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, 2019**

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, United States Virgin Islands 00820
(Address of principal executive office)

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

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	☐	(Do not check if a smaller reporting company)	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 ☒

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

As of October 30, 2019, 53,880,544 shares of our common stock were outstanding.

Front Yard Residential Corporation
September 30, 2019
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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:

- our ability to implement our business strategy;
- our ability to make distributions to our stockholders;
- our ability to acquire single-family rental assets for our portfolio;
- the impact of changes to the supply of, value of and the returns on single-family rental assets;
- our ability to successfully integrate newly acquired properties into our portfolio of single-family rental properties;
- our ability to successfully perform property management services for our single-family rental assets at the standard and/or the cost that we anticipate;
- our ability to predict our costs;
- our ability to effectively compete with our competitors;
- our ability to apply the proceeds from financing activities or asset sales to single-family rental assets in a timely manner;
- our ability to sell non-core assets on favorable terms and on a timely basis or at all;
- the failure to identify unforeseen expenses or material liabilities associated with asset acquisitions through the due diligence process prior to such acquisitions;
- changes in the market value of our single-family rental properties and real estate owned;
- changes in interest rates;
- our ability to obtain and access financing arrangements on favorable terms or at all;
- our ability to maintain adequate liquidity;
- our ability to retain our engagement of AAMC;
- the failure of our third party vendors to effectively perform their obligations under their respective agreements with us;
- our failure to maintain our qualification as a REIT;
- our failure to maintain our exemption from registration under the Investment Company Act;
- the results of our strategic alternatives review and risks related thereto;
- 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, 2018.

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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, 2019	December 31, 2018
	(unaudited)	
Assets:		
Real estate held for use:		
Land	$ 392,153	$ 395,532
Rental residential properties	1,671,809	1,667,939
Real estate owned	27,344	40,496
Total real estate held for use	2,091,306	2,103,967
Less: accumulated depreciation	(188,426)	(137,881)
Total real estate held for use, net	1,902,880	1,966,086
Real estate assets held for sale	22,817	146,921
Mortgage loans at fair value	3,613	8,072
Cash and cash equivalents	46,776	44,186
Restricted cash	34,343	36,974
Accounts receivable	10,712	11,591
Goodwill	13,376	13,376
Prepaid expenses and other assets	42,232	43,045
Total assets	$ 2,076,749	$ 2,270,251
Liabilities:		
Repurchase and loan agreements	$ 1,617,457	$ 1,722,219
Accounts payable and accrued liabilities	93,258	72,672
Payable to AAMC	4,168	3,968
Total liabilities	1,714,883	1,798,859
Commitments and contingencies (Note 8)	—	—
Equity:		
Common stock, $0.01 par value, 200,000,000 authorized shares; 53,880,544 shares issued and outstanding as of September 30, 2019 and 53,630,204 shares issued and outstanding as of December 31, 2018	539	536
Additional paid-in capital	1,187,973	1,184,132
Accumulated deficit	(805,104)	(700,623)
Accumulated other comprehensive loss	(21,542)	(12,653)
Total equity	361,866	471,392
Total liabilities and equity	$ 2,076,749	$ 2,270,251

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,	
	2019	**2018**	**2019**	**2018**
Revenues:				
Rental revenues	$ 50,768	$ 48,313	$ 154,946	$ 128,984
Total revenues	50,768	48,313	154,946	128,984
Expenses:				
Residential property operating expenses	20,775	17,269	58,180	45,372
Property management expenses	4,187	3,400	11,400	9,286
Depreciation and amortization	19,662	21,100	61,983	59,051
Acquisition and integration costs	202	25,220	3,064	26,012
Impairment	495	1,276	3,091	10,994
Mortgage loan servicing costs	246	479	827	1,153
Interest expense	21,135	20,142	63,810	52,543
Share-based compensation	1,457	1,200	4,387	1,880
General and administrative	5,519	3,483	19,277	8,633
Management fees to AAMC	3,584	3,648	10,715	11,135
Total expenses	77,262	97,217	236,734	226,059
Net gain (loss) on real estate and mortgage loans	354	1,177	12,973	(763)
Operating loss	(26,140)	(47,727)	(68,815)	(97,838)
Casualty (losses) loss reversals, net	(287)	(461)	(864)	59
Insurance recoveries	48	133	586	248
Other (expense) income	(9,989)	128	(10,786)	918
Loss before income taxes	(36,368)	(47,927)	(79,879)	(96,613)
Income tax expense	—	6	14	6
Net loss	$ (36,368)	$ (47,933)	$ (79,893)	$ (96,619)
Loss per share of common stock - basic:				
Loss per basic share	$ (0.68)	$ (0.89)	$ (1.49)	$ (1.81)
Weighted average common stock outstanding - basic	53,857,616	53,601,208	53,735,106	53,525,792
Loss per share of common stock - diluted:				
Loss per diluted share	$ (0.68)	$ (0.89)	$ (1.49)	$ (1.81)
Weighted average common stock outstanding - diluted	53,857,616	53,601,208	53,735,106	53,525,792
Dividends declared per common share	$ 0.15	$ 0.15	$ 0.45	$ 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,	
	2019	**2018**	**2019**	**2018**
Net loss	$ (36,368)	$ (47,933)	$ (79,893)	$ (96,619)
Other comprehensive loss:				
Change in fair value of interest rate caps	(1,463)	—	(12,554)	—
Losses from interest rate caps reclassified into earnings from accumulated other comprehensive loss	1,430	—	3,665	—
Net other comprehensive loss	(33)	—	(8,889)	—
Comprehensive loss	$ (36,401)	$ (47,933)	$ (88,782)	$ (96,619)

See accompanying notes to condensed consolidated financial statements.

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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, 2018	53,630,204	$ 536	$ 1,184,132	$ (700,623)	$ (12,653)	$ 471,392
Adoption of ASC 842 (Note 1)	—	—	—	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.

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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, 2017	53,447,950	$ 534	$ 1,181,327	$ (537,259)	$ —	$ 644,602
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	44,187	1	106	—	—	107
Dividends on common stock ($0.15 per share)	—	—	—	(8,071)	—	(8,071)
Share-based compensation	—	—	(414)	—	—	(414)
Net loss	—	—	—	(27,350)	—	(27,350)
March 31, 2018	53,492,137	535	1,181,019	(572,680)	—	608,874
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	92,502	1	—	—	—	1
Shares withheld for taxes upon vesting of restricted stock	(22,836)	—	(240)	—	—	(240)
Dividends on common stock ($0.15 per share)	—	—	—	(8,142)	—	(8,142)
Share-based compensation	—	—	1,094	—	—	1,094
Net loss	—	—	—	(21,336)	—	(21,336)
June 30, 2018	53,561,803	536	1,181,873	(602,158)	—	580,251
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	75,530	—	—	—	—	—
Shares withheld for taxes upon vesting of restricted stock	(7,129)	—	(85)	—	—	(85)
Dividends on common stock ($0.15 per share)	—	—	—	(8,157)	—	(8,157)
Share-based compensation	—	—	1,200	—	—	1,200
Net loss	—	—	—	(47,933)	—	(47,933)
September 30, 2018	53,630,204	$ 536	$ 1,182,988	$ (658,248)	$ —	$ 525,276

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30,	
	2019	**2018**
Operating activities:		
Net loss	$ (79,893)	$ (96,619)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net (gain) loss on real estate and mortgage loans	(12,973)	763
Depreciation and amortization	61,983	59,051
Impairment	3,091	10,994
Share-based compensation	4,387	1,880
Amortization of deferred financing costs	3,931	3,792
Casualty losses (loss reversals), net	864	(59)
Insurance recoveries	(586)	(248)
Change in fair value of interest rate cap derivatives in profit or loss	3,665	—
Changes in operating assets and liabilities:		
Accounts receivable	5,657	(1,677)
Deferred leasing costs	(2,088)	—
Prepaid expenses and other assets	(9,125)	(14,904)
Accounts payable and accrued liabilities	15,573	24,271
Payable to AAMC	200	(145)
Net cash used in operating activities	(5,314)	(12,901)
Investing activities:		
Investment in real estate	(11,124)	(475,276)
Investment in renovations	(21,504)	(25,459)
Investment in HavenBrook (Note 2)	—	(11,399)
Payment of real estate tax advances	(72)	(196)
Proceeds from mortgage loan resolutions and dispositions	1,129	6,357
Receipt of mortgage loan payments	203	192
Proceeds from dispositions of real estate	169,457	73,468
Proceeds from casualty insurance	1,552	2,113
Acquisition related deposits	—	(611)
Net cash provided by (used in) investing activities	139,641	(430,811)
Financing activities:		
Proceeds from exercise of stock options	138	108
Payment of tax withholdings on share-based compensation plan awards	(76)	—
Shares withheld for taxes upon vesting of restricted stock	(605)	(325)
Dividends on common stock	(24,444)	(24,219)
Proceeds from repurchase and loan agreements	42,681	593,634
Repayments of repurchase and loan agreements	(150,308)	(166,123)
Investment in interest rate cap derivative	—	(936)
Principal repayments of finance leases	(688)	—
Payment of financing costs	(1,066)	(4,529)
Net cash (used in) provided by financing activities	(134,368)	397,610
Net change in cash, cash equivalents and restricted cash	(41)	(46,102)
Cash, cash equivalents and restricted cash as of beginning of the period	81,160	161,488
Cash, cash equivalents and restricted cash as of end of the period	$ 81,119	$ 115,386

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,	
	2019	**2018**
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ 55,489	$ 47,002
Income taxes	—	58
Non-cash transactions:		
Transfer of mortgage loans to real estate owned, net	$ 4,131	$ 2,179
Changes in accrued capital expenditures	(612)	(150)
Changes in receivables from mortgage loan resolutions and dispositions, payments and real estate tax advances to borrowers, net	(7)	(290)
Changes in receivables from real estate owned dispositions	6,318	(2,353)
Change in other comprehensive loss from cash flow hedges	(8,889)	—
Right-of-use lease assets recognized - operating leases	1,475	—
Right-of-use lease assets recognized - finance leases	1,327	—
Operating lease liabilities incurred	1,475	—
Finance lease liabilities incurred	1,327	—
Dividends declared but not paid	8,584	8,423

See accompanying notes to condensed consolidated financial statements.

Front Yard Residential Corporation
Notes to Condensed Consolidated Financial Statements
September 30, 2019
(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, 2019, we had a core rental portfolio of 14,403 homes. In addition, we had 229 rental homes that are identified for future sale, and we had a small portfolio of mortgage loans and non-rental real estate owned ("REO") properties remaining from our previous mortgage loan portfolio acquisitions. We have engaged third-party service providers to service these remaining mortgage loans and to manage REO and certain other properties. 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.

We are managed by Altisource Asset Management Corporation ("AAMC" or our "Manager"). AAMC provides us with dedicated personnel to administer certain aspects of our business and perform certain of our corporate governance functions. AAMC also provides oversight of our acquisition and management of SFR properties and the ongoing management of our remaining residential mortgage loans and REO properties. See Note 9 for a description of this related-party relationship.

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 2018 Annual Report on Form 10-K, which was filed with the SEC on February 27, 2019.

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 February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). ASU 2016-02 requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position and also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. Accounting by lessors is substantially unchanged from prior practice as lessors will continue to recognize lease revenue on a straight-line basis. The FASB has also issued multiple ASUs amending certain aspects of Topic 842. ASU 2016-02, as amended, also provides for certain practical expedients related to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. We have applied the amendments in ASU 2016-02 on a modified retrospective transition basis as of January 1, 2019, the effective date of the standard. We elected the “package of practical expedients,” which permits us not to reassess our prior conclusions about lease identification, lease classification and initial direct costs under the new standard. We did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us. The new standard also provides practical expedients for an entity's ongoing accounting. We elected the short-term lease exemption for all leases for which we are lessee that qualify; as a result, we will not recognize right-of-use assets or lease liabilities for qualifying leases. We also elected the practical expedient to not separate lease and non-lease components. Effective January 1, 2019, we recognized aggregate right-of-use lease assets as a component of prepaid expenses and other assets and lease liabilities as a component of accounts payable and accrued expenses, resulting in a nominal aggregate transition adjustment to retained earnings. For more information on our leasing activity, see Note 7.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the accounting for goodwill impairment by removing step two of the goodwill impairment test, which had involved determining the fair value of individual assets and liabilities of a reporting unit to measure goodwill. Instead, goodwill impairment will be determined as the excess of a reporting unit’s carrying value over its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019 and early adoption is permitted. We adopted ASU 2017-04 effective June 30, 2019. Though it changed our goodwill impairment testing process, the adoption of ASU 2017-04 did not have a material impact on our consolidated financial statements.

Recently issued accounting standards not yet adopted

In June 2016, the FASB issued 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 will require 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 expect to adopt this standard on January 1, 2020. While we are still evaluating the overall impact of this ASU, we do not expect the adoption of this standard to 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.

2. Asset Acquisitions and Dispositions

Real estate assets

HB Acquisition in 2018

On August 8, 2018, we acquired all of the equity interests of HavenBrook Partners, LLC ("HavenBrook" or our "internal property manager") and three real estate investment trusts owned by Rental Home Associates, LLC, a Delaware limited liability company ("RHA"), for an aggregate purchase price of $485.0 million. The purchase was accounted for as a business combination because it included the acquisition of a property management company as well as the 3,236 single-family rental properties that it managed. We refer to this transaction as the "HB Acquisition."

The following table presents the components acquired ($ in thousands):

Purchase price allocable to RHA entities, including underlying properties	$	471,400
Purchase price allocable to HavenBrook		13,600
Gross purchase price		485,000
Less: net purchase price adjustments at closing (1)		(3,644)
Net purchase price	$	481,356

(1) Purchase price adjustments at closing relate primarily to (i) properties sold by RHA subsequent to negotiation of the purchase price and prior to closing and (ii) working capital balances of each acquired entity.

The HB Acquisition was completed using the following sources of funds ($ in thousands):

Cash	$	88,489
Net proceeds of borrowings		462,794
Less: financing related to assets previously acquired		(69,927)
Net purchase price	$	481,356

We incurred $6.2 million and $6.9 million of acquisition costs related to the HB Acquisition during the three and nine months ended September 30, 2018, respectively, which are included in acquisition and integration costs in the consolidated statements of operations. In addition, our acquisition and integration costs for the three and nine months ended September 30, 2018 included $18.0 million to Altisource S.à r.l ("ASPS") in relation to the amendment of the Master Services Agreement to allow the transition of our externally managed SFR properties to our internal property management platform. During the third quarter of 2018, we also incurred $0.8 million of duplicative or non-recurring costs associated with the internalization of our property management function, which we included in acquisition and integration costs.

We recognized $6.8 million of revenues and $3.6 million of net loss related to the operations of HavenBrook and the RHA Acquired Properties in our consolidated statements of operations for the three and nine months ended September 30, 2018, respectively.

In accordance with Accounting Standards Codification ("ASC") 805, *Business Combinations*, we performed an allocation of the purchase related to the assets acquired and liabilities assumed in the HB Acquisition. The assets and liabilities of HavenBrook and RHA were recorded at their respective estimated fair values at the acquisition date. The allocation of the purchase consideration is as follows ($ in thousands):

Land	$	82,739
Rental residential properties		282,914
Real estate assets held for sale		94,946
Cash and cash equivalents		9,255
Restricted cash		4,780
Accounts receivable, net		1,778
Goodwill		13,376
In-place lease intangible assets (1) (2)		6,462
Other assets (2)		1,784
Total assets acquired		498,034
Accounts payable and accrued liabilities		16,678
Total liabilities assumed		16,678
Total allocation of purchase price	$	481,356

(1) The value of in-place leases is being amortized over the weighted average remaining life of the leases, which was approximately eight months as of the acquisition date.
(2) Included in prepaid expenses and other assets in the consolidated balance sheet.

The goodwill recorded on the consolidated balance sheets represents the expected synergies to be achieved from the internalization of property management.

Supplemental pro forma financial information of the HB Acquisition (unaudited)

The following supplemental pro forma financial information summarizes our results of operations as if the HB Acquisition occurred on January 1, 2017 ($ in thousands, except per share amounts):

		Three months ended September 30, 2018		Nine months ended September 30, 2018
Unaudited pro forma revenues	$	53,560	$	159,278
Unaudited pro forma net loss	$	(49,962)	$	(106,816)
Pro forma loss per basic common share	$	(0.93)	$	(2.00)
Weighted average common stock outstanding - basic		53,601,208		53,525,792
Pro forma loss per diluted common share	$	(0.93)	$	(2.00)
Weighted average common stock outstanding - diluted		53,601,208		53,525,792

The following table presents the adjustments included in the above pro forma financial information for the period indicated ($ in thousands):

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Revenues from consolidated statements of operations	$ 48,313	$ 128,984
Add: historical revenues not reflected in consolidated statements of operations	5,247	30,294
Unaudited pro forma revenues	$ 53,560	$ 159,278
Net loss from consolidated statements of operations	$ (47,933)	$ (96,619)
Plus: historical net loss not reflected in consolidated statements of operations	(3,034)	(9,785)
Adjustment for pro forma depreciation and amortization	2,075	5,679
Adjustment for pro forma interest expense	(1,070)	(6,091)
Unaudited pro forma net loss	$ (49,962)	$ (106,816)

The supplemental pro forma financial information for all periods presented was adjusted to reflect depreciation and amortization on the acquired properties and related intangible assets and interest expense on the related financing. The supplemental pro forma financial information is for informational purposes only and is not necessarily indicative of the actual results of operations that would have been achieved if the acquisition had taken place on January 1, 2017, nor does it purport to represent or be indicative of the results of operations for future periods.

Other acquisitions

During the three months ended September 30, 2019 and 2018, we acquired 28 and 12 SFR properties, respectively, for an aggregate purchase price of$3.8 million and $1.6 million, respectively.

During the nine months ended September 30, 2019 and 2018, we acquired 85 and 66 SFR properties, respectively, for an aggregate purchase price of$11.1 million and $8.3 million, respectively.

Real estate dispositions

During the three months ended September 30, 2019 and 2018, we sold 126 and 72 properties, respectively. Net proceeds of these sales were$22.6 million and $10.9 million, respectively.

During the nine months ended September 30, 2019 and 2018, we sold 862 and 402 properties, respectively. Net proceeds of these sales were$175.8 million and $71.1 million, respectively.

Mortgage loans

Mortgage loan dispositions and resolutions

During the three months ended September 30, 2019 and 2018, we resolved 5 and 5 mortgage loans, respectively, primarily through short sales, refinancing and foreclosure sales. Net proceeds of these resolutions were $0.2 million and $0.8 million, respectively.

During the nine months ended September 30, 2019 and 2018, we resolved 18 and 26 mortgage loans, respectively, primarily through short sales, refinancing and foreclosure sales. Net proceeds of these resolutions were $1.8 million and $2.7 million, respectively.

Net gain (loss) on real estate and mortgage loans

The following table presents the components of net gain (loss) on real estate and mortgage loans during thethree and nine months ended September 30, 2019and 2018 ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Conversion of mortgage loans to REO, net	$ 17	$ 1,540	$ 769	$ 1,824
Change in fair value of mortgage loans, net	(81)	81	211	187
Net realized (loss) gain on mortgage loans	(1,671)	793	(944)	892
Net realized gain (loss) on sales of real estate	2,089	(1,237)	12,937	(3,666)
Net gain (loss) on real estate and mortgage loans	$ 354	$ 1,177	$ 12,973	$ (763)

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, 2019	Held for Use	Held for Sale	Total Portfolio
Rental Properties:			
Leased	13,499	—	13,499
Listed and ready for rent	405	—	405
Unit turn	416	—	416
Renovation	83	—	83
Total rental properties	14,403		
Previous rentals identified for sale	128	101	229
Legacy REO	24	18	42
	14,555	119	14,674
December 31, 2018			
Rental Properties:			
Leased	13,546	423	13,969
Listed and ready for rent	434	8	442
Unit turn	428	18	446
Renovation	136	2	138
Total rental properties	14,544		
Previous rentals identified for sale	158	188	346
Legacy REO	56	48	104
	14,758	687	15,445

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, 2019 and 2018, we recognized $0.5 million and $1.3 million, respectively, of impairment on our real estate assets held for sale.

During the nine months ended September 30, 2019 and 2018, we recognized $3.1 million and $11.0 million, respectively, of impairment on our real estate held for sale.

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4. Mortgage Loans

The following table sets forth information related to our mortgage loans at fair value, the related unpaid principal balance and market value of underlying properties by delinquency status as of September 30, 2019 and December 31, 2018 ($ in thousands):

	Number of Loans	Fair Value and Carrying Value	Unpaid Principal Balance	Market Value of Underlying Properties (1)
September 30, 2019				
Current	19	$ 1,520	$ 2,818	$ 4,409
30 days past due	2	113	195	280
90 days past due	11	364	3,731	3,718
Foreclosure	20	1,616	5,481	7,136
Mortgage loans at fair value	52	$ 3,613	$ 12,225	$ 15,543
December 31, 2018				
Current	20	$ 1,827	$ 2,701	$ 4,353
60 days past due	1	115	148	180
90 days past due	17	649	6,019	5,418
Foreclosure	36	5,481	12,376	16,097
Mortgage loans at fair value	74	$ 8,072	$ 21,244	$ 26,048

(1) The market values of the underlying properties are estimated based on BPOs.

On October 7, 2019, we sold 47 of the 52 remaining mortgage loans in our portfolio for an aggregate sales price of $3.5 million.

5. 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, 2019 and December 31, 2018 ($ in thousands):

		Level 1	Level 2	Level 3
	Carrying Value	Quoted Prices in Active Markets	Observable Inputs Other Than Level 1 Prices	Unobservable Inputs
September 30, 2019				
Recurring basis (assets)				
Mortgage loans at fair value	$ 3,613	$ —	$ 3,613	$ —
Interest rate cap derivatives (1)	1,812	—	1,812	—
Not recognized on condensed consolidated balance sheets at fair value (liabilities)				
Repurchase and loan agreements	1,617,457	—	1,627,472	—
December 31, 2018				
Recurring basis (assets)				
Mortgage loans at fair value	$ 8,072	$ —	$ —	$ 8,072
Interest rate cap derivatives (1)	14,367	—	14,367	—
Not recognized on consolidated balance sheets at fair value (liabilities)				
Repurchase and loan agreements	1,722,219	—	1,734,152	—

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

We transferred our mortgage loans at fair value from Level 3 to Level 2 as of September 30, 2019. Due to our sale of the majority of our remaining mortgage loans on October 7, 2019, the contract price was the primary input to the fair value of the mortgage loans as of September 30, 2019. We have not transferred any other assets from one level to another level during the nine months ended September 30, 2019 or during the year ended December 31, 2018.

Prior to September 30, 2019, the fair value of our mortgage loans was estimated based on (i) market information, to the extent available and as adjusted for factors specific to individual mortgage loans, or (ii) as determined by AAMC's proprietary discounted cash flow model. The fair value of our interest rate cap derivatives are estimated using a discounted cash flow analysis based on the contractual terms of the derivatives.

The following table sets forth the changes in our Level 3 assets, which consisted solely of mortgage loans at fair value, during the three and nine months ended September 30, 2019 and 2018 ($ in thousands):

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Mortgage loans at fair value based on Level 3 inputs, beginning balance	$ 4,372	$ 9,778	$ 8,072	$ 11,477
Net (loss) gain on mortgage loans (1)	(1,759)	785	12	1,143
Mortgage loan dispositions, resolutions and payments (1)	1,355	(841)	(405)	(2,847)
Real estate tax advances to borrowers	36	68	65	164
Selling costs on loans held for sale	—	—	—	(83)
Transfer of mortgage loans to real estate owned, net	(391)	(2,115)	(4,131)	(2,179)
Transfers out of Level 3 (2)	(3,613)	—	(3,613)	—
Mortgage loans at fair value based on Level 3 inputs, ending balance	$ —	$ 7,675	$ —	$ 7,675
Change in unrealized gain on mortgage loans at fair value based on Level 3 inputs held at the end of the period (3)	n/a	$ 158	n/a	$ —

(1) Includes downward purchase price adjustments on prior loan sales of $1.6 million, which were recognized during the third quarter of 2019 as a component of net gain (loss) on real estate and mortgage loans in the interim condensed statements of operations.
(2) Transferred from Level 3 to Level 2 because observable market data became available and is the primary valuation input.
(3) Included in net gain (loss) on real estate and mortgage loans in the interim condensed consolidated statements of operations.

The significant unobservable inputs used in the fair value measurement of the mortgage loans that were valued using the discounted cash flow model are discount rates, forecasts of future home prices, alternate loan resolution probabilities, resolution timelines and the value of underlying properties. Significant changes in any of these inputs in isolation could result in a significant change to the fair value measurement. A decline in the discount rate in isolation would increase the fair value. A decrease in the housing pricing index in isolation would decrease the fair value. Individual loan characteristics such as location and value of underlying collateral affect the loan resolution probabilities and timelines. An increase in the loan resolution timeline in isolation would decrease the fair value. A decrease in the value of underlying properties in isolation would decrease the fair value.

The following table sets forth quantitative information about the significant unobservable inputs used to measure the fair value of certain of our mortgage loans:

Input	December 31, 2018
Equity discount rate	17.0%
Debt to asset ratio	65.0%
Cost of funds	3.5% over 1 month LIBOR
Annual change in home pricing index	-0.55% to 16.79%
Loan resolution probabilities — modification	0% to 5.9%
Loan resolution probabilities — liquidation	38.8% to 100%
Loan resolution probabilities — paid in full	0% to 61.2%
Loan resolution timelines (in years)	0.1 to 6.1
Value of underlying properties	$50,000 to $2,500,000

6. 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, other REO properties and the remaining mortgage loans 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, 2019, the average annualized interest rate on borrowings under our repurchase and loan agreements was 4.26%, excluding amortization of deferred debt issuance costs and loan discounts.

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The following table sets forth data with respect to our repurchase and loan agreements as of September 30, 2019 and December 31, 2018 ($ in thousands):

	Maturity Date		Interest Rate		Amount Outstanding	Maximum Borrowing Capacity	Amount of Available Funding	Book Value of Collateral
September 30, 2019								
CS Repurchase Agreement	11/15/2019		1-month LIBOR + 2.30%		$ 82,382	$ 250,000	$ 167,618	$ 85,652
Nomura Loan Agreement	4/3/2020		1-month LIBOR + 2.30%		34,359	250,000	215,641	39,789
HOME II Loan Agreement	11/9/2019	(1)	1-month LIBOR + 2.10%	(2)	83,270	83,270	—	98,710
HOME III Loan Agreement	11/9/2019	(1)	1-month LIBOR + 2.10%	(2)	89,150	89,150	—	109,522
HOME IV Loan Agreement (A)	12/9/2022		4.00%		114,201	114,201	—	142,963
HOME IV Loan Agreement (B)	12/9/2022		4.00%		114,590	114,590	—	143,805
Term Loan Agreement	4/6/2022		5.00%		99,782	99,782	—	111,785
FYR SFR Loan Agreement	9/1/2028		4.65%		508,700	508,700	—	575,375
MS Loan Agreement	12/7/2023		1-month LIBOR + 1.80%	(3)	504,986	504,986	—	598,810
					1,631,420	$ 2,014,679	$ 383,259	$ 1,906,411
Less: unamortized loan discounts					(3,948)			
Less: deferred debt issuance costs					(10,015)			
					$ 1,617,457			
December 31, 2018								
CS Repurchase Agreement	11/15/2019		1-month LIBOR + 3.00%		$ 193,654	$ 250,000	$ 56,346	$ 224,934
Nomura Loan Agreement	4/5/2020		1-month LIBOR + 3.00%		30,497	250,000	219,503	48,388
HOME II Loan Agreement	11/9/2019		1-month LIBOR + 2.10%		83,270	83,270	—	100,461
HOME III Loan Agreement	11/9/2019		1-month LIBOR + 2.10%		89,150	89,150	—	111,542
HOME IV Loan Agreement (A)	12/9/2022		4.00%		114,201	114,201	—	145,461
HOME IV Loan Agreement (B)	12/9/2022		4.00%		114,590	114,590	—	146,479
Term Loan Agreement	4/6/2022		5.00%		100,000	100,000	—	114,401
FYR SFR Loan Agreement	9/1/2028		4.65%		508,700	508,700	—	585,563
MS Loan Agreement	12/7/2023		1-month LIBOR + 1.80%		504,986	504,986	—	609,619
					1,739,048	$ 2,014,897	$ 275,849	$ 2,086,848
Less: unamortized loan discounts					(4,896)			
Less: deferred debt issuance costs					(11,933)			
					$ 1,722,219			

(1) Represents initial maturity date. We have the option to extend the maturity date for up to three successive one-year extensions. On October 17, 2019, we exercised an option to extend the maturity to November 9, 2020.
(2) The interest rate is capped at 4.40% under an interest rate cap derivative. See Note 11.
(3) The interest rate is capped at 4.30% under an interest rate cap derivative. See Note 11.

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 several 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 will sell to the lender equity interests in the Delaware statutory trust subsidiary that owns the applicable underlying mortgage or REO assets on our behalf, or the trust will directly sell such underlying mortgage assets. 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 mortgage or REO asset we finance under the CS Repurchase Agreement is based on a percentage of the market value of the mortgage or REO asset and, in the case of mortgage assets, may depend on its delinquency status. 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 any of our repurchase facilities 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") is the lender under a loan agreement dated April 10, 2015 (the "Nomura Loan Agreement"), which has been amended on several occasions. As of September 30, 2019, the maximum funding capacity of the Nomura Loan Agreement was$250.0 million, all of which is uncommitted but available to us subject to our meeting certain eligibility requirements.

Under the terms of the Nomura Loan Agreement, subject to certain conditions, Nomura may advance 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 will be based on a percentage of the market value of the properties. We may be required to repay a portion of the amounts outstanding under the Nomura Loan Agreement should the loan-to-value ratio of the funded collateral decline.

The Nomura Loan Agreement contains events of default (subject to certain materiality thresholds and grace periods), including payment defaults, breaches of covenants and/or certain representations and warranties, cross-defaults, certain material adverse changes, bankruptcy or insolvency proceedings and other events of default customary for this type of transaction. The remedies for such events of default are also customary for this type of transaction and include the acceleration of the principal amount outstanding under the Nomura Loan Agreement and the liquidation by Nomura of the SFR and REO properties then subject thereto. The Nomura Loan Agreement is fully guaranteed by us.

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 the 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 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 $7.3 million and $2.9 million in escrow for future payments of property taxes and repairs and maintenance as ofSeptember 30, 2019 and December 31, 2018, 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 4,262 SFR properties. In connection with the MS Loan Agreement, we maintained $11.2 million and $8.2 million in escrow for future payments of property taxes, insurance, HOA dues and repairs and maintenance as of September 30, 2019 and December 31, 2018, respectively.

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, and
- a minimum fixed charge coverage ratio.

We are currently in compliance with the covenants and other requirements with respect to the 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 and mortgage loan 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.

7. 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 13,499 properties that were leased as of September 30, 2019 are as follows ($ in thousands):

2019 (1)	$	44,158
2020		68,389
2021		1,743
2022		108
2023		—
Thereafter		—
	$	114,398

(1) Excludes the nine months ended September 30, 2019.

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

Our office leases, which are operating leases, are generally for terms of one to five years and generally include renewal options, which we include in determining our lease right-of-use assets and lease liabilities to the extent that a renewal option is reasonably certain of being exercised. We do not record lease right-of-use assets or lease liabilities for leases with an initial maturity of one year or less. Along with rents, we are generally required to pay common area maintenance, property taxes and insurance, each of which vary from period to period and are therefore expensed as incurred. As of September 30, 2019, we applied a weighted average discount rate of 4.69% 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 2.1 years.

During the three and nine months ended September 30, 2019, our operating leases resulted in rent expense related to long-term leases of $0.2 million and $0.5 million, respectively, which is allocated amongst residential property operating expenses, property management expenses and general and administrative expenses. At September 30, 2019, we had operating lease right-of-use assets of $1.1 million.

The following table presents a maturity analysis of our operating leases as of September 30, 2019 ($ in thousands):

		Operating Lease Liabilities
2019 (1)	$	155
2020		622
2021		242
2022		121
2023		—
Thereafter		—
Total lease payments		1,140
Less: interest		54
Lease liabilities	$	1,086

(1) Excludes the nine months ended September 30, 2019.

Finance Leases

Our vehicle leases, which are finance leases, are each for an initial term of36 months with the option to renew on a month-to-month basis. In determining our lease right-of-use assets and lease liabilities, we include such future month-to-month extensions based on our historical average period of use for our vehicles. We have elected to combine the lease and non-lease components, which relate primarily to maintenance services. At September 30, 2019, the weighted average discount rate applied to our vehicle leases was 7.3% based on the rates implied in the individual lease agreements and our weighted average remaining lease term was3.7 years.

During the three and nine months ended September 30, 2019, our finance leases resulted in$0.2 million and $0.5 million, respectively, of amortization of our lease right-of-use assets, which is allocated amongst residential property operating expense, property management expenses and general and administrative expenses. At September 30, 2019, we had finance lease right-of-use assets of$3.5 million.

The following table presents a maturity analysis of our finance leases as ofSeptember 30, 2019 ($ in thousands):

	Finance Lease Liabilities
2019 (1)	$ 233
2020	775
2021	667
2022	190
2023	66
Thereafter	—
Total lease payments	1,931
Less: interest	161
Lease liabilities	$ 1,770

(1) Excludes the nine months ended September 30, 2019.

8. Commitments and Contingencies

Litigation, claims and assessments

Information regarding reportable legal proceedings is contained in the "Commitments and Contingencies" note in the financial statements provided in ourAnnual Report on Form 10-K for the year ended December 31, 2018. We establish reserves for specific legal proceedings when we determine that the likelihood of an outcome is probable and the amount of loss can be reasonably estimated. We currently have a net legal reserve for our legal proceedings in the amount of $10.0 million in connection with the previously reported *Martin v Altisource Residential Corporation et al.*matter, as updated below:

Martin v. Altisource Residential Corporation et al.
On March 27, 2015, a putative shareholder class action complaint was filed in the United States District Court of the Virgin Islands by a purported shareholder of the Company under the caption *Martin v. Altisource Residential Corporation, et al*, 15-cv-00024. The action names as Defendants the Company, our former Chairman, William C. Erbey, and certain officers and a former officer of the Company and alleges that the Defendants violated federal securities laws by, among other things, making materially false statements and/or failing to disclose material information to the Company's shareholders regarding the Company's relationship and transactions with Ocwen Financial Corporation ("Ocwen"), Altisource Portfolio Solutions S.A., and other third-party entities. These alleged misstatements and omissions include allegations that the Defendants failed to adequately disclose the Company's reliance on Ocwen and the risks relating to its relationship with Ocwen, including that Ocwen was not properly servicing and selling loans, that Ocwen was under investigation by regulators for violating state and federal laws regarding servicing of loans and Ocwen's lack of proper internal controls. The action seeks, among other things, an award of monetary damages to the putative class in an unspecified amount and an award of attorney's and other fees and expenses.

In May 2015, two of our purported shareholders filed competing motions with the court to be appointed Lead Plaintiff and for selection of lead counsel in the action. On October 7, 2015, the court entered an order granting the motion of Lei Shi to be Lead Plaintiff and denying the other motion to be Lead Plaintiff.

On January 23, 2016, the Lead Plaintiff filed an amended complaint.

On March 22, 2016, Defendants filed a motion to dismiss all claims in the action. The Plaintiff filed opposition papers on May 20, 2016, and the Defendants filed a reply brief in support of the motion to dismiss the amended complaint on July 11, 2016.

On November 14, 2016, the Martin case was reassigned to Judge Anne E. Thompson of the United States District Court of New Jersey. In a hearing on December 19, 2016, the parties made oral arguments on the motion to dismiss, and on March 16, 2017 the Court issued an order that the motion to dismiss had been denied. On April 17, 2017, the Defendants filed a motion for reconsideration of the Court's decision to deny the motion to dismiss. On April 21, 2017, the Defendants filed their answer and affirmative defenses. Plaintiff filed an opposition to Defendants' motion for reconsideration on May 8, 2017. On May 30, 2017, the Court issued an order that the motion for reconsideration had been denied. Shortly thereafter, discovery commenced.

On October 10, 2018, the Lead Plaintiff filed a second amended complaint, which added a second Lead Plaintiff to the case. The allegations and causes of action asserted by the Plaintiffs were virtually identical to the prior complaint, except that they added what the Plaintiffs claimed was additional detail in support of their allegations.

On December 7, 2018, the Defendants moved to dismiss the second amended complaint in its entirety. Plaintiffs filed their opposition to the motion on December 31, 2018, and Defendants filed their reply brief on January 24, 2019. On February 21, 2019, Judge Thompson issued an order that granted Defendants' motion and dismissed the second amended complaint in its entirety.

On February 26, 2019, the Court granted Plaintiffs' request for leave to file a Third Amended Complaint within 14 days. On March 12, 2019, Plaintiffs filed their Third Amended Complaint, and on April 12, 2019, Defendants moved to dismiss the Third Amended Complaint in its entirety. Plaintiffs filed their opposition to the motion to dismiss on May 13, 2019, and Defendants filed their reply in support of the motion on May 31, 2019. On June 12, 2019, Judge Thompson issued an Order granting in part and denying in part Defendants' motion to dismiss the Third Amended Complaint. Specifically, Judge Thompson granted Defendants' motion to dismiss any alleged misrepresentation made after each Plaintiff's final purchase of securities. Judge Thompson denied Defendants' motion to dismiss on the remaining grounds.

On June 26, 2019, Defendants filed a motion to certify interlocutory appeal to the Third Circuit of Judge Thompson's Order granting in part and denying in part Defendants' motion to dismiss the Third Amended Complaint. Plaintiffs filed their opposition to the motion on July 10, 2019 and Defendants' reply in support of the motion was filed on July 24, 2019. On August 6, 2019, Judge Thompson denied Defendants' motion to certify interlocutory appeal.

Separately, on July 5, 2019, Judge Thompson accepted the case schedule proposed by the parties, and discovery resumed. The deadline for the completion of fact discovery was November 8, 2019, the deadline for the completion of expert discovery was January 30, 2020, and the deadline to submit dispositive motions was February 27, 2020.

On October 8, 2019, based on input from a mediator, we entered into a stipulation and agreement of settlement with Plaintiffs to settle the litigation for $15.5 million in exchange for, among various other terms, a full release of claims by Plaintiffs on behalf of the purported class of shareholders. On the same date, Plaintiffs filed their unopposed motion for preliminary approval of the settlement and ancillary documents, which included the stipulation and agreement of settlement. On October 17, 2019, the court issued an order granting preliminary approval of the settlement, approving the form and manner of notice and setting a hearing date for final approval of the settlement for January 30, 2020. Proceeds from the directors' and officers' insurance policies will fund $5.5 million of the settlement. We have included the settlement amount, net of insurance coverage, as a component of other expense within the interim condensed consolidated statement of operations for the three months ended September 30, 2019.

Potential purchase price adjustments of certain acquired properties

Certain of the properties we acquired on November 29, 2017 are subject to potential purchase price adjustments in accordance with the related purchase and sale agreement, which may result in an upward or downward adjustment of up to 10% of the purchase price related to the affected properties. The purchase price adjustment will be determined based on the rental rates achieved for the properties within 24 months after the closing date. We currently do not expect to recognize any material purchase price adjustment related to these properties.

Potential purchase price adjustments of certain mortgage loans previously sold

As of September 30, 2019, we are evaluating $2.7 million in potential purchase price adjustment/indemnification claims relating to mortgage loans sold in prior years. We are investigating these claims, and, if they are determined to be valid, we may be required to repay a portion of the sales proceeds to the purchaser, based on the terms of the prior purchase agreements. At this time, we are not able to predict the ultimate outcome of these claims, nor can we estimate the range of possible adjustment/indemnification obligation, if any.

9. Related-Party Transactions

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 “Effective Date”). The Amended AMA amends and restates, 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 will renew automatically each year thereafter for an additional one-year term, subject in each case to the termination provisions further described below.

Management Fees

The Amended AMA provides for the following management fee structure, which is subject to certain performance thresholds and an Aggregate Fee Cap (as described below):

- **Base Management Fee.** Front Yard will pay a quarterly base management fee (the “Base Management Fee”) to AAMC as follows:
    - Initially, commencing on the Effective Date and until the Reset Date (as defined below), the quarterly Base Management Fee will be (i) $3,584,000 (the “Minimum Base Fee”) *plus* (ii) an additional amount (the “Additional Base Fee”), if any, of 50% of the amount by which Front Yard's per share Adjusted AFFO (as defined in the Amended AMA) for the quarter exceeds $0.15 per share (provided that the Base Management Fee for any calendar quarter prior to the Reset Date cannot be less than the Minimum Base Fee or greater than $5,250,000). Beginning in 2021, the Base Management Fee may be reduced, but not below the Minimum Base Fee, in the fourth quarter of each year by the amount that Front Yard's AFFO (as defined below) on a per share basis is less than an aggregate of $0.60 for the applicable calendar year (the “AFFO Adjustment Amount”); and

◦ Thereafter, commencing in the first quarter after which the quarterly Base Management Fee first reaches$5,250,000 (the “Reset Date”), the Base Management Fee will be 25% of the sum of (i) the applicable Annual Base Fee Floor*plus* (ii) the amount calculated by multiplying the applicable Manager Base Fee Percentage by the amount, if any, that Front Yard's Gross Real Estate Assets (as defined below) exceeds the applicable Gross Real Estate Assets Floor (in each case of the foregoing clauses (i) and (ii), as set forth in the table below), *minus* (iii) solely in the case of the fourth quarter of a calendar year, the AFFO Adjustment Amount (if any); provided, that the Base Management Fee for any calendar quarter shall not be less than the Minimum Base Fee.

Gross Real Estate Assets (1)	**Annual Base Fee Floor**	**Manager Base Fee Percentage**	**Gross Real Estate Assets Floor**
Up to $2,750,000,000	$21,000,000	0.325%	$2,250,000,000
$2,750,000,000 – $3,250,000,000	$22,625,000	0.275%	$2,750,000,000
$3,250,000,000 – $4,000,000,000	$24,000,000	0.250%	$3,250,000,000
$4,000,000,000 – $5,000,000,000	$25,875,000	0.175%	$4,000,000,000
$5,000,000,000 – $6,000,000,000	$27,625,000	0.125%	$5,000,000,000
$6,000,000,000 – $7,000,000,000	$28,875,000	0.100%	$6,000,000,000
Thereafter	$29,875,000	0.050%	$7,000,000,000

(1) Gross Real Estate Assets is generally defined as the aggregate book value of all residential real estate assets owned by Front Yard and its subsidiaries before reserves for depreciation, impairment or other non-cash reserves as computed in accordance with GAAP.

In determining the Base Management Fee, “AFFO” is generally calculated as GAAP net income (or loss) adjusted for (i) gains or losses from debt restructuring and sales of property; (ii) depreciation, amortization and impairment on residential real estate assets; (iii) unconsolidated partnerships and joint ventures; (iv) acquisition and related expenses, equity based compensation expenses and other non-recurring or non-cash items; (v) recurring capital expenditures on all real estate assets and (vi) the cost of leasing commissions.

For any partial quarter during the term of the Amended AMA, the Base Management Fee is subject to proration based on the number of calendar days under the Amended AMA in such period.

- **Incentive Fee.** AAMC may earn an annual Incentive Fee to the extent that Front Yard's AFFO exceeds certain performance thresholds. The annual Incentive Fee, if any, shall be an amount equal to 20% of the amount by which Front Yard's AFFO for the calendar year (after the deduction of Base Management Fees but prior to the deduction of Incentive Fees) exceeds 5% of Gross Shareholder Equity (as defined below).

  In each calendar year, the Incentive Fee will be limited to the extent that any portion of the Incentive Fee for such calendar year (after taking into account any AFFO Adjustment Amount and the payment of the Incentive Fee) would cause the AFFO per share for such calendar year to be less than $0.60 (the “Incentive Fee Adjustment”). For any partial calendar year under the Amended AMA, the Incentive Fee amount (and Incentive Fee Adjustment, if any) for that partial calendar year is subject to proration based on the number of calendar days of the year that the Amended AMA is in effect.

  Gross Shareholder Equity for purposes of the Amended AMA is generally defined as the arithmetic average of all shareholder equity as computed in accordance with GAAP and adding back all accumulated depreciation and changes due to non-cash valuations (including those recorded as a component of accumulated other comprehensive income) and other non-cash adjustments, in each case, as of the first day of such calendar year, the first day of each of the second, third and fourth calendar quarters of such calendar year and the first day of the succeeding calendar year.

  Front Yard has the flexibility to pay up to25% of the annual Incentive Fee to AAMC in shares of its common stock, subject to certain conditions specified in the Amended AMA.

Aggregate Fee Cap

The aggregate amount of the Base Management Fees and Incentive Fees payable to AAMC in any calendar year cannot exceed the "Aggregate Fee Cap," which is generally defined as follows:

- For any calendar year in which average Gross Real Estate Assets is less than$2,250,000,000, the aggregate fees payable to AAMC shall not exceed $21,000,000; or
- For any calendar year in which average Gross Real Estate Assets exceeds$2,250,000,000, the aggregate fees payable to AAMC shall not exceed the sum of (i) the applicable Aggregate Fee Floor *plus* (ii) the amount calculated by multiplying the applicable Aggregate Fee Percentage by the amount, if any, by which average Gross Real Estate Assets exceed the applicable Gross Real Estate Assets Floor, in each case as set forth in the table below.

Gross Real Estate Assets	Aggregate Fee Floor	Aggregate Fee Percentage	Gross Real Estate Assets Floor
$2,250,000,000 – $2,750,000,000	$21,000,000	0.650%	$2,250,000,000
$2,750,000,000 – $3,250,000,000	$24,250,000	0.600%	$2,750,000,000
$3,250,000,000 – $4,000,000,000	$27,250,000	0.500%	$3,250,000,000
$4,000,000,000 – $5,000,000,000	$31,000,000	0.450%	$4,000,000,000
$5,000,000,000 – $6,000,000,000	$35,500,000	0.250%	$5,000,000,000
$6,000,000,000 – $7,000,000,000	$38,000,000	0.125%	$6,000,000,000
Thereafter	$39,250,000	0.100%	$7,000,000,000

Expenses and Expense Budget

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. 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 AAMC for such reasonable costs and expenses.

Termination Provisions

The Amended AMA may be terminated without cause (i) by Front Yard for any reason, or no reason, or (ii) by Front Yard or AAMC in connection with the expiration of the initial term or any renewal term, in either case with 180 days' prior written notice. If the Amended AMA is terminated by Front Yard without cause or in connection with the expiration of the initial term or any renewal term, Front Yard shall pay a termination fee (the "Termination Fee") to AAMC in an amount generally equal to three times the arithmetical mean of the aggregate fees actually paid or payable with respect to each of the three immediately preceding completed calendar years (including any such prior years that may have occurred prior to the Effective Date). Upon any such termination by Front Yard, Front Yard shall have the right, at its option, to license certain intellectual property and technology assets from AAMC.

If the Termination Fee becomes payable (except in connection with a termination by AAMC for cause, which would require the payment of the entire Termination Fee in cash), at least 50% of the Termination Fee must be paid in cash on the termination date and the remainder of the Termination Fee may be paid, at Front Yard's option, either in cash or, subject to certain conditions specified in the Amended AMA, in Front Yard common stock in up to 3 equal quarterly installments (without interest) on each of the six-, nine- and twelve-month anniversaries of the termination date until the Termination Fee has been paid in full.

Front Yard may also terminate the Amended AMA, without the payment of a Termination Fee, upon a change of control of AAMC as described in the Amended AMA and "for cause" upon the occurrence of certain events including, without limitation, a final judgment that AAMC or any of its agents, assignees or controlled affiliates has committed a felony or materially violated securities laws; AAMC's bankruptcy; the liquidation or dissolution of AAMC; a court determination that AAMC has committed fraud or embezzled funds from Front Yard; a failure of Front Yard to qualify as a REIT as a result of any action or inaction of AAMC; an uncured material breach of a material provision of the Amended AMA; or receipt of certain qualified opinions from AAMC or Front Yard's independent public accounting firm that (i) with respect to such opinions relating to AAMC, are reasonably expected to materially adversely affect either AAMC's ability to perform under the Amended AMA or Front Yard, or (ii) with respect to such opinions relating to Front Yard, such opinions are a result of AAMC's actions or inaction; in each case, subject to the exceptions and conditions set forth in the Amended AMA. AAMC may terminate the Amended AMA upon an uncured default by Front Yard under the Amended AMA and receive the Termination Fee. A termination "for cause" may be effected by Front Yard with 30 days' written notice or by AAMC with 60 days' written notice. Upon any termination by Front Yard "for cause," Front Yard shall have the right, at its option, to license certain intellectual property and technology assets from AAMC.

Transition Following Termination

Following any termination of the Amended AMA, AAMC is required to cooperate in executing an orderly transition to a new manager or otherwise in accordance with Front Yard's direction including by providing transition services as requested by Front Yard for up to one (1) year after termination or such longer period as may be mutually agreed (including by assisting Front Yard with the recruiting, hiring and/or training of new replacement employees) at cost (but not more than the Base Management Fee at the time of termination).

If the Amended AMA with AAMC were terminated, our financial position and future prospects for revenues and growth could be materially adversely affected.

Terms of the Former AMA with AAMC

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, 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, 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 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.

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,	
	2019	2018	2019	2018
Base management fees (1)	$ 3,584	$ 3,613	$ 10,686	$ 10,984
Conversion fees (1)	—	35	29	151
Expense reimbursements (2)	250	286	920	767

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

10. Share-Based Payments

Equity Incentive Plan

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 for the 2019-2020 service year ($75,000 for the 2018-2019 service year) 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.

During the nine months ended September 30, 2019 and 2018, we granted an aggregate of 49,952 and 35,984 restricted stock units, respectively, with a weighted average grant date fair value of $11.21 and $10.64 per share, respectively, to our non-management directors. In addition, upon the departure of one of the members of our Board of Directors on March 26, 2018, 3,495 of previously issued restricted stock units vested and 701 restricted stock units were forfeited, in each case with a grant date fair value of $14.30.

We have also made grants of restricted stock units and stock options to certain employees of AAMC with service-based or market-based vesting criteria. 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.

During the nine months ended September 30, 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.

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During the nine months ended September 30, 2018, we granted an aggregate 299,576 service-based restricted stock units and 219,894 market-based restricted stock units to employees of AAMC with a weighted average grant date fair value of $10.64 per share and $8.47 per share, respectively. In addition, during this period, 36,007 service-based restricted stock units with a weighted average grant date fair value of $12.73 were forfeited.

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, and we recorded $1.2 million and $1.9 million for the three and nine months ended September 30, 2018, respectively. As of September 30, 2019 and December 31, 2018, we had $6.3 million and $4.1 million, respectively, of unrecognized share-based compensation cost remaining with respect to awards granted under the Equity Incentive Plan to be recognized over a weighted average remaining estimated term of 1.2 years and 1.0 year, respectively.

Prior to the second quarter of 2018, our share-based compensation awarded to employees of AAMC fluctuated with changes in the market value of our common stock, among other factors. In the second quarter of 2018, the Financial Accounting Standards Board issued Accounting Standards Update 2018-07: Compensation - Stock Compensation (Topic 718), which we adopted effective April 1, 2018. This adoption resulted in (i) the fair value of share-based compensation awards granted to management of AAMC prior to April 1, 2018 being fixed at the transition date fair value and (ii) the fair value of awards granted subsequent to April 1, 2018 to be measured at the grant date fair value, thus eliminating periodic fluctuations of share-based compensation expense that previously arose from changes in our common stock price.

2012 Conversion Option Plan and 2012 Special Conversion Option Plan

On December 21, 2012, as part of our separation transaction from 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 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, 2019, options to purchase an aggregate of 16,834 shares of our common stock were remaining under the Conversion Option Plan and Special Conversion Option Plan.

11. 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 $5.7 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, 2019. Prior to the fourth quarter of 2018, none of our derivatives were designated as hedges.

The table below summarizes our interest rate cap instruments as of September 30, 2019 ($ 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

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Non-Designated Hedges

On September 29, 2016, we entered into an interest rate cap to manage the economic risk of increases in the floating rate portion of a previous loan agreement. The interest rate cap had a strike rate on one-month LIBOR of 2.938%, a notional amount of $489.3 million and a termination date of November 15, 2018. On March 16, 2018, we paid a premium of $0.9 million to amend the strike rate to 1.80%.

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, 2019	December 31, 2018
Derivatives designated as hedging instruments:			
Interest rate caps	Prepaid expenses and other assets	$ 1,812	$ 14,367
Total		$ 1,812	$ 14,367

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,	
	2019	2018		2019	2018	2019	2018
Derivatives in cash flow hedging relationships							
Interest rate caps	$ (1,463)	$ —	Interest expense	$ (1,430)	$ —	$ 21,135	$ 20,142

	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,	
	2019	2018		2019	2018	2019	2018
Derivatives in cash flow hedging relationships							
Interest rate caps	$ (12,554)	$ —	Interest expense	$ (3,665)	$ —	$ 63,810	$ 52,543

	Location of Gain (Loss) Recognized on Derivative in Net Loss	Amount of Gain (Loss) on Derivative Recognized in Net Loss	
		Three Months ended September 30,	
		2019	2018
Derivatives not designated as hedging instruments			
Interest rate caps	Interest expense	$ —	$ (400)

	Location of Gain (Loss) Recognized on Derivative in Net Loss	Amount of Gain (Loss) on Derivative Recognized in Net Loss	
		Nine Months ended September 30,	
		2019	2018
Derivatives not designated as hedging instruments			
Interest rate caps	Interest expense	$ —	$ (591)

12. 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 subsidiary ("TRS"), which is subject to federal, state and local income taxes on its taxable income. From inception through September 30, 2019, 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, 2019 and 2018, 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, 2019 and 2018.

13. 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,	
	2019	2018	2019	2018
Numerator				
Net loss	$ (36,368)	$ (47,933)	$ (79,893)	$ (96,619)
Denominator				
Weighted average common stock outstanding – basic	53,857,616	53,601,208	53,735,106	53,525,792
Weighted average common stock outstanding – diluted	53,857,616	53,601,208	53,735,106	53,525,792
Loss per basic common share	$ (0.68)	$ (0.89)	$ (1.49)	$ (1.81)
Loss per diluted common share	$ (0.68)	$ (0.89)	$ (1.49)	$ (1.81)

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,	
	2019	2018	2019	2018
Denominator (in weighted-average shares)				
Stock options	96,861	88,203	69,452	86,114
Restricted stock	504,268	224,489	442,016	222,722

Pursuant to the Amended AMA, we have the flexibility to pay up to 25% of the Incentive Fee to AAMC in shares of our common stock. In addition, up to 50% of a Termination Fee, if payable, may be paid in shares of our common stock. Should we choose to do make any such payments in shares of our common stock, our earnings available to common stockholders would be diluted to the extent of such issuance.

14. 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.

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15. Subsequent Events

Management has evaluated the impact of all events subsequent to September 30, 2019 and through the issuance of these interim condensed consolidated financial statements. We have determined that there were no subsequent events other than those already disclosed that require adjustment or disclosure in the financial statements.

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 with around 16 million families currently renting, of which only approximately 2% are institutionally managed, 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 and mortgage loans 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 are managed by Altisource Asset Management Corporation (“AAMC” or our “Manager”), on which we rely to provide us with dedicated personnel to administer our business and perform certain of our corporate governance functions. AAMC also provides portfolio management services in connection with our acquisition and management of SFR properties and the ongoing disposition and management of our remaining REO properties and residential mortgage loans.

On May 7, 2019, we amended and restated our asset management agreement with AAMC (the “Amended AMA”). We believe the Amended AMA provides an improved fee structure that we believe further aligns interests between Front Yard and AAMC. The management fees payable under the Amended AMA are subject to ongoing performance thresholds and an aggregate fee cap aimed to prevent such fees from increasing our general and administrative expenses above industry standards based on the size of our gross real estate asset base. Importantly, the Amended AMA also provides for a termination option that would, if exercised, provide an industry-standard termination fee to AAMC that did not exist prior to the amendment, while providing Front Yard with the flexibility to further internalize if the Front Yard board of directors determines it is in its stockholders’ best interest to do so. For further details of the Amended AMA, refer to Item 1 - Financial Statements (Unaudited) - Note 9, “Related-Party Transactions.”

Management Overview

During the third quarter of 2019, we continued to identify and address operational inefficiencies that arose in connection with the transfer of nearly 12,000 previously externally managed homes to our internal property management platform. We focused our efforts on improving unit turn timelines, increasing occupancy, reducing repair and maintenance expense and increasing collections of overdue rent balances. As a result of these transition-related challenges, our operating metrics were negatively impacted during the third quarter. We believe we have made substantial progress in addressing and mitigating the issues surrounding unit turns, occupancy, repair and maintenance and collections, and expect to see improvement in our operational results in the coming quarters.

We have also continued to target optimized 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, 2019, we sold 106 non-core rental homes on an individual basis, and we have identified229 non-core rental properties for sale as of September 30, 2019. We also disposed of 20 non-rental REO properties, and we had 42 non-rental REO properties remaining to be sold as of September 30, 2019. In addition, on October 7, 2019, we entered into an agreement to sell47 of the 52 remaining mortgage loans in our portfolio for an aggregate sales price of $3.5 million. We believe these non-core asset sales will allow us to improve our operating efficiency, further simplify our statement of operations and balance sheet, 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.

As previously announced, to maximize value for shareholders, we have formed a committee comprised of independent directors (the "Review Committee") to explore strategic alternatives. The Review Committee, in conjunction with its independent financial advisor, is currently reviewing strategic alternatives available to Front Yard.

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.

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, 2019	**Stabilized**	**Non-Stabilized**	**Total**	**Held for Sale**	**Total Portfolio**
Rental properties:					
Leased	13,499	—	13,499	—	13,499
Listed and ready for rent	396	9	405	—	405
Unit turn	416	—	416	—	416
Renovation	—	83	83	—	83
Total rental portfolio	14,311	92	14,403		
Previous rentals identified for sale	—	128	128	101	229
Legacy REO	—	24	24	18	42
	14,311	244	14,555	119	14,674
December 31, 2018					
Rental properties:					
Leased	13,546	—	13,546	423	13,969
Listed and ready for rent	409	25	434	8	442
Unit turn	428	—	428	18	446
Renovation	—	136	136	2	138
Total rental portfolio	14,383	161	14,544		
Previous rentals identified for sale	—	158	158	188	346
Legacy REO	—	56	56	48	104
	14,383	375	14,758	687	15,445

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, 2019, 94.3% of our stabilized properties were leased.

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The following table sets forth a summary of our real estate portfolio as of September 30, 2019 ($ in thousands):

State	Number of Properties	Carrying Value (1) (2)	Average Age in Years
Georgia	4,368	$ 474,498	36
Florida	2,091	306,604	40
Texas	1,934	278,221	29
Tennessee	1,468	204,861	24
North Carolina	867	115,581	26
Alabama	719	80,556	42
Indiana	664	82,861	24
Minnesota	487	72,657	88
Missouri	475	67,348	42
Oklahoma	305	43,128	28
All other rentals	1,025	151,647	35
Total rental portfolio	14,403	1,877,962	35
Rental properties held for sale	101	15,512	53
Previous rentals identified for sale	128	15,841	53
Legacy REO	42	16,382	54
Total	14,674	$ 1,925,697	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.
(2) The carrying value of certain properties acquired on November 29, 2017 are included based upon the initial purchase price, certain of which are subject to potential purchase price adjustment provisions as set forth in the purchase and sale agreement. For additional information, refer to the "Liquidity and Capital Resources - Potential Purchase Price Adjustments of Certain Acquired Properties" section below.

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,	
	2019	2018	2019	2018
Beginning count of real estate assets	14,772	12,297	15,445	12,574
Acquisitions	28	3,248	85	3,302
Dispositions	(126)	(72)	(862)	(402)
Mortgage loan conversions to REO, net (1)	—	10	4	9
Other additions	—	—	2	—
Ending count of real estate assets	14,674	15,483	14,674	15,483

(1) Subsequent to the foreclosure sale, we may be notified that the foreclosure sale was invalidated for certain reasons.

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

As of September 30, 2019, we had 52 remaining mortgage loans with an aggregate UPB of approximately $12.2 million, an aggregate market value of underlying properties of approximately $15.5 million and a carrying value of $3.6 million. As of December 31, 2018, we had 74 mortgage loans with an aggregate UPB of approximately $21.2 million, an aggregate market value of underlying properties of $26.0 million and a carrying value of $8.1 million.

On October 7, 2019, we entered into an agreement to sell47 of the 52 remaining mortgage loans in our portfolio for an aggregate sales price of$3.5 million.

Mortgage Loan Resolutions and Dispositions

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Mortgage Loans at Fair Value				
Beginning	57	91	74	111
Resolutions and dispositions	(5)	(5)	(18)	(26)
Mortgage loan conversions to REO, net (1)	—	(10)	(4)	(9)
Ending	52	76	52	76

(1) Subsequent to the foreclosure sale, we may be notified that the foreclosure sale was invalidated for certain reasons.

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

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 $15,480 per home for the 13,499 stabilized properties that were leased atSeptember 30, 2019.

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 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 are primarily for servicing fees, foreclosure fees and advances of residential property insurance.

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 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. For information regarding our management fees to AAMC, refer to Item 1 - Financial Statements (Unaudited) - Note 9, "Related-Party Transactions."

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, REO properties that do not meet our investment criteria, and the mortgage loans remaining in our portfolio. We generally sell real estate assets on an individual basis, and we liquidate our mortgage loans as a result of a short sale, foreclosure sales to third parties, REO conversions, full debt pay-offs of the mortgage loan by the borrower, negotiated settlements or one or more potential loan portfolio sales. We believe these non-core asset sales will allow us to improve our operating efficiency, further simplify our statement of operations and balance sheet, 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 thethree and nine months ended September 30, 2019 versus the three and nine months ended September 30, 2018. 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, 2019 compared to three and nine months ended September 30, 2018

Rental revenues

Rental revenues increased to $50.8 million and $154.9 million for the three and nine months ended September 30, 2019, respectively, compared to $48.3 million and $129.0 million for the three and nine months ended September 30, 2018, respectively. This increase is primarily attributable to an increase in the average number of leased properties.

Our rental revenues depend primarily on the number of SFR properties in our portfolio as well as changes in the occupancy levels and rental rates for our residential rental properties. 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 increased to $20.8 million and $58.2 million for the three and nine months ended September 30, 2019, respectively, from $17.3 million and $45.4 million for the three and nine months ended September 30, 2018, respectively. This increase is primarily due to an increased total number of properties in our real estate portfolio, partially offset by (i) our having fewer non-rental REO properties and (ii) a higher proportion of properties being leased properties, which are generally less costly to operate because the tenant is responsible for certain ongoing expenses. During the three and nine months ended September 30, 2019, the average count of properties in our rental portfolio increased to14,412 and 14,466 properties, respectively, compared to 13,237 and 12,601 properties during the three and nine months ended September 30, 2018, respectively.

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 non-rental REO properties and vacant rental properties also includes utilities, property preservation and repairs and maintenance. With the internalization of our property management function, our residential property operating expenses will be dependent on our ability to control costs and 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 increased to $4.2 million and $11.4 million for the three and nine months ended September 30, 2019, respectively, from $3.4 million and $9.3 million for the three and nine months ended September 30, 2018, respectively. This increase is primarily due to growth in our property management operations to manage the increased number of internally managed homes.

Depreciation and amortization

We incurred $19.7 million and $21.1 million in depreciation and amortization for the three months ended September 30, 2019 and 2018, respectively. This decrease is primarily due to reduced amortization of lease-in-place intangible assets during 2019, partially offset by growth in our rental portfolio.

We incurred $62.0 million and $59.1 million in depreciation and amortization for the nine months ended September 30, 2019 and 2018, respectively. This increase is primarily due to growth in our rental portfolio, partially offset by reduced amortization of lease-in-place intangible assets during 2019.

During the three and nine months ended September 30, 2019, the average count of properties in our rental portfolio increased to 14,412 and 14,466 properties, respectively, compared to 13,237 and 12,601 properties during the three and nine months ended September 30, 2018, respectively. We expect to incur increasing depreciation and amortization as 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 $0.1 million and $2.8 million of lease-in-place intangible asset amortization for the three and nine months ended September 30, 2019, respectively, compared to $2.2 million and $7.4 million for the three and nine months ended September 30, 2018, respectively.

Acquisition and integration costs

We incurred $0.2 million and $3.1 million of acquisition and integration costs for the three and nine months ended September 30, 2019, respectively, compared to $25.2 million and $26.0 million for the three and nine months ended September 30, 2018, respectively. The decrease is primarily driven by non-recurring costs associated with the acquisition of our property manager during the third quarter of 2018 and internalization of the property management function, including $18.0 million associated with amendment to the Master Services Agreement with Altisource S.à r.l.

Impairment

We recognized $0.5 million and $3.1 million of impairment on our real estate assets for the three and nine months ended September 30, 2019, respectively, compared to $1.3 million and $11.0 million for the three and nine months ended September 30, 2018, respectively. These declines are primarily driven by the reduction in the remaining non-rental REO 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 $0.2 million and $0.8 million of mortgage loan servicing costs for the three and nine months ended September 30, 2019, respectively, compared to $0.5 million and $1.2 million for the three and nine months ended September 30, 2018, respectively. We incur mortgage loan servicing and foreclosure costs as our mortgage loan servicers provide servicing for our loans and pay for advances relating to property insurance, foreclosure attorney fees, foreclosure costs and property preservation. We generally expect our mortgage loan servicing costs to decrease as we continue to liquidate our remaining mortgage loans.

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 increased to $21.1 million and $63.8 million for the three and nine months ended September 30, 2019, respectively, from $20.1 million and $52.5 million for the three and nine months ended September 30, 2018, respectively. The increase was driven by increased average borrowings under our repurchase and loan agreements, partially offset by decreases in the fixed component of our contractual interest rates achieved through the amendment or refinance of some of our debt. This increase also includes non-cash interest expense related to our interest rate cap derivatives, which increased to $1.4 million and $3.7 million for the three and nine months ended September 30, 2019, respectively, compared to $0.4 million and $0.6 million for the three and nine months ended September 30, 2018, respectively, due to our entry into three interest rate caps during the fourth quarter of 2018.

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 $1.5 million and $4.4 million for the three and nine months ended September 30, 2019, respectively, compared to $1.2 million and $1.9 million for the three and nine months ended September 30, 2018, respectively. This increase is primarily due to additional grants of restricted stock units to certain of our employees and employees of AAMC, partially offset by the vesting of prior grants of restricted stock units.

Prior to the second quarter of 2018, our share-based compensation awarded to employees of AAMC fluctuated with changes in the market value of our common stock, among other factors. In the second quarter of 2018, the Financial Accounting Standards Board issued Accounting Standards Update 2018-07: Compensation - Stock Compensation (Topic 718), which we adopted on April 1, 2018. This adoption resulted in (i) the fair value of share-based compensation awards granted to management of AAMC prior to April 1, 2018 being fixed at the transition date fair value and (ii) the fair value of awards granted subsequent to April 1, 2018 to be measured at the grant date fair value, thus eliminating periodic fluctuations of share-based compensation expense that previously arose from changes in our common stock price.

General and administrative expenses

General and administrative expenses increased to $5.5 million and $19.3 million for the three and nine months ended September 30, 2019, respectively, from $3.5 million and $8.6 million for the three and nine months ended September 30, 2018, respectively. The increase was driven by an increase in ongoing non-ordinary course securities litigation costs and certain incremental support costs associated with growth in the property management function that we internalized on August 8, 2018. In addition, the increase in general and administrative expenses during the nine months ended September 30, 2019 also included costs arising from the contested proxy related to our 2019 Annual Meeting of Stockholders and the renegotiation of the AMA.

Management fees

We incurred base management fees to AAMC of $3.6 million and $10.7 million during the three and nine months ended September 30, 2019, respectively, compared to $3.6 million and $11.0 million during the three and nine months ended September 30, 2018, respectively. The decrease in base management fees is primarily driven by a reduction in our average invested capital (as defined in the Former AMA).

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We incurred conversion fees to AAMC of $0 and $29,000 during the three and nine months ended September 30, 2019, respectively, compared to $35,000 and $151,000 during the three and nine months ended September 30, 2018, respectively. Conversion fees have fluctuated dependent upon the number and fair market value of properties converted to rented properties for the first time during the quarter.

Due to our entry into the Amended AMA, we expect that the management fees will increase over time but at a lower rate as we grow SFR properties in our portfolio, and we will no longer pay conversion fees to AAMC.

Net gain (loss) on real estate and mortgage loans

The following table presents the components of net gain (loss) on real estate and mortgage loans during the three and nine months ended September 30, 2019 and 2018 ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Conversion of mortgage loans to REO, net	$ 17	$ 1,540	$ 769	$ 1,824
Change in fair value of mortgage loans, net	(81)	81	211	187
Net realized (loss) gain on mortgage loans	(1,671)	793	(944)	892
Net realized gain (loss) on sales of real estate	2,089	(1,237)	12,937	(3,666)
Net gain (loss) on real estate and mortgage loans	$ 354	$ 1,177	$ 12,973	$ (763)

Liquidity and Capital Resources

As of September 30, 2019, we had cash and cash equivalents of $46.8 million compared to $44.2 million as of December 31, 2018. 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) and make distributions to our stockholders. 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. Our Manager continues 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. Based on our current borrowing capacity, leverage ratio and anticipated additional debt financing transactions, 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, 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.

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Repurchase and Loan Agreements

The following table sets forth data with respect to our repurchase and loan agreements as of September 30, 2019 and December 31, 2018 ($ in thousands):

	Maturity Date		Interest Rate		Amount Outstanding	Maximum Borrowing Capacity	Amount of Available Funding	Book Value of Collateral
September 30, 2019								
CS Repurchase Agreement	11/15/2019		1-month LIBOR + 2.30%		$ 82,382	$ 250,000	$ 167,618	$ 85,652
Nomura Loan Agreement	4/3/2020		1-month LIBOR + 2.30%		34,359	250,000	215,641	39,789
HOME II Loan Agreement	11/9/2019	(1)	1-month LIBOR + 2.10%	(2)	83,270	83,270	—	98,710
HOME III Loan Agreement	11/9/2019	(1)	1-month LIBOR + 2.10%	(2)	89,150	89,150	—	109,522
HOME IV Loan Agreement (A)	12/9/2022		4.00%		114,201	114,201	—	142,963
HOME IV Loan Agreement (B)	12/9/2022		4.00%		114,590	114,590	—	143,805
Term Loan Agreement	4/6/2022		5.00%		99,782	99,782	—	111,785
FYR SFR Loan Agreement	9/1/2028		4.65%		508,700	508,700	—	575,375
MS Loan Agreement	12/7/2023		1-month LIBOR + 1.80%	(3)	504,986	504,986	—	598,810
					1,631,420	$ 2,014,679	$ 383,259	$ 1,906,411
Less: unamortized loan discounts					(3,948)			
Less: deferred debt issuance costs					(10,015)			
					$ 1,617,457			
December 31, 2018								
CS Repurchase Agreement	11/15/2019		1-month LIBOR + 3.00%		$ 193,654	$ 250,000	$ 56,346	$ 224,934
Nomura Loan Agreement	4/5/2020		1-month LIBOR + 3.00%		30,497	250,000	219,503	48,388
HOME II Loan Agreement	11/9/2019		1-month LIBOR + 2.10%		83,270	83,270	—	100,461
HOME III Loan Agreement	11/9/2019		1-month LIBOR + 2.10%		89,150	89,150	—	111,542
HOME IV Loan Agreement (A)	12/9/2022		4.00%		114,201	114,201	—	145,461
HOME IV Loan Agreement (B)	12/9/2022		4.00%		114,590	114,590	—	146,479
Term Loan Agreement	4/6/2022		5.00%		100,000	100,000	—	114,401
FYR SFR Loan Agreement	9/1/2028		4.65%		508,700	508,700	—	585,563
MS Loan Agreement	12/7/2023		1-month LIBOR + 1.80%		504,986	504,986	—	609,619
					1,739,048	$ 2,014,897	$ 275,849	$ 2,086,848
Less: unamortized loan discounts					(4,896)			
Less: deferred debt issuance costs					(11,933)			
					$ 1,722,219			

(1) Represents initial maturity date. We have the option to extend the maturity date for up to three successive one-year extensions. On October 17, 2019, we exercised an option to extend the maturity to November 9, 2020.
(2) The interest rate is capped at 4.40% under an interest rate cap derivative.
(3) The interest rate is capped at 4.30% under an interest rate cap derivative.

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 several 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 will sell to the lender equity interests in the Delaware statutory trust subsidiary that owns the applicable underlying mortgage or REO assets on our behalf, or the trust will directly sell such underlying mortgage assets. 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 mortgage or REO asset we finance under the CS Repurchase Agreement is based on a percentage of the market value of the mortgage or REO asset and, in the case of mortgage assets, may depend on its delinquency status. 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 any of our repurchase facilities 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") is the lender under a loan agreement dated April 10, 2015 (the "Nomura Loan Agreement"), which has been amended on several occasions. As of September 30, 2019, the maximum funding capacity of the Nomura Loan Agreement was$250.0 million, all of which is uncommitted but available to us subject to our meeting certain eligibility requirements.

Under the terms of the Nomura Loan Agreement, subject to certain conditions, Nomura may advance 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 will be based on a percentage of the market value of the properties. We may be required to repay a portion of the amounts outstanding under the Nomura Loan Agreement should the loan-to-value ratio of the funded collateral decline.

The Nomura Loan Agreement contains events of default (subject to certain materiality thresholds and grace periods), including payment defaults, breaches of covenants and/or certain representations and warranties, cross-defaults, certain material adverse changes, bankruptcy or insolvency proceedings and other events of default customary for this type of transaction. The remedies for such events of default are also customary for this type of transaction and include the acceleration of the principal amount outstanding under the Nomura Loan Agreement and the liquidation by Nomura of the SFR and REO properties then subject thereto. The Nomura Loan Agreement is fully guaranteed by us.

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 the 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 $7.3 million and $2.9 million in escrow for future payments of property taxes and repairs and maintenance as ofSeptember 30, 2019 and December 31, 2018, 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 4,262 SFR properties. In connection with the MS Loan Agreement, we maintained $11.2 million and $8.2 million in escrow for future payments of property taxes, HOA dues and repairs and maintenance as of September 30, 2019 and December 31, 2018, respectively.

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, and
- a minimum fixed charge coverage ratio.

We are currently in compliance with the covenants and other requirements with respect to the 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 and the Nomura Loan Agreement provide for the lender to finance our portfolio at advance rates (or purchase prices). Advance rates for our mortgage loans, REO and SFR properties currently range from 55% to 75% of the discounted value of the underlying asset as described below. Our overall advance rate under the CS Repurchase Agreement and the Nomura Loan Agreement was 61.6% of estimated fair value at September 30, 2019. 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 these agreements, the haircut ranges from 10% to 25%, 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 and the Nomura Loan Agreement decreased to 7.9% of the estimated fair value (based on BPOs) of such assets at September 30, 2019 from 11.1% at December 31, 2018. The haircut applied will vary from period to period dependent upon the assets that serve as collateral under the CS and Nomura agreements. Under these agreements, 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.

Effective April 5, 2019, a haircut is no longer applied to the estimated fair value of stabilized assets serving as collateral under the Nomura Loan Agreement.

The decrease in amounts outstanding under our repurchase and loan agreements fromDecember 31, 2018 to September 30, 2019 is primarily due to reductions of debt upon the liquidation of non-core property sales.

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, 2019, December 31, 2018 and September 30, 2018 ($ in thousands):

	Three Months Ended		
	September 30, 2019	December 31, 2018	September 30, 2018
Balance at end of period	$ 1,631,420	$ 1,739,048	$ 1,709,939
Maximum month end balance outstanding during the period	1,636,591	1,739,048	1,712,472
Weighted average quarterly balance	1,636,859	1,718,342	1,522,973
Amount of available funding at end of period	383,259	275,849	389,231

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, 2019, 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 Price Adjustments of Certain Acquired Properties

Certain of the properties we acquired on November 29, 2017 are subject to potential purchase price adjustments in accordance with the related purchase and sale agreement, which may result in an upward or downward adjustment of up to 10% of the purchase price related to the affected properties. The purchase price adjustment will be determined based on the rental rates achieved for the properties within 24 months after the closing date. We currently do not expect to recognize a material purchase price adjustment related to these properties.

Potential Purchase Price Adjustments of Certain Mortgage Loans Previously Sold

As of September 30, 2019, we are evaluating $2.7 million in potential purchase price adjustment/indemnification claims relating to mortgage loans sold in prior years. We are investigating these claims, and, if they are determined to be valid, we may be required to repay a portion of the sales proceeds to the purchaser, based on the terms of the prior purchase agreements. At this time, we are not able to predict the ultimate outcome of these claims, nor can we estimate the range of possible adjustment/indemnification obligation, if any.

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,	
	2019	2018
Net cash used in operating activities	$ (5,314)	$ (12,901)
Net cash provided by (used in) investing activities	139,641	(430,811)
Net cash (used in) provided by financing activities	(134,368)	397,610
Net change in cash, cash equivalents and restricted cash	$ (41)	$ (46,102)

Net cash used in operating activities for the nine months ended September 30, 2019 and 2018 consisted primarily of cash operating expenses in excess of revenues.

Net cash provided by investing activities for the nine months ended September 30, 2019 consisted primarily of proceeds from dispositions of real estate, partially offset by investments in real estate and renovations. Net cash used in investing activities for the nine months ended September 30, 2018 consisted primarily of cash used to execute the acquisition of our internal property manager and the 3,236 properties it managed (the "HB Acquisition"), partially offset by proceeds from dispositions of real estate and mortgage loan resolutions and dispositions.

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. Net cash provided by financing activities for the nine months ended September 30, 2018 consisted primarily of net proceeds of repurchase and loan agreements in connection with the HB Acquisition, partially offset by payment of dividends on common stock.

Off-balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2019 or December 31, 2018.

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, 2018 as filed with the Securities and Exchange Commission ("SEC") on February 27, 2019.

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 (a) debt financing activities and (b) ownership of residential mortgage loans. 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. AtSeptember 30, 2019, we had $116.7 million of variable rate debt outstanding that was not protected by interest rate hedge contracts and $677.4 million that was protected by interest rate caps. The estimated aggregate fair market value of this variable rate debt was $790.2 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 by $4.1 million or decrease by $7.9 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, 2019.

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 endedSeptember 30, 2019 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.

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Part II

Item 1. Legal Proceedings

Information regarding reportable legal proceedings is contained in Part I, "Item 3. Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2018. The following updates and restates the description of the previously reported *Martin v Altisource Residential Corporation et al.* matter:

Martin v. Altisource Residential Corporation et al.

On March 27, 2015, a putative shareholder class action complaint was filed in the United States District Court of the Virgin Islands by a purported shareholder of the Company under the caption *Martin v. Altisource Residential Corporation, et al*, 15-cv-00024. The action names as Defendants the Company, our former Chairman, William C. Erbey, and certain officers and a former officer of the Company and alleges that the Defendants violated federal securities laws by, among other things, making materially false statements and/or failing to disclose material information to the Company's shareholders regarding the Company's relationship and transactions with Ocwen Financial Corporation ("Ocwen"), Altisource Portfolio Solutions S.A., and other third-party entities. These alleged misstatements and omissions include allegations that the Defendants failed to adequately disclose the Company's reliance on Ocwen and the risks relating to its relationship with Ocwen, including that Ocwen was not properly servicing and selling loans, that Ocwen was under investigation by regulators for violating state and federal laws regarding servicing of loans and Ocwen's lack of proper internal controls. The action seeks, among other things, an award of monetary damages to the putative class in an unspecified amount and an award of attorney's and other fees and expenses.

In May 2015, two of our purported shareholders filed competing motions with the court to be appointed Lead Plaintiff and for selection of lead counsel in the action. On October 7, 2015, the court entered an order granting the motion of Lei Shi to be Lead Plaintiff and denying the other motion to be Lead Plaintiff.

On January 23, 2016, the Lead Plaintiff filed an amended complaint.

On March 22, 2016, Defendants filed a motion to dismiss all claims in the action. The Plaintiff filed opposition papers on May 20, 2016, and the Defendants filed a reply brief in support of the motion to dismiss the amended complaint on July 11, 2016.

On November 14, 2016, the Martin case was reassigned to Judge Anne E. Thompson of the United States District Court of New Jersey. In a hearing on December 19, 2016, the parties made oral arguments on the motion to dismiss, and on March 16, 2017 the Court issued an order that the motion to dismiss had been denied. On April 17, 2017, the Defendants filed a motion for reconsideration of the Court's decision to deny the motion to dismiss. On April 21, 2017, the Defendants filed their answer and affirmative defenses. Plaintiff filed an opposition to Defendants' motion for reconsideration on May 8, 2017. On May 30, 2017, the Court issued an order that the motion for reconsideration had been denied. Shortly thereafter, discovery commenced.

On October 10, 2018, the Lead Plaintiff filed a second amended complaint, which added a second Lead Plaintiff to the case. The allegations and causes of action asserted by the Plaintiffs were virtually identical to the prior complaint, except that they added what the Plaintiffs claimed was additional detail in support of their allegations.

On December 7, 2018, the Defendants moved to dismiss the second amended complaint in its entirety. Plaintiffs filed their opposition to the motion on December 31, 2018, and Defendants filed their reply brief on January 24, 2019. On February 21, 2019, Judge Thompson issued an order that granted Defendants' motion and dismissed the second amended complaint in its entirety.

On February 26, 2019, the Court granted Plaintiffs' request for leave to file a Third Amended Complaint within 14 days. On March 12, 2019, Plaintiffs filed their Third Amended Complaint, and on April 12, 2019, Defendants moved to dismiss the Third Amended Complaint in its entirety. Plaintiffs filed their opposition to the motion to dismiss on May 13, 2019, and Defendants filed their reply in support of the motion on May 31, 2019. On June 12, 2019, Judge Thompson issued an Order granting in part and denying in part Defendants' motion to dismiss the Third Amended Complaint. Specifically, Judge Thompson granted Defendants' motion to dismiss any alleged misrepresentation made after each Plaintiff's final purchase of securities. Judge Thompson denied Defendants' motion to dismiss on the remaining grounds.

On June 26, 2019, Defendants filed a motion to certify interlocutory appeal to the Third Circuit of Judge Thompson's Order granting in part and denying in part Defendants' motion to dismiss the Third Amended Complaint. Plaintiffs filed their opposition to the motion on July 10, 2019 and Defendants' reply in support of the motion was filed on July 24, 2019. On August 6, 2019, Judge Thompson denied Defendants' motion to certify interlocutory appeal.

Separately, on July 5, 2019, Judge Thompson accepted the case schedule proposed by the parties, and discovery resumed. The deadline for the completion of fact discovery was November 8, 2019, the deadline for the completion of expert discovery was January 30, 2020, and the deadline to submit dispositive motions was February 27, 2020.

On October 8, 2019, based on input from a mediator, we entered into a stipulation and agreement of settlement with Plaintiffs to settle the litigation for $15.5 million in exchange for, among various other terms, a full release of claims by Plaintiffs on behalf of the purported class of shareholders. On the same date, Plaintiffs filed their unopposed motion for preliminary approval of the settlement and ancillary documents, which included the stipulation and agreement of settlement. On October 17, 2019, the court issued an order granting preliminary approval of the settlement, approving the form and manner of notice and setting a hearing date for final approval of the settlement for January 30, 2020. Proceeds from the directors' and officers' insurance policies will fund $5.5 million of the settlement.

Item 1A. Risk Factors

There have been no material changes in our risk factors since December 31, 2018 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, 2018 filed with the SEC on February 27, 2019.

We are exploring strategic alternatives, but there can be no assurance that we will be successful in identifying or consummating any strategic alternatives, that strategic alternatives will yield additional value for stockholders, or that exploration of strategic alternatives will not adversely impact the Company.

On May 21, 2019, we announced that our Board of Directors had initiated a process to review strategic alternatives to enhance stockholder value. There can be no assurance that the exploration of strategic alternatives will result in the identification or consummation of any transaction or any other particular outcome. Speculation regarding any developments related to the review of strategic alternatives and perceived uncertainties related to the future of the Company could cause our stock price to fluctuate significantly.

The exploration of strategic alternatives could result in the diversion of management's attention from our existing business; failure to achieve financial or operating objectives; incurrence of significant transaction expenses; failure to retain, attract or strengthen our relationships with key personnel; and exposure to potential litigation in connection with this process and effecting any transaction or strategic alternative. If we are unable to mitigate these or other potential risks related to the uncertainty caused by our exploration of strategic alternatives, it may disrupt our business or could have a material adverse effect on our business, financial condition or results of operations.

There can be no assurance that any potential transaction or other strategic alternative, if identified, evaluated and consummated, will provide greater value to our stockholders than that reflected in the current stock price. Further, our Board of Directors may determine to suspend or terminate the exploration of strategic alternatives at any time due to various factors. Any potential transaction or other outcome of this process is also dependent upon a number of factors that may be beyond our control, including among other factors, market conditions, industry trends, regulatory limitations and the interest of third parties in our business.

We may be adversely affected by changes in LIBOR reporting practices, the method in which LIBOR is determined or the use of alternative reference rates.

Our variable rate debt and interest rate caps are currently indexed to the London Interbank Offered Rate ("LIBOR"). In July 2017, the United Kingdom regulator that regulates LIBOR announced its intention to phase out LIBOR rates by the end of 2021. It is impossible to predict the further effect of this announcement, any changes in the methods by which LIBOR is determined or other reforms to LIBOR that may be enacted. In April 2018, the Federal Reserve Bank of New York commenced publishing the Secured Overnight Financing Rate ("SOFR"), an alternative reference rate proposed by the Alternative Reference Rates Committee ("ARRC"), a group of major market participants convened by the U.S. Federal Reserve, with participation by SEC Staff and other regulators. SOFR is based on transactions in the more robust U.S. Treasury repurchase market and has been proposed as the alternative to LIBOR for use in derivatives and other financial contracts that currently rely on LIBOR as a reference rate. ARRC has proposed a paced market transition plan to SOFR from LIBOR, and organizations are currently working on industry-wide and company-specific transition plans as it relates to derivatives and cash markets exposed to LIBOR. At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR, and it is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported before or after 2021 or whether additional reforms to LIBOR may be enacted. Such developments and any other legal or regulatory changes in the method by which LIBOR is determined or the transition from LIBOR to a successor benchmark may result in, among other things, a sudden or prolonged increase or decrease in LIBOR, a delay in the publication of LIBOR and/or changes in the rules or methodologies of LIBOR, which may discourage market participants from continuing to administer or to participate in LIBOR's determination and, in certain situations, could result in LIBOR no longer being determined and published. If a published U.S. dollar LIBOR rate is unavailable after 2021, the interest rates on our variable rate debt or strike rates on our interest rate caps that are indexed to LIBOR may be determined using various alternative methods, any of which may result in interest obligations that are more or less than or do not otherwise correlate over time with the payments that would have been made on such debt or received on such interest rate caps if U.S. dollar LIBOR was available in its current form. Further, the same costs and risks that may lead to the unavailability of U.S. dollar LIBOR may make one or more of the alternative methods impossible or impracticable to determine. Any of these proposals or consequences could have a material adverse effect on our financing costs, and, to the extent our interest rate cap arrangements cannot adequately protect against all such possibly adverse consequences, such proposals or consequences could adversely affect our financial condition, operating results and cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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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 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).†
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	By-laws of Front Yard Residential Corporation (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10 filed with the SEC on December 5, 2012).
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*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Extension Labels Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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* 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 6, 2019	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 6, 2019	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 6, 2019	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, 2019 (“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 6, 2019	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, 2019 (“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 6, 2019	By:	/s/	Robin N. Lowe
				Robin N. Lowe
				Chief Financial Officer