Registered number: 4467291

CARRINGTON HOLDING COMPANY, LLC AND SUBSIDIARIES
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2013

Contents

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this Annual Report that are not statements of historical fact are forward-looking statements. In addition, from time to time, we and our representatives may make statements that are forward-looking. All forward-looking statements involve risks and uncertainties. This section provides you with cautionary statements identifying important factors that could cause our actual results to differ materially from those contained in forward-looking statements made in this Annual Report or otherwise made by us or on our behalf. You can identify these forward-looking statements by the use of forward-looking words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "could," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates," "target," "projects," "contemplates" or the negative version of those words or other comparable words. Any forward-looking statements contained in this Annual Report are based upon our historical performance and on our current plans, estimates and expectations in light of information currently available to us. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business, prospects, growth strategy and liquidity. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to:

- the delay in our foreclosure proceedings due to inquiries by certain state Attorneys General, court administrators and state and federal government agencies;
- the impact of the ongoing implementation of the Dodd-Frank Act on our business activities and practices, costs of operations and overall results of operations;
- changes to our capitalization and capital ratio requirements;
- the impact on our servicing practices of enforcement consent orders and agreements entered into by certain federal and state agencies against the largest mortgage servicers;
- increased legal proceedings and related costs;
- the deterioration of the residential mortgage market, increase in monthly payments on adjustable rate mortgage loans, adverse economic conditions, decrease in property values and increase in delinquencies and defaults;
- our ability to efficiently service higher risk loans;
- our ability to compete successfully in the mortgage loan servicing and mortgage loan lending industries;
- our ability to maintain or grow the size of our servicing portfolio and realize our significant investments in personnel and our technology platform by successfully identifying attractive acquisition opportunities, including MSRs, subservicing contracts, servicing segment and lending segments;
- our ability to scale-up appropriately and integrate our acquisitions to realize the anticipated benefits of any such potential future acquisitions;
- our ability to obtain sufficient capital to meet our financing requirements;
- our ability to grow our loan originations volume;

- the termination of our servicing rights and subservicing contracts;
- changes to federal, state and local laws and regulations concerning loan servicing, loan origination, loan modification or the licensing of entities that engage in these activities;
- loss of our licenses;
- our ability to follow the specific guidelines of government and government sponsored enterprises ("Government Agencies") and other programs administered by government entities, or a significant change in such guidelines;
- delays in our ability to collect or be reimbursed for servicing advances;
- changes to HAMP, MHA or other similar government programs;
- changes in our business relationships with Fannie Mae, Freddie Mac, Ginnie Mae and others that facilitate the issuance of RMBS;
- changes to the nature of the guarantees of Fannie Mae, Freddie Mac, and FHA and the market implications of such changes;
- errors in our financial models or changes in assumptions;
- requirements to write down the value of certain assets;
- changes in prevailing interest rates;
- our ability to successfully mitigate our risks through hedging strategies;
- changes to our servicer ratings;
- the accuracy and completeness of information about borrowers and counterparties;
- our ability to maintain our technology systems and our ability to adapt such systems for future operating environments;
- failure of our internal security measures or breach of our privacy protections;
- failure of our vendors to comply with servicing criteria;
- the loss of the services of our senior managers;
- changes to our income tax status;
- failure of our asset manager to maintain current investors or attract new investors;
- damage to our brand and reputation, and certain actions of our employees and agents;
- transfer of property ownership risks under property management contracts;
- failure to attract and retain a highly skilled work force;
- changes in public opinion concerning mortgage originators or debt collectors; and
- changes in accounting standards.

These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this Annual Report. The forward-looking statements made in this Annual Report relate only to events as of the date on which the statements are made. We do not undertake any obligation to publicly update or review any forward-looking statement except as required by law, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from what we may have expressed or implied by these forward-looking statements. We caution that you should not place undue reliance on any of our forward-looking statements. You should specifically consider the principal risks and uncertainties identified in this Annual Report that could cause actual results to differ from what we have expressed or implied by these forward-looking statements. Furthermore, new risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us.

Management Report

Carrington Holding Company, LLC (the "**Company**") presents its annual report and the audited consolidated financial statements of the Company and its subsidiaries (together, the "**Group**") for the year ended December 31, 2013.

Principal activities

The Company is a holding company that owns and operates multiple businesses that cover virtually every aspect of single family real estate and residential real estate transactions in the United States. The Company has evolved into a group of vertically and horizontally integrated operating businesses that direct every aspect of the life cycle of single-family residential assets. The Group is uniquely positioned to execute on various opportunities in the single-family residential markets. To capitalize on these opportunities the Group is organized into four distinct, but related operating segments: asset management, which oversees investments in U.S. real estate and mortgage markets; mortgage servicing, which services residential loans; mortgage lending, which is a national lender; and a real estate company, which is comprised of real estate services and property logistics divisions.

The Group is one of only a few non-bank financial services companies with a fully integrated business that includes asset management, loan servicing, lending and real estate segments. These businesses complement and enhance each other through strategic relationships that stretch beyond their core expertise. The Group's asset management segment complements and enhances its three other business segments by providing revenue opportunities that support the other segments. The Group's servicing segment complements and enhances its lending segment by providing a sustainable source of new loans through the refinancing of loans of current servicing customers. The Group's lending segment complements and enhances its servicing segment by allowing it to replenish its servicing portfolio as loans pay off or resolve over time. The Group's real estate segment is supported in part by business from its asset management, origination and servicing segments. The Group's servicing and real estate segments support its asset management business by allowing it to provide continuous life of loan management of capital for loans that convert to real property.

As of December 31, 2013, the Group had 2,882 fulltime employees and independent agents across 90 offices.

Business review

Set forth below is a description of the business and performance of the Group's operating segments during 2013.

Asset Management

The Group's asset manager is one of a small group of asset managers who has the experience, technology and adjacent operating segments required to manage private investments in the mortgage loan and U.S. housing markets. The asset manager has been managing capital invested in the mortgage loan market since 2004 and has developed several scalable investment strategies and vehicles by levering the expertise of our management team and the capabilities of our other operating segments. These strategies and investment vehicles include advising third-party investors deploying capital into mortgage loan and U.S. housing investments through managed accounts, and forming funds to aggregate capital to invest in mortgage loans and U.S. housing. As of December 31, 2013 we had approximately $1.98 billion of assets under management ("AUM"). Our servicing and real estate segments support our asset management business by allowing us to provide continuous life of loan management of invested capital for mortgage loans that convert to real property. Our asset management segment provides revenue opportunities for our other segments. As of December 31, 2013, 8.4% of the revenue generated by our other segments was sourced by invested capital managed by our asset manager. In addition, during the last four months of 2013, the Company received approximately $6.4 million as a return of capital from its investment in non-performing loan funds.

Our asset management segment is comprised of two businesses, Carrington Capital Management, LLC ("CCM") and Carrington Investment Services, LLC ("CIS"), that focus on the investment of capital in the mortgage loan and the U.S. housing market.

CCM is an alternative asset management firm focused on control-based investing in the U.S. real estate, mortgage and fixed income markets. CCM offers investment strategies where its portfolio management team maintains an identifiable competitive advantage created by the firm's resources, market expertise and local property market penetration. In addition, CCM also provides mortgage litigation advice and expert witnesses. This sector of our asset management business, however, is still developing and is not a significant generator of revenue.

CCM is a registered investment advisor with the U.S. Securities and Exchange Commission (the "SEC"). As of December 31, 2013, CCM had offices in Greenwich, CT, Aliso Viejo, CA and Oceanside, CA.

CIS is a registered broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). The Group is currently contemplating winding-down this entity during 2014.

Mortgage Servicing

The Group's residential mortgage servicing segment is comprised of two businesses that provide mortgage servicing and collections services: Carrington Mortgage Services, LLC ("CMS") and Carrington Resolution Services, LLC ("CRS").

Carrington Mortgage Services

The Group's mortgage servicer, CMS, is a fully-integrated mortgage servicing company with capabilities to service performing and non-performing assets. CMS approaches servicing as an asset manager, serving both borrower and investor constituencies, which enables families to maintain homeownership while maximizing the value of the underlying assets for its investors. CMS is a high-touch special servicer with expertise in servicing distressed residential real estate assets. CMS is able to service loans in all 50 states. As of December 31, 2013, CMS had primary offices located in Santa Ana, CA and Fishers, IN.

The residential mortgage servicing business is divided into five subsegments, including securitized loans, acquired non-performing loans, acquired Ginnie Mae loans, newly originated Government Agency loans, and subserviced loans. As of December 31, 2013, CMS serviced over 103,400 residential mortgage loans with an aggregate UPB of approximately $16.3 billion. CMS is a preferred partner of large financial organizations, including Government Agencies and other regulated institutions that value our strong performance and also place a premium on our entirely U.S.-based servicing operations.

CMS is rated by Fitch Ratings as a U.S. residential primary servicer for subprime product at 'RPS3', Outlook Stable, and as a special servicer at 'RSS3', Outlook Stable.

As of December 31, 2013, our securitized loans, acquired performing and non-performing loans, acquired Ginnie Mae loans, newly originated government loans and subserviced loans represented 43.1%, 22.3%, 20.0%, 8.1% and 6.5%, respectively, of our total servicing portfolio in UPB.

The table below indicates the portion of our servicing portfolio that is securitized legacy loans, acquired performing and non-performing loans, newly originated FHA loans and subserviced loans by UPB.

	At December 31,			
Servicing Portfolio	2013	2012	$ change	% change
	($ in thousands)			
Securitized legacy loans	$ 7,040,462	$ 7,923,863	$ (883,401)	-11.1%
Acquired performing & non-performing loans [1]	3,640,689	2,394,375	1,246,315	52.1%
Acquired Ginnie Mae loans	3,262,897	-	3,262,897	n/a
Originated government loans	1,321,446	434,742	886,704	204.0%
Subserviced loans	1,059,141	-	1,059,141	n/a
	$ 16,324,635	$ 10,752,980	$ 5,571,655	51.8%

[1] This amount includes the value of loans held for sale.

The table below provides detail of the characteristics and key performance metrics of our servicing portfolio at and for the periods indicated.

	At December 31,			
Performance Metrics	2013	2012	change	% change
		($ in Thousands)		
Loan count - servicing	103,462	57,601	45,861	79.6%
Ending unpaid principal balance	$ 16,324,635	$ 10,752,980	$ 5,571,655	51.8%
Average unpaid principal balance	$ 158	$ 187	$ (29)	-15.5%
Average loan amount	$ 168	$ 236	$ (68)	-28.8%
Average coupon	5.51%	6.00%	-0.49%	-8.2%
Average FICO credit score	628	625	3	0.5%
60+ day delinquent (% of loans)	9.00%	10.42%	-1.42%	-13.6%

Carrington Resolution Services

CRS is a part of the Group’s mortgage servicing segment. CRS is a specialized debt resolution provider focusing on the acquisition, management and collection of charged-off debt inventories for servicers, including CMS, and other financial institutions. CRS develops and implements individualized settlement and repayment plans based on each consumer's current and unique circumstances. Through education and a detailed assessment of a consumer's individual financial situation, CRS provides opportunities for consumers to restore their credit while simultaneously resolving charged off debts for their clients. CRS’s consumer-focused approach to achieving resolution enables its clients to maintain strong customer relationships and protect brand integrity.

As of December 31, 2013, CRS's portfolio consisted of 25,199 accounts with an unpaid principal balance of $2.85 billion.

As of December 31, 2013, CRS was located in our Santa Ana, CA facility.

Mortgage Lending

The Group’s mortgage lending segment is a separate division of CMS, which is referred to herein as “MLD”. MLD is a residential wholesale and retail loan originator that is licensed to originate loans in 43 states, the District of Columbia and Puerto Rico. MLD originates primarily conventional agency and government-insured residential mortgage loans and has a strong purchase-origination production business. MLD is one of only a few non-bank servicers with a fully integrated scalable lending segment to complement and enhance the Group’s servicing segment and other business segments, including the real estate segment. The lending segment complements and enhances the Group’s servicing segment by allowing it to replenish its servicing portfolio and offer opportunities to existing borrowers to refinance their homes.

In 2013, MLD originated approximately $1.42 billion in loan volume, with 70% derived from its wholesale operations and 30% derived from its retail channel. In addition, given the changing market conditions and rising interest rates environment, MLD has shifted its production efforts on purchase originations from refinancing. In 2013, MLD originated 53% of purchase volume and 47% of refinance volume.

MLD's wholesale operation utilizes a vast network of independent mortgage brokers to source loans. MLD's retail channel is comprised of 31 branch offices spread across 9 states with a highly trained and qualified sales force. All of MLD's loans are underwritten through centralized processing with pre-funding audits of every loan and one hundred percent call-recording for compliance and quality assurance. MLD lending platform is fully scalable and is focused on producing quality loans.

As of December 31, 2013 MLD was located in the Group's headquarters in Santa Ana, CA, with centralized processing centers in Fishers, IN and Enfield, CT, as well as 31 additional branch offices throughout the U.S.

Real Estate

The Group's real estate segment is comprised of two sub-segments, our real estate services group and our real estate logistics group:

<u>Real Estate Services</u>

The real estate services group is an integrated provider of residential services to the institutional and retail markets. Its business is comprised of three complementary business segments, including real estate brokerage services, real estate settlement services and portfolio services. These three business segments work together to provide a "one-stop" shop for clients, both institutional and retail, looking to buy or sell single family properties. The synergies between these businesses and the Group's family of companies, including the mortgage servicer, lending operations and real estate logistics help retail clients to simplify the home purchase and sale process, and institutional investors efficiently manage their residential portfolios. Moreover, these three business segments can derive revenue from the same real estate transaction.

Carrington Real Estate Services

Carrington Real Estate Services (US), LLC ("CRES") offers a full service real estate brokerage operation that uses its company owned network of licensed real estate agents to manage the sale or purchase of residential properties. CRES offers full-service residential brokerage services through approximately 33 branches across 22 states. As of December 31, 2013, CRES had approximately 1,200 independent sales associates. CRES was founded in 2008 in the height of the distressed real estate market and quickly became a leader specializing in the disposition of Real Estate Owned assets having sold over 27,990 properties since inception. Recognizing the beginning of an improvement in the residential real estate market in 2011, CRES has managed to transition its real estate businesses to capitalize on the sustained recovery over the past 2 years. CRES currently has a balanced portfolio of properties sourced from both our institutional relationships and independent sales associates. For the year ended December 31, 2013, CRES had approximately $1.24 billion in total property sales, of which $698.3 million was derived from our institutional clients and $545.2 million was generated by our network of independent sales associates. In addition, the real estate segment has a network called the Carrington Property Network ("CPN"), which is comprised of over 30 brokerage companies with over 10,000 sales associates serving our acquisition and disposition requirements in locations CRES does not operate. Over time we plan to convert some of these affiliates to company owned.

Carrington Settlement Services

The Group's settlement services business is comprised of a title company, Carrington Title Services, LLC, and an escrow company, Carrington Escrow, Inc. These companies assist with the closing of real estate transactions by providing full-service title and settlement (i.e. closing and escrow) services to customers, real estate companies, including the Group's real estate brokerage, CRES, and affiliated mortgage servicer and lending divisions, CMS. The escrow and title and settlement services business leverages its advanced technology and diverse product menu to provide cost efficient and service driven solutions for clients. In addition, they provide property abstract reports in all states and also have the ability to examine and prepare a summary for foreclosure attorneys to help expedite the default process for the Group's affiliated mortgage servicer and third party customers. For the year ended December 31, 2013, settlement services group assisted on approximately 15,550 transactions.

Carrington Portfolio Services

The portfolio services group is comprised of Carrington Foreclosure Services, LLC and Carrington Document Services, LLC. This group of businesses provides a host of complementary services to the Carrington family of companies, including our mortgage servicer and lending divisions, and third party clients. These services include foreclosure trustee services in California, Nevada, Texas and Arizona and outsourced document preparation services. These businesses support the Group's affiliated companies and enhance the one-stop shop model. By having these businesses under one-roof, the Group is able to provide more efficient and expedited services to customers and drive results.

Real Estate Logistics

The real estate logistics segment is comprised of a group of companies that provide resolution strategies, property asset management and field and technology services to holders of single family properties. The real estate logistics businesses include Carrington Property Services, LLC ("CPS") and Carrington Home Solutions, L.P. ("CHS").

Carrington Property Services

CPS is an industry-leading property asset management company currently managing over 8,000 properties. CPS provides a comprehensive set of property asset management and marketing services that can be customized to meet the specific needs of each of its customers. Unlike traditional property asset management companies, which focus exclusively on the disposition of REO assets, CPS is uniquely qualified to work with customers across the entire default lifecycle – providing information and analytics at both the pre and post-foreclosure stage of the process to help customers make the most educated decisions regarding optimal asset resolution. CPS offers a broad array of specialized capabilities designed to help holders of single family properties manage their assets. These services include:

- Property assessment/inspections;
- Property valuations;
- Property resolution services, including cash-for-keys, short sale, deed-in-lieu, deed-for lease and tenant-in-place strategies;
- Marketing;
- Disposition; and
- Rental Management.

As a property asset manager, CPS customers include mortgage servicers, including CMS, financial institutions, Government Agencies and holders of residential portfolios. These customers engage CPS to manage the disposition of their assets in the loan-default life cycle through a variety of strategies to help them maximize resolution proceeds. As of December 31, 2013, CPS managed approximately 3,300 properties for disposition.

CPS has also developed a market leading rental management segment to provide services for holders of single-family rental portfolios. Those customers include Government Agencies, servicers and investors. As of December 31, 2013, CPS had approximately 4,800 rental properties under management.

Carrington Home Solutions

CHS offers a full range of property preservation, maintenance and repair services to lenders, servicers and asset managers, as well as institutional clients, private real estate investors, real estate agents and retail home owners. The wide range of products and services include:

- Vacant property registration;
- Utility management;
- Inspection services;
- Preservation services;
- Property maintenance; and
- Property repairs and rehabilitation.

CHS offers nationwide coverage through our network of experienced professionals who provide prompt, responsive, reliable and quality services that preserve and enhance property values to turn listings into dispositions and/or rentals. In addition, CHS has a dedicated field staff, including licensed contractors and trade professionals. As of December 31, 2013, CHS was providing services on approximately 5,000 properties throughout the United States.

Real estate logistics opportunities for CPS and CHS are sourced in part by the Group’s servicing and asset management segments. As of December 31, 2013, 56% of the gross revenues of our real estate logistics segment came from referrals from the servicing and asset management segments.

Significant Events

<u>The Exchange Transaction</u>

On December 31, 2013, the Company issued $529,761,000 aggregate principal amount of its Extendible PIK Step-Up Notes (the “Notes”). The Notes were originally issued by the Company in connection with the Company’s purchase and acquisition of all of the assets of Carrington Investment Partners (US), LP and Carrington Investment Partners (Cayman), LP (the “Legacy Carrington Funds”), which assets include the outstanding preferred membership interests in CMS. The other assets owned by the Legacy Carrington Funds consisted primarily of residual interests and subordinated mortgage backed securities, which were ascribed little to no value at the time of the Exchange Transaction. Immediately following the completion of the Exchange Transaction, all assets of the Legacy Carrington Funds, including the preferred membership interests in CMS, were owned by the Company and all of the Notes were owned by the limited partners of the Legacy Carrington Funds. The Exchange Transaction was approved by over a two-thirds super-majority in interest of the limited partners of the Legacy Carrington Funds on December 16, 2013.

Contemporaneous with the exchange transaction, the Company acquired the CE-certificated bonds of certain securitizations for which its wholly-owned subsidiary, CMS, owns the servicing rights and consolidated $3.5 billion of trust assets and trust liabilities.

Future developments

The Group is unique among non-bank financial services companies because each of its business segments is supported by sustainable, independent sources of revenue, rather than being supported primarily by its servicing segment. As of December 31, 2013, 8% of the Group's revenues were supported by business from the asset management segment, 42% of revenues were supported by business from the servicing segment, 22% of revenues were supported by business from the Group's lending segment, and 28% of revenues were supported by business from the Group's real estate segment.

The Group's four complementary business segments work together to form a family of companies, allowing it to generate revenue at various points in a residential real estate transaction. Unlike other industry participants who offer only one or two services, the Group can offer homeowners ready access to numerous associated services that facilitate and simplify the home purchase and sale process and act as a one-stop shop for clients. These services provide further revenue opportunities for the Group's affiliated businesses. All four of business segments can derive revenue from the same real estate transaction. Because of the synergies among the business segments, the Group is able to perform in all market cycles.

The Group expects to drive future growth in the following ways:

- grow the asset management business;
- grow residential mortgage servicing;
- expand lending to complement servicing;
- expand the real estate segment; and
- meet evolving needs of the residential mortgage and U.S. housing industries.

Management believes that the Group's integrated approach, together with the strength, diversity and independence of each of the Group's business segments, positions it to take advantage of the developments in the U.S. housing market and the major structural changes occurring across the mortgage industry.

Financial review

Set forth below are the full year results of operations for the consolidated Group and the operating segments.

Full Year Results

The following table summarizes our consolidated operating results for the periods indicated.

Consolidated	For the Year Ended December 31,			
	2013	2012	$ change	% change
	($ in thousands)			
Revenue	$ 200,473	$ 157,171	$ 43,302	27.6%
Operating expense	227,748	162,318	65,430	40.3%
Loss from operations	(27,275)	(5,147)	(22,128)	-430.0%
Other income (expense):				
Interest, net	(6,810)	(17,588)	10,778	61.3%
Change in fair value of mortgage servicing rights	(2,745)	(8,454)	5,709	67.5%
Change in fair value of notes payable	155,344	-	155,344	100.0%
Income from investments in affiliated partnerships	1,067	1,099	(32)	-2.9%
Income (loss) before income taxes	$ 119,581	$ (30,090)	$ 149,671	497.4%

We provide further discussion of our results of operations for each of our reportable segments under “Segment Results” below.

Comparison of Consolidated Results for the Year Ended December 31, 2013 and 2012

Revenues for the year ended December 31, 2013 were $200.5 million, an increase of $43.3 million or 27.6%, from $157.2 million for the year ended December 31, 2012. The increase was primarily due to higher mortgage servicing fees, real estate service fees, mortgage originations and asset management fees.

Operating expenses for the year ended December 31, 2013 were $227.7 million, an increase of $65.4 million or 40.3%, from $162.3 million for the year ended December 31, 2012. The increase was primarily driven by higher compensation and benefit expenses related to increased staffing levels required to support corporate-wide growth. Full-time employee headcount increased by approximately 30% for the year ended December 31, 2013.

Net interest expense for the year ended December 31, 2013 was $6.8 million, a decrease of $10.8 million or 61.3%, from $17.6 million for the year ended December 31, 2012. The decline was primarily due to favorable advancing financing rates and lower advancing requirements on legacy loan servicing portfolios as this portfolio continues to run-off over time.

The change in fair value of our Mortgage Servicing Rights improved $5.7 million from a decrease in fair value of $8.5 million for the year ended December 31, 2012 to a decrease in fair value of $2.7 million for the year ended December 31, 2013. This improvement was due to a lower, $563 million, UPB run-off of the legacy portfolio in the period ended December 31, 2013 when compared to a $1.4 billion UPB run-off in the period ended December 31, 2012 coupled with an increase in the overall valuation of the mortgage servicing rights.

Income from investments in affiliated partnerships remained flat for 2013.

Full Year Segment Results

Our business is divided into four operating segments; Mortgage Servicing, Mortgage Lending, Real Estate and Asset Management. Administrative activities such as human resources, finance and accounting, technology support, legal, risk management and executive administration are included in Corporate Support.

Mortgage Servicing

Our Mortgage Servicing segment provides loan servicing and subservicing for Carrington owned loans and loans held by third parties. Revenue is primarily composed of servicing fees, but also includes modification incentive fees, late fees, insufficient fund fees, and other ancillary fees collected during the course of business.

The following table summarizes the operating results from our Mortgage Servicing segment for the periods indicated.

Mortgage Servicing	For the Year Ended December 31,			
	2013	2012	$ change	% change
	($ in thousands)			
Revenue	$ 85,025	$ 70,645	$ 14,380	20.4%
Operating expense	62,010	43,402	18,608	42.9%
Income from operations	23,015	27,243	(4,228)	-15.5%
Other income (expense):				
Interest, net	(3,436)	(15,981)	12,545	78.5%
Change in fair value of mortgage servicing rights	(2,745)	(8,454)	5,709	67.5%
Income from investment in affiliated partnerships	1,096	1,034	62	6.0%
Income before income taxes	$ 17,930	$ 3,842	$ 14,088	366.7%

Comparison of Mortgage Servicing Results for the Year Ended December 31, 2013 and 2012

Mortgage Servicing revenue increased by 20.4%, or $14.4 million, from $70.6 million for the year ended December 31, 2012 to $85.0 million for the year ended December 31, 2013. This increase was primarily driven by new component servicing contracts as well as growth in the aggregate UPB of our servicing book, which increased by $5.5 billion from $10.8 billion at December 31, 2012 to $16.3 billion at December 31, 2013. The growth in UPB was mainly due to purchases of non-performing loans in our Asset Management segment as well as new Ginnie Mae production from our Mortgage Lending segment and the acquisition of the mortgage servicing rights in the fourth quarter of 2013.

Operating expenses rose $18.6 million, or 42.9%, from $43.4 million for the year ended December 31, 2012 to $62.0 million for the year ended December 31, 2013. This increase was primarily due to higher compensation and benefit expenses for the additional staffing levels required to manage the larger servicing book. Mortgage Servicing headcount increased by approximately 39% during the twelve months of 2013 as compared to the same period in the prior year.

Net interest expense for the Mortgage Servicing segment declined by $12.5 million from $16.0 million in the year ended December 31, 2012 to $3.4 million in the year ended December 31, 2013. This decrease was primarily driven by favorable advance financing rates and a decline in the total amount of advancing volume financed.

As noted above, the improvement in the change in fair value of Mortgage Servicing Rights was due to a lower amount of portfolio run-off in the year ended December 31, 2013 when compared to the prior year.

Income from investments in affiliated partnerships remained flat for 2013. This includes an investment in non-performing loan funds.

Mortgage Lending

Our Mortgage Lending segment originates primarily conventional agency and government insured residential wholesale and retail loans.
The following table summarizes the operating results from our Mortgage Lending segment for the periods indicated.

Mortgage Lending	For the Year Ended December 31,			
	2013	2012	$ change	% change
	($ in thousands)			
Revenue	$ 43,491	$ 27,301	$ 16,190	59.3%
Operating expense	46,383	27,244	19,139	70.3%
Income (loss) from operations	(2,892)	57	(2,949)	-5173.7%
Other income (expense):				
Interest, net	(910)	(328)	(582)	177.4%
Loss before income taxes	$ (3,802)	$ (271)	$ (3,531)	1303.0%

Comparison of Mortgage Lending Results for the Year Ended December 31, 2013 and 2012

Our Mortgage Lending revenue increased 59.3%, or $16.2 million, from $27.3 million in the year ended December 31, 2012 to $43.5 million in the year ended December 31, 2013. This increase was driven by higher lending volume, which increased by $447 million to $1.42 billion for the twelve months ended December 31, 2013 as compared to the same period in the prior year. A shift in product mix from refinancing loans to purchase loans contributed to revenue growth as the market continues to trend away from refinancing toward purchase loans.

Operating expenses for the Mortgage Lending segment increased 70.3%, or $19.1 million, from $27.2 million in the year ended December 31, 2012 to $46.4 million in the year ended December 31, 2013. This increase was due to investment in infrastructure and personnel associated with current and anticipated growth, including higher compensation and benefit expenses related to additional staff required to support higher lending volume. Our headcount increased by approximately 51% during the twelve months of 2013 as compared to the same period in the prior year.

Net interest expense increased by $0.6 million in 2013 as compared to the prior year due to the increased use of our warehouse financing facilities associated with the higher lending volumes achieved in 2013 as compared to 2012.

<u>Real Estate</u>

Our Real Estate segment includes two sub-segments; Real Estate Services and Real Estate Logistics. Real Estate Services includes our brokerage, title, settlement, and portfolio services divisions, while Real Estate Logistics includes our property asset management, property rental and property preservation and restoration divisions.
The following table summarizes the operating results from our Real Estate segment for the periods indicated.

Real Estate	For the Year Ended December 31,			
	2013	2012	$ change	% change
		($ in thousands)		
Revenue	$ 55,621	$ 49,824	$ 5,797	11.6%
Operating expense	38,704	33,717	4,987	14.8%
Income (loss) from operations	16,917	16,107	810	5.0%
Other income (expense):				
Interest, net	(21)	56	(77)	-137.5%
Income before income taxes	$ 16,896	$ 16,163	$ 733	4.5%

<u>Comparison of Real Estate Segment Results for the Year Ended December 31, 2013 and 2012</u>

Our Real Estate segment revenue rose 11.6%, or $5.8 million, from $49.8 million in the year ended December 31, 2012 to $55.6 million in the year ended December 31, 2013. This is the result of a shift in revenue mix away from captive REO management and sales toward increased third party services and transactions. Revenue increased 23% within our property preservation and restoration division, 21% in our property rental and asset management division, and 2% in our real estate brokerage division. Real estate brokerage sales volume increased to $1.24 billion for the twelve months ended December 31, 2013, a $0.7 billion increase from $1.17 billion in the same period in prior year.

Operating expenses in the Real Estate segment rose 14.8%, or $5.0 million, from $33.7 million in 2012 to $38.7 million in 2013. This increase was primarily driven by an increase in compensation and benefits expenses related to additional staffing. Headcount grew by approximately 41% at December 31, 2013 as compared to December 31, 2012.

Asset Management

Our Asset Management segment is comprised of two businesses: CCM and CIS. CCM manages private investment capital focused on investment strategies in the mortgage loan and US residential housing markets. CIS is an SEC registered broker-dealer and a member of FINRA. CIS and CCM provide capital sourcing services and consulting services to third party clients in the mortgage loan and US residential housing markets.

The following table summarizes the operating results from our Asset Management segment for the periods indicated.

Asset Management	For the Year Ended December 31,			
	2013	2012	$ change	% change
		($ in thousands)		
Revenue	$ 15,949	$ 7,801	$ 8,148	104.4%
Operating expense	16,168	8,227	7,941	96.5%
Income (loss) from operations	(219)	(426)	207	48.6%
Other income (expense):				
Interest, net	(303)	(331)	28	8.5%
Income (loss) from equity investment	(29)	66	(95)	-144.6%
Income (loss) before income taxes	$ (551)	$ (691)	$ 140	20.3%

Comparison of Asset Management Results for the Year Ended December 31, 2013 and 2012

Our Asset Management segment revenues rose 104.4%, or $8.1 million, from $7.8 million for the year ended December 31, 2012 to $15.9 million for the year ended December 31, 2013. This increase was primarily driven by growth in AUM by $614.8 million from $1.37 billion in the year ended December 31, 2012 to $1.98 billion for the year ended December 31, 2013 due to increased investment in our non-performing loan strategies.

Operating expenses in the Asset Management segment increased 96.5%, or $7.9 million, from $8.2 million in the year ended December 31, 2012 to $16.2 million in the year ended December 31, 2013. This increase was primarily due to increased compensation and benefit expenses as staffing levels increased in order to support additional investment strategies and expand the consulting services. Asset Management headcount increased by approximately 42% as of the end of 2013 as compared to the prior year.

Corporate Support

Our Corporate Support segment consists of centralized services including human resources, finance and accounting, technology support, legal, risk management and executive administration that provide support services to all of our operating segments.

Operating expenses within the Corporate Support segment increased 30.1%, or $15.6 million, from $51.8 million, for the year ended December 31, 2012 to $67.3 million from the year ended December 31, 2013. This increase was driven by compensation and benefit expenses required to support higher staffing levels as well as an increase in office space needed within Corporate Support in order to support the growth in our Mortgage Servicing, Mortgage Lending, Real Estate and Asset Management segments.

Liquidity

For the year ended December 31, 2013, the Company's cash flows from operating, investing, and financing activities are as follows:

	For the Year Ended December 31,			
	2013	2012	$ change	% change
Operating Activities	$ (15,322,649)	$ 211,117,691	$(226,440,340)	-107.3%
Investing Activities	22,257,064	(6,716,532)	28,973,596	431.4%
Financing Activities	$ (9,347,494)	$ (186,887,714)	$ 177,540,220	95.0%

Operating activities. Net cash used by operating activities was $15.3 million for 2013 as compared to net cash provided by operating activities of $211.1 million for 2012. The $226.4 million decline in cash provided by operating activities from 2013 to 2012 was primarily due to a $142.2 million decrease in collections of servicing advances and an additional $48.3 million used to originate mortgage loans. Both of these changes were substantially offset by the change in their related financing lines (see *Financing activities* below).

Investing activities. Net cash provided by investing activities was $22.3 million for 2013 as compared to net cash used in investing activities of $6.7 million for 2012. The $29.0 million increase in cash provided by investing activities from 2013 to 2012 was primary due to proceeds of $19.6 million from the acquisition of mortgage servicing rights and concurrent sale of excess servicing rights and proceeds of $6.4 million from redemptions of equity investments.

Financing activities. Net cash used in financing activities was $9.3 million for 2013 as compared to $186.9 million for 2012. The $177.5 million reduction in cash used in financing activities from 2012 to 2013 was primarily due to a faster repayment of the servicing advance facility of $116.7 million in 2012 as compared to 2013, plus a $12.7 million payoff of the repurchase agreement in 2012. In addition, there was an increase in borrowing on the warehouse lines of $47.4 million.

Financing Facilities

We maintain financing facilities that support our mortgage servicing and lending businesses in their daily operations.

Servicing Advance Facilities

We have established a servicing advance facility secured by the servicing advances of 34 pools of loans. The facility consists of a $45 million variable funding note, which carries an interest rate of one-month LIBOR plus 3.5%, and a $100 million combination of a draw and term note. The term note was fully funded to $100 million in March 2013, and carries an interest rate of one-month LIBOR plus 0.275%. The term note will fully amortize over twelve months and the draw note will increase by approximately the same amount during the same period. The draw note carries an interest rate of one-month LIBOR plus 3.5%. All of the notes were scheduled to mature in February 2014, and in February 2014, the maturity date was extended to April 2014. Management of the Company expects to renew such financing arrangements in the ordinary course; however there can be no assurance that the Company will be able to renew the financing arrangements at similar (or more favorable) terms, if at all. At December 31, 2013, the facilities had a total committed amount of $108.0 million, and an outstanding balance of approximately $97.1 million. At December 31, 2013, the facility carried a blended interest rate of one-month LIBOR plus 2.95%, payable monthly. In addition, a blended annual facility fee of 1.58%, based on the committed amount, is payable monthly. The weighted average advance rate at December 31, 2013 was 70.28%. A reserve account equivalent to 0.83% of the unpaid principal balance is required to be maintained on deposit and is included in restricted cash in the accompanying consolidated statements of financial condition. This advance facility includes customary covenants, of which the Company was in compliance with such covenants at December 31, 2013.

Warehouse Facilities

As of December 31, 2013, our mortgage lending segment maintained four warehouse lines of credit with aggregate line limits of $246.0 million and advance limits ranging from 95% to 98%. As of December 31, 2013 the outstanding balance across the four lines was $138.0 million.

		As of December 31,			
Warehouse Lender	Maximum Borrowing Amount	2013	2012	$ Change	% Change
Agreement I	$ 20,000,000	$ -	$ -	$ -	n/a
Agreement II	100,000,000	88,873,384	41,342,952	47,530,432	115.0%
Agreement III	125,000,000	49,157,961	51,257,182	(2,099,221)	-4.1%
Agreement IV	1,000,000	-	-	-	n/a
	$ 246,000,000	$ 138,031,345	$ 92,600,134	$ 45,431,211	49.1%

For more information regarding the advance funding and warehouse lines of credit please refer to Note 13 of the consolidated financial statements.

Derivatives

We enter into interest rate lock contracts with prospective borrowers. These commitments are carried at fair value in accordance with ASC 815, *Derivatives and Hedging*. ASC 815 clarifies that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The estimated fair values of interest rate lock contracts are based on quoted market values and are recorded in other assets in the consolidated balance sheets. The initial and subsequent changes in the value of interest rate lock contracts are a component of gain (loss) on mortgage loans held for sale.

We actively manage the risk profiles of our interest rate lock contracts and mortgage loans for sale on a daily basis. To manage the price risk associated with interest rate lock contracts, we enter into forward sales of RMBS in an amount equal to the portion of the interest rate contract expected to close, assuming no change in mortgage interest rates. In addition, to manage the interest rate risk associated with mortgage loans held for sale, we enter into forward sales of RMBS to deliver mortgage loan inventory to investors. The estimated fair values of forward sales of RMBS and forward sale commitments are based on quoted market values and are recorded as a component of other assets and mortgage loans held for sale, respectively, in the consolidated balance sheets. The initial and subsequent changes in value on forward sales of RMBS and forward sale commitments are a component of gain (loss) on mortgage loans held for sale.

Post balance sheet events

Important events that have occurred since the end of the financial year are set out in Note 24 (*Subsequent Events*) to the consolidated financial statements.

Key performance measures

Management believe that the following are the key (financial and non-financial) performance indicators used to measure the performance of the Group:

- Mortgage Servicing segment: Revenues, operating expenses, and aggregate unpaid principal balance (UPB) of the servicing portfolio;
- Mortgage Lending segment: Revenues, operating expenses, origination volume and source, and production mix of refinancing versus purchase loans;
- Asset Management segment: Revenues, operating expenses, and amount of assets under management; and
- Real Estate segment: Revenues, operating expenses, number of sales agents, sales volume, and number of properties under management.

Principal risks and uncertainties

The Company believes that the principal risks and uncertainties affecting the Group that could adversely impact the business, financial condition and results of operations include, but are not limited to:

- The residential real estate market is cyclical and we may be negatively impacted by downturns in this market and general global economic conditions. For example, the lack of financing for homebuyers in the U.S. residential real estate market at favorable rates and on favorable terms could have a material adverse effect on the Group's financial performance and results of operations. In addition, adverse economic and market conditions may adversely affect the Group's liquidity position, which could adversely affect its business operations in the future.

- Extensive regulation of the Group's businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus or legislative or regulatory changes could adversely affect the Group's business. In addition, legal proceedings, state or federal governmental examinations or enforcement actions and related costs could have a material adverse effect on the liquidity, financial position and results of operations of the Group.

- Technology failures could damage the business operations and increase costs, which could adversely affect the Group's business, financial condition and results of operations. Any failure of the Group's internal security measures or breach of its privacy protections could cause harm to the businesses' reputation and subject the Group to liability, any of which could adversely affect the Group's business, financial condition and results of operations.

- The Group's business model and the execution of its business strategies is highly dependent upon the efforts, skills, reputations and business contacts of its founder, Mr. Bruce M. Rose, who through his ownership controls the Group, as well as the members of its senior management team and other key employees. Accordingly, the Group's success depends on the continued service of these individuals, who are not obligated to remain employed with the Group.

- The Company is a highly leveraged company. This high level of debt could adversely affect its operating flexibility and put it at a competitive disadvantage. As of December 31, 2013, the Group had approximately $764.8 million aggregate principal amount of total debt outstanding on a consolidated basis, of which the fair market value was $609.5 million. As a result of the level of indebtedness, the Company also has substantial negative members' equity.

- The Company is a holding company with no material operating assets, other than interests in its subsidiaries. All of the Company's revenue and cash flow is generated through its subsidiaries. As a result, the Company is dependent on dividends and other distributions from those subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of principal and interest on its outstanding debt.

- As previously announced on March 5, 2014, the Company received a notice of termination "without cause" from a significant client with respect to management and mortgage servicing contracts related to certain non-performing mortgage loan pools.

On March 18, 2014, the Company entered into a settlement agreement with the investor relating to the process and timing of the transfer of the related management and servicing obligations. Subject to the terms of the settlement agreement, subsidiaries of the Company will be entitled to receive an aggregate of approximately $23.6 million, which is inclusive of fees and a return of capital, upon completion of specific milestones. There is no assurance that these milestones will be completed successfully, if at all. The Company cannot determine at this time whether the termination notice will have a material adverse impact on the Company or its affiliates.

- The Group's asset management segment is subject to investigation by the SEC. In September 2013, our asset manager received a subpoena for documents and other information from the U.S. Securities and Exchange Commission relating to, among other things, its acquisition of New Century Financial Corporation's mortgage servicing platform and the preferred securities issued to Carrington Investment Partners, LP (CIP) to finance, in part, the mortgage servicing platform. The subpoena seeks documents and information relating to the business and operations of our asset manager (CCM), CMS, and CIP. After the production of certain responsive documents, representatives of our asset manager and counsel met with staff of the U.S. Securities and Exchange Commission in November 2013 and provided certain supplemental materials requested during that meeting. In February 2014, the U.S. Securities and Exchange Commission staff notified counsel that they were in receipt of all necessary information at that time and would request any further information as needed. As of March 28, 2014, no further information has been requested. There are no assurances that regulatory inquiries such as those discussed above will not result in enforcement actions, fines or penalties or claims, which could materially adversely affect the asset manager's ability to manage the funds or CMS's ability to service the underlying mortgage pools. This subpoena and any resulting enforcement action by the U.S. Securities and Exchange Commission may have a material impact on the Company's ability to raise capital. CCM will continue to produce and supply documents and cooperate fully with the U.S. Securities and Exchange Commission regarding the subpoena and any future inquiries

- The Group's servicing portfolio is subject to "run off," meaning that mortgage loans serviced by it may be prepaid prior to maturity, refinanced with a mortgage not serviced by the Group or liquidated through foreclosure, deed-in-lieu of foreclosure or other liquidation process or repaid through standard amortization of principal. As a result, the Group's ability to maintain the size of its servicing portfolio depends on the Group's ability to originate additional mortgages or to acquire the right to service additional pools of residential mortgages. The Group may not be able to acquire mortgage servicing rights or enter into additional servicing and subservicing agreements on terms favorable to the Group or at all, which could adversely affect the Group's business, financial condition and results of operations.

- CMS is an approved Freddie Mac and Ginnie Mae servicer. This status as an approved servicer is important, particularly because the Group's ability to remain as an eligible servicer under several of its servicing agreements depends on it being an approved servicer with Freddie Mac or Ginnie Mae. The Group's failure to maintain approved servicer status with Freddie Mac or Ginnie Mae could result in the Group being terminated as servicer under existing servicing agreements and subservicing agreements, prevent the Group from obtaining future servicing business and adversely impact the ability to finance the Group's operations.

- CMS' counterparties may terminate its servicing rights and subservicing contracts without cause and short notice, which could adversely affect the Group' business, financial condition and results of operations. In addition, a downgrade in CMS' servicer ratings could have an adverse effect on the Group's business, financial condition and results of operations.

- CMS is highly dependent upon programs administered by Government Agencies and other programs administered by governmental entities to generate revenues through mortgage loan sales to institutional investors. Any changes in existing U.S. government-sponsored mortgage programs could materially and adversely affect the Group's business, liquidity, financial position and results of operations.

- The Group operates in highly competitive mortgage servicing, lending, real estate and asset management industries that could become even more competitive as a result of economic, legislative, regulatory and technological changes. The Group may be unable to compete successfully and this could adversely affect the Group's business, financial condition and results of operations.

Risk management

The issuer's financial risk management objectives and policies are set out in Note 20 (*Concentration of Credit Risks*) to the consolidated financial statements.

Management

The Executive Officers who held office during the year and subsequently were as follows:

Bruce M. Rose ....Founder, CEO, and Co-Chief Investment Officer
David S.Gordon ....Chief Operating Officer
Peter Salce......................President
Darren Fulco ....Chief Strategy Officer
Richard Horowitz...........General Counsel
Steve Ozonian................Chief Real Estate Officer
Steve Meilicke ....Chief Financial Officer
Andrew Taffet................Co-Chief Investment Officer and Head of Asset Management [1]

(1) Effective as of January 1, 2014.

Statement of Management's Responsibilities

Statement of Management's responsibilities in respect of the Management Report and the Consolidated Financial Statements

Management of the Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility statement in accordance with the Transparency Regulations

Bruce M. Rose, Chief Executive Officer, and Steve Meilicke, Chief Financial Officer, being the persons responsible within the Company, confirm that to the best of their knowledge and belief:

- the consolidated financial statements, prepared in accordance with US GAAP, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

- the Management Report includes a fair review of the development and performance and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Carrington Holding Company, LLC and Subsidiaries

Consolidated Financial Statements

December 31, 2013 and 2012

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Members of
Carrington Holding Company, LLC

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Carrington Holding Company, LLC and subsidiaries (the "Company"), a Delaware limited liability company, which comprise the consolidated statements of financial condition as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in members' capital (deficit) and cash flows for the two years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

The Company's indirect wholly owned subsidiary, Carrington Mortgage Services, LLC has required financing lines, arranged with third parties, to fund advances from servicing pools of nonagency residential loan securitizations, as discussed in Note 12. The Company's servicer advance financing arrangements become due in 2014 and management expects to renew such financing in the ordinary course, however there can be no assurance that the Company will be able to renew the financing arrangements at similar (or more favorable) terms, if at all. Our opinion is not modified with respect to the matter described in this paragraph.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial condition of the Company as of December 31, 2013 and 2012, and the consolidated results of their operations and cash flows for each of the two years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

Newport Beach, California
March 28, 2014

CARRINGTON HOLDING COMPANY, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 71,786,717	$ 74,199,796
Restricted cash	1,264,295	2,281,138
Trust assets (securitized mortgage collateral):		
Residential mortgage loans	3,393,187,928	–
Real estate owned	67,551,100	–
Total trust assets	3,460,739,028	–
Servicer advances	142,101,021	220,708,382
Loans held for sale, at fair value	148,687,550	102,280,053
Mortgage servicing rights, at fair value	70,386,772	50,656,984
Investments in affiliated partnerships	7,371,128	12,774,729
Accounts and notes receivable from affiliates	143,081	2,174,854
Property, furniture and equipment, net	7,582,083	5,538,849
Prepaid expenses and other assets	33,260,586	18,571,775
Total assets	$ 3,943,322,261	$ 489,186,560
LIABILITIES AND MEMBERS' CAPITAL		
Liabilities		
Non-recourse trust liabilities (securitized mortgage borrowings)	$ 3,460,739,028	$ –
Servicing advances lines of credit	97,059,300	150,550,094
Warehouse lines of credit	138,031,345	92,600,134
Servicing obligations	63,361,104	61,796,646
Accrued interest payable	235,098	274,862
Accounts payable and accrued liabilities	39,130,080	37,135,101
Accrued compensation	12,287,449	12,384,923
Due to affiliates	2,831,607	46,416
Notes payable	87,733	3,385,304
Long-term debt, at fair value	374,416,656	–
Dividend payable to noncontrolling interests	–	11,385,232
Reserves for losses on loan origination and mortgage servicing claims	37,466,494	1,023,508
Other liabilities	713,682	753,353
Total liabilities	4,226,359,576	371,335,573
Commitments and Contingencies (Note 17)		
Members' (Deficit) Capital		
Controlling interests	(283,037,315)	(251,061,945)
Noncontrolling interests	–	368,912,932
Total members' (deficit) capital	(283,037,315)	117,850,987
Total liabilities and members' capital	$ 3,943,322,261	$ 489,186,560

 The accompanying notes are an integral part of these consolidated financial statements.

CARRINGTON HOLDING COMPANY, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2013 and 2012

	2013	2012
REVENUES		
Mortgage servicing fees	$ 87,410,475	$ 69,679,379
Real estate services fees	44,639,449	38,845,759
Mortgage banking	40,817,999	26,740,212
Commissions	14,866,664	14,867,161
Management fees	11,549,369	4,142,700
Other	1,189,012	2,896,155
Total revenues	200,472,968	157,171,366
OPERATING EXPENSES		
Compensation and benefits	160,535,299	113,112,618
General and administrative	61,891,928	45,942,478
Depreciation	3,853,970	3,262,855
Other	1,466,667	–
Total expenses	227,747,864	162,317,951
LOSS FROM OPERATIONS	(27,274,896)	(5,146,585)
OTHER INCOME (EXPENSE)		
Interest	(6,810,112)	(17,588,075)
Change in fair value of mortgage servicing rights	(2,744,917)	(8,454,045)
Change in fair value of long-term debt	155,344,344	–
Income from investment in affiliated partnerships	1,066,600	1,098,813
Other income (expense), net	146,855,915	(24,943,307)
NET INCOME (LOSS) BEFORE INCOME TAXES	119,581,019	(30,089,892)
INCOME TAXES	40,170	134,818
NET INCOME (LOSS)	$ 119,540,849	$ (30,224,710)

 The accompanying notes are an integral part of these consolidated financial statements.

CARRINGTON HOLDING COMPANY, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL (DEFICIT)
For the Years Ended December 31, 2013 and 2012

	Controlling Interests		Total		
	Managing Member	**Nonmanaging Members**	**Total Controlling Interests**	**Noncontrolling Interests**	**Total**
MEMBERS' CAPITAL (DEFICIT) – December 31, 2011	$ (220,288,041)	$ (549,194)	$ (220,837,235)	$ 368,912,932	$ 148,075,697
Net loss	(30,073,587)	(151,123)	(30,224,710)	–	(30,224,710)
MEMBERS' CAPITAL (DEFICIT) – December 31, 2012	(250,361,628)	(700,317)	(251,061,945)	368,912,932	117,850,987
Declaration of cumulative dividends on preferred interests of consolidated subsidiary	(148,715,522)	(747,314)	(149,462,836)	–	(149,462,836)
Conversion of cumulative dividends declared on preferred interests of consolidated subsidiary	–	–	–	160,848,068	160,848,068
Exchange of preferred membership interests in consolidated subsidiary for long-term notes and net assets from affiliated partnership	2,618,941	13,161	2,632,102	(529,761,000)	(527,128,898)
Deconsolidation of subsidiary	(4,636,821)	(48,664)	(4,685,485)	–	(4,685,485)
Net income	118,943,145	597,704	119,540,849	–	119,540,849
MEMBERS' CAPITAL (DEFICIT) – December 31, 2013	$ (282,151,885)	$ (885,430)	$ (283,037,315)	$ –	$ (283,037,315)

The accompanying notes are an integral part of these consolidated financial statements.

CARRINGTON HOLDING COMPANY, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 119,540,849	$ (30,224,710)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,853,970	3,262,855
Net change in fair value of mortgage servicing rights	(6,573,022)	4,384,438
Net change in fair value of long-term debt	(155,344,344)	–
Originations of mortgage loans held for sale	(1,414,071,932)	(963,156,475)
Proceeds from sales of, and principal payments from mortgage loans held for sale	1,368,156,004	965,491,474
Mark to market gain on mortgage loans held for sale	(491,569)	(2,409,096)
Provision for repurchases and servicing claims	1,661,344	651,658
Unrealized gain on derivative financial instruments	(1,996,739)	(263,332)
Income from equity investments	(1,002,609)	(1,235,497)
Net change in operating assets and liabilities:		
Accounts and notes receivable from affiliates	(286,733)	11,236
Accounts payable and accrued liabilities	15,971,254	24,201,307
Servicing obligations	1,564,458	(4,273,545)
Servicer advances	78,607,361	220,812,549
Other assets	(24,910,941)	(6,135,171)
Net cash (used in) provided by operating activities	(15,322,649)	211,117,691
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	1,016,843	3,712,388
Purchases of property, furniture and equipment	(5,897,204)	(2,575,006)
Cash received for acquisition and concurrent sale of excess servicing rights	19,577,216	–
Cash received from exchange of preferred membership interests in consolidated subsidiary for long-term notes and net assets from affiliated partnership	1,353,778	–
Cash reduction from sudsidiary deconsolidation	(199,779)	–
Redemptions (acquisitions) of equity investments	6,406,210	(7,853,914)
Net cash provided by (used in) investing activities	22,257,064	(6,716,532)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of servicing advances lines of credit	(53,490,794)	(170,199,031)
Net proceeds (repayments) from credit facilities on mortgage loans held for sale	45,431,211	(1,995,480)
Repayments of repurchase agreement	–	(12,700,000)
Repayments of notes payable	(1,287,911)	(1,993,203)
Net cash used in financing activities	(9,347,494)	(186,887,714)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,413,079)	17,513,445
CASH AND CASH EQUIVALENTS – beginning of period	74,199,796	56,686,351
CASH AND CASH EQUIVALENTS – end of period	$ 71,786,717	$ 74,199,796
CASH PAID FOR INTEREST	$ 10,331,271	$ 19,527,088
CASH PAID (RECEIVED) FOR INCOME TAXES, NET	$ 6,100	$ (195,220)
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS		
Addition of trust assets and liabilities from consolidation of securitization trusts:		
Residential mortgage loans	$ 3,393,187,928	$ –
Real estate owned	$ 67,551,100	$ –
Securitized mortgage borrowings	$ (3,460,739,028)	$ –
Acquisition of MSR’s and concurrent sale of excess servicing rights:		
Cash received	$ 19,577,216	$ –
MSR’s acquired	$ 13,156,765	$ –
Repurchase reserve established for potential claims	$ (34,909,228)	$ –
Accounts receivable	$ 2,175,247	$ –
Exchange of preferred membership interests in consolidated subsidiary for long-term notes and net assets from affiliated partnership:		
Cash and cash equivalents	$ 1,353,778	$ –
Other assets	$ 1,670,975	$ –
Accounts payable and accrued liabilities	$ (392,651)	$ –
Long-term debt	$ (529,761,000)	$ –
Preferred membership interest in consolidated subsidiary	$ 529,761,000	$ –

(continued)

 The accompanying notes are an integral part of these consolidated financial statements.

CARRINGTON HOLDING COMPANY, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS (continued)		
Deconsolidation of subsidiary:		
Cash and cash equivalents	$ (199,779)	$ –
Due from affiliates	$ (3,391,403)	$ –
Property, furniture and equipment, net	$ (13,631,383)	$ –
Other assets	$ (2,883,787)	$ –
Accounts payable and accrued liabilities	$ 348,099	$ –
Due to affiliates	$ 688,108	$ –
Notes payable	$ 2,009,660	$ –
Other liabilities	$ 12,375,000	$ –

 The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION AND NATURE OF BUSINESS

Carrington Holding Company, LLC was formed on December 4, 2007 and is registered as a limited liability company in the state of Delaware in the United States of America. In December 2010, an internal reorganization was completed to restructure the Carrington companies to fall under a top level holding company, Carrington Holding Company, LLC (the “Company” or “CHC”). The legal entities that were previously owned by Carrington Capital Management, LLC were contributed to CHC. As part of the corporate restructuring in December of 2010, the Carrington operating companies were organized into the following wholly owned subsidiaries of CHC:

Subsidiary Name	Business Line	Operating Segment [2]
Carrington Mortgage Holdings, LLC (“CMH”)	Mortgage Origination and Servicing	Mortgage Lending & Servicing
Carrington Real Estate Services, LLC (“CRES”) [1]	Realty and Settlement Services	Real Estate Services
Real Estate Logistics, LLC (“REL”)	Property Management and Preservation	Real Estate Services
Carrington Capital Management, LLC (“CCM”)	Asset Management	Asset Management
CCM Financial Group Holdings, LLC (“CCMFGH”)	Broker-Dealer Operations	Asset Management

(1) Formerly Atlantic & Pacific Real Estate
(2) See footnote 24 for more information on the operating segments

The predecessor businesses of CHC were contributed from CCM at their historical cost basis and reflect the contributed companies’ historical operating results from the beginning of the earliest reporting period presented. A description of each of these subsidiaries is included below.

- CMH owns several wholly owned mortgage entities including Carrington Mortgage Services LLC, (“CMS”), a residential mortgage lender and servicer and Carrington Resolution Services, LLC a business that specializes in debt resolution services.
- CRES owns several wholly owned subsidiaries which provide real estate brokerage, escrow, document processing, settlement services and insurance brokerage operations.
- REL owns several wholly owned subsidiaries including Carrington Property Services, LLC, a residential real estate asset manager and property management business and Carrington Home Solutions, LP, a licensed contractor providing property preservation and repair services.
- CCM is the general partner in various limited partnerships organized within or outside the United States. CCM is registered with the Securities and Exchange Commission as an investment advisor subject to the provisions of the Investment Advisors Act of 1940.
- CCMFGH owns Carrington Investment Services Holdings, LLC, which owns 100% of Carrington Investment Services, LLC, a registered broker-dealer in securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Certain prior year amounts have been reclassified to conform to current year presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ, perhaps materially, from those estimates. The most significant estimates in the accompanying consolidated financial statements relate to the selection of assumptions underlying the estimated fair value of mortgage servicing rights, mortgage loans held for sale, derivative financial instruments, and the recovery of servicer advances.

Principles of Consolidation

The accompanying consolidated financial statements include accounts of the Company and other entities in which the Company has a controlling financial interest. All inter-company balances and transactions have been eliminated in consolidation.

The usual condition for a controlling financial interest is ownership of a majority of the voting interests of an entity. However, a controlling financial interest may also exist in entities, such as special purpose entities, through arrangements that do not involve voting interests.

Pursuant to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810-10, *Consolidation* ("ASC 810-10") certain investment products/entities for which the risks and rewards of ownership are not directly linked to voting interests may be deemed variable interest entities ("VIEs"). The Company reviews factors, such as the ability to direct the activities of the VIE and the rights of the equity holders and obligations of equity holders to absorb losses or receive expected residual returns, to determine if the investment product/entity is a VIE. The Company is required to consolidate a VIE when it is deemed to be the primary beneficiary, which is evaluated continuously as facts and circumstances change.

The Company follows FASB Accounting Standards Update ("ASU") 2010-10, *Amendments for Certain Investment Funds* which indefinitely deferred the consolidation requirements of Statement of Financial Accounting Standards ("SFAS") No. 167, *Amendments to FASB Interpretation No. 46(R)*, for funds managed by the Company's asset management subsidiary, CCM. Where CCM has an interest in an investment product/entity that has qualified for the deferral of the consolidation rules under ASU 2010-10, the analysis is based on consolidation rules prior to January 1, 2010. These rules require an analysis to determine (a) whether an entity in which CCM has a variable interest is a VIE and (b) whether CCM's involvement, through the holding of equity interests directly or indirectly in the entity or contractually through other variable interests would be expected to absorb a majority of the variability of the investment product/entity. Under both criteria, CCM determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion at each reporting date. In evaluating whether CCM is the primary beneficiary, CCM evaluates its economic interests in the investment product/entity held either directly by CCM or indirectly through related parties. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that CCM is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by CCM, affiliates of CCM or third parties) or amendments to the governing documents of the respective entities could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, CCM assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Effective December 31, 2013, with the exchange more fully described in Note 14, the Company acquired the mezzanine and subordinated securities (CE bonds, prepayment bonds and excess servicing rights certificates) arising from single-family residential subprime mortgage loan acquisition and securitization. In cases where the Company has the power to direct the activities of the trust (as servicer) and the right to receive potential benefits (even if remote) through the CE bonds acquired by the Company on December 31, 2013, the Company consolidates these securitization trusts (Note 4).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation (continued)

The Company originates and sells forward or securitizes residential mortgage loans in the form of mortgage-backed securities insured or guaranteed by government and government-sponsored enterprises such as Ginnie Mae, Freddie Mac and Fannie Mae (referred to as "Government Agencies"). Sales or securitizations usually occur within 30 days of loan closing. The Company retains servicing rights associated with securitized loans and receives a servicing fee for services provided. The Company acts only as a fiduciary and does not have a variable interest in the securitization trusts. As a result, the Company accounts for these transactions as sales upon transfer.

Noncontrolling Interests in Consolidated Subsidiaries

ASC Topic 810 *Consolidation*, requires that a noncontrolling interest in a consolidated subsidiary should be reported as equity in the consolidated financial statements with disclosure provided to identify and distinguish between the interests of the parent and the interest of the noncontrolling owners. The Company reported the preferred interest of its indirect wholly owned subsidiary, CMS, as noncontrolling interests up until the time of the Exchange transaction as described in Note 14.

Membership Interests and Earnings Per Share

A member of a limited liability company possesses a membership interest which provides the member a percentage ownership in such company. These membership interests are not constituted from individual shares and accordingly, no earnings per share amounts have been included in the accompanying consolidated statements of operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash held by depository institutions and short-term investments with remaining maturities at acquisition of less than three months. The Company places its cash with financial institutions with investment grade ratings. At times, such amounts may be in excess of the FDIC insurance limit.

Custodial Accounts

Principal, interest, taxes and insurance collections, including payoff and liquidation proceeds, on mortgage loans serviced are placed in separate custodial accounts for each loan pool that are excluded from the balance sheet and managed by CMS, which amounted to approximately $206.2 million and $63.2 million at December 31, 2013 and December 31, 2012, respectively. According to the pooling and servicing agreement ("PSA") for each loan pool serviced, CMS is entitled to use funds held for future distribution to make the current distribution to the respective trustee, but not for other business purposes.

The Company also collects settlement funds related to property sales for the Realty and Settlement Services business. These funds, which are held in trust accounts, are excluded from the balance sheet and amounted to approximately $5.8 million and $6.8 million at December 31, 2013 and December 31, 2012, respectively.

Fair Value Option

The Company follows FASB ASC 825, *Financial Instruments*, which permits entities to choose, at specified election dates, to measure eligible items at fair value (the "Fair Value Option"). Changes in the fair value of eligible items are reported in operations and additionally, fees and costs associated with instruments for which the Fair Value Option is elected are recognized as earned and expensed as incurred, rather than deferred. The Fair Value Option is applied on an instrument by instrument basis (with certain exceptions), is irrevocable (unless a new election date occurs) and is applied only to an entire instrument. The Company has elected the fair value option on its mortgage servicing rights ("MSR"), mortgage loans held for sale ("LHFS") residential mortgage loans within securitized mortgage collateral, securitized mortgage borrowings, and long-term debt.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The Company follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, with respect to financial and nonfinancial assets and liabilities that are measured at estimated fair value.

The Company's financial instruments measured at fair value on a recurring basis include MSRs, LHFS, residential mortgage loans within securitized mortgage collateral, securitized mortgage borrowings, long-term debt, and derivative financial instruments. The Company does not have any assets and liabilities that are measured at fair value on a nonrecurring basis, except for goodwill. For further information about the Company's recurring and nonrecurring fair value disclosures, see Note 3.

Management has concluded that it is not practical to determine the estimated fair value of amounts due from/to affiliates, as reported in the accompanying consolidated statements of financial condition. Disclosure rules for fair value measurements require that for financial instruments for which it is not practicable to estimate fair value, information pertinent to those instruments be disclosed. Further information as to these financial instruments from related parties is included in Note 19.

Fair Value Measurements

Fair value measurements under FASB ASC 820 establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. FASB ASC 820 also prioritizes the use of market-based assumptions, or observable inputs, over entity-specific assumptions or unobservable inputs when measuring fair value and establishes a three-level hierarchy based upon the relative reliability and availability of the inputs to market participants for the valuation of an asset or liability as of the measurement date. The fair value hierarchy designates quoted prices in active markets for identical assets or liabilities at the highest level and unobservable inputs at the lowest level.

FASB ASC 820-10-65-4 provides additional guidance for estimating fair value in accordance with FASB ASC 820-10 when the volume and level of market activity for the asset or liability have significantly decreased. FASB ASC 820-10-65-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. It acknowledges that in these circumstances quoted prices may not be determinative of fair value. FASB ASC 820-10-65-4 emphasizes that even if there has been a significant decrease in the volume and level of market activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. Under FASB ASC 820-10-65-4, quoted prices for assets or liabilities in inactive markets may require adjustment due to uncertainty as to whether the underlying transactions are orderly. There is little information, if any, to evaluate if individual transactions are orderly in an inactive market. Accordingly, the Company is required to evaluate the facts and circumstances to determine whether the transaction is orderly based on the weight of the evidence. FASB ASC 820-10-65-4 does not designate a specific method for adjusting a transaction or quoted price, however, it does provide guidance for determining how much weight to give a transaction or quoted price. Price quotes derived from transactions that are not orderly are not considered to be determinative of fair value and should be given less weight, if any, when estimating fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trust Assets and Liabilities

Securitized Mortgage Collateral

Securitized mortgage collateral includes non-conforming residential mortgage loans with adjustable and fixed rate loans that were acquired and securitized prior to 2008, as well as residential real estate owned, acquired in foreclosure. Historically, such loans were securitized mortgages in the form of real estate mortgage investment conduits ("REMICs"). These securitizations are evaluated for consolidation based on the provisions of FASB ASC 810-10-25.

The Company accounts for the residential mortgage loans within securitized mortgage collateral at fair value, with changes in fair value during the period reflected in earnings. Fair value measurements are based on the Company's estimated cash flow models, which incorporate assumptions, inputs of other market participants and quoted prices for the underlying bonds. The Company's assumptions include its expectations of inputs that other market participants would use. These assumptions include judgments about the underlying collateral, prepayment speeds, credit losses, investor yield requirements, forward interest rates and certain other factors.

Interest income on securitized mortgage collateral is recorded quarterly using the effective yield for the period based on the previous quarter-end's estimated fair value. Residential mortgage loans within securitized mortgage collateral is generally not placed on nonaccrual status as the servicer remits the interest payments to the trust regardless of the delinquency status of the underlying mortgage loan. Because the residential mortgage loans, real estate owned and securitized mortgage borrowings were consolidated effective December 31, 2013, no interest (or other income or expense items) was recognized for 2013 in the accompanying consolidated statements of operations.

Real estate owned ("REO") are assets within the securitized mortgage collateral and are recorded as a separate asset for accounting and reporting purposes, which consists of residential real estate acquired in satisfaction of loans, is carried at net realizable value, which includes the estimated fair value of the residential real estate less estimated selling and holding costs. Adjustments to the loan carrying value required at the time of foreclosure affect the carrying amount of REO. Subsequent write-downs in the net realizable value of REO are included in losses from REO in the consolidated statements of operations. REO is not a financial instrument and therefore the fair value option is not an election option by the Company.

Securitized Mortgage Borrowings

Securitized mortgage borrowings includes the bonds from the REMIC securitization trusts. These bonds from each issuance is payable from the principal and interest payments and payoffs on the underlying mortgage loans collateralizing such debt, as well as the proceeds from liquidations of REO. If the principal and interest payments are insufficient to repay the debt, the shortfall is generally allocated first to the credit enhancement ("CE") bond holders (owned by the Company) then, if necessary, to the remaining bond holders (third party investors) in accordance with the specific terms (waterfall) of the various respective indentures. Securitized mortgage borrowings typically were structured to pay the bond holders based on one-month LIBOR with interest payable monthly. The maturity of each class of securitized mortgage borrowing is directly affected by the amount of net interest spread, overcollateralization and the rate of principal prepayments and defaults on the related securitized mortgage collateral. The actual maturity of any class (i.e., original bond investment grade ratings of AAA, AA, A, BBB, BB, B, etc.) of a securitized mortgage borrowing can occur later than the stated maturities of the underlying mortgages.

When the Company issued securitized mortgage borrowings, the Company generally sought an investment grade rating by nationally recognized rating agencies. To secure such ratings, it was often necessary to incorporate certain structural features that provide for credit enhancement. This generally included the pledge of collateral in excess of the principal amount of the securities to be issued. The Company's total loss exposure is limited to the Company's initial net economic investment in each securitization trust, which are the separately certificated CE bonds retained.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trust Assets and Liabilities (continued)

Securitized Mortgage Borrowings (continued)

The Company accounts for securitized mortgage borrowings and CE bonds at fair value, with changes in fair value during the period reflected in earnings. Fair value measurements are based on the Company's estimated cash flow models, which incorporate assumptions, inputs of other market participants and quoted prices for the underlying bonds. The Company's assumptions include its expectations of inputs that other market participants would use. These assumptions include judgments about the underlying collateral, prepayment speeds, credit losses, investor yield requirements, forward interest rates and certain other factors. Interest expense on securitized mortgage borrowings are recorded quarterly using the effective yield for the period based on the previous quarter-end's estimated fair value.

Mortgage Servicing Rights

The Company accounts for its MSR under the fair value measurement method as prescribed by the FASB ASC 860-50-35, *Transfers and Servicing*, and as such, servicing assets or liabilities are measured at fair value and changes in fair value are reported in the consolidated statements of operations.

For purposes of performing MSR valuation analysis, the Company utilizes current market assumptions commonly used by buyers of these types of residential servicing rights, such as prepayment speeds, cost to service the underline mortgage loans, forward interest rates and discount rates and incorporating current market data observed in the secondary servicing market. MSRs are stratified on the basis of certain risk characteristics including payment status (current, delinquent, foreclosure), loan type (fixed-rate or adjustable-rate), interest rate band, and credit quality characteristics of the underlying borrower. Changes in these assumptions can have significant impact on the fair value of the MSRs.

Revenue Recognition

Mortgage Servicing Fees

CMS is entitled to collect fees for the loans that it services. The primary fee that is collected is the servicing fee. This fee is generally expressed as a percent of the unpaid principal balance of the loan, and is deducted from the interest portion of the payment when collected. CMS also collects modification incentive fees, late fees, insufficient funds fees, and other ancillary fees during the course of performing its servicing activities. All fees are recognized as income when earned, which typically occurs when cash is collected. Deferred servicing fees due the servicer on delinquent mortgages are not recognized until the delinquent mortgage is resolved.

Real Estate Services Fees and Commissions

Real estate services fees and commissions are comprised primarily of the following: brokerage, title, settlement, insurance, escrow, document processing, foreclosure trustee services and property management, preservation, rehabilitation and restoration services. Such fees are recognized in the period services are performed, and when collectability is reasonably assured. Deferred revenue is recorded when fees are received in advance of services performed.

Mortgage Banking

The Company has elected to measure its LHFS at fair value. The Company also made an automatic election to record future LHFS at fair value. The Company's fair value election for LHFS is intended to better reflect the underlying economics of the Company as well as eliminate the operational complexities of risk management activities related to its LHFS pursuant to FASB ASC 815, *Derivatives and Hedging*. With the election of the Fair Value Option for LHFS, fees associated with the origination of LHFS are earned and costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Mortgage Banking (continued)

Revenue derived from the Company's mortgage loan origination division includes the origination (funding either a purchase or refinancing) and sale of residential mortgage loans. Mortgage loans are originated through the Company's marketing channels. Mortgage fees consist of fee income earned on all loan originations, including loans closed to be sold and fee-based closings. Fee income consists of amounts earned related to application and underwriting fees, fees on closed loans, and are recognized as earned, and the related direct loan origination costs are recognized when incurred. Gain (loss) on mortgage loans includes the realized and unrealized gains and losses on the Company's LHFS. The valuation of the Company's LHFS approximates a whole-loan price, which includes the value of the related MSRs. Mortgage fee income and gain on sales of loans are included in Mortgage Banking revenues in the accompanying consolidated statements of operations.

The Company principally securitizes its originated mortgage loans to Ginnie Mae or sells them to other investors. The Company evaluates its loan sales for sales treatment. To the extent the transfer of assets qualifies as a sale, the Company derecognizes the asset and records the gain or loss on the sale date. In the event the Company determines that the transfer of assets does not qualify as a sale, the transfer would be treated as a secured borrowing. Loans are placed on nonaccrual status when any portion of the principal or interest is 90 days past due or earlier if factors indicate that the ultimate collectability of the principal or interest is not probable. Interest received from loans on nonaccrual status is recorded as income when collected. Loans return to accrual status when the principal and interest become current and it is probable that the amounts are fully collectible.

Management Fees

The Company earns management fees relating to the terms of the investment management agreements entered into with its investment partnerships and other managed accounts. The Company recognizes management fee income in the period during which the related services are performed, collectability is reasonably assured, and the amounts have been contractually earned in accordance with the relevant agreements. As the Company may also invest in the investment partnerships or other partnerships, fees are recognized as revenue only to the extent of the outside ownership interests.

Other

Other income represents interest income, investment in limited partnerships and other miscellaneous income. Revenue is recorded when earned, and when collectability is reasonably assured.

Reserve for Losses on Loan Sales and Mortgage Servicing Claims

The Company sells LHFS it originates to investors and the risk of loss or default by the borrower is generally transferred to the investor. However, the Company is required by these investors to make certain representations relating to credit information, loan documentation and collateral. These representations and warranties may extend through the contractual life of the mortgage loan. Subsequent to the sale, if underwriting deficiencies, borrower fraud or documentation defects are discovered in individual mortgage loans, the Company may be obligated to repurchase the respective mortgage loan or indemnify the investors for any losses from borrower defaults if such deficiency or defect cannot be cured within the specified period following discovery. In the case of early loan payoffs and early defaults on certain loans, the Company may be required to repay all or a portion of the premium initially paid by the investor. The estimated obligation associated with early loan payoffs and early defaults is calculated based on historical loss experience by type of loan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reserve for Losses on Loan Sales and Mortgage Servicing Claims (continued)

The obligation for losses related to the loans originated discussed above is recorded at Company's estimated expected future losses using historical and projected loss frequency and loss severity ratios relating to loans previously sold.

The Company establishes reserves for estimated claims losses on loans it services that are insured or guaranteed by the government. The predominant type of government loans that the Company services are insured by the Federal Housing Administration ("FHA"). For claims on loan losses that are filed seeking reimbursement with the FHA, the Company is not reimbursed for the interest on the first two delinquent payments, plus one-third of any foreclosure fees. Also, for delinquent interest that is reimbursed, the rate of interest that is used for reimbursement is the FHA published debenture rate, which can be lower that the note rate on which the payments were advanced. In addition, if any part of the default process does not conform to FHA guidelines, then the amount of the claim paid by FHA can be reduced. The Company has estimated the potential losses using historical industry data corresponding to the expected performance of the loan.

Derivative Financial Instruments

In accordance with FASB ASC 815, *Derivatives and Hedging*, the Company records its derivative instruments at fair value as either assets or liabilities in the balance sheet and are accounted for as freestanding derivatives.

The Company enters into commitments to originate mortgage loans whereby the interest rate on the loan is set prior to funding (interest rate lock commitments or "IRLCs"). IRLCs expose the Company to interest rate risk for commitments and loans it originates until those loans are sold in the secondary market. IRLCs on mortgage loan funding commitments for mortgage loans that are intended to be sold are considered to be derivative instruments and are recorded at fair value on the statements of financial condition with the change in fair value between reporting periods recorded to operations. The Company hedges its interest rate risk utilizing forward sold or "to-be-announced" mortgage-backed securities ("TBA MBS"). Further information concerning IRLCs and TBA MBS are included in Note 3.

Investments in Affiliated Partnerships

The Company has investments in certain limited partnerships where CCM is the asset manager, and/or CMS is the servicer. Such investments are accounted for using the equity method of accounting, in which the Company recognizes its proportionate share of earnings or losses, and dividends are recorded as a reduction in the investment basis.

Long-Term Debt, at Fair Value

Long-term debt (consisting of Extendible PIK Step-up Notes) issued in conjunction with the December 31, 2013 exchange transaction is reported at estimated fair value, based on the Company's irrevocable election to measure these notes at fair value pursuant to FASB ASC 825. These notes are measured based upon market transactions. Where market transactions are unavailable, a valuation analysis is prepared utilizing a discounted cash flow analysis by management, which considers the Company's own credit risk. Unrealized gains and losses are recognized in earnings in the accompanying consolidated statement of operations.

Financing Costs

For debt instruments in which the fair value option was not elected, financing costs are deferred and amortized over the life of the related debt obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Furniture and Equipment

Property, furniture, and equipment are stated at cost. Depreciation is provided by straight-line and accelerated methods over the estimated useful lives of the related assets, ranging from three to seven years. The Company reviews the carrying value of its property, furniture, and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. There were no indicators or impairments as of December 31, 2013.

Intangible Assets

Intangible assets (included in other assets in the consolidated statements of financial condition) consisted solely of goodwill. The Company follows FASB ASC 350-10, *Intangibles – Goodwill and Other*, which addresses financial accounting and reporting for acquired goodwill and other intangible assets. Under FASB ASC 350-10, the Company is not required to amortize goodwill and other intangible assets with indefinite lives but will subject such assets to periodic testing for impairment. These assets are tested for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. The first step in the two-step process of the impairment analysis is to determine the fair value of the Company and each of its reporting units and compare the fair value of each reporting unit to its carrying value. If the carrying value of the reporting unit exceeds its fair value, a second step must be followed to calculate the goodwill impairment. The second step involves determining the fair value of the individual assets and liabilities of the reporting unit that failed the first step and calculating the implied fair value of goodwill. To determine the fair value of the Company and each of its reporting units, the Company utilizes a valuation approach using comparable businesses adjusted for size, cost of equity, and other risk characteristics.

Commitments and Contingencies

From time to time, the Company and its subsidiaries may be subject to commitments under contractual and other commercial obligations as well as contingencies relating to legal disputes. The Company recognizes liabilities for commitments and contingencies when a loss is probable and the amount can be reasonably estimated.

Guarantees

The Company follows FASB ASC 460-10 *Guarantees*, in evaluating the estimated losses for providing indemnifications and guarantees. The Company previously guaranteed the preferred equity holders of CMS, an indirect, wholly-owned subsidiary of the Company. The Company considers such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss.

Instruments with Characteristics of Liabilities and Equity

The Company follows FASB ASC 480-10, *Distinguishing Liabilities from Equity*, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that a company classify a financial instrument that is within its scope as a liability. In determining whether a freestanding financial instrument embodies an obligation, nonsubstantive or minimal features are not taken into consideration.

Income Taxes

Under present income tax laws, a limited liability company is not subject to federal or state income taxes. The members include their respective share of the Company's profit or losses in their separate tax returns. Subsidiary companies which are incorporated entities and earned income during the period will have tax assets or liabilities which are presented on the consolidated statements of financial condition and tax expenses or benefits which are shown in the consolidated statements of operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Adopted Accounting Pronouncements

In January 2013, the FASB issued ASU 2013-01 – *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* ("ASU 2013-01"), which clarifies the scope of ASU 2011-11 by limiting the disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent they are subject to an enforceable master netting or similar arrangement. Previously, ASU 2011-11 – *Disclosures about Offsetting Assets and Liabilities* ("ASU 2011-11") expanded the disclosure requirements for certain financial instruments and derivatives that are subject to enforceable master netting agreements or similar arrangements. These disclosures are required regardless of whether the instruments have been offset (or netted) in the statement of financial position. Under ASU 2011-11, companies must describe the nature of offsetting arrangements and provide quantitative information about those agreements, including the gross and net amounts of financial instruments that are recognized in the statement of financial position. The adoption of ASU 2013-01 did not have a significant impact on the Company's financial statements.

3. FAIR VALUE MEASUREMENTS

The application of fair value measurements may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability or whether management has elected to carry the item at its estimated fair value. FASB ASC 820-10-35 specifies a hierarchy of valuation techniques based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- *Level 1*: Observable inputs such as quoted prices in active markets;
- *Level 2*: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- *Level 3*: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when estimating fair value.

Recurring Fair Value Measurements

The Company assesses its recurring fair value measurements as defined by FASB ASC 820. Assets measured at estimated fair value on a recurring basis include MSRs, LHFS, residential mortgage loans within securitized mortgage collateral ("RMC"), securitized mortgage borrowings ("SMB"), long-term debt, and derivative financial instruments. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers into or out of Level 2 or Level 3 classified instruments during the years ended December 31, 2013 and 2012.

3. FAIR VALUE MEASUREMENTS (continued)

The following tables present the estimated fair value of financial instruments measured at fair value on a recurring basis as of the periods indicated:

	At December 31, 2013			
	Carrying Value	Level 1	Level 2	Level 3
Assets				
LHFS	$ 148,687,550	$ –	$ 148,687,550	$ –
Derivative assets – TBA MBS	2,311,001	–	2,311,001	–
MSRs	70,386,772	–	–	70,386,772
Derivative assets – IRLCs	465,069	–	–	465,069
Trust assets – RMC	3,393,187,928	–	–	3,393,187,928
Total assets at fair value	$ 3,615,038,320	$ –	$ 150,998,551	$ 3,464,039,769
Liabilities				
Long-term debt	374,416,656	–	–	374,416,656
Trust liabilities – SMB	3,460,739,028	–	–	3,460,739,028
Total liabilities at fair value	$ 3,835,155,684	$ –	$ –	$ 3,835,155,684

	At December 31, 2012			
	Carrying Value	Level 1	Level 2	Level 3
Assets				
LHFS	$ 102,280,053	$ –	$ 102,280,053	$ –
MSRs	50,656,984	–	–	50,656,984
Derivative assets – IRLCs	637,433	–	–	637,433
Total assets at fair value	$ 153,574,470	$ –	$ 102,280,053	$ 51,294,417
Liabilities				
Derivative liabilities – TBA MBS	$ 300,834	$ –	$ 300,834	$ –

The following tables present a reconciliation for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated:

	For the Years Ended December 31,						
	2013					2012	
	MSRs	LT Debt	RMC	SMB	IRLCs	MSRs	IRLCs
Fair value as of the beginning of the year	$ 50,656,984	$ –	$ –	$ –	$ 637,433	$ 55,041,422	$ 356,267
Transfers into Level 3	–	–	–	–	–	–	–
Transfers out of Level 3	–	–	–	–	–	–	–
Total gains or losses included for the period	(2,744,917)	(155,344,344)	–	–	–	(8,454,045)	–
Purchases, issuances and settlements:							
Purchases, net	13,156,765	–	–	–	–	–	–
Issuances, net	9,317,940	529,761,000	3,393,187,928	(3,460,739,028)	(172,364)	4,069,607	281,166
Settlements, net	–	–	–	–	–	–	–
Fair value as of the end of the year	$ 70,386,772	$ 374,416,656	$ 3,393,187,928	$(3,460,739,028)	$ 465,069	$ 50,656,984	$ 637,433

Level 3 assets were 96.0% and 33.2% of total assets measured at estimated fair value at December 31, 2013 and December 31, 2012, respectively. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

The following is a description of the measurement techniques for financial instruments measured at estimated fair value on a recurring basis.

3. FAIR VALUE MEASUREMENTS (continued)

Recurring Fair Value Measurements (continued)

MSRs – Due to the lack of a liquid market for MSRs, the Company has classified its MSR as Level 3 fair value measurements. Additional disclosure regarding the estimated fair value of the Company's MSRs is set forth below and in Note 5.

Mortgage loans held for sale – LHFS are carried at fair value. Loans held for sale are measured at fair value and sold to investors on a best efforts and mandatory basis. The fair value for these loans is based on a variety of factors including, but not limited to, loan program, note rate and expected sale date of the loan. The valuations for all loans held for sale are adjusted at the loan level to consider the servicing release premium specific to each loan. LHFS, excluding impaired loans, are classified as Level 2. Loans held for sale measured at fair value that become impaired are transferred from Level 2 to Level 3. There were no identified impaired loans as of December 31, 2013 and December 31, 2012. Changes in the fair value of the loans held for sale is recorded in current earnings as a component of Mortgage Banking revenue in the consolidated statements of operations. The Company recognizes interest income separately from other changes in fair value. The unpaid principal balance of the Company's LHFS at December 31, 2013 and December 31, 2012 were $142.9 million and $97.0 million, respectively.

Derivative assets and liabilities (IRLCs and TBA MBS) – IRLCs derive their base value from an underlying loan type with similar characteristics using the TBA MBS market which is actively quoted and can be validated through external sources. IRLCs not eligible for sale/securitization by the Company are priced through a third party purchase model. In addition to TBA MBS pricing, the most significant data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan, and are adjusted at the loan level to consider the servicing release premium, anticipated origination income and expected future cost to originate specific to each underlying loan. The Company applies an anticipated loan funding probability based on its own experience to value IRLCs, which results in the classification of these instruments as Level 3. The value of the underlying loan and the anticipated loan funding probability are the most significant assumptions affecting the valuation of IRLCs. At December 31, 2013 and December 31, 2012, there were $113.2 million, $85.0 million, respectively, of IRLCs notional value outstanding. The TBA MBS is considered a derivative instrument and is recorded as a component of prepaid expenses and other assets on the consolidated statements of financial condition. The value of the TBA MBS used to hedge both IRLCs and loans is primarily derived from published third party data which uses inputs related to characteristics of the TBA MBS stratified by product, coupon and settlement date. TBA MBS are classified as Level 2. At December 31, 2013 and December 31, 2012, there were $205.9 million and $138.7 million, respectively, of unsettled TBA MBS notional value outstanding. The changes in fair value for these instruments are recorded in current earnings as a component of mortgage banking revenue in the accompanying consolidated statements of operations.

Trust Assets (RMC) – Fair value measurements of the residential mortgage loans within securitized trust assets are based on the Company's internal models used to compute the net present value of future expected cash flows, with observable market participant assumptions, where available. The Company's assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of December 31, 2013, RMC had an unpaid principal balance of $4.3 billion, compared to an estimated fair value on the Company's consolidated statements of financial condition of $3.4 billion. The aggregate unpaid principal balance exceeds the fair value by $0.9 billion at December 31, 2013. The aggregate unpaid principal balances of loans 90 days or more past due was $1.4 billion at December 31, 2013.

3. FAIR VALUE MEASUREMENTS (continued)

Recurring Fair Value Measurements (continued)

Securitized mortgage borrowings (SMB) – Securitized mortgage borrowings consist of individual tranches of bonds issued by securitization trusts and are backed by nonconforming mortgage loans. Fair value measurements include the Company's judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of December 31, 2013, securitized mortgage borrowings had an outstanding principal balance of $4.3 billion compared to an estimated fair value of $3.5 billion. The aggregate outstanding principal balance exceeds the fair value by $0.9 billion at December 31, 2013.

Long-term debt – The Company elected the fair value option in its Extendible PIK Step-Up Notes. These notes are measured based upon market transactions. Where market transactions are unavailable, a valuation analysis is prepared by management utilizing an internal discounted cash flow analysis, which incorporates yields derived from comparable instruments, and considers the Company's own credit risk. As of December 31, 2013, long-term debt had an unpaid principal balance of approximately $529.7 million compared to an estimated fair value of $374.4 million. The aggregate unpaid principal balance exceeds the fair value by $155.3 million at December 31, 2013.

Nonrecurring Fair Value Measurements

The Company is required to measure certain assets and liabilities at estimated fair value from time to time. These fair value measurements typically result from the application of specific accounting pronouncements under GAAP. The fair value measurements are considered nonrecurring fair value measurements under FASB ASC 820-10.

The following table presents the fair value of assets measured for impairment on a nonrecurring basis as of the dates indicated:

	Level	December 31, 2013	Total Gains (Losses) For the Year Ended	December 31, 2012	Total Gains (Losses) for The Year Ended
Goodwill	3	$ –	$ –	$ 2,204,917	$ –

Goodwill – At both December 31, 2013 and December 31, 2012, approximately $0.4 million of the Company's goodwill relates to its mortgage servicing segment and approximately $1.8 million of the Company's goodwill relates to the Company's mortgage lending segment. The Company evaluates the fair value of goodwill based on the financial performance of each segment separately. The primary method the Company uses to estimate the fair value of goodwill is a market approach using prices of comparable businesses which compares the market capitalization of similar publicly traded businesses to their tangible book value (referred to as the "price to tangible book" approach). The Company may adjust the price to tangible book amount for other factors such as size of the comparable companies, cost of equity, risk characteristics, etc. Precise conclusions generally cannot be drawn from these comparisons due to the differences that exist between the Company's businesses and comparable business, however the comparable companies are in the mortgage loan servicing, real estate services, asset management and mortgage banking businesses. There were no impairment indicators at December 31, 2013.

Real estate owned (REO) – REO consists of residential real estate acquired in satisfaction of loans within the Company's consolidated securitizations. Upon foreclosure, REO is adjusted to the estimated fair value of the residential reale state less estimated selling and holding costs. Subsequently, REO is recorded at the lower of carrying value or estimated fair value less costs to sell. REO was not included in the table above because there were no nonrecurring fair value measurments of REO subsequent to consolidation.

3. FAIR VALUE MEASUREMENTS (continued)

Valuation Technique and Unobservable Inputs

Quantitative information about the valuation techniques and unobservable inputs is required to be disclosed for certain recurring and nonrecurring fair value measurements.

The following tables present quantitative information about the valuation techniques and unobservable inputs applied to Level 3 fair value measurements for financial instruments measured at fair value on a recurring and nonrecurring basis as of the dates indicated:

	At December 31, 2013			
	Estimated Fair Value	**Valuation Technique** [(1)]	**Unobservable Input**	**Range of Inputs**
Financial Instrument – Backed by Real Estate:				
RMC	$ 3,393,187,928	DCF [(2)]	Yield	2.85% – 7.67%
SMB	3,460,739,028	DCF [(2)]	Prepayment rate	6.14% – 11.55%
			Default rates	1.38% – 10.92%
Financial Instrument – Other:				
MSRs	70,386,772	DCF [(2)]	Discount rate	11.00% –19.75%
			Weighted average prepayment rate	9.31% – 20.58%
IRLC's	465,069	Market Pricing	Pull-through rate	50.00% – 99.00%
Long-term debt	374,416,656	DCF [(2)]	Discount rate	10.56%

[(1)] There were no changes in the techniques used for valuing Level 3 instruments.
[(2)] Discounted cash flow.

	At December 31, 2012			
	Estimated Fair Value	**Valuation Technique** [(1)]	**Unobservable Input**	**Range of Inputs**
Financial Instrument:				
MSRs	$ 50,656,984	DCF [(2)]	Discount rate	10.50% – 19.75%
			Weighted average prepayment rate	9.07% – 25.13%
IRLC's	637,433	Market Pricing	Pull-through rate	50.00% – 99.00%
Goodwill	2,204,917 [(3)]	Market Pricing	Price to tangible book value	2.6x

[(1)] There were no changes in the techniques used for valuing Level 3 instruments.
[(2)] Discounted cash flow.
[(3)] For goodwill, estimated fair value exceeds carrying value.

Derivative Financial Instruments

The following tables include information pertaining to the Company's derivative assets and liabilities, for the periods indicated:

	Years Ended December 31,			
	2013		2012	
	Notional Balance	**Total Gains (Losses) For the Year**	**Notional Balance**	**Total Gains (Losses) For the Year**
IRLCs	$ 113,200,000	$ (172,364)	$ 85,000,000	$ 281,166
TBA MBS	$ 205,900,000	$ 7,305,903	$ 138,700,000	$ (5,709,491)

3. FAIR VALUE MEASUREMENTS (continued)

Disclosure about the Fair Value of Other Financial Instruments

The tables below are a summary of fair value estimates for other financial instruments, excluding financial instruments recorded at fair value on a recurring or nonrecurring basis as they are included within the *Recurring Fair Value Measurements* and *Nonrecurring Fair Value Measurements* tables included earlier in this Note. The carrying amounts in the following table are recorded in the consolidated statements of financial condition under the indicated captions. Assets and liabilities that are not financial instruments are not included in this disclosure, such as property, furniture and equipment and other liabilities. The total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company.

	At December 31,					
	2013			2012		
	Level	Carrying Value	Fair Value	Level	Carrying Value	Fair Value
Assets						
Cash and cash equivalents	1	$ 71,786,717	$ 71,786,717	1	$ 74,199,796	$ 74,199,796
Restricted cash	1	1,264,295	1,264,295	1	2,281,138	2,281,138
Servicer advances	3	142,101,021	142,101,021	3	220,708,382	220,708,382
Investments in affiliated partnerships	3	7,371,128	7,371,128	3	12,774,729	12,774,729
Total		$ 222,523,161	$ 222,523,161		$ 309,964,045	$ 309,964,045
Liabilities						
Servicing advances lines of credit	2	$ 97,059,300	$ 97,059,300	2	$ 150,550,094	$ 150,550,094
Warehouse lines of credit	2	138,031,345	138,031,345	2	92,600,134	92,600,134
Notes payable	3	87,733	87,733	3	3,385,304	3,385,304
Total		$ 235,178,378	$ 235,178,378		$ 246,535,532	$ 246,535,532

The following descriptions are the valuation techniques used for financial instruments included above:

Cash and Cash Equivalents and Restricted Cash – The fair value of cash and cash equivalents and restricted cash approximate their carrying value.

Servicer Advances – The Company reports advances on loans serviced for others at their net realizable value which generally approximates fair value because advances have no stated maturity, generally are realized within a relatively short period of time and do not bear interest.

Investments in Affiliated Partnerships – These investments are nonmarketable equity investments and are accounted for under the equity method of accounting. There are generally restrictions on the sale and/or liquidation of these investments. The Company uses facts and circumstances available to estimate the fair value of its nonmarketable equity investments, including the evaluation of the financial statements of the investee and prospects for its future.

Short-Term Secured Liabilities (servicing advance lines of credit, warehouse lines of credit) – Short-term financial liabilities are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization. In addition, the liquidity of underlying collateral provides for comparability of pricing of similar instruments.

Notes Payable **–** Notes payable are carried at amortized cost. Fair value is estimated contractual cash flows discounted using rates that would be offered for new notes using the Company’s estimated incremental borrowing rate.

4. TRUST ASSETS AND LIABILITIES

As discussed in Note 2, beginning on December 31, 2013, the Company consolidates certain securitization trusts for which it both owns a subordinated right to potential cash flows (CE-certificated bonds) and owns and performs the related servicing through CMS, the Company's indirect wholly-owned subsidiary. The assets and liabilities within the securitization trusts include the securitized mortgage collateral (loans and real estate owned) and securitized mortgage borrowings. All bonds except for the CE-certificated bonds are owned by third party investors and are nonrecourse to the Company.

Contemporaneous with the exchange as more fully described in Note 14, the Company acquired the CE-certificated bonds of certain securitizations trusts for which CMS owns the servicing rights and, accordingly, the Company consolidated approximately $3.5 billion of trust assets and trust liabilities as follows:

Securitized mortgage collateral:	
Residential mortgage loans	$ 4,341,944,658
Fair value adjustment	(948,756,730)
Residential mortgage loans, at fair value	3,393,187,928
Real estate owned, at net realizable value	67,551,100
Total securitized mortgage collateral	3,460,739,028
Securitized mortgage borrowings, at fair value	(3,460,739,028)
Net trust assets	$ –

There was no overall impact on members' capital as a result of the consolidation of these trust assets and trust liabilities on December 31, 2013 as the estimated fair value of the net trust assets (CE-certificated bonds) was zero.

Securitized Mortgage Collateral

Securitized mortgage collateral includes mortgages secured by residential real estate and real estate owned through foreclosure and consisted of the following at December 31, 2013:

Mortgages secured by residential real estate	$ 4,341,944,658
Fair value adjustment	(948,756,730)
Mortgages secured by residential real estate, at fair value	3,393,187,928
Residential real estate owned	67,551,100
Net realizable value (NRV) adjustment	–
Residential real estate owned at NRV	67,551,100
Total securitized mortgage collateral	$ 3,460,739,028

As of December 31, 2013, CMS had advances on its consolidated securitization trusts of approximately $89.0 million. CMS may be required to advance funds to cover delinquent principal and interest payments not received from borrowers in addition to property taxes, maintenance, repairs and marketing costs.

4. TRUST ASSETS AND LIABILITIES (continued)

Securitized Mortgage Borrowings

Selected information on securitized mortgage borrowings consisted of the following:

Year of Issuance	Original Issuance Amount	Securitized Mortgage Borrowings Outstanding at December 31, 2013	2012	Range of Interest Rates: Fixed Interest Rates	Interest Rate Margins Over One-Month LIBOR [1]	Interest Rate Margins After Contractual Call Date [2]
2004	$ 632,773,274	$ 40,798,237	$ –	5.39% – 5.63%	N/A	0.90% – 3.75%
2005	6,179,787,013	900,476,541	–	4.33% – 5.20%	0.28% – 1.30%	0.56% – 2.18%
2006	9,694,020,112	2,872,199,207	–	4.77% – 5.27%	0.08% – 0.58%	0.16% – 0.87%
2007	1,258,830,024	529,022,438	–	5.19% – 5.29%	0.05% – 0.30%	0.10% – 0.45%
Subtotal securitized mortgage borrowings	17,765,410,423	4,342,496,423	–			
Fair value adjustment	–	(881,757,395)	–			
Total securitized mortgage borrowings	$17,765,410,423	$ 3,460,739,028	$ –			

(1) One-month LIBOR was 0.168% as of December 31, 2013.
(2) Interest rate margins are generally adjusted when the unpaid principal balance is reduced to less than 10% to 20% percent of the original issuance amount or if certain other triggers are met.

5. MORTGAGE SERVICING RIGHTS

MSRs arise from contractual agreements between CMS and investors (or their agents) in mortgage securities and mortgage loans. Under these contracts, CMS performs loan servicing functions in exchange for fees and other remuneration. The servicing functions typically performed include, among other responsibilities, collecting and remitting loan payments, responding to borrower inquiries, accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums, counseling delinquent mortgagors, and supervising foreclosures and property dispositions.

The value of MSRs is derived from the net positive cash flows associated with the servicing contracts. CMS generally receives a servicing fee of ranging from 18.5% to 0.50% annually on the unpaid principal balances (“UPB”) of the loans. The servicing fees are collected from the monthly payments made by the mortgagors or when the underlying real estate is foreclosed upon and liquidated. CMS generally receives other remuneration including modification fees, rights to various mortgagor-contracted fees such as late charges, collateral reconveyance charges, NSF fees and CMS is generally entitled to retain the interest earned on funds held pending remittance (or “float”) related to its collection of mortgagor principal, interest, tax and insurance payments.

The precise market value of MSRs cannot be readily determined because these assets are not actively traded in stand-alone markets. Considerable judgment is required to determine the fair values of these assets and the exercise of such judgment can significantly impact CMS’s financial condition and results of operations. Accordingly, management exercises extensive and active oversight of this process. CMS’s MSR valuation process combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value at the balance sheet date. The cash flow assumptions and prepayment assumptions are based on current market factors and are consistent with assumptions and data used by market participants valuing similar MSRs. The key assumptions used in the valuation of MSRs include prepayment speeds, cost to service the underlying mortgage loans, forward interest rates and discount rates. The current market data utilized in the MSR valuation process and in the assessment of the reasonableness of the MSR valuation are obtained from MSR market trades and the results of a valuation analysis performed by a qualified independent third-party expert.

5. MORTGAGE SERVICING RIGHTS (continued)

Key assumptions used in estimating the fair value of CMS's MSRs and the effect on the estimated fair value from adverse changes in those assumptions are as follows:

	At December 31, 2013	At December 31, 2012
Fair value of MSRs	$ 70,386,772	$ 50,656,984
Weighted-average annual prepayment [1]	17.04%	20.12%
Impact of 10% adverse change	(2,759,104)	(1,624,074)
Impact of 20% adverse change	(5,324,699)	(3,171,570)
Weighted-average discount rate [1]	17.18%	17.95%
Impact of 10% adverse change	(2,941,832)	(2,095,717)
Impact of 20% adverse change	(5,699,618)	(4,039,523)

(1) Weighted averages are based upon the loan UPB.

The Company serviced approximately $12.9 billion and $8.4 billion, respectively, in UPB of loans, where CMS owns the MSR, with the following characteristics:

	At December 31, 2013	At December 31, 2012
Non-agency	$ 7,040,461,886	$ 7,923,862,877
Agency	5,818,083,374	434,730,506
Total	$ 12,858,545,260	$ 8,358,593,383

The valuation of MSRs includes numerous assumptions of varying lower sensitivities in addition to the assumptions discussed above. Other assumptions include, but are not limited to, market cost to service loans, involuntary prepayment (borrower default), prepayment penalties, the cost to finance servicer advances and the related late fees and escrow balances. The change in fair value of the Company's mortgage servicing rights is as follows:

	For the years ended December 31, 2013	For the years ended December 31, 2012
Fair value, beginning of period	$ 50,656,984	$ 55,041,422
Servicing from securitizations	9,317,940	4,069,607
Servicing rights purchased	13,156,765	–
Net additions	22,474,705	4,069,607
Changes in fair value:		
Collection or realization of cash flows	(5,833,723)	(8,589,658)
Due to changes in valuation model inputs or assumptions:		
Mortgage interest rates	–	–
Servicing and foreclosure costs	–	(1,371,847)
Discount rates	(280,905)	–
Prepayment estimates and other	3,369,711	2,637,806
Net changes in valuation model inputs or assumptions	3,088,806	1,265,959
Other changes in fair value	–	(1,130,346)
Total changes in fair value	(2,744,917)	(8,454,045)
Fair value, end of period	$ 70,386,772	$ 50,656,984

In November 2013, CMS acquired mortgage servicing rights of approximately $4.5 billion in unpaid principal balance of residential mortgage loans originated through Ginnie Mae loan programs. The purchase price of approximately $8.6 million was financed by a third-party, who contemporaneously acquired the excess servicing strip from CMS for approximately $30.4 million, leaving CMS with approximately $19.6 million in cash and a receivable of $2.2 million. The Company established reserves of $34.9 million in connection with the acquisition, as the Company will not be reimbursed for certain costs as described in Note 2, Summary of Significant Accounting Policies – *Reserve for Losses on Loan Sales and Mortgage Servicing Claims.*

6. MORTGAGE SERVICING FEES

Mortgage servicing fee revenue consisted of the following:

	For the years ended December 31,	
	2013	2012
Servicing fees	$ 61,521,085	$ 51,767,189
Third party servicing	15,386,925	7,725,213
Late charges	4,728,407	4,818,516
Modification fees	5,155,413	4,736,214
Other fees	618,645	632,247
Total servicing fees	$ 87,410,475	$ 69,679,379

When a mortgage loan becomes delinquent (and during the period of delinquency and/or default), the Company does not collect a servicing fee until that mortgage loan becomes current or the underlying property is foreclosed upon and sold. These uncollected servicing fees are not recorded as servicing fees revenue until collected. Uncollected servicing fees for delinquent loans and foreclosed real estate totaled approximately $28.0 million and $28.3 million at December 31, 2013 and December 31, 2012, respectively.

7. MORTGAGE LOANS HELD FOR SALE

The following tables represent the fair value of mortgage loans held for sale by type of loan at the dates indicated:

	At December 31,			
	2013		2012	
	Amount	%	Amount	%
Conforming – fixed	$ 33,515,793	22.54%	$ 39,567,304	38.69%
Conforming – ARM	–	0.00%	850,519	0.83%
FHA – fixed	91,007,017	61.21%	55,965,715	54.71%
FHA – ARM	1,069,020	0.72%	–	–
VA – fixed	21,367,270	14.37%	5,896,515	5.77%
USDA – fixed	1,728,450	1.16%	–	–
	$ 148,687,550	100.00%	$ 102,280,053	100.00%

A summary of the initial principal balance of mortgage loans originated by type of loan for the periods indicated:

	Years Ended December 31,			
	2013		2012	
	Amount	%	Amount	%
Conforming – fixed	$ 399,223,632	28.23%	$ 475,425,459	49.36%
Conforming – ARM	5,616,444	0.40%	4,413,910	0.46%
FHA – fixed	845,686,736	59.81%	447,796,468	46.49%
FHA – ARM	5,017,089	0.35%	2,568,758	0.27%
VA – fixed	151,853,965	10.74%	30,770,347	3.19%
USDA – fixed	6,674,066	0.47%	2,181,533	0.23%
	$ 1,414,071,932	100.00%	$ 963,156,475	100.00%

7. MORTGAGE LOANS HELD FOR SALE (continued)

Gain on sale of mortgage loans (within mortgage banking revenues in the accompanying consolidated statements of operations) is comprised of the following components:

	For the years ended December 31, 2013	2012
Premium from whole loan sales	$ 60,698,203	$ 45,692,311
Mark to market gain on loans held for sale	491,569	2,409,096
Realized gains (losses) from derivative financial instruments	5,682,741	(5,691,660)
Provision for losses on loans sold	(1,661,344)	(651,658)
Unrealized gains from derivative financial instruments	1,450,798	263,332
Origination fees and broker fees	(25,843,968)	(15,281,209)
Total gain on sale of loans	$ 40,817,999	$ 26,740,212

The components of the mortgage loans held for sale measured at fair value is as follows:

	At December 31, 2013	2012
Aggregate unpaid principal balance	$ 142,927,018	$ 97,011,090
Difference between fair value and aggregate unpaid principal balance	5,760,532	5,268,963
Mortgage loans held for sale	$ 148,687,550	$ 102,280,053

The Company does not have any delinquent or nonaccrual loans as of December 31, 2013 or 2012.

The activity related to the reserves for estimated losses on loans sold and for estimated claims on originated and acquired Government Agency loans for which the servicing has been retained by the Company, is as follows:

	For the years ended December 31, 2013	2012
Balance, beginning of period	$ 1,023,508	$ 591,271
Additions from MSR acquisition (Note 5)	34,909,228	–
Provisions	1,661,344	651,658
Charge offs, net	(127,586)	(219,421)
Balance, end of period	$ 37,466,494	$ 1,023,508

8. PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment, net consisted of the following:

	At December 31, 2013	2012
Property, furniture and equipment		
Vehicles	$ 370,873	$ 15,291,824
Computer, phone and information technology	8,342,252	6,682,828
Leasehold improvements	5,826,455	4,942,982
Furniture and office	6,780,725	3,795,019
Other fixed assets (1)	279,863	627,607
	21,600,168	31,340,260
Accumulated depreciation		
Vehicles	(181,294)	(13,901,262)
Computer, phone and information technology	(5,140,411)	(4,437,541)
Leasehold improvements	(3,914,340)	(4,626,591)
Furniture and office	(4,782,040)	(2,777,888)
Other fixed assets (1)	–	(58,129)
	(14,018,085)	(25,801,411)
Total property, furniture and equipment, net	$ 7,582,083	$ 5,538,849

(1) Represents assets purchased which have not been placed in service as of December 31, 2013.

8. PROPERTY, FURNITURE AND EQUIPMENT (continued)

In December 2013, a wholly owned subsidiary of the Company, primarily engaged in the business of transportation, was transferred out of the Company to an affiliated Company for no consideration. The transportation services relating to this entity are used by and invoiced to the Company and/or its subsidiaries on an as-used basis. The net equity of this entity at the date of deconsolidation was $4.7 million.

9. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consisted of the following:

	At December 31, 2013	At December 31, 2012
Accounts receivable	$ 21,343,751	$ 12,032,476
Prepaid expenses	4,263,233	2,983,646
Derivative financial instruments	2,776,070	637,433
Goodwill	2,204,917	2,204,917
Other	2,672,615	713,303
Total other assets	$ 33,260,586	$ 18,571,775

10. SERVICER ADVANCES

Cash collected from borrowers that is contractually due to the investors is subsequently deposited into custodial accounts segregated by investor pool. Under certain pooling and servicing agreements, when the borrower fails to make a contractually scheduled payment, CMS may be required to advance the principal and interest payment, less the servicing fee, to meet the remittance requirements of the investors. To make the advance, CMS may first use any available excess funds in the related custodial account, and, if the advance requirement has not been met, CMS must then use its own funds to fulfill the obligation. In addition, CMS may be required to advance, from its own funds, property taxes and insurance for borrowers that have insufficient escrow accounts, plus any other costs to preserve the property. Also, CMS may advance funds to maintain, repair and market foreclosed real estate properties on behalf of the investors. CMS is only required to make the advances described above if they are deemed recoverable. CMS is entitled to recover advances from the borrowers for reinstated and performing loans, from proceeds of liquidated properties, or from the investors for modified or charged off loans.

The outstanding servicing advances consisted of the following:

	At December 31, 2013	At December 31, 2012
Taxes and insurance	$ 69,243,636	$ 98,158,834
Principal and interest	43,764,100	64,355,562
Foreclosure, bankruptcy and other	29,093,285	58,193,986
Total servicing advances	$ 142,101,021	$ 220,708,382

11. SERVICING OBLIGATIONS

Servicing obligations represent amounts that are borrowed from the custodial accounts (which are excluded from the consolidated statements of financial condition) pursuant to the servicing contracts, to pay the principal and interest advances, plus amounts that are collected from borrowers that will be deposited in custodial accounts, paid to a third party, or refunded to the borrowers. Servicing obligations are summarized as follows:

	At December 31, 2013	At December 31, 2012
Principal and interest advances due custodial accounts	$ 30,380,557	$ 29,078,989
Borrower and escrow payments due custodial accounts	20,732,411	19,787,840
Unapplied funds	12,248,136	12,929,817
Total servicing obligations	$ 63,361,104	$ 61,796,646

12. SERVICING ADVANCES LINES OF CREDIT

CMS had established an advance facility with JPMorgan Chase (“JPM”) and The Royal Bank of Scotland (“RBS”) acting as co-agents and noteholders to facilitate the funding of, and secured by, servicing advances on 29 pools of loans. The facility matured December 2012, and was extended to February 2013 and paid in full in March 2013 with the proceeds of the Wells Fargo Securities servicing advance facility described below.

CMS had established a second servicing advance facility with Wells Fargo Securities secured by the servicing advances of five pools of loans. This line matured December 2012, which was extended to February 2013 and renewed and expanded in March 2013 to include the pools from the JPM and RBS facility described above. The new facility consists of a $45 million variable funding note, which carries an interest rate of one-month LIBOR plus 3.5%, and a $100 million combination of a draw and term note. The term note was fully funded to $100 million in March 2013, and carries an interest rate of one-month LIBOR plus 0.275%. The term note will fully amortize over twelve months and the draw note will increase by approximately the same amount during the same period. The draw note carries an interest rate of one-month LIBOR plus 3.5%. All of the notes were scheduled to mature in February 2014, and in February 2014, the maturity date was extended to April 2014. Management of the Company expects to renew such financing arrangements in the ordinary course, however there can be no assurance that the Company will be able to renew the financing arrangements at similar (or more favorable) terms, if at all. At December 31, 2013, the facilities had a total committed amount of $108.0 million, and an outstanding balance of approximately $97.1 million. At December 31, 2013, the facility carried a blended interest rate of one-month LIBOR plus 2.95%, payable monthly. In addition, a blended annual facility fee of 1.58%, based on the committed amount, is payable monthly. The weighted average advance rate at December 31, 2013 was 70.28%. A reserve account equivalent to 0.83% of the unpaid principal balance is required to be maintained on deposit at Wells Fargo Bank and is included in restricted cash in the accompanying consolidated statements of financial condition. This advance facility includes customary covenants, of which the Company was in compliance with such covenants at December 31, 2013.

One-month LIBOR was 0.168% at December 31, 2013 and averaged 0.188% during 2013.

Both servicing advance facilities and the repurchase facility were subject to a margin call if the principal balance of either line exceeds the underlying value of the collateral for the respective line. At December 31, 2013 and 2012, the fair value of the collateral exceeded the unpaid principal balance of servicing advance facilities.

13. WAREHOUSE LINES OF CREDIT

CMS has warehouse lines of credit to fund government and conventional residential mortgage loans. These lines of credit are as follows at the dates indicated:

At December 31, 2013

Warehouse Line of Credit	Line Limit (in millions)	Interest Rate	Initial Advance Rate	Outstanding Balance (in millions)	Secured by LHFS Estimated Fair Value (in millions)	Maturity Date
Agreement I	$20.00	1-month Libor+2.75% Floor 4.50%	98%	$ –	$ –	(1)
Agreement II	$100.00	1-month Libor+3.13% Floor 3.88%	97% – 97.5%	$88.87	$95.54	September 3, 2014
Agreement III	$125.00	1-month Libor+2.75% to 3.25%	95% – 96%	$49.16	$53.04	August 13, 2014
Agreement IV	$1.00	1-month Libor+3.0%	95%	$ –	$ –	March 20, 2014(2)

(1) Terminates within 90 days written notice by either party
(2) This line was renewed in March 2014 with a new maturity date of September 2014.

At December 31, 2012

Warehouse Line of Credit	Line Limit (in millions)	Interest Rate	Initial Advance Rate	Outstanding Balance (in millions)	Secured by LHFS Estimated Fair Value (in millions)	Maturity Date
Agreement I	$20.00	1-month Libor+2.75% Floor 4.5%	98%	$ –	$ –	(1)
Agreement II	$80.00	1-month Libor+3.13% Floor 3.88%	97%	$41.34	$45.19	July 22, 2013
Agreement III	$80.00	1-month Libor+2.75% to 3.25%	95% – 96%	$51.26	$56.66	August 6, 2013

(1) Terminates within 90 days written notice by either party

14. LONG-TERM DEBT, AT FAIR VALUE

The Exchange Transaction

On December 31, 2013 the Company issued $529,761,000 aggregate principal amount of its Extendible PIK Step-Up Notes (the "Step-Up Notes") in connection with the Company's purchase and acquisition of all of the assets of Carrington Investment Partners (US), LP and Carrington Investment Partners (Cayman), LP (the "Legacy Carrington Funds"), which assets include the outstanding preferred membership interests in CMS. Those preferred membership interests were originally issued to an entity owned by the Legacy Carrington Funds to refinance a note issued to finance the purchase of a mortgage servicing platform in 2007. Since their inception, the Legacy Carrington Funds have been managed by CCM, and at the time of the purchase of the servicing platform, the Legacy Carrington Funds owned several subordinated mortgaged backed securities that were backed by pools of mortgage loans serviced by this servicing platform. The original face amount of the preferred membership interests in CMS at the time of issuance was approximately $54 million, and had grown to approximately $530 million at the time that it was

14. LONG-TERM DEBT, AT FAIR VALUE (continued)

The Exchange Transaction (continued)

purchased by the Company. The other assets owned by the Legacy Carrington Funds consisted primarily of servicing rights, but also include subordinated mortgage backed securities, which were ascribed no value at the time of the exchange transaction. Immediately following the completion of the exchange transaction, all assets of the Legacy Carrington Funds, including the preferred membership interests in CMS, were owned by the Company and all of the Step-Up Notes were owned by the limited partners of the Legacy Carrington Funds. The exchange transaction was approved by a two-thirds super-majority in interest of the limited partners of the Legacy Carrington Funds on December 16, 2013.

The acquisition of the Legacy Carrington Funds and issuance of long-term debt was accounted for as a transaction between entities under common control and the effect of this transaction on the Company's consolidated balance sheet at December 31, 2013 is as follows:

Issuance of long-term debt	$ (529,761,000)
Redemption of preferred stock of consolidated subsidiary	529,761,000
Additions of assets and liabilities from the Legacy Carrington Funds:	
Cash and cash equivalents	1,353,778
Other assets	1,670,975
Accounts payable and accrued liabilities	(392,652)

The Step-Up Notes

The Step-Up Notes mature on January 15, 2021 (the "Initial Maturity Date") at 100% of their principal amount unless the maturity date is extended. In no event will the maturity of the Step-Up Notes be extended beyond January 15, 2026 (the "Final Maturity Date"). Interest is paid on the Step-Up Notes semi-annually in arrears on January 15 and July 15 of each year (each an "Interest Payment Date"), beginning July 15, 2014. The interest rate on the Step-Up Notes is initially 2.00% per annum and will increase 50 basis points (0.50% per annum) on each Interest Payment Date beginning on January 15, 2015, subject to a maximum interest rate of 6.50% during the term ending on the Initial Maturity Date. In the event the Company elects to extend the maturity of the Step-Up Notes beyond the Initial Maturity Date, the interest rate on the Step-Up Notes will be increased.

For any interest accrual period prior to January 15, 2016, the Company may elect to pay interest on the Step-Up Notes (i) entirely in cash ("Cash Interest") based on the interest rates then in effect for the Step-Up Notes for the applicable interest accrual period (the "Stated Interest Rate") or (ii) a portion in Cash Interest and the remainder by either (a) increasing the principal amount of the outstanding Step-Up Notes or (b) issuing additional Step-Up Notes, in each case, in a principal amount equal to such portion of interest (such interest amount, "PIK Interest"). In the event the Company elects to pay a portion of the interest in PIK Interest, the amount of Cash Interest to be paid on the outstanding principal amount of the Notes will not be less than 1.00% per annum (such interest rate selected by the Company to calculate Cash Interest, the "Cash Interest Rate"). The amount of PIK Interest to be paid on the outstanding principal amount of the Step-Up Notes will be calculated based on an interest rate (the "PIK Interest Rate") that is equal to 150% of the positive difference between the Stated Interest Rate then in effect for the applicable interest accrual period and the Cash Interest Rate selected by the Company. For the first interest accrual period ending on July 15, 2014, interest on the Step-Up Notes will be payable in Cash Interest at the rate of 1.00% per annum and PIK Interest at the rate of 1.50% per annum. After January 15, 2016, the Company will make all interest payments on the Step-Up Notes entirely in cash.

As further discussed in Notes 2 and 3, the Company elected the Fair Value Option on the Step-Up Notes at December 31, 2013, which at the time had unpaid principal balance of $529.7 million compared to an estimated fair value of $374.4 million. The aggregate unpaid principal balance exceeded the fair value by $155.3 million.

15. NOTES PAYABLE

The Company had outstanding secured notes payable as follows at the dates indicated:

At December 31, 2013

Financial Institution	Original Balance	Outstanding Balance	Rate	Maturity Date
Ford Credit	$ 57,729	$ 33,269	(1)	(3)
Ally Financial	99,482	54,464	(2)	(4)
Total	$ 157,211	$ 87,733		

(1) Interest rates range from 8.89% to 9.49%
(2) Interest rates range from 4.75% to 5.59%
(3) Maturity dates range from December 2015 to June 2017
(4) Maturity dates range from December 2016 to February 2017

At December 31, 2012

Financial Institution	Original Balance	Outstanding Balance	Rate	Maturity Date
Capital Bank	$ 1,200,000	$ 367,326	5.875%	3/8/2015
Capital Bank	2,000,000	745,979	5.000%	4/5/2016
Mountain 1st Bank & Trust	5,250,000	2,157,273	5.000%	5/15/2015
Ford Credit	57,729	44,163	(1)	(3)
Ally Financial	99,482	70,563	(2)	(4)
Total	$ 8,607,211	$ 3,385,304		

(1) Interest rates range from 8.89% to 9.49%
(2) Interest rates range from 4.75% to 5.59%
(3) Maturity dates range from December 2015 to June 2017
(4) Maturity dates range from December 2016 to February 2017

Future minimum principal payments on the secured notes are as follows at the date indicated:

Year Ending	
2014	$ 28,870
2015	30,859
2016	24,065
2017	3,939
Thereafter	–
	$ 87,733

16. DEFERRED REVENUE

Effective November 28, 2012, Carrington Insurance Agency, LLC (“CIA”), formerly known as Telsi Insurance Agency, LLC, entered into a contract with an unrelated party to transfer their rights, title and interests to insurance commissions placed on or after the aforementioned effective date. The contract stipulates a minimum required production of $125.0 million in policies placed by CIA, in exchange for $21.25 million in cash paid to CIA on the effective date. CIA recorded the cash received as deferred revenue which is earned as new policies are placed by CIA. The deferred revenue amount included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial condition was approximately $17.4 million at December 31, 2013 and $21.2 million at December 31, 2012.

17. COMMITMENTS AND CONTINGENCIES

Leases

The Company and its subsidiaries lease premises and certain equipment under capital leases and noncancelable operating leases with terms expiring through 2024, exclusive of renewal option periods. Future minimum lease payments for the Company and its subsidiaries are as follows:

At December 31, 2013						
Year Ending	Mortgage Lending	Mortgage Servicing	Real Estate Services	Asset Manager	Corporate Support	Total
2014	$ 592,475	$ 4,162,071	$ 830,956	$ 501,977	$ 2,825,351	$ 8,912,830
2015	257,797	1,921,087	326,121	66,944	3,118,026	5,689,975
2016	1,764	–	43,828	11,463	2,897,191	2,954,246
2017	–	–	13,564	–	2,840,978	2,854,542
2018	–	–	1,641	–	2,833,464	2,835,105
Thereafter	–	–	–	–	9,326,510	9,326,510
	$ 852,036	$ 6,083,158	$ 1,216,110	$ 580,384	$ 23,841,520	$ 32,573,208

Total rent expense for the years ended December 31, 2013 and 2012 were approximately $9.1 million and $7.4 million, respectively.

Litigation

The Company is subject to various claims and actions that arise in the ordinary course of business. In the opinion of management, based in part on the opinion of legal counsel, the ultimate resolution of such claims and actions are not expected have a material adverse effect on the Company’s financial position or results of operations.

Guaranty

The Company was the guarantor for the repayment of the preferred equity (plus declared dividend) issued by CMS. In conjunction with the exchange transaction more fully described in Note 14, the guaranty was released and was not outstanding at December 31, 2013.

18. PREFERRED MEMBERSHIP INTERESTS OF CONSOLIDATED SUBSIDIARY

During 2009 and 2010, CMS issued an aggregate of 48,757,216 shares of Class A preferred membership interests, par value $5.00 per share, to Dianthus Management Corporation (“DMC”), and 6,798,152 shares of Class B preferred membership interests, par value $5.00 per share, to Dianthus Management Corporation II (“DMC II”). Both DMC and DMC II were wholly owned subsidiaries of CIP, of which CCM is the general partner. Both classes are nonvoting shares and take preference over the common membership interests with respect to distributions and redemptions.

Effective September 30, 2010, CMS declared a dividend on these preferred shares of $59.0 million and predeclared an additional $32.6 million dividend/premium through December 31, 2010, for a total dividend of $91.7 million. Also on September 30, 2010, DMC and DMC II transferred 100% of their ownership in the Class A and B preferred membership interests to CIP. In January 2011, CMS issued 18,334,718 Class B shares to the Class B preferred member in exchange for and full satisfaction of the dividend distribution declared in 2010 in the amount of $91.7 million. In addition, the effective yield of the preferred membership interests was reduced from 20.3% to 12.25%, effective January 1, 2011.

Effective March 31, 2011 and December 31, 2013, CMS declared dividends of $11.4 million and $149.5 million, respectively, which were paid-in kind at December 31, 2013 with 32,062,114 shares of Class B preferred membership interests.

19. RELATED PARTY TRANSACTIONS

Noncontrolling Interest – Preferred Membership Interests

The Class A and Class B preferred membership interests of the Company's subsidiary, CMS, were held by CIP, of which CCM is the general partner. On December 31, 2013, the Company indirectly acquired the preferred membership interests of CMS as part of the transaction as discussed in Note 14.

Investment in Affiliated Partnership

CHC is invested in a limited partnership managed by subsidiaries of CHC. The limited partnership acquires pools of residential mortgage loans for which CMS acts as the servicer and CCM as the asset manager. At December 31, 2013 and December 31, 2012, the Company's investment was approximately $5.2 million and $10.5 million, respectively, which represented 0.56% and 1.5%, respectively, of the total limited partnership interests. An unaffiliated third party owns the balance of the limited partnership. The total unpaid principal amount of the loans serviced was approximately $2.8 billion and $2.2 billion, respectively, at December 31, 2013 and December 31, 2012. CHC accounts for its investment under the equity method because it provides significant influence, but not control over the limited partnership investment. For the years ended December 31, 2013 and 2012, CHC recognized approximately $1.1 million and $1.0 million, respectively, of income relating to its share of the limited partnership's earnings which was classified as other revenue in the accompanying consolidated statements of operations.

Accounts and Notes Receivable from Affiliates

Accounts and notes receivable from affiliates totaled approximately $0.1 million and $2.2 million, respectively, at December 31, 2013 and 2012, respectively. These accounts and notes include amounts due from the managing member of CHC or companies owned by the managing member of CHC for usage of certain Company for the personal use by the managing member.

Affiliate Services

Affiliates of the Company earn service fees by providing a variety of services on an arms-length basis and at market rates to the securitization trusts serviced by CMS. In certain of these trusts, an affiliate of the Company (Carrington Securities) was the sponsor of the securitizations and another affiliate (CIP) was an investor in the securitizations until the ownership of CIP was transferred to the Company as more fully described in Note 14. The affiliates providing the services are paid by the respective securitization trusts, which are described below:

Property Field Services

Carrington Property Services, LLC ("CPS"), a wholly owned subsidiary of REL, performs site inspections on specified properties in default and assists CMS in developing a marketing strategy for liquidating and renting properties. When a property is foreclosed upon and subsequently sold to a third party, CPS receives a fee equal to 1% of the sales price. This fee is paid directly to CPS at the close of escrow and is taken from the market standard 6% sales commission remitted to the real estate agents.

When a property is rented, CPS receives a leasing fee equivalent to 10% of the gross monthly rent collected. During the years ended December 31, 2013 and 2012, CPS received approximately $3.5 million and $6.2 million, respectively, for performing these services.

Document Services

Carrington Document Services, LLC ("CDS"), a wholly owned subsidiary of CRES, performs document services functions for loan modifications negotiated by CMS. These activities include the preparation of the documents, coordinating the delivery of the documents to the borrowers and facilitating the successful recovery of the signed documents. During the years ended December 31, 2013 and 2012, CDS received approximately $2.6 million and $2.6 million, respectively, for performing these services.

19. RELATED PARTY TRANSACTIONS (continued)

Affiliate Services (continued)

Foreclosure Services

Carrington Foreclosure Services, LLC (“CFS”), a wholly owned subsidiary of CRES, performs various nonjudicial foreclosure trustee activities for properties that CMS services in the states of California, Nevada, Texas and Arizona. These activities include preparing notice of defaults, initiating foreclosure sales and facilitating the transfer of the properties upon sale. During the years ended December 31, 2013 and 2012, CFS received approximately $0.5 million and $0.9 million, respectively, for performing these services.

Real Estate Sales

CRES, through its licensed brokerage subsidiaries, licensed escrow subsidiary and settlement services company, acts as the sales, escrow agent and settlement agent, respectively, when selling various CMS-serviced properties that have previously been foreclosed upon as well as unrelated third party properties. When the property is sold to a third party, CRES generally receives a net sales commission ranging between 2.0% and 2.5% of the sales price plus market standard escrow fees paid directly to the escrow company at the close of escrow. During the years ended December 31, 2013 and 2012, CRES received approximately $6.6 million and $12.6 million, respectively, for performing these services.

Recovery Services

Carrington Resolution Services, LLC (“CRS”), a wholly owned subsidiary of CMH, performs debt resolution services for loans serviced by CMS that have been previously charged off as well as unrelated third party loans. CRS receives a fee of 40% of the amount collected. CRS received approximately $0.3 million for both years ended December 31, 2013 and 2012, respectively, for performing these services.

Insurance Services

Carrington Insurance Agency, LLC (“CIA”), a wholly owned subsidiary of CRES, acts as the insurance agent for placing insurance coverage to protect loans and foreclosed properties serviced by CMS, and maximizing claims recoveries from insurance underwriters for REO properties. As described in Note 16, effective November 28, 2012, CIA entered into a contract to transfer its right, title and interests to insurance commissions placed on or after the aforementioned date. During the years ended December 31, 2013 and 2012, CIA received approximately $1.0 million, and $3.3 million, respectively, for policies placed prior to November 28, 2012.

20. CONCENTRATION OF CREDIT RISKS

In the ordinary course of business, the Company will encounter certain economic and regulatory risks. Economic risks include credit risk, interest rate risk and market risk. Credit risk is the risk of default, primarily in the loan portfolio that results from borrowers’ inability or unwillingness to make contractually required payments. Interest rate risk is the risk that the valuation of the Company’s interest sensitive assets and liabilities and its net interest income will change due to changes in interest rates. Market risk includes the inability of prospective borrowers to engage in commitments to originate loans. Regulatory risks include administrative enforcement actions and/or civil or criminal liability resulting from any alleged failure to comply with the laws and regulations applicable to the Company’s business.

20. CONCENTRATION OF CREDIT RISKS (continued)

In recent years, the mortgage industry has been characterized by uncertainty in the regulatory environment, interest rates, collateral valuations and the housing market in general. While the Company continued to observe stabilization of the mortgage industry in 2013 and 2012, no assurances can be given as to the timing of the full recovery of the mortgage industry as a whole; however, market indicators are showing significant improvement.

As of December 31, 2013, the Company was approved to originate loans in 43 states, Puerto Rico and the District of Columbia. During 2013 and 2012, the Company originated loans in 37 states and 30 states, respectively, with significant activity (greater than 5% of total originations) in the following states:

	For the year ended December 31,	
	2013	2012
State	Percent of Originations	Percent of Originations
California	38.79%	63.98%
Florida	14.54%	8.37%
Maryland	6.50%	4.41%

Changes in the real estate market, or significant increases in interest rates, could have a material adverse impact on the Company’s mortgage lending operations.

The MSRs that are owned by CMS are subject to fluctuations in their estimated fair value due to various risk factors including market, credit and interest rate risks. A significant amount of the loans serviced under these contractual agreements are to subprime borrowers and are generally more volatile than prime loans. CMS attempts to mitigate the risk by utilizing assumptions that it believes are appropriate. The assumptions utilized, however, are inherently uncertain, subject to changes in political, economic and market conditions and accordingly, it is typical to realize volatility in the estimated fair value over the respective lives of the MSRs.

CMS uses lines of credit with various lenders to facilitate the funding of servicing advances and residential mortgage loans, and would be exposed to material adverse risk resulting from counterparty nonperformance. In addition, these lines expire at various times during 2014 and CMS is exposed to material adverse risk if the lines of credit are not renewed. No assurance can be given that such renewals will occur, or if such renewals occur, that they will be renewed with similar or favorable terms. However, CMS does not anticipate any nonperformance by the counterparties and believes its lines of credit will be renewed with similar terms.

21. LONG-TERM INCENTIVE PLAN

Effective December 15, 2009, CCM adopted a long-term incentive plan pursuant to which it awards units to eligible participants on the terms and conditions in the plan agreement. In conjunction with the internal reorganization as discussed in Note 1, CHC became the plan sponsor. Employees of the Company are eligible to participate in the plan. There are 41,750,000 units reserved under the plan. Such units vest based on years of service and are paid out only upon events specified in the plan agreement, including but not limited to events of liquidity such as the sale of CHC or one or more of its subsidiaries. The total units allocable to CHC employees outstanding at December 31, 2013 and December 31, 2012 were 36,452,600 and 37,364,300, respectively. Compensation expense is measured based on the value of the units at each reporting period as determined at the sole discretion of the managing member of the Company. Compensation expense in the accompanying consolidated statements of operations for 2013 and 2012 relating to award issuances was zero.

22. INCOME TAXES

Four indirect subsidiaries of CHC are corporations. All other subsidiaries (both direct and indirect) are limited liability companies. The provision for income taxes for the (included in other expenses in the accompanying consolidated statements of operations) is as follows:

	Year ended December 31,	
	2013	**2012**
Current provision		
Federal	$ 1,513	$ (5,246)
State	15,200	3,300
Net current provision (benefit)	16,713	(1,946)
Deferred tax provision	23,457	136,764
Total tax provision	$ 40,170	$ 134,818

The differences between the expected income tax expense (benefit) based on the statutory Federal United States income tax rates and the Company's effective tax rates are summarized as follows:

	Year ended December 31,	
	2013	**2012**
Federal income tax based on statutory rate	$ (1,563,363)	$ (1,758,599)
State tax, net of federal income tax benefit	10,040	2,305
Permanent differences	6,268	8,288
Net operating losses	(118,803)	(55,261)
Temporary differences	46,552	211,693
Valuation allowance	1,659,690	1,734,994
Other	(214)	(8,602)
Total income tax expense	$ 40,170	$ 134,818

Deferred taxes are computed on the differences between the book and tax bases in assets and liabilities. Deferred income taxes (benefit) arise as a result of differences in the methods used to determine income and expenses for financial reporting versus tax reporting, including the utilization of prior year losses applied to the current year. The Company has established a full valuation allowance on its net deferred tax asset at December 31, 2013. Income tax expense for the years ended December 31, 2013 and 2012 results from additons to the deferred tax valuation allowance.

The Company will recognize interest and penalties related to unrecognized tax benefits and penalties as income tax expense. As of December 31, 2013 and December 31, 2012, the Company does not have liability for unrecognized tax benefits.

The Company's income tax returns may be subject to examination by federal and state taxing authorities. Because application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the accompanying consolidated financial statements could be changed at a later date upon final determination by taxing authorities. Management believes that the Company has no uncertain income tax positions that could materially affect its financial statements at both the federal and state jurisdiction levels. The Company's income tax returns remain open for examination generally for 3 years for federal income taxes, and 4 years for state income taxes.

23. REPORTING SEGMENTS

The Company's business segments reflect the internal reporting used to evaluate operating performance and to assess the allocation of resources. A description of the Company's business segments is as follows:

Mortgage Lending – The Company's lending segment originates residential mortgages through its retail and wholesale lending channels. The loans are typically sold shortly after origination into a liquid market on a servicing retained basis.

Mortgage Servicing – The Company provides residential mortgage loan servicing, special servicing and asset management services and earns fees for providing these services to owners of the mortgage loans and foreclosed real estate. The Company provides these services as the owner of the MSRs or through a subservicing or special servicing agreement with a third party that owns the MSR. The Company's residential mortgage loan servicing portfolio includes both Government Agency-loans and non-Government Agency loans. Non-Government Agency loans include subprime loans which represent residential loans that generally did not qualify under Government Agency guidelines that were originated prior to mid-2007.

Real Estate Services – The Company's real estate services group is an integrated provider of residential services to the institutional and retail markets. The business is comprised of three complementary business segments, including real estate brokerage services, real estate settlement services and portfolio services. These three business segments work together to provide a "one-stop" shop for clients, both institutional and retail, looking to buy or sell single family properties. The synergies between these businesses and the other Carrington family of companies help the Company's retail clients to simplify the home purchase and sale process, and for institutional investors efficiently manage their residential portfolios.

Asset Management – The Company has been managing capital invested in the mortgage loan market since 2004 and has developed several scalable investment strategies and vehicles by levering the expertise of the Company's management team and the capabilities of the Company's other operating segments. These strategies and investment vehicles include advising third-party investors deploying capital into mortgage loan and U.S. housing investments through managed accounts and forming funds to aggregate capital to invest in mortgage loans and U.S. housing.

Corporate Support – Corporate support items include expenses that are not directly related to one of the Company's segments above including shared service human resource, information system, risk management, legal and accounting departments.

Financial information for the Company's segments is as follows :

	For the Year Ended December 31, 2013						
	Mortgage Lending	**Mortgage Servicing**	**Real Estate Services**	**Asset Manager**	**Corporate Support**	**Eliminations[(1)]**	**Consolidated**
Revenue	$ 43,490,573	$ 85,025,495	$ 55,621,234	$ 15,948,804	$ 3,239,127	$ (2,852,265)	$ 200,472,968
Operating expense	46,382,504	62,010,053	38,703,735	16,168,206	67,335,631	(2,852,265)	227,747,864
Income (loss) from operations	(2,891,931)	23,015,442	16,917,499	(219,402)	(64,096,504)	–	(27,274,896)
Other income (expense), net:							
Interest expense	(910,160)	(3,436,153)	(21,692)	(302,823)	(2,139,284)	–	(6,810,112)
Change in fair value of mortgage servicing rights	–	(2,744,917)	–	–	–	–	(2,744,917)
Change in fair value of long-term debt	–	–	–	–	155,344,344	–	155,344,344
Income from investment in affiliated partnerships	–	1,095,362	–	(28,762)	–	–	1,066,600
Income (loss) before income taxes	$ (3,802,091)	$ 17,929,734	$ 16,895,807	$ (550,987)	$ 89,108,556	$ –	$ 119,581,019

(1) Includes entries to eliminate the impact of transactions between segments.

23. REPORTING SEGMENTS (continued)

	For the Year Ended December 31, 2012						
	Mortgage Lending	Mortgage Servicing	Real Estate Services	Asset Manager	Corporate Support	Eliminations[1]	Consolidated
Revenue	$ 27,300,896	$ 70,644,575	$ 49,823,752	$ 7,800,841	$ 3,628,622	$ (2,027,320)	$157,171,366
Operating expense	27,244,103	43,401,704	33,716,996	8,226,568	51,755,900	(2,027,320)	162,317,951
Income (loss) from operations	56,793	27,242,871	16,106,756	(425,727)	(48,127,278)	–	(5,146,585)
Other income (expense), net:							
Interest expense	(328,196)	(15,980,560)	56,041	(330,979)	(1,004,381)	–	(17,588,075)
Change in fair value of mortgage servicing rights	–	(8,454,045)	–	–	–	–	(8,454,045)
Income from investment in affiliated partnerships	–	1,033,554	–	65,259	–	–	1,098,813
Income (loss) before income taxes	$ (271,403)	$ 3,841,820	$ 16,162,797	$ (691,447)	$ (49,131,659)	$ –	$ (30,089,892)

[1] Includes entries to eliminate the impact to transactions between segments.

24. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 28, 2014. Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The following are significant subsequent events affecting the Company subsequent to December 31, 2013:

As previously announced on March 5, 2014, CHC received a notice of termination "without cause" from a significant client, for CCM and CMS with respect to management and mortgage servicing contracts related to certain non-performing mortgage loan pools. On March 18, 2014, CHC entered into a settlement agreement with the investor relating to the process and timing of the transfer of the related management and servicing obligations. Subject to the terms of the settlement agreement, subsidiaries of CHC will be entitled to receive an aggregate of approximately $23.6 million, which is inclusive of fees and a return of capital, upon successful completion of specific milestones.

In February 2014, CMS was notified in writing by a Government Agency that it was awarded a sub-servicing contract for an indeterminate unpaid principal balance of predominantly nonperforming residential mortgage loans. Characteristics of the underlying loan portfolio, timing for boarding of the loans and fees have also yet to be determined.