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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2020**

OR

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

COMMISSION FILE NUMBER: 001-35657

Front Yard Residential Corporation
(Exact name of registrant as specified in its charter)

Maryland	**46-0633510**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

c/o Altisource Asset Management Corporation
5100 Tamarind Reef
Christiansted, U.S. Virgin Islands 00820
(Address of principal executive office)

(340) 692-0525
(Registrant's telephone number, including area code)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	RESI	New York Stock Exchange

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of October 28, 2020, 58,747,146 shares of our common stock were outstanding.

Front Yard Residential Corporation
September 30, 2020
Table of Contents

References in this report to “we,” “our,” “us” or the “Company” refer to Front Yard Residential Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to “AAMC” refer to Altisource Asset Management Corporation and its consolidated subsidiaries, unless otherwise indicated.

Special note on forward-looking statements

Our disclosure and analysis in this Quarterly Report on Form 10-Q contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts” or “potential” or the negative of these words and phrases or similar words or phrases that are predictions of or indicate future events or trends and that do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

The forward-looking statements contained in this report reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. Factors that may materially affect such forward-looking statements include, but are not limited to:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the Agreement and Plan of Merger (the “Pretium Merger Agreement”) with Pretium Midway Holdco, LP, a Delaware limited partnership (“Pretium”) and Midway AcquisitionCo REIT, a Maryland real estate investment trust and direct wholly owned subsidiary of Pretium (“Merger Sub”);
- our ability to complete the proposed merger due to the failure to obtain stockholder approval or satisfy other conditions to completion of the proposed merger;
- risks related to disruption of management’s attention from the Company’s ongoing business operations due to the proposed merger;
- the effect of the announcement of the proposed merger on the Company’s relationships with its customers and employees, and the potential effect on operating results and business generally;
- the risk that the proposed merger will not be consummated in a timely manner;
- the risk of exceeding the expected costs of the proposed merger;
- our ability to successfully complete the transition plan contemplated in connection with the termination of our Asset Management Agreement with AAMC, our external asset manager, pursuant to the Termination and Transition Agreement dated August 13, 2020 (the “Termination Agreement”);
- our ability to successfully internalize our asset management function under the Termination Agreement;
- our ability to successfully implement our strategic initiatives and achieve their anticipated impact;
- our ability to implement our business strategy;
- risks and uncertainties related to the COVID-19 pandemic, including the potential adverse impact on our real estate related assets, financing arrangements, operations, business prospects, customers, employees and third-party service providers;
- the effect of management’s attention being diverted from our ongoing business operations and costs associated with shareholder activism;
- the impact of defending any litigation;
- our ability to make distributions to stockholders;
- our ability to integrate newly acquired rental assets into the portfolio;
- the ability to successfully perform property management services at the level and/or the cost that we anticipate;
- difficulties in identifying single-family properties to acquire;
- the failure to identify unforeseen expenses or material liabilities associated with our acquisitions of assets through the due diligence process prior to such acquisitions;
- the impact of changes to the supply of, value of and the returns on single-family rental properties;
- our ability to acquire single-family rental properties generating attractive returns;
- our ability to sell non-core assets on favorable terms or at all;
- our ability to predict costs;
- our ability to effectively compete with competitors;
- changes in interest rates;
- changes in the market value of single-family properties;
- our ability to maintain, obtain or access financing arrangements on favorable terms or at all;

- our ability to deploy the net proceeds from financings or asset sales to acquire assets in a timely manner or at all;
- our ability to maintain adequate liquidity and meet the requirements under our financing arrangements;
- risks related to our engagement of AAMC as our asset manager;
- the failure of our third-party vendors to effectively perform their obligations under their respective agreements with us;
- our failure to qualify or maintain qualification as a REIT;
- our failure to maintain our exemption from registration under the Investment Company Act of 1940, as amended;
- the impact of adverse real estate, mortgage or housing markets;
- the impact of adverse legislative, regulatory or tax changes; and
- general economic and market conditions.

While forward-looking statements reflect our good faith beliefs, assumptions and expectations, they are not guarantees of future performance. Such forward-looking statements speak only as of their respective dates, and we assume no obligation to update them to reflect changes in underlying assumptions or factors, new information or otherwise. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, please see Part II, Item 1A in this Quarterly Report on Form 10-Q and “Item 1A. Risk factors” in our Annual Report on Form 10-K for the year ended December 31, 2019.

Part I

Item 1. Financial Statements (Unaudited)

Front Yard Residential Corporation
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	September 30, 2020	December 31, 2019
	(unaudited)	
Assets:		
Real estate held for use:		
Land	$ 397,375	$ 398,840
Rental residential properties	1,724,133	1,707,043
Real estate owned	8,886	16,328
Total real estate held for use	2,130,394	2,122,211
Less: accumulated depreciation	(262,776)	(206,464)
Total real estate held for use, net	1,867,618	1,915,747
Real estate assets held for sale	5,454	14,395
Cash and cash equivalents	84,418	43,727
Restricted cash	32,191	34,282
Accounts receivable	5,525	9,235
Goodwill	13,376	13,376
Prepaid expenses and other assets	32,221	22,360
Total assets	$ 2,040,803	$ 2,053,122
Liabilities:		
Repurchase and loan agreements	$ 1,620,968	$ 1,644,230
Accounts payable and accrued liabilities	73,124	64,619
Payable to AAMC	34,967	5,014
Total liabilities	1,729,059	1,713,863
Commitments and contingencies (Note 7)	—	—
Equity:		
Common stock, $0.01 par value, 200,000,000 authorized shares; 58,747,146 shares issued and outstanding as of September 30, 2020 and 53,933,575 shares issued and outstanding as of December 31, 2019	587	539
Additional paid-in capital	1,247,109	1,189,236
Accumulated deficit	(918,262)	(830,602)
Accumulated other comprehensive loss	(17,690)	(19,914)
Total equity	311,744	339,259
Total liabilities and equity	$ 2,040,803	$ 2,053,122

See accompanying notes to condensed consolidated financial statements.

Front Yard Residential Corporation
Condensed Consolidated Statements of Operations
(In thousands, except share and per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Revenues:				
Rental revenues	$ 56,944	$ 50,768	$ 166,400	$ 154,946
Total revenues	56,944	50,768	166,400	154,946
Expenses:				
Residential property operating expenses	20,048	20,775	57,735	58,180
Property management expenses	3,569	4,187	11,367	11,400
Depreciation and amortization	20,229	19,662	60,837	61,983
Acquisition and integration costs	771	202	913	3,064
Impairment	105	495	994	3,091
Mortgage loan servicing costs	—	246	—	827
Interest expense	17,378	21,135	55,790	63,810
Share-based compensation	1,616	1,457	4,039	4,387
General and administrative	6,637	5,519	23,280	19,277
Management fees to AAMC	3,584	3,584	10,752	10,715
Termination fee to AAMC	46,000	—	46,000	—
Total expenses	119,937	77,262	271,707	236,734
Net gain on real estate and mortgage loans	176	354	1,546	12,973
Operating loss	(62,817)	(26,140)	(103,761)	(68,815)
Casualty losses	(292)	(287)	(924)	(864)
Insurance recoveries	10	48	85	586
Other (loss) income	(78)	(9,989)	25,231	(10,786)
Net loss before income taxes	(63,177)	(36,368)	(79,369)	(79,879)
Income tax expense	—	—	28	14
Net loss	$ (63,177)	$ (36,368)	$ (79,397)	$ (79,893)
Loss per share of common stock - basic:				
Loss per basic share	$ (1.08)	$ (0.68)	$ (1.41)	$ (1.49)
Weighted average common stock outstanding - basic	58,747,146	53,857,616	56,329,863	53,735,106
Loss per share of common stock - diluted:				
Loss per diluted share	$ (1.08)	$ (0.68)	$ (1.41)	$ (1.49)
Weighted average common stock outstanding - diluted	58,747,146	53,857,616	56,329,863	53,735,106
Dividends declared per common share	$ —	$ 0.15	$ 0.15	$ 0.45

See accompanying notes to condensed consolidated financial statements.

Front Yard Residential Corporation
Condensed Consolidated Statements of Comprehensive Loss
(In thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Net loss	$ (63,177)	$ (36,368)	$ (79,397)	$ (79,893)
Other comprehensive income (loss):				
Change in fair value of interest rate caps	(245)	(1,463)	(1,956)	(12,554)
Losses from interest rate caps reclassified into earnings from accumulated other comprehensive loss	1,419	1,430	4,180	3,665
Net other comprehensive income (loss)	1,174	(33)	2,224	(8,889)
Comprehensive loss	$ (62,003)	$ (36,401)	$ (77,173)	$ (88,782)

See accompanying notes to condensed consolidated financial statements.

Front Yard Residential Corporation
Condensed Consolidated Statements of Stockholders' Equity
(In thousands, except share and per share amounts)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Comprehensive Loss	Total Equity
	Number of Shares	Amount				
December 31, 2019	53,933,575	$ 539	$ 1,189,236	$ (830,602)	$ (19,914)	$ 339,259
Common shares issued under share-based compensation plans	243,089	3	62	—	—	65
Shares withheld for taxes upon vesting of restricted stock	(64,290)	(1)	(767)	—	—	(768)
Dividends on common stock ($0.15 per share)	—	—	—	(8,263)	—	(8,263)
Share-based compensation	—	—	1,487	—	—	1,487
Change in fair value of cash flow hedging derivatives in other comprehensive loss	—	—	—	—	(447)	(447)
Net loss	—	—	—	(20,215)	—	(20,215)
March 31, 2020	54,112,374	541	1,190,018	(859,080)	(20,361)	311,118
Issuance of common stock, including shares under share-based compensation plans	4,693,383	47	54,953	—	—	55,000
Shares withheld for taxes upon vesting of restricted stock	(58,611)	(1)	(414)	—	—	(415)
Share-based compensation	—	—	936	—	—	936
Change in fair value of cash flow hedging derivatives in other comprehensive income	—	—	—	—	1,497	1,497
Net income	—	—	—	3,995	—	3,995
June 30, 2020	58,747,146	587	1,245,493	(855,085)	(18,864)	372,131
Share-based compensation	—	—	1,616	—	—	1,616
Change in fair value of cash flow hedging derivatives in other comprehensive loss	—	—	—	—	1,174	1,174
Net loss	—	—	—	(63,177)	—	(63,177)
September 30, 2020	58,747,146	$ 587	$ 1,247,109	$ (918,262)	$ (17,690)	$ 311,744

See accompanying notes to condensed consolidated financial statements.

(table of contents)

Front Yard Residential Corporation
Condensed Consolidated Statements of Stockholders' Equity (continued)
(In thousands, except share and per share amounts)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Comprehensive Loss	Total Equity
	Number of Shares	Amount				
December 31, 2018	53,630,204	$ 536	$ 1,184,132	$ (700,623)	$ (12,653)	$ 471,392
Adoption of ASC 842	—	—	—	96	—	96
Dividends on common stock ($0.15 per share)	—	—	—	(8,158)	—	(8,158)
Share-based compensation	—	—	1,119	—	—	1,119
Change in fair value of cash flow hedging derivatives in other comprehensive loss	—	—	—	—	(6,622)	(6,622)
Net loss	—	—	—	(18,508)	—	(18,508)
March 31, 2019	53,630,204	536	1,185,251	(727,193)	(19,275)	439,319
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	234,389	2	59	—	—	61
Shares withheld for taxes upon vesting of restricted stock	(38,135)	—	(438)	—	—	(438)
Dividends on common stock ($0.15 per share)	—	—	—	(8,258)	—	(8,258)
Share-based compensation	—	—	1,811	—	—	1,811
Change in fair value of cash flow hedging derivatives in other comprehensive loss	—	—	—	—	(2,234)	(2,234)
Net loss	—	—	—	(25,017)	—	(25,017)
June 30, 2019	53,826,458	538	1,186,683	(760,468)	(21,509)	405,244
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	68,890	1	—	—	—	1
Shares withheld for taxes upon vesting of restricted stock	(14,804)	—	(167)	—	—	(167)
Dividends on common stock ($0.15 per share)	—	—	—	(8,268)	—	(8,268)
Share-based compensation	—	—	1,457	—	—	1,457
Change in fair value of cash flow hedging derivatives in other comprehensive loss	—	—	—	—	(33)	(33)
Net loss	—	—	—	(36,368)	—	(36,368)
September 30, 2019	53,880,544	$ 539	$ 1,187,973	$ (805,104)	$ (21,542)	$ 361,866

See accompanying notes to condensed consolidated financial statements.

Front Yard Residential Corporation
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine months ended September 30,	
	2020	**2019**
Operating activities:		
Net loss	$ (79,397)	$ (79,893)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Net gain on real estate and mortgage loans	(1,546)	(12,973)
Depreciation and amortization	60,837	61,983
Impairment	994	3,091
Share-based compensation	4,039	4,387
Amortization of deferred financing costs	5,017	3,931
Casualty losses	924	864
Insurance recoveries	(85)	(586)
Change in fair value of interest rate cap derivatives in profit or loss	4,180	3,665
Changes in operating assets and liabilities:		
Accounts receivable	1,277	5,657
Deferred leasing costs	(2,012)	(2,088)
Prepaid expenses and other assets	(8,826)	(9,125)
Accounts payable and accrued liabilities	9,333	15,573
Payable to AAMC	29,953	200
Net cash provided by (used in) operating activities	24,688	(5,314)
Investing activities:		
Investment in real estate	(543)	(11,124)
Investment in renovations	(24,155)	(21,504)
Payment of real estate tax advances	—	(72)
Proceeds from mortgage loan resolutions and dispositions	—	1,129
Receipt of mortgage loan payments	—	203
Proceeds from dispositions of real estate	25,424	169,457
Proceeds from casualty insurance	85	1,552
Acquisition related deposit paid to AAMC (Note 1)	(3,200)	—
Net cash (used in) provided by investing activities	(2,389)	139,641
Financing activities:		
Proceeds from issuance of common stock, including stock option exercises	55,086	138
Payment of tax withholdings on share-based compensation plan awards	(21)	(76)
Shares withheld for taxes upon vesting of restricted stock	(1,183)	(605)
Dividends on common stock	(8,572)	(24,444)
Proceeds from repurchase and loan agreements	54,063	42,681
Repayments of repurchase and loan agreements	(78,628)	(150,308)
Payment of financing costs	(3,714)	(1,066)
Principal repayments of finance leases	(730)	(688)
Net cash provided by (used in) financing activities	16,301	(134,368)
Net change in cash, cash equivalents and restricted cash	38,600	(41)
Cash, cash equivalents and restricted cash as of beginning of the period	78,009	81,160
Cash, cash equivalents and restricted cash as of end of the period	$ 116,609	$ 81,119

See accompanying notes to condensed consolidated financial statements.

Front Yard Residential Corporation
Condensed Consolidated Statements of Cash Flows (continued)
(In thousands)
(Unaudited)

	Nine months ended September 30,	
	2020	**2019**
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ 47,509	$ 55,489
Income taxes	144	—
Non-cash transactions:		
Transfer of mortgage loans to real estate owned, net	$ —	$ 4,131
Changes in accrued capital expenditures	(136)	(612)
Changes in receivables from mortgage loan resolutions and dispositions, payments and real estate tax advances to borrowers, net	—	(7)
Changes in receivables from real estate owned dispositions	(2,433)	6,318
Change in other comprehensive loss from cash flow hedges	2,224	(8,889)
Right-of-use lease assets recognized - operating leases	14	1,475
Right-of-use lease assets recognized - finance leases	333	1,327
Operating lease liabilities incurred	14	1,475
Finance lease liabilities incurred	333	1,327
Dividends declared but not paid	390	8,584

See accompanying notes to condensed consolidated financial statements.

Front Yard Residential Corporation
Notes to Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

1. Organization and Basis of Presentation

Front Yard Residential Corporation ("we," "our," "us," or the "Company") is a Maryland real estate investment trust ("REIT") focused on acquiring, owning and managing single-family rental ("SFR") properties throughout the United States. We conduct substantially all of our activities through our wholly owned subsidiary, Front Yard Residential, L.P., and its subsidiaries.

On August 8, 2018, we acquired a property management firm and commenced the internalization of our property management function. During the first quarter of 2019, we completed the transition of property management for our SFR properties that were previously externally managed to our internal property management platform. We anticipate that all SFR properties acquired in the future will also be managed internally.

As of September 30, 2020, we had a core rental portfolio of 14,494 homes. In addition, we had 104 rental homes that are identified for future sale, and we had a small portfolio of non-rental real estate owned ("REO") properties remaining from our previous mortgage loan portfolio acquisitions. We have engaged third-party service providers to manage REO and certain other properties identified for sale. We are currently preparing these non-core assets for future disposition in order to create additional liquidity and purchasing power to continue building our core rental portfolio.

Asset Management Agreements and Termination Agreement with AAMC

Since December 2012, we have been managed by Altisource Asset Management Corporation ("AAMC" or our "Manager"). AAMC has provided us with dedicated personnel to administer certain aspects of our business and perform certain of our corporate governance functions. AAMC has also provided oversight of our acquisition and management of SFR properties and the ongoing management of our remaining REO properties.

On March 31, 2015, we entered into an asset management agreement (the "Former AMA") with AAMC. The Former AMA, which became effective on April 1, 2015. The Former AMA provided for a fee structure in which AAMC was entitled to a base management fee, an incentive management fee and a conversion fee for mortgage loans and real estate owned ("REO") properties that became rental properties for the first time during each quarter.

Front Yard and AAMC entered into an amended and restated asset management agreement (the "Amended AMA") on May 7, 2019 (the "Effective Date"). The Amended AMA amended and restated, in its entirety, the Former AMA. The Amended AMA has an initial term of five years and could renew automatically each year thereafter for an additional one-year term, subject in each case to certain termination provisions. The Amended AMA provides for a fee structure in which AAMC has been entitled to a Base Management Fee and a potential Incentive Fee.

For further information on the Former AMA and the Amended AMA, please see Note 8.

On August 13, 2020, Front Yard and AAMC entered into a Termination and Transition Agreement (the "Termination Agreement"), pursuant to which they have agreed to effectively internalize the asset management function of Front Yard. The Termination Agreement provides that the Amended AMA will terminate following a transition period to enable the internalization of Front Yard's asset management function, allow for the assignment of certain vendor contracts and implement the transfer of certain employees to Front Yard and the training of required replacement employees at each company. The transition period will end at the time that Front Yard and AAMC mutually agree that all required transition activities have been successfully completed (the "Termination Date"), which will occur no later than February 9, 2021. On the Termination Date, the Amended AMA will terminate, and AAMC will no longer provide services to Front Yard under the Amended AMA. Below are the material terms of the Termination Agreement:

- Front Yard will pay AAMC an aggregate termination fee of $46.0 million (the "Termination Fee"), consisting of the following payments:
    - $15.0 million paid in cash to AAMC on August 17, 2020,
    - $15.0 million payable in cash on the Termination Date, and
    - $16.0 million payable in cash or Front Yard common stock, at the option of Front Yard and subject to certain conditions, restrictions, and limitations, on the Termination Date.

- Front Yard will acquire the equity interests of AAMC's Indian subsidiary, the equity interests of AAMC's Cayman Islands subsidiary, the right to solicit and hire designated AAMC employees that currently oversee the management of Front Yard's business and other assets of AAMC that are used in connection with the operation of Front Yard's business (the “Transferred Assets”) for an aggregate purchase price of $8.2 million ($3.2 million of which was paid to AAMC on August 17, 2020), of which all or a portion of the remaining $5.0 million may be paid in Front Yard common stock, at Front Yard’s option and subject to certain conditions, restrictions, and limitations.
- Front Yard will continue to pay Base Management Fees to AAMC under the Amended AMA in the amount of $3.6 million per quarter through the date that Front Yard delivers written notice to AAMC that the transition has been satisfactorily completed, subject to proration for partial quarters.
- AAMC has agreed to vote any shares of Front Yard common stock that it receives in connection with the Termination Agreement in accordance with recommendations of the Front Yard board of directors for a period of one year following the Termination Date, including regarding the approval of the Pretium Merger Agreement (described below) and related transactions, which may be presented to Front Yard’s stockholders.

We have recognized the entire Termination Fee under generally accepted accounting principles as an operating expense in our condensed consolidated statements of operations for the three and nine months ended September 30, 2020. We have also included the unpaid portion of the Termination Fee of $31.0 million within our payable to AAMC in our condensed consolidated balance sheet as of September 30, 2020.

During the third quarter of 2020, we made an upfront payment of $3.2 million of the $8.2 million aggregate purchase price of the Transferred Assets. We have included this $3.2 million upfront payment within prepaid expenses and other assets in our condensed consolidated balance sheet.

Amherst Merger Agreement and Subsequent Termination and Settlement Agreement

On February 17, 2020, we entered into an Agreement and Plan of Merger (the “Amherst Merger Agreement”) with BAF Holdings, LLC, a Delaware limited liability company (“Parent”), and BAF Sub, LLC, a Maryland limited liability company (“Merger Sub”), each affiliates of Amherst Single Family Residential Partners VI, LP (collectively, “Amherst”), providing for the acquisition of the Company by Parent. Following the approval of the merger, the parties ultimately determined that it was not feasible to proceed with the transaction, and on May 4, 2020, we entered into a Termination and Settlement Agreement to terminate the Merger Agreement. Pursuant to the Termination and Settlement Agreement, Amherst agreed to pay the Company a $25.0 million cash termination fee, purchase from the Company 4.4 million shares of Front Yard common stock for an aggregate cash purchase price of $55.0 million ($12.50 per share) pursuant to an Investment Agreement and provide the Company with a $20.0 million committed Non-Negotiable Promissory Note.

We have included the $25.0 million termination fee received from Amherst within other income in our condensed consolidated statements of operations for the nine months ended September 30, 2020.

Since the termination of the Amherst Merger Agreement, we have continued to operate our business in the ordinary course as a stand-alone company.

Pretium Merger Agreement

On October 19, 2020, we entered into an Agreement and Plan of Merger (the “Pretium Merger Agreement”) with a partnership led by Pretium Midway Holdco, LP, a Delaware limited partnership (“Pretium”), and Midway AcquisitionCo REIT, a Maryland real estate investment trust (“Merger Sub”), and including funds managed by the real estate equity and alternative credit strategies of Ares Management Corporation, providing for the merger of Front Yard into Merger Sub, with Merger Sub surviving the merger and becoming a wholly-owned subsidiary of Pretium (the “Merger Transaction”).

Under the terms of the Pretium Merger Agreement, Front Yard stockholders will receive $13.50 in cash per share upon consummation of the Merger Transaction. The Front Yard Board of Directors has unanimously approved the Pretium Merger Agreement and related transactions and intends to recommend that Front Yard stockholders vote in favor of it at a Special Meeting of Stockholders, to be scheduled as soon as practicable. The Merger Transaction is expected to close in the first quarter of 2021, subject to the approval by the holders of a majority of Front Yard’s outstanding shares and the satisfaction of customary closing conditions.

For further details of the Pretium Merger Agreement, refer to Note 14.

Basis of presentation and use of estimates

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). All wholly owned subsidiaries are included, and all intercompany accounts and transactions have been eliminated.

The unaudited interim condensed consolidated financial statements and accompanying unaudited condensed consolidated financial information, in our opinion, contain all adjustments that are of a normal recurring nature and are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. The interim results are not necessarily indicative of results for a full year. We have omitted certain notes and other information from the interim condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by Securities and Exchange Commission ("SEC") rules and regulations. These condensed consolidated financial statements should be read in conjunction with our annual consolidated financial statements included within our 2019 Annual Report on Form 10-K, which was filed with the SEC on February 28, 2020.

Use of estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

Recently issued accounting standards

Adoption of recent accounting standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments, which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous "incurred loss" methodology was restrictive for an entity's ability to record credit losses based on not yet meeting the "probable" threshold. The new language requires these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. This ASU is effective for fiscal years beginning after December 15, 2019. The amendments in ASU 2016-13 should be applied on a modified retrospective transition basis. We adopted this standard on January 1, 2020, and our adoption of this standard did not have a material impact on our consolidated financial statements because the standard, as amended, excludes receivables arising from operating leases, which represent the majority of our receivables.

Recently issued accounting standards not yet adopted

In December 2019, the FASB issued ASU 2019-12, Income Taxes - Simplifying the Accounting for Income Taxes (Topic 740), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years beginning after December 15, 2021. While we are currently evaluating the impact of the adoption of this standard, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

2. Asset Acquisitions and Dispositions

Real estate assets

Real estate acquisitions

During the three months ended September 30, 2020, we acquired no SFR properties. During the three months ended September 30, 2019, we acquired 28 SFR properties for an aggregate purchase price of $3.8 million.

During the nine months ended September 30, 2020 and 2019, we acquired 4 and 85 SFR properties, respectively, for an aggregate purchase price of $0.5 million and $11.1 million, respectively.

Real estate dispositions

During the three months ended September 30, 2020 and 2019, we sold 37 and 126 properties, respectively. Net proceeds of these sales were $5.0 million and $22.6 million, respectively.

During the nine months ended September 30, 2020 and 2019, we sold 149 and 862 properties, respectively. Net proceeds of these sales were $23.8 million and $175.8 million, respectively.

Mortgage loan dispositions and resolutions

On October 7, 2019, we sold the last of our remaining mortgage loans. During the three and nine months ended September 30, 2019, we resolved 5 and 18 mortgage loans, respectively, primarily through short sales, refinancing and foreclosure sales. Net proceeds of these resolutions were $0.2 million and $1.8 million, respectively.

Net gain on real estate and mortgage loans

The following table presents the components of net gain on real estate and mortgage loans during the three and nine months ended September 30, 2020 and 2019 ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Conversion of mortgage loans to REO, net	$ —	$ 17	$ —	$ 769
Change in fair value of mortgage loans, net	—	(81)	—	211
Net realized loss on mortgage loans	—	(1,671)	—	(944)
Net realized gain on sales of real estate	176	2,089	1,546	12,937
Net gain on real estate and mortgage loans	$ 176	$ 354	$ 1,546	$ 12,973

3. Real Estate Assets, Net

The following table presents the number of real estate assets held by the Company by status as of the dates indicated:

September 30, 2020	Held for Use	Held for Sale	Total Portfolio
Rental Properties:			
Leased	14,286	—	14,286
Listed and ready for rent	83	—	83
Unit turn	95	—	95
Renovation	30	—	30
Total rental properties	14,494		
Previous rentals identified for sale	61	43	104
Legacy REO	5	—	5
	14,560	43	14,603
December 31, 2019			
Rental Properties:			
Leased	13,711	—	13,711
Listed and ready for rent	371	—	371
Unit turn	369	—	369
Renovation	94	—	94
Total rental properties	14,545		
Previous rentals identified for sale	94	87	181
Legacy REO	10	12	22
	14,649	99	14,748

For properties held for sale or identified for future sale, management has determined to divest these properties because they do not meet our residential rental property investment criteria.

Impairment of real estate

During the three months ended September 30, 2020 and 2019, we recognized $0.1 million and $0.5 million, respectively, of impairment on our real estate assets held for sale.

During the nine months ended September 30, 2020 and 2019, we recognized $1.0 million and $3.1 million, respectively, of impairment on our real estate assets held for sale.

4. Fair Value of Financial Instruments

The following table sets forth the carrying value and fair value of our financial assets and liabilities by level within the fair value hierarchy as of September 30, 2020 and December 31, 2019 ($ in thousands):

	Carrying Value	Level 1 Quoted Prices in Active Markets	Level 2 Observable Inputs Other Than Level 1 Prices	Level 3 Unobservable Inputs
September 30, 2020				
Recurring basis (assets)				
Interest rate cap derivatives (1)	$ 114	$ —	$ 114	$ —
Not recognized on condensed consolidated balance sheets at fair value (liabilities)				
Repurchase and loan agreements	1,620,968	—	1,630,102	—
December 31, 2019				
Recurring basis (assets)				
Interest rate cap derivatives (1)	$ 2,070	$ —	$ 2,070	$ —
Not recognized on consolidated balance sheets at fair value (liabilities)				
Repurchase and loan agreements	1,644,230	—	1,653,720	—

(1) Included within prepaid expenses and other assets in the condensed consolidated balance sheets.

We have not transferred any other assets from one level to another level during the nine months ended September 30, 2020. We transferred our mortgage loans at fair value from Level 3 to Level 2 during the third quarter of 2019 due to the contract price being the primary input to the fair value of the mortgage loans prior to the sale of the remaining loans on October 7, 2019. We have not transferred any other assets from one level to another level during the year ended December 31, 2019.

The fair value of our interest rate cap derivatives is estimated using a discounted cash flow analysis based on the contractual terms of the derivatives.

On October 7, 2019, we sold the last of our remaining mortgage loans. The following table sets forth the changes in our Level 3 assets, which consisted solely of mortgage loans at fair value, during the period indicated ($ in thousands):

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Mortgage loans at fair value based on Level 3 inputs, beginning balance	$ 4,372	$ 8,072
Net gain (loss) on mortgage loans	(1,759)	12
Mortgage loan dispositions, resolutions and payments	1,355	(405)
Real estate tax advances to borrowers	36	65
Transfer of mortgage loans to real estate owned, net	(391)	(4,131)
Transfers out of Level 3	(3,613)	(3,613)
Mortgage loans at fair value based on Level 3 inputs, ending balance	$ —	$ —

5. Borrowings

Our operating partnership and certain of its Delaware statutory trust and/or limited liability company subsidiaries, as applicable, have entered into master repurchase agreements and loan agreements to finance the acquisition and ownership of the SFR properties and other REO properties in our portfolio. We have effective control of the assets associated with these agreements and therefore have concluded these are financing arrangements.

We pay interest on all of our borrowings as well as certain other customary fees, administrative costs and expenses each month. As of September 30, 2020, the average annualized interest rate on borrowings under our repurchase and loan agreements was 3.45%, excluding amortization of deferred debt issuance costs and loan discounts.

The following table sets forth data with respect to our repurchase and loan agreements as of September 30, 2020 and December 31, 2019 ($ in thousands):

	Maturity Date		Interest Rate		Amount Outstanding	Maximum Borrowing Capacity	Amount of Available Funding	Book Value of Collateral
September 30, 2020								
CS Repurchase Agreement	6/29/2021		1-month LIBOR + 3.50%	(1)	$ 118,549	$ 200,000	$ 81,451	$ 125,834
HOME II Loan Agreement	11/9/2020	(2)	1-month LIBOR + 2.10%	(3)	83,270	83,270	—	96,207
HOME III Loan Agreement	11/9/2020	(2)	1-month LIBOR + 2.10%	(3)	89,149	89,149	—	106,619
HOME IV Loan Agreement (A)	12/9/2022		4.00%		114,201	114,201	—	139,095
HOME IV Loan Agreement (B)	12/9/2022		4.00%		114,590	114,590	—	139,983
Term Loan Agreement	4/6/2022		5.00%		99,782	99,782	—	108,820
FYR SFR Loan Agreement	9/1/2028		4.65%		508,700	508,700	—	566,466
MS Loan Agreement	12/7/2023		1-month LIBOR + 1.80%	(4)	504,545	504,545	—	584,202
Amherst Promissory Note	5/4/2022		1-month LIBOR + 5.00%		—	20,000	20,000	—
					1,632,786	$ 1,734,237	$ 101,451	$ 1,867,226
Less: unamortized loan discounts					(2,684)			
Less: deferred debt issuance costs					(9,134)			
					$ 1,620,968			
December 31, 2019								
CS Repurchase Agreement	2/15/2020		1-month LIBOR + 2.30%		$ 109,002	$ 250,000	$ 140,998	$ 111,593
Nomura Loan Agreement	4/3/2020		1-month LIBOR + 2.30%		33,671	250,000	216,329	38,423
HOME II Loan Agreement	11/9/2020		1-month LIBOR + 2.10%		83,270	83,270	—	98,150
HOME III Loan Agreement	11/9/2020		1-month LIBOR + 2.10%		89,150	89,150	—	108,860
HOME IV Loan Agreement (A)	12/9/2022		4.00%		114,201	114,201	—	141,787
HOME IV Loan Agreement (B)	12/9/2022		4.00%		114,590	114,590	—	142,620
Term Loan Agreement	4/6/2022		5.00%		99,782	99,782	—	111,061
FYR SFR Loan Agreement	9/1/2028		4.65%		508,700	508,700	—	573,961
MS Loan Agreement	12/7/2023		1-month LIBOR + 1.80%		504,986	504,986	—	595,650
					1,657,352	$ 2,014,679	$ 357,327	$ 1,922,105
Less: unamortized loan discounts					(3,632)			
Less: deferred debt issuance costs					(9,490)			
					$ 1,644,230			

(1) Subject to a 1-month LIBOR floor of 0.50%.
(2) Represents the current maturity date. We have the option to extend the maturity date for up to three successive one-year extensions, the first of which we exercised on October 17, 2019. We intend to exercise our option to extend the maturity date until November 9, 2021.
(3) The interest rate is capped at 4.40% under an interest rate cap derivative. See Note 10.
(4) The interest rate is capped at 4.30% under an interest rate cap derivative. See Note 10.

Additional details regarding the above repurchase and loan agreements are as follows:

CS Repurchase Agreement

Credit Suisse AG ("CS") is the lender on the repurchase agreement entered into on March 22, 2013, (the "CS Repurchase Agreement"), which has been amended on multiple occasions. Under the terms of the CS Repurchase Agreement, as collateral for the funds drawn thereunder, subject to certain conditions, our operating partnership and/or one or more of our limited liability company subsidiaries sell to the lender equity interests in the Delaware statutory trust subsidiary or limited liability company, as applicable, that owns the applicable underlying REO assets on our behalf. We may be required to repay a portion of the amounts outstanding under the CS Repurchase Agreement should the loan-to-value ratio of the funded collateral decline. The price paid by the lender for each real estate asset we finance under the CS Repurchase Agreement is based on a percentage of the market value of such asset. With respect to funds drawn under the CS Repurchase Agreement, our applicable subsidiary is required to pay the lender interest monthly and certain other customary fees, administrative costs and expenses to maintain and administer the CS Repurchase Agreement. We do not collateralize our repurchase facility with cash. The CS Repurchase Agreement contains customary events of default and is fully guaranteed by us.

Nomura Loan Agreement

Nomura Corporate Funding Americas, LLC ("Nomura") was the lender under a loan agreement dated April 10, 2015 (the "Nomura Loan Agreement"), which was amended on several occasions. Under the terms of the Nomura Loan Agreement, subject to certain conditions, Nomura advanced funds to us from time to time, with such advances collateralized by SFR properties and other REO properties. The advances paid under the Nomura Loan Agreement with respect to the applicable properties from time to time were based on a percentage of the market value of the properties.

On May 1, 2020, we refinanced the assets serving as collateral under the Nomura Loan Agreement under the CS Repurchase Agreement and the Nomura Loan Agreement was terminated and repaid in full.

Seller Financing Arrangements

We have entered into the following facilities, each of which were initially seller financing arrangements:

- In connection with the seller financing related to an acquisition of SFR properties on March 30, 2017, our wholly owned subsidiary, HOME SFR Borrower II, LLC ("HOME Borrower II"), entered into the HOME II Loan Agreement with entities sponsored by Amherst Holdings, LLC ("Amherst"). On November 13, 2017, HOME Borrower II entered into an amended and restated loan agreement, which was acquired by Metropolitan Life Insurance Company ("MetLife"). HOME Borrower II has the option to extend the HOME II Loan Agreement beyond the initial maturity date for three successive one-year extensions, provided, among other things, that there is no event of default under the HOME II Loan Agreement on each maturity date. The HOME II Loan Agreement is cross-defaulted and cross-collateralized with the HOME III Loan Agreement.

- In connection with the seller financing related to an acquisition of SFR properties on June 29, 2017, our wholly owned subsidiary, HOME SFR Borrower III, LLC ("HOME Borrower III"), entered into the HOME III Loan Agreement with entities sponsored by Amherst. On November 13, 2017, HOME Borrower III entered into an amended and restated loan agreement, which was acquired by MetLife. HOME Borrower III has the option to extend the HOME III Loan Agreement beyond the initial maturity date for three successive one-year extensions, provided, among other things, that there is no event of default under the HOME III Loan Agreement on each maturity date. The HOME III Loan Agreement is also cross-defaulted and cross-collateralized with the HOME II Loan Agreement.

- In connection with the seller financing related to an acquisition of SFR properties on November 29, 2017, our wholly owned subsidiary, HOME SFR Borrower IV, LLC ("HOME Borrower IV"), entered into two separate loan agreements with entities sponsored by Amherst (collectively, the "HOME IV Loan Agreements"). The HOME IV Loan Agreements were acquired by MetLife on November 29, 2017.

Under the terms of the HOME II Loan Agreement, the HOME III Loan Agreement and the HOME IV Loan Agreements, each of the facilities are non-recourse to us and are secured by a lien on the membership interests of HOME Borrower II, HOME Borrower III, HOME Borrower IV and the acquired properties and other assets of each entity, respectively. The assets of each entity are the primary source of repayment and interest on their respective loan agreements, thereby making the cash proceeds of rent payments and any sales of the acquired properties the primary sources of the payment of interest and principal by each entity to the respective lenders.

Each loan agreement also includes customary events of default, the occurrence of which would allow the respective lenders to accelerate payment of all amounts outstanding thereunder. We have limited indemnification obligations for wrongful acts taken by HOME Borrower II, HOME Borrower III or HOME Borrower IV under their respective loan agreements in connection with the secured collateral. Even though the HOME II Loan Agreement, the HOME III Loan Agreement and the HOME IV Loan Agreements are non-recourse to us and all of our subsidiaries other than the entities party to the respective loan agreements, we have agreed to limited bad act indemnification obligations to the respective lenders for the payment of (i) certain losses arising out of certain bad or wrongful acts of our subsidiaries that are party to the respective loan agreements and (ii) the principal amount of each of the facilities and all other obligations thereunder in the event we cause certain voluntary bankruptcy events of the respective subsidiaries party to the loan agreements. Any of such liabilities could have a material adverse effect on our results of operations and/or our financial condition.

Term Loan Agreement

On April 6, 2017, RESI TL1 Borrower, LLC (“TL1 Borrower”), our wholly owned subsidiary, entered into a credit and security agreement (the “Term Loan Agreement”) with American Money Management Corporation, as agent, on behalf of Great American Life Insurance Company and Great American Insurance Company as initial lenders, and each other lender added from time to time as a party to the Term Loan Agreement. We may be required to make prepayments of a portion of the amounts outstanding under the Term Loan Agreement under certain circumstances, including certain levels of declines in collateral value.

The Term Loan Agreement includes customary events of default, the occurrence of which would allow the lenders to accelerate payment of all amounts outstanding thereunder. The Term Loan Agreement is non-recourse to us and is secured by a lien on the membership interests of TL1 Borrower and the properties and other assets of TL1 Borrower. The assets of TL1 Borrower are the primary source of repayment and interest on the Term Loan Agreement, thereby making the cash proceeds received by TL1 Borrower from rent payments and any sales of the underlying properties the primary sources of the payment of interest and principal by TL1 Borrower to the lenders. We have limited indemnification obligations for wrongful acts taken by TL1 Borrower and RESI TL1 Pledgor, LLC, the sole member of TL1 Borrower, in connection with the secured collateral for the Term Loan Agreement.

FYR SFR Loan Agreement

On August 8, 2018, FYR SFR Borrower, LLC (“FYR SFR Borrower”), our wholly owned subsidiary, entered into a loan agreement (the “FYR SFR Loan Agreement”) with Berkadia Commercial Mortgage LLC, as lender (“Berkadia”) secured by 2,798 properties acquired on August 8, 2018 (the “RHA Acquired Properties”) as well as 2,015 other properties already owned by us and previously financed on our existing warehouse facilities with other lenders (together, the “FYR SFR Collateral Properties”). The FYR SFR Loan Agreement was originated as part of the Federal Home Loan Mortgage Corporation’s (“Freddie Mac”) single-family rental pilot program and has been purchased from Berkadia by Freddie Mac. The FYR SFR Loan Agreement contains customary events of default and is secured by the equity interests of FYR SFR Borrower and mortgages on the collateral properties. In connection with the FYR SFR Loan Agreement, we maintained $4.1 million and $0.6 million in escrow for future payments of property taxes and repairs and maintenance as of September 30, 2020 and December 31, 2019, respectively.

MS Loan Agreement

On December 7, 2018, our wholly owned subsidiary, HOME SFR Borrower, LLC ("HOME Borrower"), entered into a loan agreement (the "MS Loan Agreement") with Morgan Stanley Bank, N.A. ("Morgan Stanley") and such other persons that may from time to time become a party to the MS Loan as lenders. The MS Loan Agreement can be prepaid without penalty at any time after December 7, 2021. The MS Loan Agreement contains customary events of default and is secured by the equity interests in HOME Borrower and mortgages on its 4,258 SFR properties. In connection with the MS Loan Agreement, we maintained $10.5 million and $4.9 million in escrow for future payments of property taxes, insurance, HOA dues, repairs and maintenance and other amounts as required by the MS Loan Agreement as of September 30, 2020 and December 31, 2019, respectively.

Amherst Promissory Note

On May 4, 2020, in connection with the Termination and Settlement Agreement, we also entered into a Non-Negotiable Promissory Note (the "Promissory Note") between Front Yard and Amherst SFRP VI REIT, LLC (the "Amherst Noteholder"), pursuant to which, among other things, the Amherst Noteholder committed to make advances from time to time to Front Yard in an aggregate principal amount of up to $20 million. Advances under the Promissory Note are available in multiple draws with minimum draw increments of $500,000, subject to prior written notice and absence of an event of default. Amounts under the Promissory Note can be repaid at any time and from time to time, without premium or penalty, and amounts repaid may be reborrowed.

The Promissory Note contains a limited set of customary representations and warranties, covenants and events of default and does not contain any financial covenants.

Compliance with covenants

Our repurchase and loan agreements require us and certain of our subsidiaries to maintain various financial and other covenants customary to these types of indebtedness. The covenants of each facility may include, without limitation, the following:

- reporting requirements to the agent or lender,
- minimum adjusted tangible net worth requirements,
- minimum net asset requirements,
- limitations on the indebtedness,
- minimum levels of liquidity, including specified levels of unrestricted cash,
- limitations on sales and dispositions of properties collateralizing certain of the loan agreements,
- various restrictions on the use of cash generated by the operations of properties,
- a requirement to maintain positive net income, after adjustment to add back non-cash items, for any two consecutive quarters, and
- a minimum fixed charge coverage ratio.

We are currently in compliance with the covenants and other requirements with respect to our repurchase and loan agreements.

Counterparty risk

We monitor our lending partners' ability to perform under the repurchase and loan agreements, including the obligation of lenders under repurchase agreements to resell the same assets back to us at the end of the term of the transaction, and have concluded there is currently no reason to doubt that they will continue to perform under the repurchase and loan agreements as contractually obligated.

Reliance on financing arrangements

Our business model relies to a significant degree on both short-term financing and longer duration asset-backed financing arrangements, and we generally do not carry sufficient liquid funds to retire any of our short-term obligations upon their maturity. Prior to or upon such short-term maturities, management generally expects to (1) refinance the remaining outstanding short-term facilities, obtain additional financing or replace the short-term facilities with longer-term facilities and (2) continue to liquidate certain non-core real estate assets, which will generate cash to reduce the related financing. We are in continuous dialogue with our lenders, and we are currently not aware of any circumstances that would adversely affect our ability to complete such refinancings. We believe we will be successful in our efforts to refinance or obtain additional financing based on our recent success in renewing our outstanding facilities and obtaining additional financing with new counterparties and our ongoing relationships with lenders.

6. Leases

Front Yard as Lessor

Our primary business is to lease single-family homes to families throughout the United States. Our leases to tenants generally have a term of one year with potential extensions, including month-to-month leases after the initial term. These leases are classified as operating leases.

Future contractual rents for the 14,286 properties that were leased as of September 30, 2020 are as follows ($ in thousands):

2020 (1)	$	49,595
2021		74,797
2022		2,241
2023		12
2024		—
Thereafter		—
	$	126,645

(1) Excludes the nine months ended September 30, 2020.

Front Yard as Lessee

We lease office space and automobiles throughout the United States to support our property management function. We include lease right-of-use assets as a component of prepaid assets and other expenses, and we include lease liabilities as a component of accounts payable and accrued liabilities.

Operating Leases

We lease office space under various operating leases. As of September 30, 2020 and December 31, 2019, we applied a weighted average discount rate of 4.76% and 4.70%, respectively, to our office leases. We determine the discount rate for each lease to be either the discount rate stated in the lease agreement or the rate that we would be charged to finance real estate assets. Our weighted average remaining lease term was 1.5 years and 1.9 years as of September 30, 2020 and December 31, 2019, respectively.

During the three months ended September 30, 2020 and 2019, our operating leases resulted in rent expense related to long-term leases of $0.2 million and $0.2 million, respectively. During the nine months ended September 30, 2020 and 2019, our operating leases resulted in rent expense related to long-term leases of $0.5 million and $0.5 million, respectively. Such expense is allocated amongst residential property operating expenses, property management expenses and general and administrative expenses.

At September 30, 2020 and December 31, 2019, we had operating lease right-of-use assets of $0.5 million and $0.9 million, respectively.

The following table presents our future lease obligations under our operating leases as of September 30, 2020 ($ in thousands):

	Operating Lease Liabilities
2020 (1)	$ 153
2021	250
2022	122
2023	—
2024	—
Thereafter	—
Total lease payments	525
Less: interest	18
Lease liabilities	$ 507

(1) Excludes the nine months ended September 30, 2020.

Finance Leases

We lease vehicles under a master finance lease arrangement. At September 30, 2020 and December 31, 2019, the weighted average discount rate applied to our vehicle leases was 7.79% and 6.87%, respectively, based on the rates implied in the individual lease agreements. The weighted average remaining lease term was 3.2 years and 3.7 years as of September 30, 2020 and December 31, 2019, respectively.

During the three months ended September 30, 2020 and 2019, our finance leases resulted in $0.2 million and $0.2 million, respectively, of amortization of our lease right-of-use assets. During the nine months ended September 30, 2020 and 2019, our finance leases resulted in $0.7 million and $0.5 million, respectively, of amortization of our lease right-of-use assets. Such expense is allocated amongst residential property operating expense, property management expenses and general and administrative expenses.

At September 30, 2020 and December 31, 2019, we had finance lease right-of-use assets of $2.3 million and $2.9 million, respectively.

The following table presents our future lease obligations under our finance leases as of September 30, 2020 ($ in thousands):

	Finance Lease Liabilities
2020 (1)	$ 238
2021	917
2022	450
2023	120
2024	30
Thereafter	—
Total lease payments	1,755
Less: interest	132
Lease liabilities	$ 1,623

(1) Excludes the nine months ended September 30, 2020.

7. Commitments and Contingencies

Litigation, claims and assessments

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. We believe the matters to which we were party as of September 30, 2020 will not have a materially adverse effect on our financial position or results of operations upon resolution. The following new legal action was commenced in the third quarter of 2020:

Altisource Portfolio Solutions S.A., et al. v. Front Yard Residential Corporation

On August 17, 2020, two purported Company stockholders, Altisource Portfolio Solutions S.A. and Altisource S.A.R.L. (collectively, “Altisource”), commenced an action against us in the Circuit Court for Baltimore City, captioned *Altisource Portfolio Solutions S.A. and Altisource S.A.R.L. v. Front Yard Residential Corp.*, No. 24-c-20-0033529 (Md. Cir. Ct. Baltimore City) (the “Action”). Altisource generally alleges that it was fraudulently induced to hold its position in the Company, including by signing a support agreement in connection with the terminated Agreement and Plan of Merger between the Company and Amherst Residential Partners IV, L.P., and by alleged misstatements and omissions concerning the likelihood that the Amherst transaction would close. The Company believes the claims are without merit and intends to vigorously defend the Action.

Potential purchase adjustments of certain properties sold

In January 2020, we received notice regarding potential purchase price adjustment/indemnification claims of up to $1.2 million relating to certain real estate sold in January 2019. We are investigating these claims, and, if they are determined to be valid, we may be required to forfeit a portion of the sales proceeds to the purchaser, based on the terms of the purchase agreement. At September 30, 2020, we have reserved $0.8 million of indemnity loss, which is included in net realized gains and losses on mortgage loans and real estate.

Acquisition from AAMC under the Termination Agreement

On August 13, 2020, we entered into the Termination Agreement with AAMC, facilitating our transition from an externally managed REIT to an internally managed REIT. In connection therewith, we expect to acquire the equity interests of AAMC’s Indian subsidiary and the equity interests of AAMC’s Cayman Islands subsidiary as well as certain other operational assets and employees of AAMC. The purchase price for this acquisition of the Transferred Assets is $8.2 million, consisting of an upfront payment of $3.2 million, which was paid in cash on August 17, 2020, and a payment of $5.0 million in cash or Front Yard common stock, at our election, on the Termination Date.

COVID-19 Pandemic

Due to the current COVID-19 pandemic in the United States and globally, our employees, tenants, lenders and the economy as a whole have been, and will continue to be, adversely impacted. The magnitude and duration of the COVID-19 pandemic and its impact on our tenants, cash flows and future results of operations could be significant and will largely depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic, the success of actions taken to contain or treat the pandemic, and reactions by consumers, companies, governmental entities and capital markets. Although the impact of COVID-19 on our business to date has been limited, the prolonged duration and impact of the COVID-19 pandemic could materially disrupt our business operations and impact our financial performance.

8. Related-Party Transactions

On August 13, 2020, Front Yard and AAMC entered into the Termination Agreement, pursuant to which they have agreed to effectively internalize the asset management function of Front Yard. The Termination Agreement provides that the Amended AMA will terminate following a transition period to enable the internalization of Front Yard's asset management function, allow for the assignment of certain vendor contracts and implement the transfer of certain employees to Front Yard and the training of required replacement employees at each company. The transition period will end at the time that Front Yard and AAMC mutually agree that all required transition activities have been successfully completed, which will occur no later than February 9, 2021. On the Termination Date, the Amended AMA will terminate, and AAMC will no longer provide services to Front Yard under the Amended AMA.

Terms of the Amended AMA

Front Yard and AAMC entered into an amended and restated asset management agreement (the "Amended AMA") on May 7, 2019. The Amended AMA amended and restated, in its entirety, the asset management agreement previously entered into on March 31, 2015, as amended on April 7, 2015. The Amended AMA has an initial term of five years and could renew automatically each year thereafter for an additional one-year term, subject in each case to certain termination provisions, including termination by Front Yard without cause for any reason or no reason.

The Amended AMA provides for a management fee structure that provides AAMC with a quarterly Base Management Fee and a potential annual Incentive Fee, each of which are dependent upon Front Yard's performance and are subject to potential downward adjustments and an aggregate fee cap. The Base Management Fee under the Amended AMA is subject to a quarterly minimum of $3,584,000. The Amended AMA also required that the Base Management Fee would increase commencing after
Front Yard's per share Adjusted AFFO (as defined in the Amended AMA) reaching $0.15 ("Additional Base Fees"). To date, AAMC has earned no Additional Base Fees or Incentive Fees under the Amended AMA. We expect to pay the minimum Base Management Fee through the date that Front Yard and AAMC mutually agree that all required transition activities have been successfully completed, subject to proration for partial quarters; thereafter, we expect to no longer pay management fees to AAMC.

AAMC is responsible for all of its own costs and expenses other than the expenses related to compensation of Front Yard's dedicated general counsel and, beginning in January 2020, certain specified employees who provide direct property management services to Front Yard. Front Yard and its subsidiaries pay their own costs and expenses, and, to the extent such Front Yard expenses are initially paid by AAMC, Front Yard is required to reimburse us for such reasonable costs and expenses.

Terms of the Former AMA with AAMC

On March 31, 2015, we entered into the Former AMA with AAMC. The Former AMA, which was effective from April 1, 2015 through May 7, 2019, provided for a management fee structure as follows:

- Base Management Fee. AAMC was entitled to a quarterly base management fee equal to 1.5% of the product of (i) our average invested capital (as defined in the Former AMA) for the quarter *multiplied by* (ii) 0.25, while we had fewer than 2,500 SFR properties actually rented ("Rental Properties"). The base management fee percentage increased to 1.75% of invested capital while we had between 2,500 and 4,499 Rental Properties and increased to 2.0% of invested capital while we had 4,500 or more Rental Properties;

- Incentive Management Fee. AAMC was entitled to a quarterly incentive management fee equal to 20% of the amount by which our return on invested capital (based on AFFO defined as our net income attributable to holders of common stock calculated in accordance with GAAP *plus* real estate depreciation expense *minus* recurring capital expenditures on all of our real estate assets owned) exceeded an annual hurdle return rate of between 7.0% and 8.25% (or 1.75% and 2.06% per quarter), depending on the 10-year treasury rate. To the extent that we had an aggregate shortfall in the return rate over the previous seven quarters, that aggregate return rate shortfall was added to the normal quarterly return hurdle for the next quarter before AAMC was entitled to an incentive management fee. The incentive management fee increased to 22.5% while we had between 2,500 and 4,499 Rental Properties and increased to 25% while we had 4,500 or more Rental Properties. No incentive management fee under the Former AMA has been payable to AAMC because our return on invested capital (as defined in the Former AMA) did not exceed the cumulative required hurdle rate; and

- Conversion Fee. AAMC was entitled to a quarterly conversion fee equal to 1.5% of the market value of the SFR homes leased by us for the first time during the applicable quarter.

Because we had more than 4,500 Rental Properties, until the entry into the Amended AMA, AAMC was entitled to receive a base management fee of 2.0% of our invested capital and a potential incentive management fee percentage of 25% of the amount by which we exceeded our then-required return on invested capital threshold.

Under the Former AMA, we had reimbursed AAMC for the compensation and benefits of the General Counsel dedicated to us and certain other out-of-pocket expenses incurred by AAMC on our behalf.

The Former AMA required that AAMC continue to serve as our exclusive asset manager for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to our achieving an average annual return on invested capital of at least 7.0%. Neither party was entitled to terminate the Former AMA prior to the end of the initial term, or each renewal term, other than termination by (a) us and/or AAMC "for cause" for certain events such as a material breach of the Former AMA and failure to cure such breach, (b) us for certain other reasons such as our failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the Former AMA and (c) us in connection with certain change of control events; nonetheless, AAMC and Front Yard terminated the Former AMA in connection with their entry into the Amended AMA.

Summary of related-party transactions

The following table presents our significant transactions with AAMC, which is a related party, for the periods indicated ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Base management fees (1)	$ 3,584	$ 3,584	$ 10,752	$ 10,686
Conversion fees (1)	—	—	—	29
Expense reimbursements (2)	626	250	1,707	920
Termination fee	46,000	—	46,000	—

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(1) Included in management fees to AAMC in the condensed consolidated statements of operations.
(2) Included in property management and general and administrative expenses in the condensed consolidated statements of operations.

9. Share-Based Payments

2016 and 2019 Equity Incentive Plans

Our non-management directors each received annual grants of restricted stock units. These restricted stock units are eligible for settlement in the number of shares of our common stock having a fair market value of $80,000 on the date of grant. Subject to accelerated vesting in limited circumstances, the restricted stock units vest on the earlier of the first anniversary of the date of grant or the next annual meeting of stockholders, with distribution mandatorily deferred for an additional two years thereafter until the third anniversary of grant (subject to earlier distribution or forfeiture upon the respective director's separation from the Board of Directors). The awards were issued together with dividend equivalent rights. In respect of dividends paid to our stockholders prior to the vesting date, dividend equivalent rights accumulate and are expected to be paid in a lump sum in cash following the vesting date, contingent on the vesting of the underlying award. During any period thereafter when the award is vested but remains subject to settlement, dividend equivalent rights are expected to be paid in cash on the same timeline as underlying dividends are paid to our stockholders.

On June 22, 2020, we granted an aggregate of 64,071 restricted stock units with a weighted average grant date fair value of $8.74 per share to our non-management directors.

On August 12, 2019, we granted an aggregate of 49,952 restricted stock units with a weighted average grant date fair value of $11.21 per share to our non-management directors.

We have also made grants of restricted stock units and stock options to certain of our employees and employees of AAMC with service-based or market-based vesting criteria, as more fully described below. Our service-based awards vest in equal annual installments on each of the first three anniversaries of the grant date, subject to acceleration or forfeiture. Our market-based awards vest in three equal annual installments on the first, second and third anniversary of the later of (i) the date of the award and (ii) the date of the satisfaction of certain performance criteria, subject to acceleration or forfeiture. The performance criteria is satisfied on the date on which the sum of (a) the average price per share for the consecutive 20-trading-day period ending on such date plus (b) the amount of all reinvested dividends, calculated on a per-share basis from the date of grant through such date, shall equal or exceed 125% of the price per share on the date of grant (the "Performance Goal"); provided however that the Performance Goal must be attained no later than the fourth anniversary of the grant date. In the event that the Performance Goal is not attained prior to the fourth anniversary of the grant date, the market-based awards shall expire.

On June 22, 2020, we granted an aggregate of 443,963 service-based restricted stock units and 290,131 market-based restricted stock units to certain of our employees and employees of AAMC with a weighted average grant date fair value of $8.74 per share and $7.14 per share, respectively.

On March 29, 2019, we granted an aggregate of 419,657 service-based restricted stock units and 280,320 market-based restricted stock units to certain of our employees and employees of AAMC with a weighted average grant date fair value of $9.27 per share and $7.39 per share, respectively.

We recorded $1.6 million and $4.0 million of share-based compensation expense for the three and nine months ended September 30, 2020, respectively, and we recorded $1.5 million and $4.4 million of share-based compensation expense for the three and nine months ended September 30, 2019, respectively. As of September 30, 2020 and December 31, 2019, we had $7.2 million and $4.7 million, respectively, of unrecognized share-based compensation cost remaining with respect to awards granted under our 2016 and 2019 Equity Incentive Plans to be recognized over a weighted average remaining estimated term of 1.3 years and 1.0 year, respectively.

2012 Conversion Option Plan and 2012 Special Conversion Option Plan

On December 21, 2012, as part of our separation transaction from Altisource Portfolio Solutions S.A. ("ASPS"), we issued stock options under the 2012 Conversion Option Plan and 2012 Special Conversion Option Plan to holders of ASPS stock options to purchase shares of our common stock in a ratio of one share of our common stock to every three shares of ASPS common stock. The options were granted as part of our separation to employees of ASPS and/or Ocwen Financial Corporation solely to give effect to the exchange ratio in the separation, and we do not include share-based compensation expense related to these options in our consolidated statements of operations because they are not related to our incentive compensation. As of September 30, 2020, options to purchase an aggregate of 4,583 shares of our common stock were remaining under the Conversion Option Plan and Special Conversion Option Plan.

10. Derivatives

We may enter into derivative contracts from time to time in order to mitigate the risk associated with our variable rate debt. We do not enter into such derivatives transactions for investment or trading purposes. Derivatives are carried at fair value within prepaid expenses and other assets in our condensed consolidated balance sheet. Upon execution, we may or may not designate such derivatives as accounting hedges.

Designated Hedges

We have entered into various interest rate cap agreements to mitigate potential increases in interest payments on our floating rate debt. The interest rate caps we currently hold have been designated as and are being accounted for as cash flow hedges with changes in fair value recorded in other comprehensive income or loss each reporting period. Amounts reported in accumulated other comprehensive income or loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate debt. During the next 12 months, we estimate that $6.2 million will be reclassified to interest expense.

No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on our cash flow hedges during the three and nine months ended September 30, 2020 or 2019.

The table below summarizes our interest rate cap instruments as of September 30, 2020 ($ in thousands):

Effective Date	Termination Date	Strike Rate	Benchmark Rate	Notional Amount
November 2, 2018	May 9, 2024	2.50%	One-month LIBOR	$ 505,000
October 16, 2018	October 15, 2022	2.30%	One-month LIBOR	83,270
October 16, 2018	October 15, 2022	2.30%	One-month LIBOR	89,149

Tabular Disclosure of Fair Values of Derivative Instruments on the Condensed Consolidated Balance Sheets ($ in thousands)

	Asset Derivatives		
		Fair Value as of	
	Balance Sheet Location	September 30, 2020	December 31, 2019
Derivatives designated as hedging instruments:			
Interest rate caps	Prepaid expenses and other assets	$ 114	$ 2,070
Total		$ 114	$ 2,070

Tabular Disclosure of the Effect of Derivative Instruments on the Condensed Consolidated Statements of Operations ($ in thousands)

	Amount of Gain (Loss) Recognized in OCI on Derivative (effective portion)		Location of Gain (Loss) Reclassified from Accumulated OCI into Net Loss	Amount of Gain (Loss) Reclassified from Accumulated OCI into Net Loss (effective portion)		Total Amount of Interest Expense Presented in the Condensed Consolidated Statements of Operations	
	Three Months ended September 30,			Three Months ended September 30,		Three Months ended September 30,	
	2020	2019		2020	2019	2020	2019
Derivatives in cash flow hedging relationships							
Interest rate caps	$ (245)	$ (1,463)	Interest expense	$ (1,419)	$ (1,430)	$ 17,378	$ 21,135

	Amount of Gain (Loss) Recognized in OCI on Derivative (effective portion)		Location of Gain (Loss) Reclassified from Accumulated OCI into Net Loss	Amount of Gain (Loss) Reclassified from Accumulated OCI into Net Loss (effective portion)		Total Amount of Interest Expense Presented in the Condensed Consolidated Statements of Operations	
	Nine Months ended September 30,			Nine Months ended September 30,		Nine Months ended September 30,	
	2020	2019		2020	2019	2020	2019
Derivatives in cash flow hedging relationships							
Interest rate caps	$ (1,956)	$ (12,554)	Interest expense	$ (4,180)	$ (3,665)	$ 55,790	$ 63,810

11. Income Taxes

As a REIT, we must meet certain organizational and operational requirements, including the requirement to distribute at least 90% of our annual REIT taxable income (excluding capital gains) to our stockholders. As a REIT, we generally will not be subject to federal income tax to the extent we distribute our REIT taxable income to our stockholders and provided we satisfy the REIT requirements, including certain asset, income, distribution and stock ownership tests. If we fail to qualify as a REIT, and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which our REIT qualification was lost. As a REIT, we may also be subject to federal taxes if we engage in certain types of transactions.

Our condensed consolidated financial statements include the operations of our taxable REIT subsidiaries (each a "TRS"), which is subject to federal, state and local income taxes on its taxable income. From inception through September 30, 2020, the TRS has operated at a cumulative taxable loss, which resulted in our recording a deferred tax asset with a corresponding valuation allowance.

As of September 30, 2020 and 2019, we did not accrue interest or penalties associated with any unrecognized tax benefits. We recorded nominal state and local tax expense along with nominal penalties and interest on income and property for each of the three and nine months ended September 30, 2020 and 2019.

12. Earnings Per Share

The following table sets forth the components of diluted loss per share (in thousands, except share and per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Numerator				
Net loss	$ (63,177)	$ (36,368)	$ (79,397)	$ (79,893)
Denominator				
Weighted average common stock outstanding – basic	58,747,146	53,857,616	56,329,863	53,735,106
Weighted average common stock outstanding – diluted	58,747,146	53,857,616	56,329,863	53,735,106
Loss per basic common share	$ (1.08)	$ (0.68)	$ (1.41)	$ (1.49)
Loss per diluted common share	$ (1.08)	$ (0.68)	$ (1.41)	$ (1.49)

We excluded the items presented below from the calculation of diluted loss per share as they were antidilutive for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Denominator (in weighted-average shares)				
Stock options	2,612	96,861	34,872	69,452
Restricted stock	557,703	504,268	633,368	442,016

13. Segment Information

Our primary business is the acquisition and ownership of SFR assets. Our primary sourcing strategy is to acquire these assets by purchasing SFR properties, either on an individual basis or in pools. As a result, we operate in a single segment focused on the acquisition and ownership of rental residential properties.

14. Subsequent Events

Management has evaluated the impact of all subsequent events through the issuance of these interim condensed consolidated financial statements and has determined that there were no subsequent events requiring adjustment or disclosure in the financial statements, except as follows:

Pretium Merger Agreement

On October 19, 2020, the Company entered into the Pretium Merger Agreement, pursuant to which the Company will be acquired by a partnership led by Pretium, including funds managed by the real estate equity and alternative credit strategies of Ares Management Corporation.

The Pretium Merger Agreement provides that, among other things, upon the terms and subject to the conditions set forth in the Pretium Merger Agreement, at the effective time of the merger ("Effective Time"), the Company will merge with and into Merger Sub in the Merger Transaction, with Merger Sub as the successor in the Merger and continuing as a wholly owned subsidiary of Pretium.

Pursuant to the Pretium Merger Agreement, each share of common stock, par value $0.01 per share, of the Company (the "Shares" and each, a "Share") issued and outstanding immediately prior to the Effective Time (other than Shares owned by Pretium, Merger Sub or any Company Subsidiary) shall be converted into the right to receive $13.50 per Share in cash without interest and subject to deduction for any required withholding tax (the "Merger Consideration").

The parties' obligation to consummate the Merger Transaction is subject to the satisfaction or waiver of conditions set forth in the Pretium Merger Agreement, including: (i) the approval of the Pretium Merger Agreement and Merger Transaction by the holders of a majority of the outstanding Shares entitled to vote thereon, (ii) the absence of any law or governmental order prohibiting the Merger Transaction, (iii) the Company's receipt of a tax opinion relating to the REIT status of the Company, (iv) (A) each of the existing lender consents to the Merger Transaction under certain of the Company's existing credit facilities shall remain in full force and effect and, if in escrow pending the consummation of the Merger Transaction, shall be released from escrow at the closing, and shall be effective not later than, and substantially concurrently with, the consummation of the Merger Transaction, and (B) a consent to the Merger Transaction under the Company's credit facility with the Federal Home Loan Mortgage Corporation shall have been delivered to the Company, shall be in full force and effect and shall be effective not later than, and substantially concurrently with, the consummation of the Merger Transaction, (v) no specified event of default or financial covenant event of default shall have occurred and be continuing under any of the existing credit facilities and (vi) certain other customary conditions relating to the parties' representations and warranties in the Pretium Merger Agreement and the performance of their respective obligations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Company

Front Yard Residential Corporation, (“we,” “our,” “us,” “Front Yard” or the “Company”) is an industry leader in providing quality, affordable rental homes to America’s families in a variety of suburban communities that have easy accessibility to metropolitan areas. Our tenants enjoy the space and comfort that is unique to single-family housing at reasonable prices. Our mission is to provide our tenants with affordable houses they are proud to call home.

We are a Maryland real estate investment trust (“REIT”), and we conduct substantially all of our activities through our wholly owned subsidiary, Front Yard Residential, L.P., and its subsidiaries. We conduct a single-family rental (“SFR”) business with the objective of becoming one of the top SFR equity REITs serving American families and their communities.

Our strategy is to build long-term stockholder value through the efficient management and continued growth of our portfolio of SFR homes, which we target to operate at an attractive yield. We believe there is a compelling opportunity in the SFR market, and we believe that we have implemented the right strategic plan to capitalize on the sustained growth in SFR demand. By being in the affordable SFR space, we provide a viable solution for the underserved affordable, working-class housing market by giving an important alternative to families who cannot afford or do not want to own their home. We target the moderately priced single-family home market that, in our view, offers attractive yield opportunities and one of the best-available avenues for growth.

In order to capitalize on this opportunity, we are focused on (i) maximizing the scale and operating efficiencies of our internal property management platform; (ii) identifying and acquiring large portfolios and smaller pools of high-yielding SFR properties; (iii) selling certain rental and non-rental real estate owned (“REO”) properties that do not meet our targeted rental criteria to generate cash that we may reinvest in acquiring additional SFR properties and (iv) when deemed necessary or advisable, extending the duration of our financing arrangements to better match the long-term nature of our rental portfolio and, at times, reducing our exposure to floating interest rate fluctuations.

We have been managed by Altisource Asset Management Corporation (“AAMC” or our “Manager”), on which we have relied upon to provide us with dedicated personnel to administer our business and perform certain of our corporate governance functions. AAMC also has provided portfolio management services in connection with our acquisition and management of SFR properties and the ongoing disposition and management of our remaining REO properties.

On March 31, 2015, we entered into an asset management agreement (the “Former AMA”), under which AAMC was our exclusive asset manager for an initial term of 15 years from April 1, 2015, with two potential five-year extensions. On May 7, 2019, we entered into an amended and restated asset management agreement (the “Amended AMA”), under which AAMC has been our exclusive asset manager for an initial term of five years. For further details of these asset management agreements, refer to Item 1 - Financial Statements (Unaudited) - Note 8, “Related-Party Transactions.”

Termination of the Amended AMA

On August 13, 2020, Front Yard and AAMC entered into Termination and Transition Agreement (the “Termination Agreement”), pursuant to which they have agreed to terminate the Amended AMA after a transition period, thereby effectively internalizing the asset management function of Front Yard in exchange for payment of a termination fee to AAMC. In connection with the internalization, Front Yard will acquire the equity interests of AAMC's Indian subsidiary, the equity interests of AAMC's Cayman Islands subsidiary, the right to solicit and hire designated AAMC employees that currently oversee the management of Front Yard's business and other assets of AAMC that are used in connection with the operation of Front Yard's business (the “Transferred Assets”). Once the transition period is complete and the Amended AMA is terminated, we expect to no longer pay any management fees to AAMC; however, we will then be responsible for the ongoing employment and other costs associated with the internalization of our asset management function. For a description of the Termination Agreement and its key terms, please see Item 1 - Financial statements (unaudited) - “Note 1. Organization and Basis of Presentation.”

Management Overview

Pretium Merger Agreement

On October 19, 2020, we entered into an Agreement and Plan of Merger (the "Pretium Merger Agreement") with Pretium Midway Holdco, LP, a Delaware limited partnership ("Pretium"), and Midway AcquisitionCo REIT, a Maryland real estate investment trust ("Merger Sub"), and including funds managed by the real estate equity and alternative credit strategies of Ares Management Corporation, providing for the merger of Front Yard into Merger Sub, with Merger Sub surviving the merger and becoming a wholly-owned subsidiary of Pretium (the "Merger Transaction").

Under the terms of the Pretium Merger Agreement, Front Yard shareholders will receive $13.50 in cash per share upon consummation of the transaction. The per share purchase price represents a premium of approximately 35.5% over Front Yard's closing share price on October 16, 2020, the last trading day prior to today's announcement, and 45.4% over Front Yard's one-month volume-weighted average share price.

The Front Yard Board of Directors has unanimously approved the Pretium Merger Agreement and the Merger Transaction and intends to recommend that Front Yard stockholders vote in favor of the Merger Transaction at a Special Meeting of Stockholders, to be scheduled as soon as practicable. The transaction is expected to close in the first quarter of 2021, subject to the approval by the holders of a majority of Front Yard's outstanding shares and the satisfaction of customary closing conditions.

For further details of the Pretium Merger Agreement, refer to Item 1 - Financial Statements (Unaudited) - "Note 14. Subsequent Events."

Operations Update

During the third quarter of 2020, we have continued to realize very strong operating metrics with record levels in occupancy rates and unit turn timelines, despite the COVID-19 pandemic. During this time of crisis, we continue to be highly committed to our residents, employees and the communities which we serve.

We have also continued to optimize the performance of our SFR portfolio by marketing certain rental properties for sale that do not meet our strategic objectives. During the quarter ended September 30, 2020, we sold 34 non-core rental homes on an individual basis, and we have identified 104 non-core rental properties for sale as of September 30, 2020. We also disposed of 3 non-rental REO properties, and we had 5 non-rental REO properties remaining to be sold as of September 30, 2020. We believe these non-core asset sales will allow us to improve our operating efficiency, recycle capital that may be used to purchase pools of stabilized rental homes at attractive yields, repurchase common stock, pay down debt or utilize the proceeds for such other purposes as we determine will best serve our stockholders.

We believe the foregoing developments are critical to our strategy of building long-term stockholder value through the creation of a large portfolio of internally managed SFR homes that we target operating at an attractive yield.

COVID-19 Pandemic Update

Due to the current COVID-19 pandemic in the United States and globally, our employees, tenants, lenders and the economy, as a whole, could be adversely impacted. The magnitude and duration of the COVID-19 pandemic and its impact on our tenants, cash flows and future results of operations could be significant and will largely depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic, the success of actions taken to contain or treat the pandemic, and reactions by consumers, companies, governmental entities and capital markets. The prolonged duration and impact of the COVID-19 pandemic could materially disrupt our business operations and impact our financial performance. However, to date, we have seen little impact on our ability to operate effectively or on our actual and expected cash flows due to COVID-19.

We are aware that the pandemic may impact our residents both financially and emotionally. We are highly committed to working with our residents to ease concerns and, where necessary, we have been proactively established mutually beneficial payment options to assist our residents in need through this difficult time. Our collections for the third quarter of 2020 were only slightly below our previous quarters' average collection rates; however, the impact on future months is difficult to predict.

We remain committed to the safety of our employees across the country who are providing a quality rental experience for our families. We had previously implemented a robust technology platform to enable us to seamlessly transition to a remote workplace while providing our field employees with necessary personal protective equipment to continue to provide essential services to our residents. We continue to utilize our extensive internal maintenance team and vendor network, where appropriate, to maintain our homes while practicing social distancing and safety during visits. We are proud of the quality of service, focus and dedication our employees have demonstrated during this unprecedented time, and we appreciate the concern they have shown for our residents.

In addition, demand for a safe and clean home is at a premium to help ease the emotional stress of the pandemic. Our occupancy continues to be strong with 98.8% of stabilized properties leased as of September 30, 2020.

We believe that our business model is resilient and that we are well positioned to endure the COVID-19 pandemic.

Portfolio Overview

Real Estate Assets

The following table presents the number of real estate assets by status as of the dates indicated:

	Held for Use				
September 30, 2020	**Stabilized**	**Non-Stabilized**	**Total**	**Held for Sale**	**Total Portfolio**
Rental properties:					
Leased	14,286	—	14,286	—	14,286
Listed and ready for rent	81	2	83	—	83
Unit turn	95	—	95	—	95
Renovation	—	30	30	—	30
Total rental portfolio	14,462	32	14,494		
Previous rentals identified for sale	—	61	61	43	104
Legacy REO	—	5	5	—	5
	14,462	98	14,560	43	14,603
December 31, 2019					
Rental properties:					
Leased	13,711	—	13,711	—	13,711
Listed and ready for rent	357	14	371	—	371
Unit turn	369	—	369	—	369
Renovation	—	94	94	—	94
Total rental portfolio	14,437	108	14,545		
Previous rentals identified for sale	—	94	94	87	181
Legacy REO	—	10	10	12	22
	14,437	212	14,649	99	14,748

We define a property as stabilized once it has been renovated and then initially leased or available for rent for a period greater than 90 days. All other homes are considered non-stabilized. Homes are considered stabilized even after subsequent resident turnover. However, homes may be removed from the stabilized home portfolio and placed in the non-stabilized home portfolio due to renovation during the home lifecycle or because they are identified for sale. At September 30, 2020, 98.8% of our stabilized properties were leased.

The following table sets forth a summary of our real estate portfolio as of September 30, 2020 ($ in thousands):

State	Number of Properties	Carrying Value (1)	Average Age in Years
Georgia	4,370	$ 465,513	38
Florida	2,077	297,885	41
Texas	1,923	269,820	30
Tennessee	1,467	199,743	25
North Carolina	867	112,548	27
Alabama	719	78,563	43
Indiana	664	79,959	25
Minnesota	623	104,859	79
Missouri	484	66,753	43
Oklahoma	305	41,843	29
All other rentals	995	142,491	36
Total rental portfolio	14,494	1,859,977	37
Rental properties held for sale	43	5,454	51
Previous rentals identified for sale	61	6,566	40
Total rental properties	14,598	1,871,997	36
Legacy REO	5	1,075	49
Total	14,603	$ 1,873,072	36

(1) The carrying value of an asset held for use is based on historical cost, plus renovation costs, net of any accumulated depreciation and impairment. Assets held for sale are carried at the lower of the carrying amount or estimated fair value less costs to sell.

Real Estate Acquisitions and Dispositions

The following table summarizes changes in our real estate assets for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Beginning count of real estate assets	14,640	14,772	14,748	15,445
Acquisitions	—	28	4	85
Dispositions	(37)	(126)	(149)	(862)
Mortgage loan conversions to REO, net	—	—	—	4
Other additions	—	—	—	2
Ending count of real estate assets	14,603	14,674	14,603	14,674

For further information regarding our real estate acquisition and disposition activities, refer to Item 1 - Financial Statements (Unaudited) - Note 2, "Asset Acquisitions and Dispositions."

Mortgage Loan Assets

We liquidated the last of our remaining mortgage loans during the fourth quarter of 2019.

The following table summarizes changes in our mortgage loans at fair value for the periods indicated:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Mortgage Loans at Fair Value		
Beginning	57	74
Resolutions and dispositions	(5)	(18)
Mortgage loan conversions to REO, net	—	(4)
Ending	52	52

Metrics Affecting Our Consolidated Results

Revenues

Our revenues primarily consist of rental revenues. Minimum contractual rents from leases are recognized on a straight-line basis over the terms of the leases in residential rental revenues. Therefore, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. We believe the key variables that will affect our rental revenues over the long term will be the size of our SFR portfolio, average occupancy levels and rental rates. The majority of our leases are for a term of one year. As these leases permit the residents to leave at the end of the lease term without penalty, we anticipate our rental revenues will be affected by declines in market rents more quickly than if our leases were for longer terms. Short-term leases may result in high turnover, which involves expenses such as additional renovation costs and leasing expenses or reduced rental revenues. Our rental properties had an average annual rental rate of $16,140 per home for the 14,286 stabilized properties that were leased at September 30, 2020.

Our investment strategy is to develop a portfolio of SFR properties in the United States that provides attractive risk-adjusted returns on invested capital. In determining which properties we retain for our rental portfolio, we consider various objective and subjective factors, including but not limited to gross and net rental yields, property values, renovation costs, location in relation to our coverage area, property type, HOA covenants, potential future appreciation and neighborhood amenities.

Expenses

Our expenses primarily consist of the following:

i. Residential property operating expenses. Residential property operating expenses are expenses associated with our ownership and operation of residential properties, including expenses towards repairs, turnover costs, utility expenses on vacant properties, property taxes, insurance, HOA dues and personnel cost for repair and maintenance employees.

ii. Property management expenses. Property management expenses include personnel costs of property management employees and other costs incurred in the oversight and management of our portfolio of homes.

iii. Depreciation and amortization. Depreciation and amortization is a non-cash expense associated with the ownership of real estate and generally remains consistent over the life of an asset since we depreciate our properties on a straight-line basis. Depreciation and amortization also includes the amortization of our in-place lease intangible assets and lease commissions, which generally are amortized for periods of one year or less. The level of amortization of in-place lease intangible assets will vary depending upon our acquisition activity.

iv. Acquisition and integration costs. Acquisition and integration costs include expenses associated with acquisitions as well as duplicative or non-recurring costs associated with the internalization of our property and asset management function. We expect the majority of our asset acquisitions will not meet the definition of a business; therefore, we expect that the majority of acquisition costs will be capitalized into the cost basis of such assets.

v. Impairment. Impairment represents the amount by which we estimate the carrying amount of a property will not be recoverable.

vi. Mortgage loan servicing costs. Mortgage loan servicing costs were primarily for servicing fees, foreclosure fees and advances of residential property insurance. Due to our liquidation of the last of our remaining mortgage loans during the fourth quarter of 2019, we do not expect to incur mortgage loan servicing costs in future periods.

vii. Interest expense. Interest expense consists of the costs to borrow money in connection with our debt financing of our portfolios.

viii. Share-based compensation. Share-based compensation is a non-cash expense related to the restricted stock units and stock options issued pursuant to our authorized share-based compensation plans.

ix. General and administrative. General and administrative expenses consist of the costs related to the general operation and overall administration of our business, including compensation and benefits of certain employees. In addition, general administrative expenses include expense reimbursements to AAMC, which include the compensation and benefits of the General Counsel dedicated to us and, beginning in January 2020, certain specified employees who provide direct property management and other services to Front Yard as well as certain out-of-pocket expenses incurred by AAMC on our behalf.

x. Management fees to AAMC. Under the Amended AMA, our management fees to AAMC include a quarterly Base Management Fee and a potential annual Incentive Fee, each of which are dependent upon our performance and are subject to potential downward adjustments and an aggregate fee cap. Beginning in the third quarter of 2019, the quarterly Base Management Fee under the Amended AMA is subject to a minimum of $3,584,000. Under the Former AMA, our management fees to AAMC included a base management fee and a conversion fee. The base management fee was calculated as a percentage of our average invested capital, and the conversion fee was based on the number and value of mortgage loans and/or REO properties that Front Yard converted to rental properties for the first time in each period. Once the transition period is complete and the Amended AMA is terminated, we expect to no longer pay any management fees to AAMC. For information regarding our management fees to AAMC, refer to Item 1 - Financial Statements (Unaudited) - Note 8, “Related-Party Transactions.”

xi. Termination fee to AAMC. Pursuant to the Termination Agreement, we agreed to pay an aggregate termination fee of $46.0 million to AAMC, which we recognized in the third quarter of 2020, to terminate the Amended AMA after the completion of a transition period.

Other Factors Affecting Our Consolidated Results

We expect our results of operations will be affected by various factors, many of which are beyond our control, including the following:

Portfolio Size

The size of our SFR portfolio will impact our operating results. Generally, as the size of our investment portfolio grows, the amount of revenue we expect to generate will increase. A growing investment portfolio, however, will drive increased expenses, including possibly higher property management fees, property operating expenses and, depending on our performance, fees payable to AAMC. We may also incur additional interest expense if we incur additional debt to finance the purchase of assets.

The growth of our SFR portfolio will depend on our ability to identify and acquire SFR properties and other single-family residential assets. Generally, we expect that our SFR portfolio may grow at an uneven pace, as opportunities to acquire SFR properties may be irregularly timed and may involve portfolios of varying sizes. The timing and extent of our success in acquiring such assets cannot be predicted. In addition, as we continue to identify rental properties for sale in order to optimize our operating results, we may experience a decrease in our SFR portfolio if we are not able to successfully identify and acquire replacement SFR properties.

Financing

Our ability to grow our business is dependent on the availability of adequate financing, including additional equity financing, debt financing or a combination thereof, in order to meet our objectives. We intend to leverage our investments with debt, the level of which may vary based upon the particular characteristics of our portfolio and on market conditions. To the extent available at the relevant time, our financing sources may include term loan facilities, warehouse lines of credit, securitization financing, structured financing arrangements, seller financing loan arrangements, repurchase agreements and bank credit facilities, among others. We may also seek to raise additional capital through public or private offerings of debt or equity securities, depending upon market conditions. To qualify as a REIT under the Internal Revenue Code, we will need to distribute at least 90% of our taxable income each year to our stockholders. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

Liquidation of Non-Core Assets

We continuously monitor the performance of our assets and expect to liquidate certain assets that no longer meet our investment criteria, including certain rental properties in sub-scale markets or that do not generate attractive returns and REO properties that do not meet our investment criteria. We generally sell real estate assets on an individual basis. We believe these non-core asset sales will allow us to improve our operating efficiency, recycle capital that may be used to purchase pools of stabilized rental homes at attractive yields, repurchase common stock, pay down debt or to utilize the proceeds for such other purposes as we determine will best serve our stockholders.

Results of Operations

The following sets forth discussion of our results of operations for the three and nine months ended September 30, 2020 versus the three and nine months ended September 30, 2019. Our results of operations for the periods presented are not indicative of our expected results in future periods.

Three and nine months ended September 30, 2020 compared to three and nine months ended September 30, 2019

Rental revenues

Rental revenues increased to $56.9 million and $166.4 million for the three and nine months ended September 30, 2020, respectively, compared to $50.8 million and $154.9 million for the three and nine months ended September 30, 2019, respectively. This increase is primarily attributable to improved occupancy, rent increases and better collections.

Our rental revenues depend primarily on changes in the occupancy levels and rental rates for our residential rental properties as well as the number of SFR properties in our portfolio. We expect to generate increasing rental revenues from increases in rents on existing properties upon the re-lease of properties or renewal of existing leases. Because our lease terms generally are expected to be one year, our occupancy levels and rental rates will be highly dependent on localized residential rental markets and our renters' desire to remain in our properties. In addition, we continuously evaluate opportunities to grow our rental portfolio, which would increase our rental revenues.

Residential property operating expenses

Residential property operating expenses were $20.0 million and $57.7 million for the three and nine months ended September 30, 2020, respectively compared to $20.8 million and $58.2 million for the three and nine months ended September 30, 2019, respectively. The small decrease is primarily due to lower external vendor costs driven by an increase in the utilization of internal employees to complete maintenance and turn work, partially offset by increases in property taxes and insurance and compensation expense related to increased headcount of repair and maintenance employees.

Our residential property operating expenses for occupied rental properties depends primarily on repair and maintenance expenditures, turnover costs, utility expenses on vacant properties, property taxes, insurance, and HOA dues. Our residential property operating expenses for vacant properties also includes utilities, property preservation and repairs and maintenance. Our residential property operating expenses will be dependent on our ability to control costs, perform unit turns and secure new tenants in a timely manner. Further, in periods when we are successful in growing our portfolio, we generally expect to incur increasing residential property operating expenses beginning in such periods.

Property management expenses

Property management expenses were $3.6 million and $11.4 million for the three and nine months ended September 30, 2020, respectively, compared to $4.2 million and $11.4 million for the three and nine months ended September 30, 2019, respectively. The decrease for three months ended September 30, 2020 is primarily due to reduced call center and lower eviction-related costs.

Depreciation and amortization

We incurred $20.2 million and $60.8 million in depreciation and amortization for the three and nine months ended September 30, 2020, respectively, compared to $19.7 million and $62.0 million for the three and nine months ended September 30, 2019, respectively. The increase quarter over quarter is primarily driven by an increase in depreciable real estate assets. The decrease year over year is primarily driven by reduced amortization of lease-in-place intangible assets during 2020, partially offset by an increase in depreciable real estate assets.

Generally, we expect to incur increasing depreciation and amortization if and when we place more residential properties into leasing service. Depreciation and amortization are non-cash expenditures that generally are not expected to be indicative of the market value or condition of our residential rental properties.

Depreciation and amortization includes amortization of lease-in-place intangible assets associated with our real estate acquisitions and will vary depending upon our acquisition activity. We recognized a nominal amount and $0.5 million of lease-in-place intangible asset amortization for the three and nine months ended September 30, 2020, respectively, compared to $0.1 million and $2.8 million for the three and nine months ended September 30, 2019, respectively.

Acquisition and integration costs

We incurred $0.8 million and $0.9 million of acquisition and integration costs for the three and nine months ended September 30, 2020, respectively, compared to $0.2 million and $3.1 million for the three and nine months ended September 30, 2019, respectively. The increase quarter over quarter is primarily driven by costs recognized in relation to the internalization of our asset management function during the third quarter of 2020. The decrease year over year is primarily driven by the non-recurrence of costs in the first nine months of 2019 associated with the internalization of the property management function that began in 2018.

Impairment

We recognized $0.1 million and $1.0 million of impairment on our real estate assets for the three and nine months ended September 30, 2020, respectively, compared to $0.5 million and $3.1 million for the three and nine months ended September 30, 2019, respectively. These declines are primarily driven by the reduction in the remaining non-rental REO properties in our portfolio.

For our real estate held for use, if the carrying amount of the asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. If an increase in the fair value of our held for use properties is noted at a subsequent measurement date, we do not recognize the subsequent recovery. For our real estate held for sale, we record the properties at the lower of either the carrying amount or its estimated fair value less estimated selling costs. If the carrying amount exceeds the estimated fair value, as adjusted, we record impairment equal to the amount of such excess. If an increase in the fair value of our held for sale properties is noted at a subsequent measurement date, a gain is recognized to the extent of any previous impairment recognized. The majority of the valuation impairments we realize relates to our real estate assets held for sale, and we expect to recognize lower valuation impairments in future periods as our portfolio of non-rental assets declines.

Mortgage loan servicing costs

We incurred no mortgage loan servicing costs for the three and nine months ended September 30, 2020 due to our liquidation of the last of our remaining mortgage loans during the fourth quarter of 2019. We incurred mortgage loan servicing costs of $0.2 million and $0.8 million for the three and nine months ended September 30, 2019, respectively. We incurred mortgage loan servicing and foreclosure costs as our mortgage loan servicers provided servicing for our loans and paid for advances relating to property insurance, foreclosure attorney fees, foreclosure costs and property preservation. We do not expect to incur mortgage loan servicing costs in future periods.

Interest expense

Interest expense relates to borrowings under our debt facilities and includes amortization of deferred debt issuance costs and loan discounts and mark-to-market adjustments of our interest rate caps. Interest expense decreased to $17.4 million and $55.8 million for the three and nine months ended September 30, 2020, respectively, from $21.1 million and $63.8 million for the three and nine months ended September 30, 2019, respectively. The decrease was primarily driven by decreases in the floating component of our contractual interest rates on certain of our debt. Interest expense also includes non-cash interest expense related to our interest rate cap derivatives, which was $1.4 million and $4.2 million for the three and nine months ended September 30, 2020, respectively, compared to $1.4 million and $3.7 million for the three and nine months ended September 30, 2019, respectively.

Certain interest rates under our repurchase and loan agreements are subject to change based on changes in the relevant index. We also expect our interest expense to increase as our debt increases to fund and/or leverage our ownership of existing and future portfolios we may acquire.

Share-based compensation

Share-based compensation expense was $1.6 million and $4.0 million for the three and nine months ended September 30, 2020, respectively, compared to $1.5 million and $4.4 million for the three and nine months ended September 30, 2019, respectively. This decrease for the nine months ended September 30, 2020 is primarily due to prior grants of restricted stock units becoming fully amortized in March and May 2020, partially offset by grants of restricted stock units to certain of our employees and employees of AAMC on June 22, 2020.

General and administrative expenses

General and administrative expenses increased to $6.6 million and $23.3 million for the three and nine months ended September 30, 2020, respectively, from $5.5 million and $19.3 million for the three and nine months ended September 30, 2019, respectively. The increase was primarily driven by legal and professional fees associated with the Pretium Merger Agreement, stockholder activism and the termination of the Amended AMA.

Management fees

We incurred base management fees to AAMC of $3.6 million and $10.8 million during the three and nine months ended September 30, 2020, respectively, compared to $3.6 million and $10.7 million during the three and nine months ended September 30, 2019, respectively. The small increase in base management fees during the nine months ended September 30, 2020 is primarily driven by the Minimum Base Fee of $3.6 million per quarter becoming applicable beginning in May 2019.

Under the Amended AMA, we no longer pay conversion fees to AAMC. During the three and nine months ended September 30, 2019, we incurred conversion fees to AAMC of $0 and $29,000, respectively. Conversion fees fluctuated dependent upon the number and fair market value of properties converted to rented properties for the first time during the quarter.

Termination fee

Pursuant to the Termination Agreement, we agreed to pay an aggregation fee of $46.0 million to AAMC, which we recognized in the third quarter of 2020, to terminate the Amended AMA after the completion of a transition period.

Net gain on real estate and mortgage loans

The following table presents the components of net gain on real estate and mortgage loans during the three and nine months ended September 30, 2020 and 2019 ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Conversion of mortgage loans to REO, net	$ —	$ 17	$ —	$ 769
Change in fair value of mortgage loans, net	—	(81)	—	211
Net realized loss on mortgage loans	—	(1,671)	—	(944)
Net realized gain on sales of real estate	176	2,089	1,546	12,937
Net gain on real estate and mortgage loans	$ 176	$ 354	$ 1,546	$ 12,973

Due to our liquidation of the last of our remaining mortgage loans during the fourth quarter of 2019, we no longer expect to recognize unrealized gains on conversion of mortgage loans to REO, changes in the fair value of mortgage loans or realized gains or losses on mortgage loans.

The reduction in net realized gain on sales of real estate is primarily driven by a reduction in the number of properties sold. We sold 37 and 149 properties during the three and nine months ended September 30, 2020, respectively, compared to 126 and 862 properties during the three and nine months ended September 30, 2019, respectively.

Liquidity and Capital Resources

As of September 30, 2020, we had cash and cash equivalents of $84.4 million compared to $43.7 million as of December 31, 2019. Our liquidity reflects our ability to meet our current obligations (including our operating expenses and, when applicable, retirement of, and margin calls relating to, our financing arrangements). We are required to distribute at least 90% of our taxable income each year to our stockholders to qualify as a REIT under the Internal Revenue Code. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

We were initially funded with $100.0 million on December 21, 2012. Since our inception, our primary sources of liquidity have been proceeds from equity offerings, borrowings under our repurchase and loan agreements and securitization financings, cash generated from our rental portfolio and liquidations of non-core assets. We expect that our existing business strategy will require additional debt and/or equity financing. We continue to explore a variety of financing sources to support our growth, including, but not limited to, debt financing through bank warehouse lines of credit, additional and/or amended repurchase agreements, term financing, seller financing arrangements, securitization transactions and additional debt or equity offerings. As disclosed above, we expect to pay an aggregate of $36.0 million (of which up to $21.0 million may be paid in shares of Front Yard stock in lieu of cash at our option) to AAMC pursuant to the Termination Agreement upon completion of the termination of the Amended AMA. Based on our current borrowing capacity, leverage ratio and remaining payment requirements under the Termination Agreement, we believe that these sources of liquidity will be sufficient to enable us to meet anticipated short-term (one year) liquidity requirements, including paying expenses on our existing residential rental portfolio, funding distributions to our stockholders (if any), paying fees to AAMC under the AMA and general corporate expenses. However, there can be no assurance as to how much additional financing capacity such efforts will produce, what form the financing will take or that such efforts will be successful. If we are unable to renew, replace or expand our sources of financing, our business, financial condition, liquidity and results of operations may be materially and adversely affected.

As previously disclosed, on May 4, 2020, we entered into a Termination and Settlement Agreement to terminate the Amherst Merger Agreement. Pursuant to the Termination and Settlement Agreement, Amherst agreed to pay the Company a $25 million cash termination fee, purchase from the Company 4.4 million shares of Front Yard common stock for an aggregate cash purchase price of $55 million ($12.50 per share) pursuant to an Investment Agreement and provide the Company with a $20 million committed Non-Negotiable Promissory Note. The proceeds of the Termination and Settlement Agreement were the primary driver of our increased liquidity since December 31, 2019. For further details of the Termination and Settlement Agreement, the Investment Agreement and the Non-Negotiable Promissory Note, please refer to our Current Report on Form 8-K filed with the SEC on May 5, 2020.

Repurchase and Loan Agreements

The following table sets forth data with respect to our repurchase and loan agreements as of September 30, 2020 and December 31, 2019 ($ in thousands):

	Maturity Date		Interest Rate		Amount Outstanding	Maximum Borrowing Capacity	Amount of Available Funding	Book Value of Collateral
September 30, 2020								
CS Repurchase Agreement	6/29/2021		1-month LIBOR + 3.50%	(1)	$ 118,549	$ 200,000	$ 81,451	$ 125,834
HOME II Loan Agreement	11/9/2020	(2)	1-month LIBOR + 2.10%	(3)	83,270	83,270	—	96,207
HOME III Loan Agreement	11/9/2020	(2)	1-month LIBOR + 2.10%	(3)	89,149	89,149	—	106,619
HOME IV Loan Agreement (A)	12/9/2022		4.00%		114,201	114,201	—	139,095
HOME IV Loan Agreement (B)	12/9/2022		4.00%		114,590	114,590	—	139,983
Term Loan Agreement	4/6/2022		5.00%		99,782	99,782	—	108,820
FYR SFR Loan Agreement	9/1/2028		4.65%		508,700	508,700	—	566,466
MS Loan Agreement	12/7/2023		1-month LIBOR + 1.80%	(4)	504,545	504,545	—	584,202
Amherst Promissory Note	5/4/2022		1-month LIBOR + 5.00%		—	20,000	20,000	—
					1,632,786	$ 1,734,237	$ 101,451	$ 1,867,226
Less: unamortized loan discounts					(2,684)			
Less: deferred debt issuance costs					(9,134)			
					$ 1,620,968			
December 31, 2019								
CS Repurchase Agreement	2/15/2020		1-month LIBOR + 2.30%		$ 109,002	$ 250,000	$ 140,998	$ 111,593
Nomura Loan Agreement	4/3/2020		1-month LIBOR + 2.30%		33,671	250,000	216,329	38,423
HOME II Loan Agreement	11/9/2020		1-month LIBOR + 2.10%		83,270	83,270	—	98,150
HOME III Loan Agreement	11/9/2020		1-month LIBOR + 2.10%		89,150	89,150	—	108,860
HOME IV Loan Agreement (A)	12/9/2022		4.00%		114,201	114,201	—	141,787
HOME IV Loan Agreement (B)	12/9/2022		4.00%		114,590	114,590	—	142,620
Term Loan Agreement	4/6/2022		5.00%		99,782	99,782	—	111,061
FYR SFR Loan Agreement	9/1/2028		4.65%		508,700	508,700	—	573,961
MS Loan Agreement	12/7/2023		1-month LIBOR + 1.80%		504,986	504,986	—	595,650
					1,657,352	$ 2,014,679	$ 357,327	$ 1,922,105
Less: unamortized loan discounts					(3,632)			
Less: deferred debt issuance costs					(9,490)			
					$ 1,644,230			

(1) Subject to a 1-month LIBOR floor of 0.50%.
(2) Represents the current maturity date. We have the option to extend the maturity date for up to three successive one-year extensions, the first of which we exercised on October 17, 2019. We intend to exercise our option to extend the maturity date until November 9, 2021.
(3) The interest rate is capped at 4.40% under an interest rate cap derivative.
(4) The interest rate is capped at 4.30% under an interest rate cap derivative.

For a discussion of additional details regarding the above repurchase and loan agreements, see Item 1 - Financial Statements (Unaudited) - Note 5, "Borrowings" to our interim condensed consolidated financial statements.

Compliance with Covenants

Our repurchase and loan agreements require us and certain of our subsidiaries to maintain various financial and other covenants customary to these types of indebtedness. The covenants of each facility may include, without limitation, the following:

- reporting requirements to the agent or lender,
- minimum adjusted tangible net worth requirements,
- minimum net asset requirements,
- limitations on the indebtedness,
- minimum levels of liquidity, including specified levels of unrestricted cash,
- limitations on sales and dispositions of properties collateralizing certain of the loan agreements,
- various restrictions on the use of cash generated by the operations of properties,
- a requirement to maintain positive net income, after adjustment to add back non-cash items, for any two consecutive quarters, and
- a minimum fixed charge coverage ratio.

We are currently in compliance with the covenants and other requirements with respect to our repurchase and loan agreements.

Counterparty Risk

We monitor our lending partners' ability to perform under the repurchase and loan agreements, including the obligation of lenders under repurchase agreements to resell the same assets back to us at the end of the term of the transaction, and have concluded there is currently no reason to doubt that they will continue to perform under the repurchase and loan agreements as contractually obligated.

Advance Rates

As amended, the CS Repurchase Agreement provides for the lender to finance our portfolio at advance rates (or purchase prices). Advance rates for our REO and SFR properties currently range from 72.2% to 78.0% of the discounted value of the underlying asset as described below. Our advance rate under the CS Repurchase Agreement was 62.4% of estimated fair value at September 30, 2020 compared to 69.4% as of December 31, 2019. The advance rate of the CS agreement may vary from period to period dependent upon the type and value of assets that serve as collateral thereunder. The advance rate on each of the HOME II Loan Agreement, HOME III Loan Agreement and the HOME IV Loan Agreements was 75% of the aggregate purchase price at acquisition. The advance rate on the Term Loan Agreement, the FYR SFR Loan Agreement and the MS Loan Agreement was 72%, 68.5% and 70% of the BPO value of the underlying properties at the time of funding, respectively. We do not collateralize any of our repurchase facilities with cash.

The lender determines the discounted asset value by applying a "haircut," which is the percentage discount that a lender applies to the market value of an asset serving as collateral for a borrowing under a repurchase or loan agreement for the purpose of determining whether such borrowing is adequately collateralized. Under the CS Repurchase Agreement, the haircut ranges from 10% to 15%, depending on the class of asset serving as collateral. We believe these are typical market terms that are designed to provide protection for the lender to collateralize its advances to us in the event the collateral declines in value. The weighted average contractual haircut applicable to the assets that serve as collateral for the CS Repurchase Agreement declined slightly to 10.2% of the estimated fair value (based on BPOs) of such assets at September 30, 2020 compared to 10.3% at December 31, 2019. The haircut applied may vary from period to period dependent upon the type of assets that serve as collateral under the CS Loan Agreement. If the carrying value of the collateral declines beyond certain limits, we would have to either (a) provide additional collateral or (b) repurchase certain assets under the agreement to maintain the applicable advance rate.

The decrease in amounts outstanding under our repurchase and loan agreements from December 31, 2019 to September 30, 2020 is primarily due to reductions of debt upon the sale of non-core properties.

The following table sets forth data with respect to our contractual obligations under our repurchase and loan agreements as of and for the three months ended September 30, 2020, December 31, 2019 and September 30, 2019 ($ in thousands):

	Three Months Ended		
	September 30, 2020	December 31, 2019	September 30, 2019
Balance at end of period	$ 1,632,786	$ 1,657,352	$ 1,631,420
Maximum month end balance outstanding during the period	1,641,261	1,660,381	1,636,591
Weighted average quarterly balance	1,638,195	1,645,609	1,636,859
Amount of available funding at end of period	101,451	357,327	383,259

Repurchases of Common Stock

The Board of Directors has authorized a stock repurchase program under which we may repurchase up to $100.0 million in shares of our common stock. At September 30, 2020, a total of $51.5 million in shares of our common stock had been repurchased to date under this authorization. Repurchased shares are held as shares available for future issuance and are available for general corporate purposes.

Potential purchase adjustments of certain properties sold

In January 2020, we received notice regarding potential purchase price adjustment/indemnification claims of up to $1.2 million relating to certain real estate sold in January 2019. We are investigating these claims, and, if they are determined to be valid, we may be required to forfeit a portion of the sales proceeds to the purchaser, based on the terms of the purchase agreement. At September 30, 2020, we have reserved $0.8 million of indemnity loss, which is included in net realized gains and losses on mortgage loans and real estate.

Acquisition from AAMC under the Termination Agreement

On August 13, 2020, we agreed to terminate the Amended AMA with AAMC, facilitating our transition from an externally managed REIT to an internally managed REIT. In connection therewith, we expect to acquire the Transferred Asset, including equity interests of AAMC's Indian subsidiary and the equity interests of AAMC's Cayman Islands subsidiary as well as certain other operational assets and employees of AAMC. The purchase price for this acquisition is $8.2 million, consisting of an upfront payment of $3.2 million, which was paid in cash during August 2020, and a payment of $5.0 million in cash or Front Yard common stock, at our election, on the Termination Date.

Cash Flows

We report and analyze our cash flows, including cash, cash equivalents and restricted cash, based on operating activities, investing activities and financing activities. The following table sets forth our cash flows for the periods indicated ($ in thousands):

	Nine months ended September 30,	
	2020	2019
Net cash provided by (used in) operating activities	$ 24,688	$ (5,314)
Net cash (used in) provided by investing activities	(2,389)	139,641
Net cash provided by (used in) by financing activities	16,301	(134,368)
Net change in cash, cash equivalents and restricted cash	$ 38,600	$ (41)

Net cash provided by operating activities for the nine months ended September 30, 2020 consisted primarily of the receipt of $25.0 million related to the termination of the Amherst Merger Agreement and rental revenues in excess of cash operating expenses, partially offset by the initial termination fee payment to AAMC of $15.0 million pursuant to the Termination Agreement during the third quarter of 2020. Net cash used in operating activities for the nine months ended September 30, 2019 consisted primarily of cash operating expenses in excess of revenues.

Net cash used in investing activities for the nine months ended September 30, 2020 consisted primarily of a deposit of $3.2 million paid to AAMC related to the Transferred Assets and investments in real estate and renovations, partially offset by proceeds from dispositions of real estate. Net cash provided by investing activities for the nine months ended September 30, 2020 consisted primarily of proceeds from disposition of real estate, partially offset by investments in real estate and renovations.

Net cash provided by financing activities for the nine months ended September 30, 2020 consisted primarily of the issuance of 4.4 million shares for proceeds of $55.0 million, partially offset by net repayments of repurchase and loan agreements and payment of dividends on common stock. Net cash used in financing activities for the nine months ended September 30, 2019 consisted primarily of net repayments of repurchase and loan agreements and payment of dividends on common stock.

Off-balance Sheet Arrangements

As of September 30, 2020 and December 31, 2019, we had no off-balance sheet arrangements except as described in Item 1 - Financial Statements (Unaudited) - Note 7, “Commitments and Contingencies.”

Recent Accounting Pronouncements

See Item 1 - Financial Statements (Unaudited) - Note 1, “Organization and basis of presentation - Recently issued accounting standards.”

Critical Accounting Judgments

Accounting standards require information in financial statements about the risks and uncertainties inherent in significant estimates, and the application of generally accepted accounting principles involves the exercise of varying degrees of judgment. Certain amounts included in or affecting our financial statements and related disclosures must be estimated, which requires us to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time our condensed consolidated financial statements are prepared. These estimates and assumptions affect the amounts we report for our assets and liabilities, our revenues and expenses during the reporting period and our disclosure of contingent assets and liabilities at the date of our condensed consolidated financial statements. Actual results may differ significantly from our estimates, and any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

For additional details on our critical accounting judgments, please see Item 7. “Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Judgments” in our Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission (“SEC”) on February 28, 2020.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The primary market risks that we are currently exposed to are real estate risk and interest rate risk. A substantial portion of our investments are, and we expect will continue to be, comprised of single-family residential properties. The primary driver of the value of this asset class is the fair value of the underlying real estate.

Real Estate Risk

Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to: national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Although decreases in property values may allow us to acquire additional homes with more attractive yields, such decreases could lead to increased unit turnover as more tenants may choose to purchase their own home or difficulties in refinancing, including our ability to finance existing collateral at the same level of funding or at the existing rate.

Interest Rate Risk

We are exposed to interest rate risk from our debt financing activities. Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Changes in interest rates may affect our interest expense related to the funding of our real estate portfolios.

We have undertaken and may continue to undertake risk mitigation activities with respect to our debt financing interest rate obligations. A portion of our debt financing is, and will likely continue to be, based on a floating rate of interest calculated on a fixed spread over the relevant index, as determined by the particular financing arrangement. A significantly rising interest rate environment could have an adverse effect on the cost of such financing. To mitigate this risk, we have used, and may continue to use, derivative financial instruments such as interest rate caps in an effort to reduce the variability of earnings caused by changes in the interest rates we pay on our debt.

These derivative transactions will be entered into solely for risk management purposes, not for investment purposes. When undertaken, these derivative instruments likely will expose us to certain risks such as price and interest rate fluctuations, timing risk, volatility risk, credit risk, counterparty risk and changes in the liquidity of markets. Therefore, although we expect to transact in these derivative instruments purely for risk management, they may not adequately protect us from fluctuations in our financing interest rate obligations.

We have entered into multiple interest rate caps in order to manage the risk of increases in the floating rate portion of our variable rate debt. We will be reimbursed by the counterparties of the interest rate caps to the extent that the one-month LIBOR exceeds the applicable strike rate based on the scheduled notional amount. We are also exposed to counterparty risk should any of the counterparties fail to meet their obligations under the terms of the agreement.

We currently borrow funds on our repurchase and loan facilities at variable rates. At September 30, 2020, we had $118.5 million of variable rate debt outstanding that was not protected by interest rate hedge contracts and $677.0 million that was protected by interest rate caps. The estimated aggregate fair market value of this variable rate debt was $792.8 million. If the weighted average interest rate on this variable rate debt had been 100 basis points higher or lower, the annual interest expense would increase or decrease by $7.5 million or $1.0 million, respectively.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, management has determined that the Company's disclosure controls and procedures were effective as of September 30, 2020.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error or fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

Part II

Item 1. Legal Proceedings

For a description of the Company's legal proceedings, refer to Item 1 - Financial Statements (Unaudited) - Note 7, "Commitments and Contingencies" of the interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no material changes in our risk factors since December 31, 2019 except as provided below. For information regarding our risk factors, you should carefully consider the risk factors discussed in "Item 1A. Risk factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 28, 2020.

Risks Related to the Merger Transaction pursuant to the Pretium Merger Agreement

The announcement and pendency of the Merger Transaction may have an adverse effect on our business, financial condition, operating results and cash flows.

Uncertainty about the effect of the proposed Merger Transaction on our employees, partners, customers, Manager and other third parties may disrupt our key business activities and may have a material adverse effect on our business, financial condition, operating results and cash flows. Current and prospective employees may experience uncertainty about their roles following the Merger Transaction, and this may have an effect on our corporate culture. There can be no assurance we will be able to attract and retain key talent, including senior leaders, to the same extent that we have previously been able to attract and retain employees. Any loss or distraction of such employees could have a material adverse effect on our business, financial condition and operating results. In addition, we have diverted, and will continue to divert, significant management and other internal resources towards the completion of the Merger Transaction and planning for integration, which could materially adversely affect our business, financial condition, operating results and cash flows. Parties with which we have business relationships may experience uncertainty as to the future of such relationships and may delay or defer certain business decisions, seek alternative relationships with third parties or seek to alter their present business relationships with us. Parties with whom we otherwise may have sought to establish business relationships may seek alternative relationships with third parties.

The failure to complete the Merger Transaction in a timely manner or at all could negatively impact the market price of our common stock as well as adversely affect our business, financial condition, operating results and cash flows.

Completion of the Merger Transaction is subject to several conditions beyond our control that may prevent, delay or otherwise adversely affect its completion in a material way. The Merger Transaction cannot be completed until the conditions to closing are satisfied or waived. We cannot guarantee that the closing conditions set forth in the Pretium Merger Agreement will be satisfied or, even if satisfied, that no event of termination will take place. In the event that the Merger Transaction is not completed for any reason, the holders of our common stock will not receive the merger consideration ($13.50 per share in cash without interest and subject to deduction for any required withholding tax) in connection with the proposed Merger Transaction. Instead, we will remain an independent public company, and the holders of our common stock will continue to own their shares of common stock.

If the Merger Transaction is not completed within the expected time frame or at all, we may be subject to a number of material risks. The price of our common stock may decline to the extent that current market prices reflect a market assumption that the Merger Transaction will be completed. We could be required to pay Pretium termination fees of up to $24 million and, in addition, reimburse Pretium for certain expenses incurred by Pretium in connection with the Pretium Merger Agreement up to a maximum of $8.2 million, if the Pretium Merger Agreement is terminated under specific circumstances described in the Pretium Merger Agreement. The failure to complete the Merger Transaction also may result in negative publicity and negatively affect our relationship with our stockholders, employees, customers and other business partners. We may also be required to devote significant time and resources to litigation related to any failure to complete the Merger Transaction or related to any enforcement proceeding commenced against us to perform our obligations under the Pretium Merger Agreement.

The Pretium Merger Agreement contains provisions that could discourage or deter a potential competing acquirer that might be willing to pay more to effect an alternative transaction with us.

Under the Pretium Merger Agreement, we are generally not permitted to solicit or discuss takeover proposals with third parties, subject to certain exceptions. The Merger Agreement provides that, during the period from the date of the Merger Agreement until the effective time of the merger, the Company is subject to certain restrictions on its ability to solicit alternative acquisition proposals from third parties, provide non-public information to third parties and engage in negotiations with third parties regarding alternative acquisition proposals, subject to customary exceptions.

We will incur substantial transaction fees and costs in connection with the Pretium Merger Agreement.

We have incurred and expect to continue to incur significant costs, expenses and fees for professional services and other transaction costs in connection with the Merger Transaction. A material portion of these expenses are payable by us whether or not the Merger Transaction is completed. Further, while we have assumed that a certain amount of transaction expenses will be incurred, factors beyond our control could affect the total amount or the timing of these expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately. These expenses may exceed the costs historically borne by us. These costs could adversely affect our business, financial condition, operating results and cash flows.

Risks Related to the COVID-19 Pandemic

The COVID-19 pandemic and the measures to prevent its spread have, and could continue to have, and any other global outbreaks of pandemic disease could have, a material adverse effect on our business, results of operations, and financial condition.

The COVID-19 pandemic has materially adversely impacted regional and global economies and financial markets. The impact of the outbreak has been rapidly evolving and, as cases of COVID-19 continue to be identified in the United States, governmental authorities, including in many states where we own properties and where our offices are located, have reacted by instituting measures to prevent its spread, including quarantines, social distancing mandates, restrictions on travel and “shelter-in-place” rules. In addition, some states have limited business operations to those businesses carrying out essential services. While we have a diverse tenant population and many of our tenants work in industries that are deemed essential services, certain state or other orders have prohibited certain activities, which has and may continue to have an adverse impact on certain tenants' financial condition. These adverse economic conditions resulting from the COVID-19 pandemic, particularly any downturns in the geographic areas in which we operate, may impact our ability to serve our tenants or require us to offer rental concessions. In addition, a number of state, local, federal and industry-initiated efforts have also affected our ability to collect rent or enforce remedies for the failure to pay rent. These restrictions and initiatives have impaired our ability to collect rent, which has adversely affected our business to date and may continue to do so in the future. We cannot predict if additional states will implement similar restrictions or initiatives, when restrictions and initiatives currently in place will expire, if additional restrictions or initiatives will be imposed, or if these or other restrictions or initiatives will be imposed in the future and the impact on our business of any such restrictions or initiatives.

In addition, in response to an executive orders issued by Governors of the states in which we hold offices, many of our employees are currently working remotely. The effects of the executive orders, including an extended period of remote work arrangements, could create increased vulnerability to cybersecurity breaches or incidents involving us or our third-party vendors, which could disrupt our business; compromise confidential information of ours and third parties, including our tenants; damage our reputation; subject us to liability claims or regulatory penalties; and could have an adverse effect on our business, financial condition and results of operations. In addition, we depend upon the performance of our property management team to effectively manage our properties. Remote work arrangements and other effects of the COVID-19 pandemic could impair our and property management team's ability to effectively manage our properties, which could also adversely impact our business and results of operations.

The COVID-19 pandemic, or a future pandemic, could also have material and adverse effects on our ability to successfully operate our business and on our financial condition and results of operations due to, among other factors:

- the reduced economic activity impacting our tenants' businesses and employers, which may have a material adverse effect on our tenant's financial condition and liquidity and may cause a portion of our tenants to be unable to pay their rent to us in full, or at all, or to otherwise seek rental concessions or modifications of their rent obligations;
- difficulty finding suitable replacement tenants in the event of a tenant default or non-renewal of our leases;
- reduced economic activity that could result in a prolonged recession, which could negatively impact the real estate industry, resulting in declining demand for real estate, which may affect our ability to sell any of our properties at a profit, or at all, in the future;
- the general decline in business activity and demand for real estate transactions, which has adversely affected, and is likely to continue affecting, our ability to acquire additional properties;
- the negative effects of the COVID-19 pandemic could impair our ability to make distributions to our stockholders;
- any inability to comply with covenants under our debt agreements, which could result in a default under the applicable debt agreement and could trigger a cross-default under other indebtedness, which could cause an acceleration of our indebtedness or negatively impact our ability to incur additional indebtedness;
- any impairment in value of our tangible or intangible assets, which could be recorded as a result of a weaker economic conditions; and
- the potential negative impact on the health of our personnel, particularly if a significant number of them are impacted, could impair our ability to perform critical functions and may cause a disruption in our business operations.

The extent to which the COVID-19 pandemic impacts, and will continue to impact, our operations and those of our tenants will depend on future developments, which are highly uncertain and cannot be predicted, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact and the direct and indirect economic effects of the pandemic and containment measures, among others. The rapid development and fluidity of this situation precludes our ability to predict the full adverse impact of the COVID-19 pandemic. If we are unable to respond and manage the impact of these events, our business, financial condition and results of operations may continue to be adversely affected.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

Exhibits

Exhibit Number	Description
2.1	Separation Agreement, dated as of December 21, 2012, between Front Yard Residential Corporation and Altisource Portfolio Solutions S.A. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on December 28, 2012).
2.2	Membership Interest Purchase and Sale Agreement, dated September 30, 2016, between MSR I, LP and Front Yard Residential, L.P. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on October 3, 2016).
2.3	Purchase and Sale Agreement, dated September 30, 2016, between Firebird SFE I, LLC and Front Yard Residential, L.P. (incorporated by reference to Exhibit 2.2 of the Registrant's Current Report on Form 8-K filed with the SEC on October 3, 2016).
2.4	Purchase and Sale Agreement, dated March 30, 2017, among Vaca Morada Partners, LP, MSR II, LP and Front Yard Residential, L.P. f/k/a Altisource Residential, L.P. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed on April 5, 2017).
2.5	First Amendment to the Purchase and Sale Agreement, dated June 29, 2017, among Vaca Morada Partners, LP, MSR II, LP and Front Yard Residential, L.P. f/k/a Altisource Residential, L.P. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed on July 6, 2017).
2.6	Second Amendment to the Purchase and Sale Agreement, dated November 29, 2017, among Vaca Morada Partners, LP, MSR II, LP and Front Yard Residential, L.P. f/k/a Altisource Residential, L.P. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed on December 5, 2017).
2.7	Purchase Agreement, dated August 8, 2018, by and among FYR SFR Purchaser, LLC, RHA 1 Inc., RHA 2 Inc., RHA 3 Inc., HavenBrook Partners, LLC, Rental Home Associates LLC and each of the unitholders of HavenBrook identified therein (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on August 9, 2018).†
2.8	Agreement and Plan of Merger, dated as of October 19, 2020, by and among Front Yard Residential Corporation, Pretium Midway Holdco, LP and Midway AcquisitionCo (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on October 20, 2020).†
3.1	Articles of Restatement of Front Yard Residential Corporation (incorporated by reference to Exhibit 3.3 of the Registrant's Current Report on Form 8-K filed with the SEC on April 8, 2013).
3.2	Articles of Amendment of Front Yard Residential Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on February 9, 2018).
3.3	Amended and Restated By-laws of Front Yard Residential Corporation (incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed with the Commission on February 9, 2018).
10.1	Termination and Transition Agreement, dated as August 13, 2020, by and among Front Yard Residential Corporation, Front Yard Residential L.P. and Altisource Asset Management Corporation (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on August 14, 2020).
31.1*	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2*	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act
32.1*	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act
32.2*	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Extension Labels Linkbase
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

† Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any of the omitted schedules or exhibits upon request by the United States Securities and Exchange Commission, provided, however, that the Company may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act, as amended, for any schedules or exhibits so furnished.

Signatures

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

				Front Yard Residential Corporation
Date:	November 4, 2020	By:	/s/	Robin N. Lowe
				Robin N. Lowe
				Chief Financial Officer

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, George G. Ellison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Front Yard Residential Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	November 4, 2020	By:	/s/	George G. Ellison
				George G. Ellison
				Chief Executive Officer

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Robin N. Lowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Front Yard Residential Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date:	November 4, 2020	By:	/s/	Robin N. Lowe
				Robin N. Lowe
				Chief Financial Officer

Exhibit 32.1

Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, the Chief Executive Officer of Front Yard Residential Corporation (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the quarterly report on Form 10-Q for the quarter ended September 30, 2020 (“Form 10-Q”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date:	November 4, 2020	By:	/s/	George G. Ellison
				George G. Ellison
				Chief Executive Officer

Exhibit 32.2

Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, the Chief Financial Officer of Front Yard Residential Corporation (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the quarterly report on Form 10-Q for the quarter ended September 30, 2020 (“Form 10-Q”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date:	November 4, 2020	By:	/s/	Robin N. Lowe
				Robin N. Lowe
				Chief Financial Officer