Registered number: 4467291

CARRINGTON HOLDING COMPANY, LLC AND SUBSIDIARIES
QUARTERLY FINANCIAL REPORT
FOR THE THREE MONTHS ENDED MARCH 31, 2014

Contents

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this Quarterly 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 Quarterly 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 Quarterly 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 raise capital due to the receipt of a subpoena and any possible resulting enforcement action by the U.S. Securities and Exchange Commission;
- 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 Quarterly Report. The forward-looking statements made in this Quarterly 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 Quarterly 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 Quarterly Report and the unaudited consolidated financial statements of the Company and its subsidiaries (together, the "**Group**") for the quarter ended March 31, 2014. This Quarterly Report should be read in conjunction with the Company's Annual Report for the year ended December 31, 2013, filed with the Irish Stock Exchange at http://www.ise.ie/Debt-Securities.

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 phase 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 capital 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, resolve over time, or through newly originated loans with new borrowers. 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 high touch special servicing expertise to its assets and continuous life of loan management of capital for loans that convert to real property.

As of March 31, 2014, the Group had 2,933 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 the first quarter of 2014.

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 March 31, 2014, we had approximately $1.92 billion of assets under management ("AUM"). Our servicing and real estate segments support our asset management business by allowing us to provide high touch special servicing expertise to its assets and 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. For the quarter ended March 31, 2014, 9.54% of the revenue generated by our other segments was sourced by invested capital managed by our asset manager

Our asset management segment is comprised of two businesses, Carrington Capital Management, LLC ("CCM") and Carrington Investment Services, LLC ("CIS"), which 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 testimony. 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 March 31, 2014, 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 intends to wind-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 March 31, 2014, CMS had primary offices located in Santa Ana, CA and Fishers, IN.

The residential mortgage servicing business is divided into five subsegments, including securitized non-prime loans, acquired non-performing loans, acquired Ginnie Mae loans, newly originated Government Agency loans, and subserviced loans. As of March 31, 2014, CMS serviced over 113,600 residential mortgage loans with an aggregate UPB of approximately $17.7 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.

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.

Servicing Portfolio	March 31, 2014	% of Total	December 31, 2013	% of Total	$ change	% change
			($ in thousands)			
Securitized legacy loans	$ 6,880,891	39.0%	$ 7,040,462	43.1%	$ (159,571)	-2.3%
Acquired performing & non-performing loans [1]	4,155,387	23.5%	3,640,689	22.3%	514,698	14.1%
Acquired Ginnie Mae loans	3,983,431	22.6%	3,262,897	20.0%	720,534	22.1%
Originated government loans	1,615,836	9.1%	1,321,446	8.1%	294,390	22.3%
Subserviced loans	1,027,634	5.8%	1,059,141	6.5%	(31,507)	-3.0%
	$ 17,663,179	100.0%	$ 16,324,635	100.0%	$ 1,338,544	8.2%

[1] This amount includes 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.

Performance Metrics	March 31, 2014	December 31, 2013	change	% change
		($ in thousands)		
Loan count - servicing	113,645	103,462	10,183	9.8%
Ending unpaid principal balance	$ 17,663,179	$ 16,324,635	$ 1,338,544	8.2%
Average unpaid principal balance	$ 155	$ 158	$ (3)	-1.8%
Average loan amount	$ 166	$ 168	$ (2)	-1.2%
Average coupon	5.93%	5.96%	-0.03%	-0.5%
Average FICO credit score	629	628	1	0.2%
60+ day delinquent (1)	7.77%	9.18%	-1.41%	-15.4%
Bankruptcy (1)	4.48%	5.18%	-0.70%	-13.5%
Foreclosure (1)	16.32%	16.73%	-0.41%	-2.5%
REO (1)	1.80%	1.87%	-0.07%	-3.7%

(1) % based on loan count.

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 March 31, 2014, CRS's portfolio consisted of 24,992 accounts with an unpaid principal balance of $2.87 billion.

As of March 31, 2014, 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.

The table below provides detail of the origination channels used to originate mortgage loans for the periods indicated:

	For the Three Months ended March 31,								
		2014	% of Total		2013	% of Total		$ Change	% Change
					($ in thousands)				
Wholesale	$	300,317	69%	$	165,695	64%	$	134,622	81%
Retail		134,926	31%		93,203	36%		41,723	45%
Total	$	435,243	100%	$	258,898	100%	$	176,345	68%
Purchase	$	269,850	62%	$	77,669	30%	$	192,181	247%
Refinance		165,393	38%		181,229	70%		(15,836)	-9%
Total	$	435,243	100%	$	258,898	100%	$	176,345	68%
Average FICO		666			709		$	(43)	-6%

In the first quarter of 2014, MLD originated approximately $435.2 million in loan volume, with 69% derived from its wholesale operations and 31% derived from its retail channel, an increase of $176.3 million or 68% over the same period in the prior year. In addition, given the changing market conditions and rising interest rates environment, MLD has shifted its production efforts to purchase originations from refinancing. In the first quarter of 2014, MLD originated 62% of purchase volume and 38% of refinance volume, compared to 30% of purchase volume and 70% of refinance volume in the first quarter of 2013.

MLD announced, at the end of the first quarter of 2014, its plans to lower its minimum credit requirements for borrowers to a FICO score of 550. We believe the Company is uniquely qualified to serve this market. MLD has the infrastructure to lend to this unique segment including a stable of underwriters specifically trained to do manual underwriting. Further, these loans will all be retained and serviced by the Company's specialty servicing unit which lends itself to the high touch servicing needed to successfully service this type of portfolio.

MLD's wholesale operation utilizes a vast network of independent mortgage brokers to source loans. MLD's retail channel is comprised of 34 branch offices spread across 11 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 March 31, 2014 MLD was located in the Group's headquarters in Santa Ana, CA, with centralized processing centers in Jacksonville, FL, Fishers, IN and Enfield, CT.

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:

Real Estate Services

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, LLC and Subsidiaries ("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 in 22 states with 33 branch locations. As of March 31, 2014, CRES had approximately 1,300 independent sales associates. CRES was founded in 2008 during the height of the distressed real estate market and quickly became a leader specializing in the disposition of Real Estate Owned assets having represented over 30,400 closing sides 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. 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. For the quarter ended March 31, 2014, CRES had approximately $357.0 million in total property sales, of which $206.0 million was derived from our institutional clients, $130.0 million was generated by our network of independent sales associates, $19.0 million from CPN, and $2.0 million from other sources.

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 quarter ended March 31, 2014, settlement services group assisted on approximately 5,500 transactions and recorded revenue of $1.8 million.

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. For the quarter ended March 31, 2014, the portfolio services group assisted on approximately 990 new transactions and recorded revenue of $0.7 million.

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 7,500 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 March 31, 2014, CPS managed approximately 3,500 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 March 31, 2014, CPS had approximately 4,000 rental properties under management.

On May 6, 2014, Morningstar Credit Ratings, LLC ("Morningstar") announced that CPS had earned a ranking of 'MOR RV 1' ("Exceeds Prudent Standards") in an assessment of CPS' operational infrastructure and client-driven performance as a residential REO asset manager and residential single family rental property manager. Morningstar also assigned CPS a forecast of 'Stable'.

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 March 31, 2014, CHS was providing services on approximately 4,000 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 March 31, 2014, 53% of the gross revenues of our real estate logistics segment came from referrals from the servicing and asset management segments.

Significant Events

As previously announced on March 5, 2014, CHC received a notice of termination "without cause" from a significant client, relating to 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 are entitled to receive an aggregate of approximately $23.6 million, of which $10.1 million was received in April 2014, inclusive of fees and a return of capital, upon successful completion of specific milestones.

The management obligations were transferred in the Second Quarter of 2014. All servicing transfers and remaining payments are currently scheduled to occur by the end of the Third Quarter of 2014.

In February 2014, CMS was notified in writing by a Government Agency that it was awarded a subservicing 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.

Financial review

Set forth below are the results of operations for the consolidated Group and the operating segments for the quarter ended March 31, 2014.

Period-end Results

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

Consolidated	For the Three Months ended March 31,			
	2014	2013	$ change	% change
		($ in thousands)		
Revenue	$ 60,261	$ 49,411	$ 10,850	22.0%
Operating expense	58,802	51,448	7,354	14.3%
Income (loss) from operations	1,459	(2,037)	3,496	171.6%
Other income (expense):				
Interest income	1,660	628	1,032	164.3%
Interest expense	(6,585)	(2,882)	(3,703)	-128.5%
Change in fair value of mortgage servicing rights	(3,264)	(1,651)	(1,613)	-97.7%
Change in fair value of long-term debt	(10,600)	-	(10,600)	-100.0%
Servicing claims reserve	1,496	-	1,496	100.0%
Income from investments in affiliated partnerships	418	180	238	132.2%
Trust income (expense), net	-	-	-	- %
Loss before income taxes	$ (15,416)	$ (5,762)	$ (9,654)	-167.5%

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 Quarters Ended March 31, 2014 and 2013

Revenues for the quarter ended March 31, 2014 were $60.3 million, an increase of $10.9 million or 22.0%, from $49.4 million for the quarter ended March 31, 2013. The increase was primarily due to higher mortgage servicing fees, real estate service fees, mortgage originations and asset management fees.

Operating expenses for the quarter ended March 31, 2014 were $58.8 million, an increase of $7.4 million or 14.3%, from $51.4 million for the quarter ended March 31, 2013. 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 10.7% for the quarter ended March 31, 2014 as compared to the same period in the prior year.

Interest income for the quarter ended March 31, 2014 was $1.7 million, an increase of $1.0 million or 164.3%, from $0.6 million for the quarter ended March 31, 2013. The increase was due to higher loan originations from our MLD segment.

Interest expense for the quarter ended March 31, 2014 was $6.6 million, an increase of $3.7 million or 128.5%, from $2.9 million for the quarter ended March 31, 2013. The increase was primarily due to a $3.3 million interest accrual on our long-term debt.

The change in fair value of our mortgage servicing rights decreased $3.3 million during the period, compared with a decrease of $1.7 million for the quarter ended March 31, 2013. The accelerated reduction was due to a higher UPB run-off of the portfolio in the period ended March 31, 2014 when compared to the prior year quarter.

The change in fair value of our long-term debt increased $10.6 million, from $374.4 million to $385.0 million at March 31, 2014. The change in fair value is a non-cash adjustment due to the quarter-end revaluation of the debt.

Servicing claims reserve for the quarter ended March 31, 2014 was $1.5 million, compared to no change in the prior year quarter. The reduction was due to a decline in the principal balance of the mortgage servicing rights purchased in the fourth quarter of 2013.

Income from investments in affiliated partnerships was $0.4 million for the quarter ended March 31, 2014, as compared to $0.2 million for the same period in the prior year.

There was no net income or expense from our consolidated securitization trust ("Trust") for the quarters ended March 31, 2014 and 2013.

Period-end 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 Three Months ended March 31,			
	2014	2013	$ change	% change
	($ in thousands)			
Revenue	$ 24,617	$ 23,747	$ 870	3.7%
Operating expense	18,369	15,257	3,112	20.4%
Income from operations	6,248	8,490	(2,242)	-26.4%
Other income (expense):				
Interest, net	(1,528)	(1,865)	337	18.1%
Change in fair value of mortgage servicing rights	(3,264)	(1,651)	(1,613)	-97.7%
Servicing claims reserve	1,496	-	1,496	100.0%
Income from investment in affiliated partnerships	46	208	(162)	-77.9%
Income before income taxes	$ 2,998	$ 5,182	$ (2,184)	-42.1%

Comparison of Mortgage Servicing Results for the Quarters Ended March 31, 2014 and 2013

Mortgage Servicing revenue increased by 3.7%, or $0.9 million, from $23.7 million for the quarter ended March 31, 2013 to $24.6 million for the quarter ended March 31, 2014. This increase was primarily driven by higher servicing and ancillary fees.

Operating expenses rose $3.1 million, or 20.4%, from $15.3 million for the quarter ended March 31, 2013 to $18.4 million for the quarter ended March 31, 2014. This increase was primarily due to higher loan servicing related expenses required to manage the larger servicing portfolio.

Net interest expense for the Mortgage Servicing segment decreased by $0.3 million from $1.9 million in the quarter ended March 31, 2013 to $1.5 million in the quarter ended March 31, 2014. 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 reduction in the fair value of mortgage servicing rights was due to a higher amount of portfolio run-off in the quarter ended March 31, 2014 when compared to the prior year.

As noted above, servicing claims reserve for the quarter ended March 31, 2014 was $1.5 million, compared to no change in the prior year quarter. The reduction was due to a decline in the principal balance of the mortgage servicing rights purchased in the fourth quarter of 2013.

Income from investments in affiliated partnerships during the first quarter of 2014 declined $0.2 million compared to the prior year. Income from investments 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 Three Months ended March 31,			
	2014	2013	$ change	% change
	($ in thousands)			
Revenue	$ 13,918	$ 8,479	$ 5,439	64.1%
Operating expense	13,166	8,359	4,807	57.5%
Income from operations	752	120	632	526.7%
Other income (expense):				
Interest, net	(42)	(262)	220	84.0%
Income (loss) before income taxes	$ 710	$ (142)	$ 852	600.0%

Comparison of Mortgage Lending Results for the Quarters Ended March 31, 2014 and 2013

Our Mortgage Lending revenue increased 64.1%, or $5.4 million, from $8.5 million in the quarter ended March 31, 2013 to $13.9 million in the quarter ended March 31, 2014. This increase was driven by higher lending volume, which increased by $176.3 million to $435.2 million for the three months ended March 31, 2014 as compared to the same period in the prior year.

Operating expenses for the Mortgage Lending segment increased 57.5%, or $4.8 million, from $8.4 million in the quarter ended March 31, 2013 to $13.2 million in the quarter ended March 31, 2014. This increase was primarily due to investment in personnel associated with revenue growth during the quarter. Our headcount increased by approximately 35.3% during the three months of 2014 as compared to the same period in the prior year.

Net interest expense decreased by $0.2 million in the first quarter of 2014 as compared to the same period in the prior year due to higher loan rates compared to the prior year quarter.

Real Estate

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 Three Months ended March 31,			
	2014	2013	$ change	% change
		($ in thousands)		
Revenue	$ 17,263	$ 12,939	$ 4,324	33.4%
Operating expense	9,198	9,317	(119)	-1.3%
Income from operations	8,065	3,622	4,443	122.7%
Other income (expense):				
Interest, net	(5)	(4)	(1)	25.0%
Income before income taxes	$ 8,060	$ 3,618	$ 4,442	122.8%

Comparison of Real Estate Segment Results for the Quarters Ended March 31, 2014 and 2013

Our Real Estate segment revenue rose 33.4%, or $4.3 million, from $13.0 million in the quarter ended March 31, 2013 to $17.3 million in the quarter ended March 31, 2014. 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 69% within our property preservation and restoration division, 24% in our property rental and asset management division, and 11% in our real estate brokerage division, which also increased closing sides by 8,760 or 40.5% from prior year quarter. Real estate brokerage sales volume increased to $357.0 million for the three months ended March 31, 2014, an increase of $62.7 million or 21.3% from $294.3 million in the prior year quarter.

Operating expenses in the Real Estate segment declined slightly from $9.3 million in the first quarter of 2013 to $9.2 million in 2014. This decrease was primarily driven by a reduction in compensation and benefits expenses related to lower staffing levels. Headcount was reduced by approximately 16.1% at March 31, 2014 as compared to headcount at March 31, 2013.

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 Three Months ended March 31,			
	2014	2013	$ change	% change
	($ in thousands)			
Revenue	$ 4,461	$ 3,883	$ 578	14.9%
Operating expense	2,314	3,164	(850)	-26.9%
Income from operations	2,147	719	1,428	198.6%
Other income (expense):				
Interest, net	93	(82)	175	213.4%
Income from investment in affiliated partnerships	373	(29)	402	1386.2%
Income before income taxes	$ 2,613	$ 608	$ 2,005	329.8%

Comparison of Asset Management Results for the Quarters Ended March 31, 2014 and 2013

Our Asset Management segment revenues rose 14.9%, or $0.6 million, from $3.9 million for the quarter ended March 31, 2013 to $4.5 million for the quarter ended March 31, 2014. This increase was primarily driven by growth in AUM by $0.44 billion from $1.47 billion in the quarter ended March 31, 2013 to $1.92 billion for the quarter ended March 31, 2014 due to increased investment in our non-performing loan strategies.

Operating expenses in the Asset Management segment decreased 26.9%, or $0.9 million, from $3.2 million in the quarter ended March 31, 2013 to $2.3 million in the quarter ended March 31, 2014. This decrease was primarily due to a reduction in headcount, including personnel relocated into other operating segments of the Company. Asset Management headcount decreased by approximately 36.7% as of the end of the first quarter of 2014 as compared to the prior year quarter.

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 decreased 1.5%, or $0.2 million for the quarter ended March 31, 2014 from the prior year quarter.

Liquidity

The Company's cash flows from operating, investing, and financing activities are as follows for the periods indicated:

	For the Three Months ended March 31,			
	2014	2013	$ change	% change
	($ in thousands)			
Operating Activities	$ (23,146)	$ 15,082	$ (38,228)	-253.5%
Trust related activity	6,423	-	6,423	100.0%
Operating activities excluding trust	$ (29,569)	$ 15,082	$ (44,651)	-296.1%
Investing Activities	$ 66,646	$ (682)	$ 67,328	9872.1%
Trust related activity	67,416	-	67,416	100.0%
Investing activities excluding trust	$ (770)	$ (682)	$ (88)	-12.9%
Financing Activities	$ (31,335)	$ (21,032)	$ (10,303)	-49.0%
Trust related activity	(73,839)	-	(73,839)	-100.0%
Financing activities excluding trust	$ 42,504	$ (21,032)	$ 63,536	302.1%

Operating activities. Net cash used by operating activities, excluding trust activity, was $29.6 million for the first quarter of 2014 as compared to net cash provided by operating activities of $15.1 million for the same period in 2013. The $44.7 million reduction in cash provided by operating activities, excluding trust activity, during the quarter ended March 31, 2014, was primarily due to $60.6 million used to originate mortgage loans and a $9.3 million decrease in collections of servicing advances, which was partially offset by a $16.6 million increase in servicing obligations Both changes in servicing advances and loan originations were substantially offset by the change in their related financing lines (see *Financing activities* below).

Investing activities. Net cash used in investing activities, excluding trust activity, was $0.8 million for the first quarter of 2014, as compared to net cash used in investing activities of $0.7 million for the first quarter of 2013. The increase of $0.1 million was primary due to the acquisition of property, furniture and equipment.

Financing activities. Net cash provided by financing activities, excluding trust activity, was $42.5 million for the first quarter of 2014, as compared $21.0 million of net cash used in financing activities for the same period in 2013. The $63.5 million increase in cash provided by financing activities during the quarter ended March 31, 2014 was primarily due to additional borrowings on the warehouse lines of $56.4 million as a result of higher origination volumes, and repayments of the servicing advance facility of $14.5 million.

Trust related activity had no net effect on the cash flows for the quarter ended March 31, 2014.

Cash and cash equivalents consisted of the following at the dates indicated:

	March 31, 2014	December 31, 2013
	($ in thousands)	
Operating cash	$ 28,448	$ 31,649
Clearing accounts	55,504	34,440
	$ 83,952	$ 66,089

Financing Facilities

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

Warehouse Facilities

As of March 31, 2014, our mortgage lending segment maintained four warehouse lines of credit with aggregate line limits of $271.0 million and advance limits ranging from 95% to 98%. As of March 31, 2014 the outstanding balance across the four lines was $195.1 million.

Servicing Advance Facility

At March 31, 2014, the facility had a total committed amount of $94.0 million, and an outstanding balance of approximately $82.5 million. The weighted average advance rate at March 31, 2014 was 67.7%. This advance facility includes customary covenants, of which the Company was in compliance with at March 31, 2014.

On May 28, 2014, we priced a new facility with a total committed amount of $95.0 million and with substantially comparable terms to the existing advance facility. The new facility is targeted to close prior to the expiration of the existing facility, and this new facility is set to expire in May 2015.

For more information regarding the advance funding and warehouse lines of credit please refer to Note 4 of the unaudited consolidated financial statements.

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 for the remainder of 2014 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. The Group's liquidity and financing strategy includes the use of significant leverage. Accordingly, the Group's ability to finance its operations and repay maturing obligations rests in large part on its ability to borrow money. The Group is generally required to renew its financing arrangements each year, which exposes it to refinancing and interest rate risks. An event of default, an adverse action by a regulatory authority or a general deterioration in the economy that constricts the availability of credit may increase the Group's cost of funds and make it difficult for it to renew existing credit facilities or obtain new lines of credit, which could have a material adverse effect on the liquidity, financial position and results of operations of the Group.

- 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 March 31, 2014, the Group had approximately $802.2 million aggregate principal amount of total debt outstanding on a consolidated basis, of which the fair market value was $662.5 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 are entitled to receive an aggregate of approximately $23.6 million, of which $10.1 million was received in April 2014, inclusive of fees and a return of capital, upon completion of specific milestones. The management obligations were transferred in the Second Quarter of 2014. All servicing transfers and remaining payments are currently scheduled to occur by the end of the Third Quarter of 2014. There is no assurance that these remaining 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. 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.

Carrington Holding Company, LLC and Subsidiaries

Consolidated Financial Statements
March 31, 2014 (Unaudited) and
December 31, 2013

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Members of
Carrington Holding Company, LLC

We have reviewed the accompanying consolidated statement of financial condition of Carrington Holding Company, LLC and subsidiaries (the "Company"), a Delaware limited liability company, as of March 31, 2014, and the related consolidated statements of operations and cash flows for the three month periods ended March 31, 2014 and 2013, and the related consolidated statement of changes in members' capital (deficit) for the three months ended March 31, 2014. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements as of March 31, 2014 and for the three month periods ended March 31, 2014 and 2013 in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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 4. The Company's servicer advance financing arrangements become due on May 30, 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.

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

Newport Beach, California
May 29, 2014

CARRINGTON HOLDING COMPANY, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
March 31, 2014 (Unaudited) and December 31, 2013

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 83,951,627	$ 71,786,717
Restricted cash	2,103,732	1,264,295
Trust assets (securitized mortgage collateral):		
Residential mortgage loans	3,350,063,836	3,393,187,928
Real estate owned	64,652,800	67,551,100
Total trust assets	3,414,716,636	3,460,739,028
Loans held for sale, at fair value	214,465,105	148,687,550
Servicer advances	122,439,196	142,101,021
Mortgage servicing rights, at fair value	70,273,095	70,386,772
Investments in affiliated partnerships	6,443,747	7,371,128
Property, furniture and equipment, net	7,666,647	7,582,083
Accounts and notes receivable from affiliates	155,393	143,081
Prepaid expenses and other assets	29,197,660	33,260,586
Total assets	$ 3,951,412,838	$ 3,943,322,261
LIABILITIES AND MEMBERS' CAPITAL		
Liabilities		
Non-recourse trust liabilities (securitized mortgage borrowings)	$ 3,414,716,636	$ 3,460,739,028
Long-term debt, at fair value	385,016,825	374,416,656
Warehouse lines of credit	195,056,044	138,031,345
Servicing advances lines of credit	82,545,470	97,059,300
Servicing obligations	80,491,118	63,361,104
Accounts payable and accrued liabilities	37,016,155	39,130,080
Reserves for losses on loan origination and mortgage servicing claims	36,588,341	37,466,494
Accrued compensation	11,550,155	12,287,449
Due to affiliates	2,522,999	2,831,607
Accrued interest payable	3,644,505	235,098
Notes payable	80,694	87,733
Other liabilities	636,792	713,682
Total liabilities	4,249,865,734	4,226,359,576
Commitments and Contingencies (Note 5)		
Members' (Deficit) Capital		
Controlling interests	(298,452,896)	(283,037,315)
Noncontrolling interests	–	–
Total members' (deficit) capital	(298,452,896)	(283,037,315)
Total liabilities and members' capital	$ 3,951,412,838	$ 3,943,322,261

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

CARRINGTON HOLDING COMPANY, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2014 and 2013 (Unaudited)

	2014	2013
	(Unaudited)	
REVENUES		
Mortgage servicing fees	$ 25,802,920	$ 23,903,912
Real estate services fees	13,833,430	10,599,050
Mortgage banking	13,087,685	8,290,491
Commissions	3,954,062	3,395,038
Management fees	3,567,549	2,477,677
Other	15,145	744,556
Total revenues	60,260,791	49,410,724
OPERATING EXPENSES		
Compensation and benefits	41,242,931	36,035,892
General and administrative	16,739,960	13,117,577
Depreciation	819,196	856,263
Other	–	1,437,905
Total expenses	58,802,087	51,447,637
INCOME (LOSS) FROM OPERATIONS	1,458,704	(2,036,913)
OTHER INCOME (EXPENSE)		
Interest income	1,659,769	628,271
Interest expense	(6,585,021)	(2,882,181)
Income from investment in affiliated partnerships	419,330	179,296
Servicing claims reserve	1,495,804	–
Change in fair value of mortgage servicing rights	(3,263,998)	(1,650,580)
Change in fair value of long-term debt	(10,600,169)	–
Other income (expense), net	(16,874,285)	(3,725,194)
TRUST INCOME (EXPENSE)		
Interest income	36,950,755	–
Interest expense	(36,950,755)	–
Loss on sale of REO	(14,711,028)	–
Provision for REO losses	(3,680,200)	–
Change in fair value of securitized residential mortgage loans and non-recourse trust liabilities, net	18,391,228	–
Trust income (expense), net	–	–
NET LOSS BEFORE INCOME TAXES	(15,415,581)	(5,762,107)
INCOME TAXES	–	2,900
NET LOSS	$ (15,415,581)	$ (5,765,007)

 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 Three Months Ended March 31, 2014 (Unaudited)

	Controlling Interests		Total		
	Managing Member	**Nonmanaging Members**	**Controlling Interests**	**Noncontrolling Interests**	**Total**
MEMBERS' CAPITAL (DEFICIT) – December 31, 2013	$ (282,151,885)	$ (885,430)	$ (283,037,315)	$ –	$ (283,037,315)
Net loss	(15,338,503)	(77,078)	(15,415,581)	–	(15,415,581)
MEMBERS' CAPITAL (DEFICIT) – March 31, 2014	$ (297,490,388)	$ (962,508)	$ (298,452,896)	$ –	$ (298,452,896)

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 Three Months Ended March 31, 2014 and 2013 (Unaudited)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (15,415,581)	$ (5,765,007)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	819,196	856,263
Change in fair value of mortgage servicing rights	113,677	135,325
Change in fair value of long-term debt	10,600,169	–
Change in fair value of residential mortgage loans and non-recourse trust liabilities, net – securitized trusts	(18,391,228)	–
Loss on sale of real estate owned – securitized trusts	14,711,028	–
Provision for losses on real estate owned – securitized trusts	3,680,200	–
Accretion of interest income and expense on residential mortgage loans and non-recourse trust liabilities, net – securitized trusts	6,423,317	–
Originations of mortgage loans held for sale	(435,242,576)	(258,897,731)
Proceeds from sales of, and principal payments from mortgage loans held for sale	373,598,405	257,902,945
Mark to market gain on mortgage loans held for sale	(4,133,384)	154,957
Provision for (recapture of) repurchases and servicing claims	(791,237)	168,260
Unrealized loss (gain) on derivative financial instruments	412,444	121,397
Income from equity method investments	(46,000)	(208,058)
Net change in operating assets and liabilities:		
Accounts and notes receivable from affiliates	(320,920)	(119,634)
Accounts payable and accrued liabilities	(18,061)	(3,676,946)
Servicing obligations	17,130,014	498,828
Servicer advances	19,661,825	28,964,673
Other assets	4,062,925	(5,053,570)
Net cash (used in) provided by operating activities	(23,145,787)	15,081,702
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	(839,437)	1,302,526
Principal reductions on residential mortgage loans – securitized trusts	49,222,954	–
Proceeds from sale of real estate owned – securitized trusts	18,192,922	–
Purchases of property, furniture and equipment	(903,760)	(1,984,589)
Redemptions of equity method investments	973,381	–
Net cash provided by (used in) investing activities	66,646,060	(682,063)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of servicing advances lines of credit	(14,513,830)	(21,375,344)
Repayment of securitized mortgage borrowings – securitized trusts	(73,839,193)	–
Net proceeds from credit facilities on mortgage loans held for sale	57,024,699	663,234
Repayments of notes payable	(7,039)	(320,210)
Net cash used in financing activities	(31,335,363)	(21,032,320)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,164,910	(6,632,681)
CASH AND CASH EQUIVALENTS – beginning of period	71,786,717	74,199,796
CASH AND CASH EQUIVALENTS – end of period	$ 83,951,627	$ 67,567,115
CASH PAID FOR INTEREST	$ 2,632,594	$ 3,281,894
CASH PAID FOR INCOME TAXES	$ 1,600	$ 800
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS		
Transfer of residential mortgage loans to real estate owned – securitized trusts	$ 33,685,850	$ –

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

1. SUMMARY OF BUSINESS AND FINANCIAL STATEMENT PRESENTATION

Business Summary

Carrington Holding Company, LLC ("the Company or CHC") 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. The Company and its subsidiaries operate as a vertically and horizontally integrated group of businesses involved in every aspect of the life cycle of single-family residential assets.

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of CHC have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. These interim period consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, which are included in the Company's Annual Report for the year ended December 31, 2013, filed with Irish Stock Exchange at http://www.ise.ie/Debt-Securities.

All inter-company balances and transactions have been eliminated in consolidation. In addition, certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the current period presentation.

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. The most significant items affected by such estimates and assumptions include the 1) valuation of securitized trust assets and trust liabilities, long-term debt, mortgage servicing rights ("MSRs"), mortgage loans held-for-sale ("LHFS") and interest rate lock commitments; and 2) estimated contingent obligations including estimated repurchase obligations. Actual results could differ from those estimates and assumptions.

As of March 31, 2014, there have been no new or updated significant accounting policies.

2. 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.

2. FAIR VALUE MEASUREMENTS (continued)

Recurring Fair Value Measurements

The Company assesses its recurring fair value measurements on a quarterly basis 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 between our Level 2 or Level 3 classified instruments during the three months ended March 31, 2014 and year ended December 31, 2013.

The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option as of the periods indicated:

	At March 31, 2014			
	Carrying Value	Level 1	Level 2	Level 3
Assets				
LHFS	$ 214,465,105	$ –	$ 214,465,105	$ –
MSRs	70,273,095	–	–	70,273,095
Derivative assets – IRLCs	1,239,860	–	–	1,239,860
Trust assets – RMC	3,350,063,836	–	–	3,350,063,836
Total assets at fair value	$ 3,636,041,896	$ –	$ 214,465,105	$ 3,421,576,791
Liabilities				
Derivative liabilities – TBA MBS	1,460	–	1,460	–
Long-term debt	385,016,825	–	–	385,016,825
Trust liabilities – SMB	3,414,716,636	–	–	3,414,716,636
Total liabilities at fair value	$ 3,799,734,921	$ –	$ 1,460	$ 3,799,733,461

	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

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

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 3.

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

2. FAIR VALUE MEASUREMENTS (continued)

Recurring Fair Value Measurements (continued)

sale measured at fair value that become impaired are transferred from Level 2 to Level 3. There were no identified impaired loans as of March 31, 2014 and December 31, 2013. 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 March 31, 2014 and December 31, 2013 were $204.6 million and $142.9 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 March 31, 2014 and 2013, there were $207.5 million and $98.6 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.

Residential mortgage loans within securitized trusts (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.

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.

Long-term debt– At December 31, 2013, the Company elected the fair value option in its Extendible PIK Step-Up Notes (the "Step-Up Notes"). These Step-Up 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 March 31, 2014, Step-Up Notes had an unpaid principal balance of approximately $529.7 million compared to an estimated fair value of $385.0 million. The aggregate unpaid principal balance exceeds the fair value by $144.7 million at March 31, 2014.

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.

2. FAIR VALUE MEASUREMENTS (continued)

Recurring Fair Value Measurements (continued)

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 Three Months Ended March 31, 2014				
	MSRs	**LT Debt**	**RMC**	**SMB**	**IRLCs**
Fair value as of the beginning of the period	$ 70,386,772	$ 374,416,656	$ 3,393,189,129	$ (3,460,740,229)	$ 465,069
Transfers into Level 3	–	–	–	–	–
Transfers out of Level 3	–	–	(33,685,850)	–	–
Total gains (losses) in earnings:					
Interest income	–	–	36,950,755	–	–
Interest expense	–	–	–	(36,950,755)	–
Change in fair value	(3,263,998)	10,600,169	15,312,324	3,078,904	–
Total gains (losses) in earnings	(3,263,998)	10,600,169	52,263,079	(33,871,851)	–
Purchases, issuances and settlements:					
Purchases, net	–	–	–	–	–
Issuances, net	3,150,321	–	–	–	774,791
Settlements, net	–	–	(61,702,522)	79,895,444	–
Fair value as of the end of the period	$ 70,273,095	$ 385,016,825	$ 3,350,063,836	$ (3,414,716,636)	$ 1,239,860

	For the Three Months Ended March 31, 2013	
	MSRs	**IRLCs**
Fair value as of the beginning of the period	$ 50,656,984	$ 637,433
Transfers into Level 3	–	–
Transfers out of Level 3	–	–
Total gains (losses) in earnings – change in fair value	(1,650,579)	–
Purchases, issuances and settlements:		
Purchases, net	–	–
Issuances, net	1,515,254	108,269
Settlements, net	–	–
Fair value as of the end of the period	$ 50,521,659	$ 745,702

The following table presents the changes in recurring fair value measurements included in net income (loss) for the three months ended March 31, 2014:

	Recurring Fair Value Measurements — Change in Fair Value Included in Net Income (Loss)						
			Change in Fair Value of				
	Interest Income [(1)]	**Interest Expense [(1)]**	**Net Trust Assets**	**Long-Term Debt**	**Other Income**	**Gain on Sale of Loans, Net**	**Total**
Residential mortgage loans within securitized mortgage collateral	$ 36,950,755	$ –	$15,312,324	$ –	$ –	$ –	$ 52,263,079
Securitized mortgage borrowings	–	(36,950,755)	3,078,904	–	–	–	(33,871,851)
Mortgage servicing rights	–	–	–	–	(3,263,998)	–	(3,263,998)
Long-term debt	–	–	–	(10,600,169)	–	–	(10,600,169)
Loans held for sale	–	–	–	–	–	16,455,940	16,455,940
Derivative assets - IRLCs	–	–	–	–	–	774,791	774,791
Derivative liabilities - TBAs	–	–	–	–	–	(4,143,046)	(4,143,046)
Total	$ 36,950,755	$ (36,950,755)	$ 18,391,228	$ (10,600,169)	$ (3,263,998)	$ 13,087,685	$ 17,614,746

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.

2. FAIR VALUE MEASUREMENTS (continued)

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:

		At March 31,		Total Gains (Losses) For the Period	
	Level	**2014**	**2013**	**2014**	**2013**
REO	2	$ 64,652,800	$ –	$ (14,711,028)	$ –

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 real estate less estimated selling and holding costs. Subsequently, REO is recorded at estimated selling price less costs to sell or net realizable value (“NRV”). REO’s which have been measured at or subsequent to foreclosure are subject to nonrecurring fair value measurement disclosure requirements and included in the nonrecurring fair value measurement tables. Estimated fair values of REO are generally based on observable market inputs, and considered Level 2 measurements.

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 March 31, 2014			
	Estimated Fair Value	**Valuation Technique (1)**	**Unobservable Input**	**Range of Inputs**
Financial Instrument – Backed by Real Estate:				
RMC	$ 3,350,063,836	DCF (2)	Yield	3.09% – 6.90%
SMB	3,414,716,636	DCF (2)	Prepayment rate	5.96% – 10.30%
			Default rates	1.33% – 8.69%
Financial Instrument – Other:				
MSRs	70,273,095	DCF (2)	Discount rate	11.00% –19.75%
			Weighted average prepayment rate	8.93% – 20.48%
IRLC’s	1,239,860	Market Pricing	Pull-through rate	50.00% – 99.00%
Long-term debt	385,016,825	DCF (2)	Discount rate	10.28%

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

The significant unobservable inputs used in the fair value measurement of the Company’s RMCs and SMBs are yield, prepayment rate and probability of default. Significant increases (decreases) in any of those inputs in isolation could result in a significantly higher (lower) estimated fair value.

2. FAIR VALUE MEASUREMENTS (continued)

Valuation Technique and Unobservable Inputs (continued)

The significant unobservable inputs used in the fair value measurement of the Company's MSRs are discount rates and prepayment rates. Significant increases (decreases) in any of those inputs in isolation could result in a significantly higher (lower) estimated fair value.

The Company believes that the imprecision of an estimate could be significant.

Derivative Financial Instruments

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

	Three Months Ended March 31,			
	Notional Balances		Total Gains (Losses) For the Period [1]	
	2014	2013	2014	2013
IRLCs	$ 207,500,000	$ 98,600,000	$ 774,791	$ 108,268
TBA MBS	$ 309,450,000	$ 152,500,000	$ (4,143,046)	$ 936,627

[1] Amounts included in gain on sale of loans, net within the accompanying consolidated statements of operations.

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 March 31, 2014			At December 31, 2013		
	Level	Carrying Value	Fair Value	Level	Carrying Value	Fair Value
Assets						
Cash and cash equivalents	1	$ 83,951,627	$ 83,951,627	1	$ 71,786,717	$ 71,786,717
Restricted cash	1	2,103,732	2,103,732	1	1,264,295	1,264,295
Servicer advances	3	122,439,196	122,439,196	3	142,101,021	142,101,021
Investments in affiliated partnerships	3	6,443,747	6,443,747	3	7,371,128	7,371,128
Total		$ 214,938,302	$ 214,938,302		$ 222,523,161	$ 222,523,161
Liabilities						
Servicing advances lines of credit	2	$ 82,545,470	$ 82,545,470	2	$ 97,059,300	$ 97,059,300
Warehouse lines of credit	2	195,056,044	195,056,044	2	138,031,345	138,031,345
Notes payable	3	80,694	80,694	3	87,733	87,733
Total		$ 277,682,208	$ 277,682,208		$ 235,178,378	$ 235,178,378

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.

2. FAIR VALUE MEASUREMENTS (continued)

Disclosure about the Fair Value of Other Financial Instruments (continued)

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.

3. MORTGAGE BANKING

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:

	March 31, 2014		December 31, 2013	
	Amount	%	Amount	%
Conforming – fixed	$ 59,663,877	27.82%	$ 33,515,793	22.54%
Conforming – ARM	469,495	0.22%	–	0.00%
FHA – fixed	123,081,803	57.39%	91,007,017	61.21%
FHA – ARM	662,113	0.31%	1,069,020	0.72%
VA – fixed	30,587,817	14.26%	21,367,270	14.37%
USDA – fixed	–	0.00%	1,728,450	1.16%
	$ 214,465,105	100.00%	$ 148,687,550	100.00%

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

	Three Months Ended March 31			
	2014		2013	
	Amount	%	Amount	%
Conforming – fixed	$ 80,859,226	18.58%	$ 96,344,229	37.21%
Conforming – ARM	1,261,000	0.29%	2,009,950	0.78%
FHA – fixed	284,557,894	65.38%	149,582,907	57.78%
FHA – ARM	1,350,501	0.31%	303,659	0.12%
VA – fixed	65,610,545	15.07%	10,378,416	4.01%
VA – ARM	480,156	0.11%	–	–
USDA – fixed	1,123,254	0.26%	278,570	0.10%
	$ 435,242,576	100.00%	$ 258,897,731	100.00%

3. MORTGAGE BANKING (continued)

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:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Premium from whole loan sales	$ 23,125,144	$ 11,923,846
Mark to market gains (losses) on loans held for sale	4,133,384	(154,957)
Realized gains (losses) from derivative financial instruments	(2,955,812)	1,166,292
Unrealized gains (losses) from derivative financial instruments	(412,444)	(121,397)
Provision for loan loss obligation for previously sold loans	(704,566)	(168,260)
Origination fees and broker fees	(10,098,021)	(4,355,033)
Gain on sale of loans, net	$ 13,087,685	$ 8,290,491

The Company does not have any delinquent or nonaccrual loans as of March 31, 2014 and 2013.

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 0.19% 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.

3. MORTGAGE BANKING (continued)

Mortgage Servicing Rights (continued)

The Company serviced approximately $12.5 billion and $12.9 billion, respectively, in UPB of loans, where CMS owns the MSR, with the following characteristics:

	March 31, 2014	At December 31, 2013
Non-agency	$ 6,880,891,159	$ 7,040,461,886
Agency	5,599,266,652	5,818,083,374
Total	$ 12,480,157,811	$ 12,858,545,260

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:

	Three Months Ended March 31,	
	2014	2013
Fair value, beginning of period	$ 70,386,772	$ 50,656,984
Servicing from loan sales/securitizations	3,150,321	1,515,254
Servicing rights purchased	–	–
Net additions	3,150,321	1,515,254
Changes in fair value:		
Collection or realization of cash flows	(3,263,998)	(1,650,579)
Due to changes in valuation model inputs or assumptions:		
Mortgage interest rates	–	–
Servicing and foreclosure costs	–	–
Discount rates	–	–
Prepayment estimates and other	–	–
Net changes in valuation model inputs or assumptions	(3,263,998)	(1,650,579)
Other changes in fair value	–	–
Total changes in fair value	(3,263,998)	(1,650,579)
Fair value, end of period	$ 70,273,095	$ 50,521,659

Repurchase Reserves and Servicing Claims

The activity related to the reserves for estimated losses on loans sold and for estimated claims on originated and acquired government and government-sponsored enterprises such as Ginnie Mae, Freddie Mac and Fannie Mae (referred to as "Government Agency") loans for which the servicing has been retained by the Company, is as follows:

	Three Months Ended March 31,	
	2014	2013
Balance, beginning of period	$ 37,466,494	$ 1,023,508
Provisions, net [(1)]	(791,237)	168,260
Charge-offs	(86,916)	–
Balance, end of period	$ 36,588,341	$ 1,191,768

(1) Includes provisions for estimated repurchases of $704,566 and $168,260 for loans originated during the three months ended March 31, 2014 and 2013, respectively, and a reversal of $1.5 million of reserves in the three months ended March 31, 2014 relating to reserves established in connection with the Company's acquisition of MSRs in November 2013.

4. BORROWINGS

The following table sets forth the composition of our borrowings as of the dates indicated:

	Balance Outstanding At	
	March 31, 2014	December 31, 2013
Long-term debt, at fair value	$ 385,016,825	$ 374,416,656
Warehouse lines of credit	195,056,044	138,031,345
Servicing advance lines of credit	82,545,470	97,059,300
	$ 662,618,339	$ 609,507,301

Long-Term Debt, at Fair Value

As of March 31, 2014, long-term debt had an unpaid principal balance of approximately $529.7 million compared to an estimated fair value of $385.0 million. The aggregate unpaid principal balance exceeds the fair value by $144.7 million at March 31, 2014.

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.

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:

		Balance Outstanding At	
	Maximum	March 31, 2014	December 31, 2013
Agreement I	$ 20,000,000	$ –	$ –
Agreement II	125,000,000	100,927,137	88,873,384
Agreement III	125,000,000	94,128,907	49,157,961
Agreement IV	1,000,000	–	–
	$ 271,000,000	$ 195,056,044	$ 138,031,345

Servicing Advances Lines of Credit

At March 31, 2014, the servicing advance facility had a total committed amount of $94.0 million, and an outstanding balance of approximately $82.5 million. The weighted average advance rate at March 31, 2014 was 67.7% and the servicing advance facility is due May 30, 2014. On May 28, 2014, CMS priced a new facility with a total committed amount of $95.0 million and with substantially comparable terms to the existing advance facility. The new facility is targeted to close prior to the expiration of the existing facility, and this new facility is set to expire in May 2015. A reserve account equivalent to 1.0% 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 March 31, 2014.

4. BORROWINGS (continued)

The servicing advance facility is subject to a margin call if the principal balance exceeds the underlying value of the collateral for the line. At March 31, 2014, the fair value of the collateral exceeded the unpaid principal balance of servicing advance facility.

5. COMMITMENTS AND CONTINGENCIES

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.

6. CUSTODIAL AND TRUST ACCOUNTS

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 at March 31, 2014 and December 31, 2013, 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.

Trust Accounts

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 $13.4 million and $5.8 million at March 31, 2014 and December 31, 2013, respectively.

7. REPORTING SEGMENTS

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

	For the Three Months Ended March 31, 2014						
	Mortgage Lending	Mortgage Servicing	Real Estate Services	Asset Manager	Corporate Support	Eliminations[1]	Consolidated
Revenue	$ 13,918,104	$ 24,616,538	$ 17,263,481	$ 4,460,503	$ 2,165	$ –	$ 60,260,791
Operating expense	13,166,189	18,368,812	9,198,242	2,313,875	15,754,969	–	58,802,087
Income (loss) from operations	751,915	6,247,726	8,065,239	2,146,628	(15,752,804)	–	1,458,704
Other income (expense), net:							
Interest expense	(42,238)	(1,527,997)	(5,287)	93,303	(3,443,033)	–	(4,925,252)
Change in fair value of mortgage servicing rights	–	(3,263,998)	–	–	–	–	(3,263,998)
Change in fair value of long-term debt	–	–	–	–	(10,600,169)	–	(10,600,169)
Servicing claims reserve	–	1,495,804	–	–	–	–	1,495,804
Income from investment in affiliated partnerships	–	46,000	–	373,330	–	–	419,330
Income (loss) before income taxes	$ 709,677	$ 2,997,535	$ 8,059,952	$ 2,613,261	$ (29,796,006)	$ –	$ (15,415,581)

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

7. REPORTING SEGMENTS (continued)

	For the Three Months Ended March 31, 2013						
	Mortgage Lending	Mortgage Servicing	Real Estate Services	Asset Manager	Corporate Support	Eliminations[(1)]	Consolidated
Revenue	$ 8,479,134	$ 23,746,527	$ 12,938,965	$ 3,883,148	$ 1,003,200	$ (640,250)	$ 49,410,724
Operating expense	8,358,848	15,256,753	9,316,584	3,164,642	15,991,060	(640,250)	51,447,637
Income (loss) from operations	120,286	8,489,774	3,622,381	718,506	(14,987,860)	–	(2,036,913)
Other income (expense), net:							
Interest expense	(262,220)	(1,865,546)	(4,110)	(81,600)	(40,434)	–	(2,253,910)
Change in fair value of mortgage servicing rights	–	(1,650,580)	–	–	–	–	(1,650,580)
Income from investment in affiliated partnerships	–	208,058	–	(28,762)	–	–	179,296
Income (loss) before income taxes	$ (141,934)	$ 5,181,706	$ 3,618,271	$ 608,144	$ (15,028,294)	$ –	$ (5,762,107)

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

8. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date these financial statements are issued. 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 significant event occurred subsequent to March 31, 2014:

As previously reported, on March 5, 2014, CHC received a notice of termination "without cause" from a significant client, relating to CCM and CMS with respect to management and mortgage servicing contracts related to certain nonperforming mortgage loans 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 are entitled to receive an aggregate of approximately $23.6 million, of which $10.1 million was received in April 2014, inclusive of fees and a return of capital, upon successful completion of specific milestones. The Company did not recognize revenue in conjunction with this termination during the three months ended March 31, 2014, however expects to recognize revenue during the second and third quarters of 2014 as the milestone are completed.