and supplements to the Guide and the effective date of such updates, amendments and supplements shall either be: (a) posted on Purchaser's website, when functional and activated or (b) sent to Seller in writing via e-mail or facsimile. Upon the earlier of posting to Purchaser's website or Seller's receipt of a written copy of such amendments, any such amendments shall apply immediately to all new Mortgage Loan applications and any Mortgage Loan applications in Seller's pipeline for which an interest rate has not been locked. By submitting any Mortgage Loan to Purchaser following such posting or receipt of any such notice, Seller agrees that it shall be deemed to have accepted the amendment described therein. In the event of any conflict between the provisions of this Agreement (other than the Guide) and the Guide, the provisions of the Guide shall control. This Agreement shall bind and inure to the benefit of and be enforceable by the Purchaser and Seller and their respective permitted successors and assigns.

In addition to any rights and remedies of Purchaser provided by law, Purchaser shall have the right, without prior notice to Seller, any such notice being expressly waived by Seller to the extent permitted by applicable law, upon any amount becoming due and payable by Seller hereunder (whether at the stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, and any other property of Seller, at any time held or owing by Purchaser or any affiliate, branch or agency thereof to or for the credit or the account of Seller.

2. Confidentiality . The Parties agree to use the Confidential Information and Non- Public Personal Information, as defined herein, that either Party receives from the other Party in connection with the implementation and management of the terms and conditions of this Agreement. The Parties further agree that each will use reasonable precautions and exercise due care to maintain the confidentiality of the Confidential Information. Each Party agrees to be responsible for any breach of this Section 4.11 that results from the actions or omissions of any of its authorized representatives. Each Party agrees to advise the other Party in writing of any misappropriation or misuse by any person of Confidential Information of which that Party may become aware. The Parties further acknowledge and agree that each will, maintain policies and procedures designed to (i) ensure the security and confidentiality of such Non-Public Personal Information pursuant to all applicable provisions of the Gramm-Leach-Bliley Act, as amended from time to time, (ii) protect against any anticipated threats or hazards to the security or integrity of such Non-Public Personal Information, and (iii) protect against unauthorized access to or use of such Non-Public Personal Information that could result in substantial harm or inconvenience to

any borrower. Each Party further agrees that in safeguarding such Non-Public Personal Information from unauthorized use and unauthorized disclosure, each shall use at least the same degree of care as it uses to protect its own confidential or proprietary information of like nature, but in no event less than reasonable care. Notwithstanding the foregoing, a Party may disclose Confidential Information if: (a) it is necessary to do so in working with legal counsel, auditors, taxing authorities or other governmental agencies or regulatory bodies or in order to comply with any applicable federal or state laws; (b) any of the Confidential Information is in the public domain other than due to a breach of this covenant or due to a breach of any other confidentiality obligation of which either party had knowledge or (c) in the event of an Event of Default Purchaser determines such information to be necessary or desirable to disclose in connection with the marketing and sales of the Mortgage Loans or otherwise to enforce or exercise Purchaser's rights hereunder. The provisions set forth in this Section 4.11 shall survive the termination of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by their respective officers hereunder duly authorized, as of the day and year first above written.

STONEGATE MORTGAGE CORPORATION]

By: /s/ John Macke
Name: John Macke
Title: EVP, Capital Markets

GUARANTY BANK

By: /s/ Craig Ahles

Name: Craig Ahles

Title: EVP

Exhibit A - 1

EXHIBIT A

AFFIDAVIT OF LOST NOTE

STATE OF
COUNTY OF

Before me, the undersigned Notary Public, personally came and appeared) ("Affiant", a of (the "Company"), who, being duly sworn, did depose and swear to the following:

1. I, , as (title) of (the "Company"), am authorized to make this Affidavit.

2. The Company is the owner of the following described mortgage note (the "Note"):

Date: Borrower:

Original Principal Amount: Lender:

3. The Company has not sold, transferred, or assigned the Note to any other person or entity.

4. The original signed Note has been lost and after a thorough and diligent investigation and search, the Company was not able to locate it.

5. The Company indemnifies any person or entity for any damages resulting to that person or entity as a consequence of accepting this Affidavit in lieu of the original signed Note.

6. A true and correct copy of the original Note is attached.

Affiant:

STATE OF: ____________________
COUNTY OF ___________________

Subscribed and sworn to or affirmed before me on this ______ day of ______________, 20____, by _______________________, proved to me on the basis of satisfactory evidence to be the person who appeared before me.

Notary

Notary Public (seal)

Exhibit B - 1

EXHIBIT B

SELLER’S WIRE INSTRUCTIONS - SETTLEMENT FUNDING

Bank: ***Merchants Bank of Indiana, Indianapolis, IN***
ABA Routing Number: ***074909153***
Account Number: ***99428***
Account Name: ***Stonegate Mortgage Corporation***
Reference: ***Borrower Name - Loan Number***

Exhibit C - 1

EXHIBIT C

CONTENTS OF COLLATERAL FILE

With respect to each Mortgage Loan, the related Collateral File shall include each of the following items:

a. The original Mortgage Note (including any riders thereto) endorsed in blank, or a lost

note affidavit (from a previous owner/servicer of such Mortgage Loan, if available from such Person, or if not available from such Person, then from Seller in substantially the form attached as Exhibit A) ;

b. The original Assignment of Mortgage (or, with respect to MERS Loans, the related Mortgage Identification Number) to [blank], which assignment shall be in form and substance acceptable for recording; thereon;

c. Either the original or copy of the Mortgage with evidence of recording

d. Either the originals or copies of all intervening Assignments of Mortgage, showing a complete chain of title from the originator to Seller, with evidence of recording thereon;

e. Originals of each unrecorded assumption, modification, written assurance or substitution agreement, and to the extent that the recordation thereof is necessary to maintain the priority of the related Mortgage lien, either an original or copy thereof with evidence of recording thereon;

f. Original power of attorney, if any;

g. Either an original or copy of the policy of title insurance with respect to the related Mortgaged Property if required by the FHA or, if any such policy is in place; and

h. For each Mortgage Loan with respect to which the related Mortgagor's name as it appears on the related Mortgage Note does not match such Mortgagor's name on the Loan Purchase Data File and with respect to which, in accordance with the applicable regulations, the new homeowner was not required to executed an assumption agreement, the related original deed of sale, or a copy thereof, in either case with evidence of recording thereon, along with any other documentation required by the FHA.

EXHIBIT D

CONTENTS OF SERVICING FILE

With respect to each Mortgage Loan, the related Servicing File shall include each of the following items:

a. A copy of each document in the related Collateral File;

b. If available, the termite report, structural engineer's report, water potability certification and septic certification on the related Mortgaged Property and improvements thereon;

c. An original policy of mortgagee's title insurance, or a copy thereof, insuring the related Mortgage and its first rank lien on the related Mortgaged Property;

d. Copy of a survey of the related Mortgaged Property;

e. Copy of each instrument necessary to complete identification of any exception set

forth in the exception schedule in the title policy relating to the related Mortgaged Property, i.e., map or plat, restrictions, easements, sewer agreements, homes association declarations, etc.;

f. Original hazard insurance policy and, if required by law, flood insurance policy relating to the related Mortgaged Property;

g. Mortgage Loan closing statement;

h. Residential loan application;

i. Verification of employment and income (or income only, when self- employed) of the related Mortgagor;

j. Verification of acceptable evidence of source and amount of down payment, if any, with respect to the related Mortgage Loan;

k. Credit report on the related Mortgagor;

l. Residential appraisal report on the related Mortgaged Property;

m. Photograph of the related Mortgaged Property;

n. Executed copies of all required disclosure statements with respect to the related Mortgage Loan;

o. Tax receipts, insurance premium receipts, ledger sheets, payment records, insurance claim files and correspondence, correspondence, current and historical computerized data files, underwriting standards used for origination of the related Mortgage Loan, and all other papers and records developed or originated by the Seller, Servicer, Subservicer or others, or which are customarily contained in a mortgage loan file, and required to document or service the related Mortgage Loan;

p. The related sales contract; and

q. Either an original or a copy of the applicable FHA Insurance certificate granted by the FHA or a printout in electronic form of evidence of the applicable FHA Insurance.

EXHIBIT E

SERVICER NOTICE

EXHIBIT F

POWER OF ATTORNEY

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, Richard A. Kraemer, certify that:

1. I have reviewed this report on Form 10-Q of Stonegate Mortgage Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) intentionally omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a);
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2015

/s/ Richard A. Kraemer

Interim Chief Executive Officer

Exhibit 31.2

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

I, Robert B. Eastep, certify that:

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

Date: November 5, 2015

/s/ Robert B. Eastep

Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Stonegate Mortgage Corporation (the "Company") on Form 10-Q for the period ended September 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard A. Kraemer, Interim 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/ Richard A. Kraemer

Richard A. Kraemer

Interim Chief Executive Officer

November 5, 2015

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

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

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

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

/s/ Robert B. Eastep

Robert B. Eastep

Chief Financial Officer

November 5, 2015