Altisource Asset Management Corp
Form 10-K
February 29, 2016

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

OR

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

COMMISSION FILE NUMBER: 000-54809

Altisource Asset Management Corporation
(Exact name of registrant as specified in its charter)

UNITED STATES VIRGIN ISLANDS	66-0783125
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

36C Strand Street
Christiansted, United States Virgin Islands 00820
(Address of principal executive office)

(340) 692-1055
(Registrant's telephone number, including area code)

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

(Title of Each Class)	(Name of exchange on which registered)
Common stock, par value $0.01 per share	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x

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 x

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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	x
Non-Accelerated Filer	¨	(Do not check if a smaller reporting company)	Smaller Reporting Company	¨

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

The aggregate market value of common stock held by non-affiliates of the registrant was $167.4 million, based on the closing share price as reported on the New York Stock Exchange on June 30, 2015 and the assumption that all Directors and executive officers of the registrant and their families and beneficial holders of 10% of the registrant's common stock are affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of February 22, 2016, 1,970,572 shares of our common stock were outstanding (excluding 596,408 shares held as treasury stock).

Portions of the registrant's definitive proxy statement for the registrant's 2016 annual meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Altisource Asset Management Corporation
December 31, 2015
Table of Contents

Part I	1
Item 1. Business.	1
Item 1A. Risk Factors.	16
Item 1B. Unresolved Staff Comments.	43
Item 2. Properties.	43
Item 3. Legal Proceedings.	43
Item 4. Mine Safety Disclosures.	45
Part II	46
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	46
Item 6. Selected Financial Data.	48
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.	48
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.	82
Item 8. Consolidated Financial Statements and Supplementary Data.	82
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	82
Item 9A. Controls and Procedures.	83
Item 9B. Other Information.	87
Part III	88
Item 10. Directors, Executive Officers and Corporate Governance.	88
Item 11. Executive Compensation.	88
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	88
Item 13. Certain Relationships and Related Transactions, and Director Independence.	88
Item 14. Principal Accountant Fees and Services.	88
Part IV	89
Item 15. Exhibits.	89
Signatures	91

(table of contents)

References in this report to "we," "our," "us," or the "Company" refer to Altisource Asset Management Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to “Residential” refer to Altisource Residential Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to “Altisource” refer to Altisource Portfolio Solutions S.A. and its consolidated subsidiaries, unless otherwise indicated.

Special note on forward-looking statements

Our disclosure and analysis in this Annual Report on Form 10-K contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to as the “Securities Act,” and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as 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 thes and phrases or similar words or phrases which are predictions of or indicate future events or trends and which 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 and the business strategy of Residential;
- our ability to retain Residential as a client;
- our ability to retain and maintain our strategic relationships with related parties;
- the ability of Residential to generate cash available for distribution to its stockholders under our management;
- our ability to effectively compete with our competitors;
- Residential's ability to complete future or pending transactions;
- the failure of Altisource to effectively perform its obligations under their agreements with us and Residential;
- the failure of Residential’s servicers to effectively perform their services to Residential;
- general economic and market conditions; and
- governmental regulations, taxes and policies.

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 contained herein, please refer to the section “Item 1A. Risk factors.”

(table of contents)

Part I

Item 1. Business

Overview

We were incorporated in the United States Virgin Islands on March 15, 2012 (our “inception”). Subsequent to our separation from Altisource Portfolio Solutions S.A. (“Altisource”) on December 21, 2012, we immediately commenced operations. Our primary business is to provide asset management and certain corporate governance services to institutional investors. In October 2013, we applied for and were granted registration by the SEC as a registered investment adviser under section 203(c) of the Investment Advisers Act of 1940.

Our primary client currently is Altisource Residential Corporation (“Residential”), a public real estate investment trust (“REIT”) focused on acquiring and managing quality, affordable single-family rental properties for working class families throughout the United States. Residential is currently our primary source of revenue and will drive our results. We operate in a single segment focused on providing asset management and certain corporate governance services to Residential.

We initially provided services to Residential pursuant to a 15-year asset management agreement beginning December 21, 2012 (the “Original AMA”). On March 31, 2015, we entered into a new asset management agreement with Residential (the “New AMA”) under which we will continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions. The Original AMA had a different incentive fee structure that gave us a share of Residential’s cash flow available for distribution to its stockholders as well as reimbursement for certain overhead and operating expenses. Although the New AMA provides for a new fee structure in which we are entitled to a base management fee, an incentive management fee and a conversion fee for loans and real estate owned (“REO”) properties that become rental properties during each quarter, our operating results are highly dependent on Residential's operating results. See the “Asset Management Agreement” section for additional details of the New AMA.

We have concluded that Residential is a variable interest entity (“VIE”) because Residential's equity holders lack the ability through voting rights to make decisions about Residential's activities that have a significant effect on the success of Residential. We have also concluded that we are the primary beneficiary of Residential because, under the asset management agreement, we have the power to direct the activities of Residential that most significantly impact Residential's economic performance including establishing Residential's investment and business strategy. As a result, we consolidate Residential in our consolidated financial statements. As discussed in Note 1 to the consolidated financial statements, we expect to deconsolidate Residential from our consolidated financial statements effective January 1, 2016 after our adoption Accounting Standards Update (“ASU”) 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis.

In addition to the services we provide to Residential, we provide management services to NewSource Reinsurance Company Ltd. (“NewSource”), a Bermuda title insurance and reinsurance company. In October 2013, we invested $2.0 million in NewSource and received 100% of the common stock of NewSource, representing 2,000,000 shares. In September 2015, we contributed an additional $5.0 million to NewSource. Because we own 100% of voting common stock of NewSource and there are no substantive kick-out rights granted to other equity owners, we consolidate NewSource in our consolidated financial statements. On December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority (“BMA”).

Our Business Strategy

Our business strategy is to:

- provide asset management services to Residential to generate a growing stream of cash available for distribution to its shareholders and thereby growing our earnings; and
- develop additional scalable investment strategies and vehicles by leveraging the expertise of our management team.

Our Expertise

Our senior management team includes individuals with significant experience in the real estate, mortgage, housing, financial services and asset management markets. Throughout their careers, our executives have managed various real estate-related businesses and executed structured real estate and financing transactions through multiple market cycles. We have also internally developed a valuation model, more fully described below, that uses proprietary historical data to evaluate and project

1

(table of contents)

the performance of residential rental properties and residential mortgage loans. We believe that our asset evaluation process and the experience and judgment of our executive management team in identifying, assessing, valuing and acquiring new residential rental properties and related assets will help Residential to appropriately value the residential rental assets at the time of purchase and to quickly and efficiently grow its portfolio.

Strengths that AAMC Brings to Residential

We are committed to a business strategy that will enable Residential to grow and maintain a substantial single-family rental portfolio and become one of the largest nationwide single-family rental REITs. Our goal is to enhance Residential's long-term stockholder value through the execution of its business plan with a focus on its competitive strengths. Residential's strong competitive position is based on the following factors:

- Acquisition Strategy Enables Residential to Build a Portfolio that can Provide High Yields to its Stockholders. Through our personnel and technical expertise, we have developed a valuation model for Residential that uses proprietary historical data to evaluate and project the performance of single-family rental assets and residential mortgage loans. This valuation model has been built with multiple broad economic inputs as well as individual property-level inputs to determine which properties will produce the highest possible yields and how much to pay for these properties to best achieve optimal results. These internally-developed tools not only help Residential to evaluate the most attractive single-family rental portfolios for sale, but they also have assisted Residential in developing a robust one-by-one purchase program that levers the Altisource property inspection, management and rental infrastructure and related data flows to identify and acquire higher yielding assets at any progression in the loan-to-REO cycle and in any geographical location into which Residential desires to expand. We intend to continue to build this one-by-one infrastructure and employ regional teams that will focus on specified geographical areas and use their developed regional experience and anecdotal operating results to continually build a better, more predictable model meant to achieve high rental yield portfolio growth with properties marked by strong stabilized occupancy rates and optimal economic returns.

- Relationship with Altisource and its Nationwide Property Management Infrastructure. We believe that Residential is strategically positioned to operate single-family rental properties across the United States at an attractive cost structure with the support of Altisource’s nationwide vendor network, which provides services in 208 major markets across the United States. In 2015, Altisource conducted more than 247,000 inspections and 133,000 repair and maintenance orders on a monthly basis and has more than 9,300 centrally managed vendors operating nationwide. This vendor network infrastructure has been developed over many years, and we believe this infrastructure would be difficult and expensive for Residential's competitors and/or new market participants to replicate. We believe, therefore, that Residential's existing relationships with Altisource and its vendor network, as described above in “Access to Established Nationwide Property Management Infrastructure,” gives Residential a distinct advantage as it allows it to bid on large attractive portfolios at an attractive cost structure. We also believe that our established relationships with the Altisource network management team and our ongoing experience with the service providers in Altisource’s vendor network who know our renovation, maintenance and repair standards would likely provide Residential with an advantage over others in replicating and/or acquiring this nationwide property management infrastructure, if necessary.

- Depth of Management Experience. We believe the experience and technical expertise of our management team is one of Residential's key strengths. Our team has a broad and deep knowledge of the mortgage and real estate markets with decades of experience in real estate, mortgage trading, housing, financial services and asset management markets. Their experience in the real estate industry brings a wealth of understanding of the markets in which Residential interacts and can help Residential build its portfolio in locations that bring the highest potential returns to its stockholders. Management and its supporting teams have a multitude of contacts and significant business acumen that enable us to source single-family rental assets through access to auctions and sellers of single-family rental assets and obtain important financing to optimize available leverage for quick and efficient growth of Residential's portfolio. This is of tremendous value to Residential as it has been able to strategically sell non-performing and re-performing loans to create taxable income and sustain a strong dividend while using liquidity generated from these sales to increase its single-family rental portfolio by approximately 247% in 2015.

Strong Understanding and Interaction with Mortgage Loan Servicers. Our key personnel have extensive experience with Residential's mortgage loan servicers and managing mortgage loan assets that allows Residential to capitalize on the servicing capabilities of its third party servicers and ensure cost effective servicing of its residential mortgage loan portfolios. We have directed and will continue to direct Residential's mortgage servicers to employ various loan resolution methodologies with respect to its residential mortgage loans, including loan modification, collateral

2

(table of contents)

resolution and collateral disposition. To help Residential achieve its business objective, we instruct Residential's mortgage servicers to focus on (1) converting a portion of its sub-performing and non-performing loans to performing status and (2) managing the foreclosure process and timelines with respect to the remainder of those loans. Importantly, by modifying as many loans as possible, we seek to keep more families in their homes because of our efforts. In 2015, Residential substantially diversified its servicer base by engaging additional alternate mortgage loan servicers to service its loans.

Asset Management Agreement

Pursuant to the asset management agreement, we design and implement Residential's business strategy, administer its business activities and day-to-day operations and provide corporate governance services, subject to oversight by Residential's Board of Directors. We are responsible for, among other duties: (1) performing and administering all of Residential's day-to-day operations, (2) defining investment criteria in Residential's investment policy in cooperation with its Board of Directors, (3) sourcing, analyzing and executing asset acquisitions, including the related financing activities, (4) analyzing and executing sales of properties and residential mortgage loans, (5) overseeing Altisource's renovation, leasing and property management of Residential's single-family rental properties, (6) overseeing the servicing of Residential's residential mortgage loan portfolios, (7) performing asset management duties and (8) performing corporate governance and other management functions, including financial, accounting and tax management services.

We provide Residential with a management team and appropriate support personnel who have substantial experience in the management of residential mortgage loans and residential rental properties. Our management also has significant corporate governance experience that enables us to manage Residential's business and organizational structure efficiently. We have agreed not to provide the same or substantially similar services without the prior written consent of Residential's board of directors to any business or entity competing against Residential in (a) the acquisition or sale of portfolios of REO properties, (b) the carrying on of a single-family rental business, (c) the acquisition or sale of single-family rental properties, non-performing and re-performing mortgage loans or other similar assets, (d) the purchase of portfolios of sub-performing or non-performing residential mortgage loans or (e) any other activity in which Residential engages. Notwithstanding the foregoing, we may engage in any other business or render similar or different services to any businesses engaged in lending or insurance activities or any other activity other than those described above. Further, at any time following Residential's determination and announcement that it will no longer engage in any of the above-described competitive activities, we would be entitled to provide advisory or other services to businesses or entities in such competitive activities without Residential's prior consent.

On March 31, 2015, we entered into the New AMA with Residential. The New AMA, which became effective on April 1, 2015, provides for a new management fee structure, which replaces the incentive fee structure under the Original AMA, as follows:

- Base Management Fee. We are entitled to a quarterly Base Management Fee equal to 1.5% of the product of (i) Residential's average invested equity capital for the quarter multiplied by (ii) 0.25, while it has fewer than 2,500 single-family rental properties actually rented ("Rental Properties"). The Base Management Fee percentage increases to 1.75% of invested capital while Residential has between 2,500 and 4,499 Rental Properties and increases to 2.0% of invested capital while it has 4,500 or more Rental Properties;

- Incentive Management Fee. We are entitled to a quarterly Incentive Management Fee equal to 20% of the amount by which Residential's return on invested capital (based on AFFO, defined as net income attributable to holders of common stock calculated in accordance with GAAP plus real estate depreciation expense minus recurring capital expenditures on all real estate assets owned by Residential) exceeds an annual hurdle return rate of between 7.0% and 8.25% (depending on the 10-year treasury rate). The Incentive Management Fee increases to 22.5% while Residential has between 2,500 and 4,499 Rental Properties and increases to 25% while it has 4,500 or more Rental Properties; and

- Conversion Fee. We are entitled to a quarterly Conversion Fee equal to 1.5% of the market value of assets converted into leased single-family homes by Residential for the first time during the quarter.

To the extent Residential has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle for the next quarter before we are entitled to an Incentive Management Fee.

Residential has the flexibility to pay up to 25% of the Incentive Management Fee to us in shares of its common stock. Under the New AMA, Residential will not be required to reimburse us for the allocable compensation and routine overhead expenses of our employees and staff, all of which will now be covered by the Base Management Fee described above.

3

(table of contents)

Under the New AMA, we will continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to Residential achieving an average annual return on invested capital of at least 7.0% during the then-current term. The Original AMA had a 15 year term, but provided Residential with significant termination rights, including the ability to terminate the agreement if Residential’s board determined, in its sole discretion, that our performance was unsatisfactory or our compensation was reasonable. However, under the New AMA, Residential’s termination rights are significantly limited. Under the New AMA, neither party is entitled to terminate the New AMA prior to the end of the initial term, or each renewal term, other than termination by (a) us and/or Residential “for cause” for certain events such as a material breach of the New AMA and failure to cure such breach, (b) Residential for certain other reasons such as its failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the New AMA or (c) Residential in connection with certain change of control events.

Under the Old AMA, Residential paid us a quarterly incentive management fee as follows:

(i) 2% of all cash available for distribution by Residential to its stockholders and to us as incentive management fee, which we referred to as “available cash,” until the aggregate amount per share of available cash for the quarter (based on the average number of shares of our common stock outstanding during the quarter), which we referred to as the “quarterly per share distribution amount,” exceeded $0.161, then
(ii) 15% of all additional available cash for the quarter until the quarterly per share distribution amount exceeded $0.193, then
(iii) 25% of all additional available cash for the quarter until the quarterly per share distribution amount exceeded $0.257, and thereafter
(iv) 50% of all additional available cash for the quarter.

in each case set forth in clauses (i) through (iv), as such amounts would have been appropriately adjusted from time to time to take into account the effect of any stock split, reverse stock split or stock dividend, should any have occurred.

Residential distributed any quarterly distribution to its stockholders after the application of the incentive management fee payable to us.

Residential was required to reimburse us on a monthly basis for the (i) direct and indirect expenses we incurred or payments we made on Residential’s behalf, including, but not limited to, the allocable compensation and routine overhead expenses of all of our employees and staff and (ii) all other reasonable operating and overhead expenses we incurred related to the asset management services we provided to Residential.

If the New AMA were terminated by Residential, our financial position and future prospects for revenues and growth would be materially adversely affected.

Residential's Business Strategy

Residential is committed to becoming and maintaining its position as one of the top single-family rental REITs serving working class American families and their communities, while also providing consistent and robust returns on equity and long-term growth for its investors. We believe Residential's business model provides it with operating capabilities that are difficult to replicate and positions Residential to opportunistically grow and effectively manage its portfolio of single-family rental properties.

First, we believe Residential's diversified acquisition strategy enables it to acquire single-family rental properties at a high yield both (a) through the purchase of rental properties either in bulk or on a one-by-one basis and (b) through the acquisition and resolution of sub-performing and non-performing mortgage loans with the expectation of converting them into single-family rental properties. We believe this diversified approach provides Residential with more avenues of growth and provides it with an advantage over other acquisition strategies.

Second, Residential's access to Altisource, which employs an established, nationwide renovation and property management infrastructure, provides Residential with immediate scale and a low cost structure that is unique in the industry today. With Altisource, Residential is not new to this industry. It is not just building a services platform, which most of its competitors are still doing. Residential does not need to determine out how to collect rents, complete renovations, manage properties on a large scale, determine how many call centers to have or how evictions really work when done carefully and thoughtfully, because Altisource has a well-developed platform to handle all of these things and more.

(table of contents)

Third, Residential's multi-faceted loan resolution methodologies, through its mortgage loan servicers, provide it with earnings capabilities in its non-performing loan portfolio that distinguish it from other single-family rental REITs. Residential has relationships with three separate, independent servicers who have broad experience in servicing non-performing loans and finding value in Residential's loan portfolio. If we determine to continue building Residential's single-family rental portfolio through additional non-performing and sub-performing loan portfolios, Residential's experience with these servicers and their understanding of Residential's business goals will enable it to continue to compete on various levels through the single-family rental conversion process.

We believe that Residential's acquisition strategies, nationwide renovation and property management infrastructure and multi-faceted loan resolution capabilities provide it with multiple avenues of value creation that will help Residential to achieve its business objective of generating attractive risk-adjusted returns for its stockholders over the long term.

Acquisition Strategy

Residential employs a diversified single-family rental property acquisition strategy. Commencing in the second quarter of 2015, the acquisition strategy was expanded to opportunistically acquire portfolios of single-family rental properties in order to more quickly achieve scale in our rental portfolio. We expect Residential to opportunistically source, bid on and acquire additional portfolios of single-family rental properties over the course of 2016.

In the second quarter of 2015, Residential also commenced a program to begin purchasing single-family residential properties on a one-by-one basis, sourcing listed properties from the Multiple Listing Service and alternative listing sources. The first purchases of properties under this program occurred in the third quarter of 2015. As of February 22, 2016, Residential had purchased 124 properties pursuant to this one-by-one acquisition program and is continuing efforts to expand our capabilities to acquire more properties under this program on a quick and reliable basis.

Prior to the second quarter of 2015, Residential's preferred acquisition strategy involved acquiring portfolios of sub-performing and non-performing mortgage loans. However, as market conditions evolved and the acquisition of sub-performing and non-performing mortgage loan pools became more competitive and higher-priced, Residential introduced the alternative single-family rental acquisition strategies described above. While we intend to continue to review and assess the acquisition of portfolios of sub-performing and non-performing mortgage loans, we believe that the strategy of acquiring portfolios of single-family rental properties will allow Residential to achieve scale in its rental portfolio more quickly and with more control over the value, location and projected returns on the targeted assets.

Access to Established Nationwide Property Management Infrastructure

We believe that Residential's 15-year master services agreement with Altisource, pursuant to which Altisource provides Residential with property management, leasing, renovation management and valuation services, allows Residential to operate and manage single-family rental properties with cost and operational efficiency as well as predictability. This efficiency and predictability is driven by Altisource’s technology and global workforce. Altisource has developed a nationwide operating infrastructure enabled by technology and standardized and centrally managed processes. It also has a global back office organization that qualifies property management and renovation vendors, solicits the appropriate vendors to perform requested work, assigns the work to the vendor with the best possible combination of cost and delivery capabilities, provides uniform property management and inspection criteria and technology to review and assess properties, verifies that the vendor’s work is complete and pays the vendor. This technology and organizational infrastructure allows Altisource to provide services which we believe provide Residential with the following competitive advantages:

- The cost structure associated with Altisource’s nationwide vendor network is not dependent upon scale; accordingly, unlike many of Residential's competitors, it does not require a critical size of single-family rental properties to attain the operating efficiencies provided by Altisource's property management services;
- Single-family residential property and sub-performing and non-performing loan portfolios typically contain properties that are geographically dispersed, requiring a cost-effective nationwide property management system; we believe Residential is positioned to bid effectively on portfolios with large geographic dispersion;
- Altisource provides Residential with a low-cost, single source for full lifecycle rental property management services, including due diligence and acquisition support, renovations and repairs, lease marketing, tenant management and customer care;
- Altisource’s rental marketing strategy is specifically designed to advertise listings across popular industry-focused websites, utilizing their high organic and paid search rankings to generate large volumes of prospective tenants;

(table of contents)

- Residential's contracted relationships with nationwide manufacturers and material suppliers, who are also used by Altisource, enable Residential to manage the ordering and delivery of flooring, appliances, paint, fixtures and lighting for all renovation and unit turn work (i.e. work associated with turnover from one tenant to the next);
- We have direct access to Altisource's inspection and estimating application which is utilized by the third-party general contracting vendors to identify required renovation work and prepare detailed scopes of work to provide a consistent end product. In addition, this application catalogs major HVAC systems, appliances and construction materials, which can enable more accurate forecasting of long term maintenance requirements; and
- Ongoing tenant management services are coordinated through an internal “24x7” customer service center.

As of December 31, 2015, Altisource managed more than 41,000 vacant pre-foreclosure and REO assets in all 50 states, and these types of properties are far more intensive to manage than tenant-occupied rentals. Altisource has the capacity to conduct more than 247,000 inspections and 133,000 repair and maintenance orders on a monthly basis and has more than 9,300 centrally managed vendors operating nationwide. Altisource also leverages sophisticated systems and strong vendor oversight to mitigate risks for its clients, stringent enough to satisfy the requirements of two top-10 bank clients and one of the largest non-bank mortgage servicers in the United States. At least one analyst firm has ranked Altisource as the number seven brokerage company in the United States, operating in 50 states and managing over 32,000 transactions annually.

We work directly with Altisource’s vendor management team on Residential's behalf, and our construction management team often interfaces with the general contractors and vendors to maintain relationships with the vendor network. Through our team, Residential coordinates with Altisource and its personnel as well as the vendor network to establish a collective approach to the renovation management, maintenance, repair and materials supply chain to create a unified look and feel for the single-family rental properties that Residential rents, owns or acquires upon resolution of its mortgage loans.

Residential's master services agreement and other support agreements with Altisource are exclusive arrangements, and we believe that these relationships and our direct access to a large vendor network through Altisource provides Residential with significant competitive advantages over third parties with respect to acquiring and maintaining single-family rental properties. We expect Residential to hold single-family rental property assets over the long-term with a focus on developing brand and franchise value.

We also believe that the forecasted growth for the single-family rental marketplace, in combination with our projected asset management and acquisition costs for Residential and its ability to acquire high yielding assets nationwide, provides Residential with a significant opportunity to establish it as a leading residential REIT.

Loan Resolution Activities

The management and/or sale of Residential's legacy portfolio of residential mortgage loans is an important focus of its business. For the mortgage loans remaining in its portfolio, Residential seeks to employ various loan resolution methodologies, through its servicers, with respect to its residential mortgage loans, including loan modification, collateral resolution and collateral disposition. To help Residential achieve its business objective, we continue to focus on converting a portion of our sub-performing and non-performing loans to performing status and managing the foreclosure process and timelines with respect to the remainder of those loans. Due to the continually evolving market dynamics and pricing of distressed mortgage loans, we are opportunistically evaluating the different alternatives with respect to our loan portfolio, including potential sales, continued resolution and possible acquisitions of such loans.

Disposition of Loans

As discussed above, Residential's loan resolution strategy has typically led to the disposition of non-performing mortgage loans primarily through short sales, refinancing, foreclosure sales and the sale of loans that had transitioned to re-performing loans from prior non-performing loan acquisitions.

In the third quarter of 2015, Residential also commenced efforts to sell certain non-performing loans to take advantage of attractive market pricing and evolving market conditions. Sales of non-performing loans that do not meet its rental property criteria are expected to be a growth engine for Residential, allowing it to recycle capital that it may use to purchase rental properties that meet its return profile. In the fourth quarter, Residential completed the first of such sales to two unaffiliated parties of 772 non-performing and re-performing loans with an aggregate unpaid principal balance (“UPB”) of approximately $309.6 million, representing 15% of its loan portfolio by UPB. The final sale price for these portfolios was within approximately 1% of the balance sheet carrying value.

(table of contents)

In addition, in December 2015, Residential commenced an auction to sell an additional portfolio of 1,266 non-performing and re-performing mortgage loans with an aggregate UPB of $434.3 million, representing approximately 24% of its loan portfolio by UPB. On January 19, 2016, following the auction process, Residential agreed in principle to award the sale to an unrelated third party. The agreed upon price for this portfolio is within approximately 1% of Residential's balance sheet carrying value. Subject to typical confirmatory due diligence and negotiation of a definitive purchase agreement, we expect Residential to consummate this transaction in the first quarter of 2016. As is customary in these transactions, this confirmatory due diligence process may result in certain loans being removed from the sale or a repricing of certain loans; therefore, the final composition and proceeds of this portfolio sale are subject to adjustment depending on the final diligence results and further negotiation by the parties.

Following completion of the sale of this additional mortgage loan portfolio, Residential will have sold 2,227 non-performing and re-performing loans, including 189 loans sold during June 2015, with an aggregate UPB of $790.5 million. Residential may market additional portfolios of non-performing loans in the future. It is anticipated that the proceeds generated from any such transactions would be utilized, in part, to facilitate Residential's strategy to substantially grow its single-family rental assets through the purchase of portfolios of single-family residential properties and on a one-by-one basis.

Residential is currently contemplating additional sales of non-performing loan portfolios for assets that do not meet its rental criteria.

Resolution of Loans

For the non-performing and sub-performing mortgage loans that Residential continues to hold and acquire, the preferred resolution methodology has been to modify them. Once successfully modified, we expect that certain borrowers will refinance their loans with other lenders or Residential will sell the modified loans after establishing a payment history at or near the estimated value of the underlying property, potentially generating attractive returns for Residential. We believe modification followed by refinancing generates near-term cash flows, provides the highest possible economic outcome for Residential and is a socially responsible business strategy because it keeps more families in their homes.

Certain of Residential's residential mortgage loans are liquidated as a result of a short sale, third party sale of the underlying property, refinancing or full debt pay-off of the loan. Upon liquidation of a loan, Residential records net realized gains, including the reclassification of previously accumulated net unrealized gains on those mortgage loans. We expect the timeline to liquidate loans will vary significantly by loan, which could result in fluctuations in Residential's revenue recognition and operating performance from period to period. Additionally, the proceeds from loan liquidations may vary significantly depending on the resolution methodology used for each loan.

A portion of our residential mortgage loans become REO either through foreclosure or as a result of Residential's acquisition of the property via alternative resolution such as deed-in-lieu of foreclosure. Upon conversion of loans to REO, Residential marks the properties to the most recent market value and recognize net unrealized gains for the difference between the carrying value of the asset at the time of conversion and the most recent market value, which is based on broker price opinions (“BPOs”). The timeline to convert acquired loans into REO can vary significantly by loan, which can result in fluctuations in Residential's revenue recognition and our operating performance from period to period. The factors that may affect the timelines to foreclose upon a residential mortgage loan include, without limitation, state foreclosure timelines and deferrals associated therewith; unauthorized parties occupying the property; federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures; continued declines in real estate values and/or sustained high levels of unemployment that increase the number of foreclosures and that place additional pressure and/or delays on the already overburdened judicial and administrative proceedings.

We anticipate that REO properties that meet Residential's investment criteria will be converted into single-family rental properties, which we believe will generate long-term returns for Residential's stockholders. If an REO property does not meet Residential's rental investment criteria, we expect Residential to liquidate the property and generate cash for reinvestment in other acquisitions and dividend distributions.

Real Estate Assets

On August 18, 2015, Residential completed the acquisition of 1,314 single-family rental properties in the Atlanta, Georgia market, of which 94% were leased as of the acquisition date, from a third party seller for an aggregate purchase price of approximately $111.4 million. This purchase was completed following a diligence process in which Residential was able to access a large portion of the properties being sold and obtain detailed property and tenant information.

(table of contents)

During the third quarter of 2015, Residential also initiated purchases under a program to acquire single-family residential properties on a one-by-one basis through the MLS and alternative listing sources to acquire more single-family rental properties at attractive and predictable values. We believe that the fact that, because these properties are listed on the MLS or another listing source and are unoccupied, they are available to be inspected in order to provide more clarity to the condition of the house. Residential acquired 98 residential rental properties under this program during 2015 and is continuing efforts to expand its capabilities to acquire more properties under this program at attractive and predictable values during 2016.

During the year ended December 31, 2014, Residential acquired 237 REO properties as part of its mortgage loan portfolio acquisitions. The aggregate purchase price attributable to these acquired REO properties was $34.1 million.

During the year ended December 31, 2013, Residential acquired 40 REO properties as part of its mortgage loan portfolio acquisitions. The aggregate purchase price attributable to these acquired REO properties was $6.2 million.

As of December 31, 2015, Residential had 6,516 REO properties, consisting of 4,933 REO properties held for use and 1,583 held for sale. Of the 4,933 REO properties held for use, 2,118 properties had been leased, 264 were listed and ready for rent, and 350 were in varying stages of renovation and unit turn status. With respect to the remaining 2,201 REO properties held for use, we will make a final determination whether each property meets Residential's rental profile after (a) applicable state redemption periods have expired, (b) the foreclosure sale has been ratified, (c) Residential has recorded the deed for the property, (d) utilities have been activated and (e) we have secured access for interior inspection. A majority of the REO properties are subject to state regulations that require Residential to await the expiration of a redemption period before a foreclosure can be finalized. Residential includes these redemption periods in its portfolio pricing, which generally reduces the price it pays for the mortgage loans. Once the redemption period expires, Residential immediately proceeds to record the new deed, take possession of the property, activate utilities, and start the inspection process in order to make a final determination on whether to rent or liquidate the property. If an REO property meets Residential's rental investment criteria, we determine the extent of renovations that are needed to generate an optimal rent and maintain consistency of renovation specifications for future branding. If it is determined that the REO property will not meet Residential's rental investment criteria, the property is listed for sale, in some instances after renovations are made to optimize the sale proceeds.

As of December 31, 2014, Residential had 3,960 REO properties, consisting of 3,349 REO properties held for use and 611 properties held for sale. Of the 3,349 properties held for use, 336 had been leased, 197 were listed and ready for rent and 254 were in various stages of renovation. With respect to the remaining 2,562 REO properties at December 31, 2014, we were in the process of determining whether these properties would meet our rental profile.

E-mail address: jcelorio@bladex.com

Investor Relations Firm:
i-advize Corporate Communications, Inc.
Mrs. Melanie Carpenter / Mr. Peter Majeski
82 Wall Street, Suite 805
New York, NY 10005
Tel: (212) 406-3690
E-mail address: bladex@i-advize.com

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

July 28, 2008

Banco Latinoamericano de Exportaciones, S.A.

By:	/s/ Pedro Toll
Name:	Pedro Toll
Title:	Deputy Manager