# WALTER INVESTMENT MANAGEMENT CORP (WAC )

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# 10−Q

Quarterly report pursuant to sections 13 or 15(d)
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 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 June 30, 2010**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**
**Commission file number: 001−13417**

# Walter Investment Management Corp.

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Maryland**<br>*(State or other Jurisdiction of Incorporation or Organization)* | **13−3950486**<br>*(I.R.S. Employer Identification No.)* |

**3000 Bayport Drive, Suite 1100**
**Tampa, FL 33607**
*(Address of principal executive offices) (Zip Code)*
**(813) 421−7600**
*(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, or a non−accelerated filer. See definition of "accelerated filer and large accelerated filer" 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 ☐ |

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

The registrant had 25,748,193 shares of common stock outstanding as of August 5, 2010.

**WALTER INVESTMENT MANAGEMENT CORP.**
**FORM 10−Q**
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**PART 1. FINANCIAL INFORMATION**
**Item 1. Financial Statements**
**WALTER INVESTMENT MANAGEMENT CORP. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
(in thousands, except share and per share data)

| | June 30, 2010 (Unaudited) | December 31, 2009 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 79,270 | $ 99,286 |
| Restricted cash | 9,668 | 8,963 |
| Restricted cash of securitization trusts | 39,829 | 42,691 |
| Receivables, net | 2,299 | 3,052 |
| Residential loans, net of allowance for loan losses of $3,320 and $3,460, respectively | 343,080 | 333,636 |
| Residential loans of securitization trusts, net of allowance for loan losses of $13,413 and $14,201, respectively | 1,272,676 | 1,310,710 |
| Subordinate security | 1,823 | 1,801 |
| Real estate owned | 26,963 | 21,981 |
| Real estate owned of securitization trusts | 35,212 | 41,143 |
| Deferred debt issuance costs of securitization trusts | 17,795 | 18,450 |
| Other assets | 6,043 | 5,961 |
| Total assets | $ 1,834,658 | $ 1,887,674 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable | $ 613 | $ 13,489 |
| Accounts payable of securitization trusts | 399 | 556 |
| Accrued expenses | 26,404 | 28,296 |
| Deferred income taxes, net | 129 | 173 |
| Mortgage−backed debt of securitization trusts | 1,224,407 | 1,267,454 |
| Accrued interest of securitization trusts | 8,444 | 8,755 |
| Other liabilities | 786 | 767 |
| Total liabilities | 1,261,182 | 1,319,490 |
| Commitments and contingencies (Note 17) | — | — |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value per share: | | |
| Authorized — 10,000,000 shares | | |
| Issued and outstanding — 0 shares at June 30, 2010 and December 31, 2009 | — | — |
| Common stock, $0.01 par value per share: | | |
| Authorized — 90,000,000 shares | | |
| Issued and outstanding — 25,743,193 and 25,642,889 shares at June 30, 2010 and December 31, 2009, respectively | 257 | 256 |
| Additional paid−in capital | 124,922 | 122,552 |
| Retained earnings | 446,708 | 443,433 |
| Accumulated other comprehensive income | 1,589 | 1,943 |
| Total stockholders' equity | 573,476 | 568,184 |
| Total liabilities and stockholders' equity | $ 1,834,658 | $ 1,887,674 |

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

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**WALTER INVESTMENT MANAGEMENT CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**(Unaudited)**
(in thousands, except share and per share data)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Net interest income: | | | | |
| Interest income | $ 41,882 | $ 44,677 | $ 83,510 | $ 90,506 |
| Less: Interest expense | 21,022 | 22,654 | 42,296 | 45,743 |
| Total net interest income | 20,860 | 22,023 | 41,214 | 44,763 |
| Less: Provision for loan losses | 3,447 | 3,733 | 6,637 | 8,109 |
| Total net interest income after provision for loan losses | 17,413 | 18,290 | 34,577 | 36,654 |
| Non−interest income: | | | | |
| Premium revenue | 2,167 | 2,996 | 4,858 | 6,061 |
| Other income, net | 1,016 | 643 | 1,776 | 803 |
| Total non−interest income | 3,183 | 3,639 | 6,634 | 6,864 |
| Non−interest expenses: | | | | |
| Claims expense | 913 | 1,373 | 1,825 | 2,662 |
| Salaries and benefits | 5,858 | 5,528 | 12,839 | 9,813 |
| Legal and professional | 936 | 1,896 | 1,835 | 2,600 |
| Occupancy | 328 | 465 | 673 | 800 |
| Technology and communication | 673 | 731 | 1,401 | 1,549 |
| Depreciation and amortization | 93 | 153 | 184 | 231 |
| General and administrative | 2,795 | 3,148 | 5,160 | 4,681 |
| Other expense | 52 | 49 | 103 | 386 |
| Related party — allocated corporate charges | — | — | — | 853 |
| Total non−interest expenses | 11,648 | 13,343 | 24,020 | 23,575 |
| Income before income taxes | 8,948 | 8,586 | 17,191 | 19,943 |
| Income tax expense (benefit) | 385 | (81,225) | 516 | (77,070) |
| Net income | $ 8,563 | $ 89,811 | $ 16,675 | $ 97,013 |
| Basic earnings per common and common equivalent share | $ 0.32 | $ 4.33 | $ 0.62 | $ 4.68 |
| Diluted earnings per common and common equivalent share | $ 0.32 | $ 4.30 | $ 0.62 | $ 4.64 |
| Weighted average common and common equivalent shares outstanding — basic | 26,414,338 | 20,750,501 | 26,379,005 | 20,750,501 |
| Weighted average common and common equivalent shares outstanding — diluted | 26,512,492 | 20,910,099 | 26,456,769 | 20,910,099 |

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

**WALTER INVESTMENT MANAGEMENT CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**
**AND COMPREHENSIVE INCOME**
**(Unaudited)**
(in thousands, except share data)

| | Total | Common Stock Shares | Common Stock Amount | Additional Paid−In Capital | Comprehensive Income | Retained Earnings | Accumulated Other Comprehensive Income |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2009 | $568,184 | 25,642,889 | $ 256 | $ 122,552 | | $ 443,433 | $ 1,943 |
| Comprehensive income: | | | | | | | |
| Net income | 16,675 | | | | $ 16,675 | 16,675 | |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Change in postretirement benefit plans, net of $14 tax effect | (252) | | | | (252) | | (252) |
| Net unrealized gain on subordinate security, net of $0 tax effect | 22 | | | | 22 | | 22 |
| Net amortization of realized gain on closed hedges, net of $0 tax effect | (124) | | | | (124) | | (124) |
| Comprehensive income | | | | | $ 16,321 | | |
| Dividends and dividend equivalents declared | (13,400) | | | | | (13,400 ) | |
| Share−based compensation | 2,109 | | | 2,109 | | | |
| Shares issued upon exercise of stock options and vesting of RSUs | 526 | 119,300 | 1 | 525 | | | |
| Repurchase and cancellation of common stock | (264) | (18,996) | | (264) | | | |
| Balance at June 30, 2010 | $573,476 | 25,743,193 | $ 257 | $ 124,922 | | $ 446,708 | $ 1,589 |

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

**WALTER INVESTMENT MANAGEMENT CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**
(in thousands)

| | For the Six Months Ended June 30, | |
|---|---|---|
| | **2010** | **2009** |
| Operating activities: | | |
| Net income | $ 16,675 | $ 97,013 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 6,637 | 8,109 |
| Amortization of residential loan discount to interest income | (6,745) | (8,036) |
| Depreciation and amortization | 184 | 231 |
| Proceeds from sale of mortgage securities classified as trading | — | 2,392 |
| Benefit from deferred income taxes | (30) | (65,139) |
| Amortization of deferred debt issuance costs to interest expense | 547 | 563 |
| Share−based compensation | 2,109 | 383 |
| Other | (247) | (236) |
| (Increase) decrease in assets, net of effect of reverse acquisition: | | |
| Receivables | 1,599 | (3,944) |
| Other | (187) | (2,192) |
| Increase (decrease) in liabilities, net of effect of reverse acquisition: | | |
| Accounts payable | 215 | (990) |
| Accrued expenses | (1,892) | (2,475) |
| Accrued interest | (311) | (487) |
| Cash flows provided by operating activities | 18,554 | 25,192 |
| Investing activities: | | |
| Purchases of residential loans from third parties | (19,735) | — |
| Principal payments received on residential loans | 51,139 | 62,988 |
| Additions to real estate owned | (7,036) | (4,697) |
| Cash proceeds from sales of real estate owned | 4,433 | 5,995 |
| Additions to property and equipment, net | (79) | (2,139) |
| (Increase) decrease in restricted cash | 2,157 | (6,766) |
| Cash acquired in Hanover reverse acquisition | — | 774 |
| Cash flows provided by investing activities | 30,879 | 56,155 |
| Financing activities: | | |
| Payments on mortgage−backed debt | (43,063) | (55,908) |
| Net activity with Walter Energy | — | 10,095 |
| Dividends to WIM interest−holders | — | (16,000) |
| Dividends and dividend equivalents paid | (26,648) | — |
| Shares issued upon exercise of stock options and vesting of RSUs | 526 | — |
| Repurchase and cancellation of common stock | (264) | — |
| Cash flows used in financing activities | (69,449) | (61,813) |
| Net increase (decrease) in cash and cash equivalents | (20,016) | 19,534 |
| Cash and cash equivalents at the beginning of the period | 99,286 | 1,319 |
| Cash and cash equivalents at the end of the period | $ 79,270 | $ 20,853 |
| Supplemental Disclosure of Non−Cash Investing and Financing Activities: | | |
| Real estate owned acquired through foreclosure | $ 44,608 | $ 43,025 |
| Residential loans originated to finance the sale of real estate owned | $ 41,406 | $ 25,963 |
| Residential loans acquired with advances from Walter Energy | $ — | $ 1,933 |
| Dividends to Walter Energy | $ — | $ 306,458 |
| Consummation of reverse acquisition with Hanover | $ — | $ 2,186 |

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

**WALTER INVESTMENT MANAGEMENT CORP. AND SUBSIDARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**1. Business**

The Company is a mortgage servicer and mortgage portfolio owner specializing in credit−challenged, non−conforming residential loans primarily in the southeastern United States, or U.S. The Company also operates ancillary mortgage advisory and insurance businesses. At June 30, 2010, the Company had four wholly owned, primary subsidiaries: Hanover Capital Partners 2, Ltd., doing business as Hanover Capital, Walter Mortgage Company, LLC, or WMC, Best Insurors, Inc., or Best, and Walter Investment Reinsurance Company, Ltd., or WIRC.

The Company's business, headquartered in Tampa, Florida, was established in 1958 as the financing segment of Walter Energy, Inc., formerly known as Walter Industries, Inc., or Walter Energy. Throughout the Company's history, it purchased residential loans originated by Walter Energy's homebuilding affiliate, Jim Walter Homes, Inc., or JWH, originated and purchased residential loans on its own behalf, and serviced these residential loans to maturity. Over the past 50 years, the Company has developed significant expertise in servicing credit−challenged accounts through its differentiated high−touch approach which involves significant face−to−face borrower contact by trained servicing personnel strategically located in the markets where its borrowers reside. As of June 30, 2010, the Company serviced approximately 33,700 individual residential loans.

Throughout this Quarterly Report on Form 10−Q, references to "residential loans" refer to residential mortgage loans and residential retail instalment agreements and references to "borrowers" refer to borrowers under our residential mortgage loans and instalment obligors under our residential retail instalment agreements.

**The Spin−off**

On September 30, 2008, Walter Energy outlined its plans to separate its Financing business from its core Natural Resources business through a spin−off to stockholders. Immediately prior to the spin−off, substantially all of the assets and liabilities related to the Financing business were contributed, through a series of transactions, to Walter Investment Management LLC, or WIM, in return for all of WIM's membership units. See Note 3 for further information.

The combined financial statements of WMC, Best and WIRC (collectively representing substantially all of Walter Energy's Financing business prior to the spin−off) are considered the predecessor to WIM for accounting purposes. Under Walter Energy's ownership, the Financing business operated through separate subsidiaries. A direct ownership relationship did not exist among the legal entities prior to the contribution to WIM.

**The Merger**

On September 30, 2008, Walter Energy and WIM entered into a definitive agreement to merge WIM with Hanover Capital Mortgage Holdings, Inc., or Hanover, which agreement was amended and restated on February 17, 2009. On April 17, 2009, Hanover completed the transactions, or the Merger, contemplated by the Second Amended and Restated Agreement and Plan of Merger (as amended on April 17, 2009, or the Merger Agreement) by and among Hanover, Walter Energy, WIM, and JWH Holding Company, LLC, or JWHHC. The merged business, together with its consolidated subsidiaries, was renamed Walter Investment Management Corp. on April 17, 2009 and is referred to herein as "Walter Investment" or the "Company". See Note 3 for further information.

**2. Basis of Presentation**

**Interim Financial Reporting**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial information and with the instructions to Form 10−Q and Article 10 of Regulation S−X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. These unaudited interim financial statements should be read in conjunction with our audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10−K for the year ended December 31, 2009.

Although Hanover was the surviving legal and tax entity in the Merger, for accounting purposes the Merger was treated as a reverse acquisition of the operations of Hanover and has been accounted for pursuant to the guidance concerning business

combinations, with WIM as the accounting acquirer. As such, the pre−acquisition financial statements of WIM are treated as the historical financial statements of Walter Investment. The Hanover assets acquired and the liabilities assumed were recorded at the date of acquisition, April 17, 2009, at their respective fair values. The results of operations of Hanover were included in the consolidated statements of income for periods subsequent to the Merger.

The consolidated financial statements have been prepared in accordance with GAAP, which requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates. All significant intercompany balances have been eliminated in the consolidated financial statements.

Although the Company did not operate as an independent, stand−alone entity prior to April 17, 2009, management believes the assumptions underlying the consolidated financial statements for the period through April 17, 2009 are reasonable. However, the consolidated financial statements included herein do not include all of the expenses that would have been incurred had the Company been a separate, stand−alone entity; however, the consolidated financial statements do include certain costs and expenses that had been allocated to the Company from Walter Energy for the three and six months ended June 30, 2009. As such, the financial information does not necessarily reflect what would have been reflected had the Company been a separate, stand−alone entity during the period through April 17, 2009.

**Recently Adopted Accounting Guidance**

*Transfers and Servicing*

In June 2009, the FASB issued new accounting guidance concerning the accounting for transfers of financial assets which amends the existing derecognition accounting and disclosure guidance. The guidance eliminates the exemption from consolidation for QSPEs, it also requires a transferor to evaluate all existing QSPEs to determine whether it must be consolidated in accordance with the accounting guidance concerning variable interest entities. The guidance was effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. The adoption of this guidance on January 1, 2010 did not have a significant impact on the Company's consolidated financial statements.

*Fair Value Measurements and Disclosures*

In January 2010, the FASB updated the accounting standards to require new disclosures for fair value measurements and to provide clarification for existing disclosure requirements. More specifically, this update requires (a) an entity to disclose separately the amounts of significant transfers in and out of levels 1 and 2 fair value measurements and to describe the reasons for the transfers and (b) information about purchases, sales, issuances, and settlements to be presented separately (i.e., present the activity on a gross basis rather than net) in the roll forward of fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure for fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The standard was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 12, 2010, and for interim periods within those fiscal years. The adoption of this guidance on January 1, 2010 did not have a significant impact on the Company's disclosures. See Note 5 for the additional required disclosures. The portion of the accounting update that the Company has not yet adopted is not expected to have a material impact on the Company's disclosures.

*Subsequent Events*

In May 2009, the FASB issued guidelines on subsequent event accounting to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. This guidance was subsequently amended in February 2010 to no longer require disclosure of the date through which an entity has evaluated subsequent events. Other than the elimination of the requirement to disclose the date through which management has performed its evaluation of subsequent events (Note 18), the adoption of these guidelines had no impact on the Company's consolidated financial statements.

**Recently Issued Accounting Guidance**

*Receivables*

In April 2010, the FASB updated the accounting standards to clarify that modifications of acquired loans that are accounted for within a pool would not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. The guidance will be effective for modifications of acquired loans exhibiting characteristics of credit impairment at the time of acquisition that are accounted for within pools occurring in the first interim or annual period ending on or after July 15, 2010. The Company does not expect that the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB updated the accounting standards to enhance disclosures about the credit quality of financing receivables and the allowance for credit losses, including disclosures regarding credit quality indicators, past due information, and modification of

financing receivables. The guidance related to disclosures as of the end of a reporting period will be effective for interim and annual reporting periods ending on or after December 15, 2010. The guidance related to disclosures about activity that occurs during a reporting period will be effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company is continuing to evaluate the impact that the guidance will have on the Company's disclosures.

**Reclassifications**

In order to provide comparability between periods presented, certain amounts have been reclassified from the previously reported consolidated financial statements to conform to the consolidated financial statement presentation of the current period.

**3. Business Separation and Merger**

On September 30, 2008, Walter Energy outlined its plans to separate its Financing business from its core Natural Resources businesses through a spin−off to stockholders and subsequent Merger with Hanover. In furtherance of these plans, on September 30, 2008, Walter Energy and WIM entered into a definitive agreement to merge WIM with Hanover, which agreement was amended and restated on February 17, 2009. To effect the separation, WIM was formed on February 3, 2009, as a wholly−owned subsidiary of Walter Energy, having no independent assets or operations. Immediately prior to the spin−off, substantially all of the assets and liabilities related to the Financing business were contributed, through a series of transactions, to WIM in return for WIM's membership unit.

On April 17, 2009, the Company completed its separation from Walter Energy. In connection with the separation, WIM and Walter Energy executed the following transactions or agreements which involved no cash:

- Walter Energy distributed 100% of its interest in WIM to holders of Walter Energy's common stock;
- All intercompany balances between WIM and Walter Energy were settled with the net balance recorded as a dividend to Walter Energy;
- In accordance with the Tax Separation Agreement, Walter Energy will, in general, be responsible for any and all taxes reported on any joint return through the date of the separation, which may also include WIM for periods prior to the separation. WIM will be responsible for any and all taxes reported on any WIM separate tax return and on any consolidated returns for Walter Investment subsequent to the separation;
- Walter Energy's share−based awards held by WIM employees were converted to equivalent share−based awards of Walter Investment, with the number of shares and the exercise price being equitably adjusted to preserve the intrinsic value. The conversion was accounted for as a modification pursuant to the guidance concerning stock compensation.

The assets and liabilities transferred to WIM from Walter Energy also included $26.6 million in cash, which was contributed to WIM by Walter Energy on April 17, 2009. Following the spin−off, WIM paid a taxable dividend consisting of cash of $16.0 million and additional equity interests to its members.

The Merger occurred immediately following the spin−off and taxable dividend on April 17, 2009. The surviving company, Walter Investment, continues to operate as a publicly traded real estate investment trust, or REIT, subsequent to the Merger. After the spin−off and Merger, Walter Energy's stockholders that became members of WIM as a result of the spin−off, and certain holders of options to acquire limited liability company interests of WIM, collectively owned 98.5% and stockholders of Hanover owned 1.5% of the shares of common stock of Walter Investment outstanding or reserved for issuance in settlement of restricted stock units of Walter Investment. As a result, the business combination has been accounted for as a reverse acquisition, with WIM considered the accounting acquirer. Walter Investment applied for, and was granted approval, to list its shares on the NYSE Amex. On April 20, 2009, the Company's common stock began trading on the NYSE Amex under the symbol "WAC".

The purchase price for the acquisition was $2.2 million based on the fair value of Hanover (308,302 Hanover shares, which represented 1.5% of the shares of common stock at the time of the transaction, at $7.09, the closing stock price of Walter Investment) on April 17, 2009.

The above purchase price has been allocated to the tangible assets acquired and liabilities assumed based on management's estimates of their current fair values. Acquisition−related transaction costs, including legal and accounting fees and other external costs directly related to the Merger, were expensed as incurred.

The purchase price was allocated as of April 17, 2009 as follows (in thousands):

| | |
|---|---|
| Cash | $ 774 |
| Receivables | 330 |
| Subordinate security | 1,600 |
| Residential loans in securitization trusts, net | 4,532 |
| Other assets | 388 |
| Accounts payable and accrued expenses | (2,093) |
| Mortgage−backed debt | (2,666) |
| Other liabilities | (679) |
| | $ 2,186 |

The amounts of revenue and net income of Hanover included in the Company's consolidated income statement from the acquisition date to the period ending June 30, 2009 are as follows:

| | For the Period April 17, 2009 to June 30, 2009 |
|---|---|
| Total revenue | $ 307 |
| Net loss | $ (547) |

The following unaudited pro forma information assumes that the Merger occurred on January 1, 2008. The unaudited pro forma supplemental results have been prepared based on estimates and assumptions, which management believes are reasonable but are not necessarily indicative of the consolidated financial position or results of income had the Merger occurred on January 1, 2008, nor of future results of income.

The unaudited pro forma results for the six months ended June 30, 2009 are as follows:

| | For the Six Months Ended June 30, 2009 |
|---|---|
| Total revenue | $ 97,681 |
| Net income | $ 18,949 |

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Hanover for operations that will not continue post−Merger, together with the consequential tax effects.

Prior to the acquisition, the Company loaned Hanover funds under a revolving line of credit, as well as a loan and security agreement which were automatically terminated by operation of law upon consummation of the Merger.

**4. Restricted Cash**

**Restricted Cash**

Restricted cash totaled $9.7 million and $9.0 million at June 30, 2010 and December 31, 2009, respectively. Restricted cash includes approximately $5.9 million at June 30, 2010 and December 31, 2009 held in an insurance trust account which secures payments under the Company's reinsurance agreements. The funds in the insurance trust account include investments in money market funds. The remaining restricted cash at June 30, 2010 and December 31, 2009 consists primarily of compensating balances.

**Restricted Cash of Securitization Trusts**

Restricted cash of securitization trusts relates primarily to funds collected on residential loans owned by the Company's various securitization trusts (see Note 9), which are available only to pay expenses of the securitization trusts and principal and interest on indebtedness of the securitization trusts ($39.8 million and $42.7 million, at June 30, 2010 and December 31, 2009, respectively). This restricted cash also provides overcollateralization within the Company's mortgage−backed debt arrangements. Restricted cash at June 30, 2010 and December 31, 2009 include short−term deposits in FDIC−insured accounts.

**5. Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A three−tier fair value hierarchy is used to prioritize the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are as follows:

Basis or Measurement

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The accounting guidance concerning fair value allows the Company to elect to measure certain items at fair value and report the changes in fair value through the statements of income. This election can only be made at certain specified dates and is irrevocable once made. The Company does not have a policy regarding specific assets or liabilities to elect to measure at fair value, but rather makes the election on an instrument by instrument basis as they are acquired or incurred. The Company has not made the fair value election for any financial assets or liabilities as of June 30, 2010.

The Company determines fair value based upon quoted broker prices when available or through the use of alternative approaches, such as discounting the expected cash flows using market rates commensurate with the credit quality and duration of the investment.

**Items Measured at Fair Value on a Recurring Basis**

The subordinate security is measured in the consolidated financial statements at fair value on a recurring basis in accordance with the accounting guidance concerning debt and equity securities and is categorized in the table below based upon the lowest level of significant input to the valuation (in thousands):

| | June 30, 2010 | | | |
|---|---|---|---|---|
| | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
| Subordinate security | $ — | $ — | $ 1,823 | $ 1,823 |
| Total | $ — | $ — | $ 1,823 | $ 1,823 |

The subordinate security, acquired as part of the Merger, consists of a single, fixed−rate security backed by notes that are collateralized by manufactured housing. Approximately one−third of the notes include attached real estate on which the manufactured housing is located as additional collateral. The subordinate security has a coupon of 8.0% and a contractual maturity of 2038. The underlying notes were originated primarily in 2004 and 2005, have a weighted−average coupon rate of 9.5% and a weighted−average maturity of 19.1 years. The subordinate security has an overcollateralization level of 9.0% with a 1.3% annual loss rate.

To estimate the fair value, the Company used a discounted cash flow approach. The significant inputs for the valuation model include the following:

- Yield: 18.5%
- Probability of default: 2.7%
- Loss severity: 56.1%
- Prepayment: 3.3%

The following table provides a reconciliation of the beginning and ending balances of the Company's subordinate security which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2010 (in thousands):

| | As of and for | |
|---|---|---|
| | Three Months Ended June 30, 2010 | Six Months Ended June 30, 2010 |
| Beginning balance | $ 1,837 | $ 1,801 |
| Principal Reductions | — | — |
| Total gains (losses): | | |
| Included in net income | — | — |
| Included in other comprehensive income | (14) | 22 |
| Purchases, sales, issuances and settlements, net | — | — |
| Transfer into or out of Level 3 category | — | — |
| | $ 1,823 | $ 1,823 |
| Total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date | $ — | $ — |

**Items Measured at Fair Value on a Non−Recurring Basis**

At the time a residential loan becomes real estate owned, or REO, the Company records the property at the lower of its carrying amount or estimated fair value less estimated costs to sell. Upon foreclosure and through liquidation, the Company evaluates the property's fair value as compared to its carrying amount and records a valuation adjustment when the carrying amount exceeds fair value. Any valuation adjustment at the time the loan becomes real estate owned is charged to the allowance for loan losses.

Carrying values, and the corresponding fair value adjustments, for Level 3 assets and liabilities measured in the consolidated financial statements at fair value on a non−recurring basis are as follows (in thousands):

| | Fair Value Measurements at Reporting Date Using | | | | |
|---|---|---|---|---|---|
| Fair Value at | Real Estate Owned | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Value Adjustment (1) |
| Real estate owned: | | | | | |
| June 30, 2010 | $ 26,963 | $ — | $ — | $ 26,963 | $ (5,349) |
| December 31, 2009 | $ 21,981 | $ — | $ — | $ 21,981 | $ (4,430) |
| Real estate owned of securitization trusts: | | | | | |
| June 30, 2010 | $ 35,212 | $ — | $ — | $ 35,212 | $ (9,250) |
| December 31, 2009 | $ 41,143 | $ — | $ — | $ 41,143 | $ (10,615) |

(1) The fair value adjustment on REO represents the total fair value adjustment between the residential loan's original carrying value and the property's fair value as of the balance sheet date.

As of June 30, 2010, the fair value of the Company's Level 3 REO was $27.0 million and $35.2 million for the unencumbered and securitized residential loan portfolios, respectively. These REO properties are generally located in rural areas and are primarily concentrated in Texas, Mississippi, Alabama, Florida, South Carolina and Georgia. The REO properties have a weighted−average holding period of 11 months. To estimate the fair value, the Company utilized historical loss severity rates experienced on similar REO properties previously sold by the Company. The blended loss severity utilized at June 30, 2010 was 19.0%.

**Fair Value of Financial Instruments**

The following table presents the carrying values and estimated fair values of financial assets and liabilities that are required to be recorded or disclosed at fair value as of June 30, 2010 and December 31, 2009, respectively (in thousands):

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 79,720 | $ 79,720 | $ 99,286 | $ 99,286 |
| Restricted cash | 9,668 | 9,668 | 8,963 | 8,963 |
| Restricted cash of securitization trusts | 39,829 | 39,829 | 42,691 | 42,691 |
| Receivables, net | 2,299 | 2,299 | 3,052 | 3,052 |
| Residential loans, net | 343,080 | 317,000 | 333,636 | 295,000 |
| Residential loans of securitization trusts, net | 1,272,676 | 1,270,000 | 1,310,710 | 1,238,000 |
| Subordinate security | 1,823 | 1,823 | 1,801 | 1,801 |
| Financial liabilities: | | | | |
| Accounts payable | 613 | 613 | 13,489 | 13,489 |
| Accounts payable of securitization trusts | 399 | 399 | 556 | 556 |
| Accrued expenses | 26,404 | 26,404 | 28,296 | 28,296 |
| Mortgage−backed debt, net of deferred debt issuance costs, of securitization trusts | 1,206,612 | 1,165,000 | 1,249,004 | 1,147,000 |
| Accrued interest of securitization trusts | 8,444 | 8,444 | 8,755 | 8,755 |

For assets and liabilities measured in the consolidated financial statements on a historical cost basis, the estimated fair value shown in the above table is for disclosure purposes only. The following methods and assumptions were used to estimate fair value:

*Cash, restricted cash, receivables, accounts payable, accrued expenses, and accrued interest* — The estimated fair value of these financial instruments approximates their carrying value due to their high liquidity or short−term nature.

*Residential loans* — The fair value of residential loans is estimated by discounting the net cash flows estimated to be generated from the asset. The discounted cash flows were determined using assumptions such as, but not limited to, interest rates, prepayment speeds, default rates, loss severities, and a risk−adjusted market discount rate. The value of these assets is very sensitive to changes in interest rates.

*Subordinate security* — The fair value of the subordinate security is measured in the consolidated financial statements at fair value on a recurring basis by discounting the net cash flows estimated to be generated from the asset. Unrealized gains and losses are reported in accumulated other comprehensive income. To the extent that the cost basis exceeds the fair value and the unrealized loss is considered to be other−than−temporary, an impairment charge is recognized and the amount recorded in accumulated other comprehensive income or loss is reclassified to earnings as a realized loss.

*Mortgage−backed debt, net of deferred debt issuance costs, of securitization trusts* — The fair value of mortgage−backed debt of securitization trusts is determined by discounting the net cash outflows estimated to be used to repay the debt. These obligations are to be satisfied using the proceeds from the residential loans that secure these obligations and are non−recourse to the Company. The value of mortgage−backed debt is very sensitive to changes in interest rates.

**6. Residential Loans**

Residential loans are held for investment and consist of unencumbered residential mortgage loans and residential retail instalment agreements, summarized in the table below (in thousands):

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Residential loans, principal balance | $ 379,065 | $ 365,797 |
| Less: Yield adjustment, net (1) | (32,665) | (28,701) |
| Less: Allowance for loan losses | (3,320) | (3,460) |
| Residential loans, net (2) | $ 343,080 | $ 333,636 |

(1) Deferred origination costs, premiums and discounts and other costs are amortized over the life of the note portfolio. Deferred origination costs included in the yield adjustment, net for residential loans, net at June 30, 2010 and December 31, 2009 were $2.7 million and $2.8 million, respectively. Premiums and discounts, net included in the yield adjustment, net for residential loans, net at June 30, 2010 and December 31, 2009 were $38.4 million and $35.9 million, respectively. Other costs included in the yield adjustment, net for residential loans, net at June 30, 2010 and December 31, 2009 were $3.0 million and $4.4 million, respectively. Other costs include accrued interest receivable net of deferred gains and other costs.

(2) The weighted average life of the portfolio approximates 10 years based on assumptions for prepayment speeds, default rates and losses.

The following table summarizes the activity in the allowance for loan losses on residential loans, net (in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2010 | 2009 |
| Balance, December 31 | $ 3,460 | $ 3,418 |
| Provision charged to income | 1,399 | 1,269 |
| Less: Charge−offs, net of recoveries | (1,475) | (1,314) |
| Balance, March 31 | 3,384 | 3,373 |
| Provision charged to income | 1,685 | 1,090 |
| Less: Charge−offs, net of recoveries | (1,749) | (1,025) |
| Balance, June 30 | $ 3,320 | $ 3,438 |

The amount of residential loans, net that had been put on nonaccrual status due to delinquent payments of 90 days past due or greater was $15.8 million and $21.4 million at June 30, 2010 and December 31, 2009, respectively. Residential loans are placed on non−accrual status when any portion of the principal or interest is 90 days past due. When placed on non−accrual status, the related interest receivable is reversed against interest income of the current period. Residential loans are removed from non−accrual status when the amount financed and the associated interest are no longer over 90 days past due.

The following table presents delinquencies as a percent of amounts outstanding on the principal balance of residential loans, net:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| 31−60 days | 2.37% | 1.98% |
| 61−90 days | 0.94% | 1.53% |
| 91 days or more | 4.30% | 5.84% |
| | 7.61% | 9.35% |

**Residential Loan Pool Purchases**

On April 14, 2010, the Company entered into a definitive agreement to purchase a pool of performing, fixed−rate residential loans on single−family, owner occupied residences located within the Company's existing southeastern United States geographic footprint. The purchase closed on April 19, 2010, utilizing $11.1 million of the proceeds from the Company's secondary offering that closed on October 21, 2009. On May 20, 2010, the Company entered into a definitive agreement to purchase a pool of performing, fixed−rate residential loans on single−family, owner occupied residences located within the Company's existing southeastern United States geographic footprint. The purchase closed on June 2, 2010, utilizing $8.6 million of the proceeds from the Company's secondary offering that closed on October 21, 2009. These purchases added $24.2 million of unpaid principal to the residential loan portfolio. The Company evaluated the individual loans acquired for evidence of credit quality deterioration since origination and for which it is probable at the purchase date that the Company will be unable to collect all contractually required payments. There was no such evidence of credit quality deterioration noted.

**7. Residential Loans of Securitization Trusts**

Residential loans of securitization trusts consist of residential mortgage loans and residential retail instalment agreements that the Company has securitized in structures that are accounted for as financings. These securitizations are structured legally as sales, but for accounting purposes are treated as financings under the accounting guidance concerning transfers of financial assets, as amended. Accordingly, the loans in these securitizations remain on the balance sheet as residential loans. Given this treatment, retained interests are not created, and securitization mortgage−backed debt is reflected on the balance sheet as a liability. The assets of the securitization trusts are not available to satisfy claims of general creditors of the Company and the mortgage−backed debt issued by the securitization trusts is to be satisfied solely from the proceeds of the residential loans of securitization trusts and are non−recourse to the Company. The Company records interest income on residential loans of securitization trusts and interest expense on mortgage−backed debt issued in the securitizations over the life of the securitizations. Deferred debt issuance costs and discounts related to the mortgage−backed debt are amortized on a level yield basis over the estimated life of the mortgage−backed debt.

Residential loans of securitization trusts, net are summarized as follows (in thousands):

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Residential loans of securitization trusts, principal balance | $ 1,407,673 | $ 1,454,062 |
| Less: Yield adjustment, net (1) | (121,584) | (129,151) |
| Less: Allowance for loan losses | (13,413) | (14,201) |
| Residential loans of securitization trusts, net (2) | $ 1,272,676 | $ 1,310,710 |

(1) Deferred origination costs, premiums and discounts and other costs are amortized over the life of the note portfolio. Deferred origination costs included in the yield adjustment, net for residential loans of securitization trusts, net at June 30, 2010 and December 31, 2009 were $8.4 million and $8.8 million, respectively. Premiums and discounts, net included in the yield adjustment, net for residential loans of securitization trusts, net at June 30, 2010 and December 31, 2009 were $138.4 million and $145.8 million, respectively. Other costs included in the yield adjustment, net for residential loans of securitization trusts, net at June 30, 2010 and December 31, 2009 were $8.4 million and $7.8 million, respectively. Other costs include accrued interest receivable net of deferred gains and other costs.

(2) The weighted average life of the portfolio approximates 8 years based on assumptions for prepayment speeds, default rates and losses.

The following table summarizes the activity in the allowance for loan losses on residential loans of securitization trusts, net (in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2010 | 2009 |
| Balance, December 31 | $ 14,201 | $ 15,551 |
| Provision charged to income | 1,791 | 3,107 |
| Less: Charge−offs, net of recoveries | (2,052) | (3,549) |
| Balance, March 31 | 13,940 | 15,109 |
| Provision charged to income | 1,762 | 2,643 |
| Less: Charge−offs, net of recoveries | (2,289) | (2,883) |
| Balance, June 30 | $ 13,413 | $ 14,869 |

The amount of residential loans of securitization trusts, net that had been put on nonaccrual status due to delinquent payments of 90 days past due or greater was $25.0 million and $39.8 million at June 30, 2010 and December 31, 2009, respectively. Residential loans are placed on non−accrual status when any portion of the principal or interest is 90 days past due. When placed on non−accrual status, the related interest receivable is reversed against interest income of the current period. Residential loans are removed from non−accrual status when the amount financed and the associated interest are no longer over 90 days past due.

All of the Company's residential loans of securitization trusts, net are pledged as collateral for the mortgage−backed debt (see Note 9). The Company's only continued involvement with the residential loans of securitization trusts, net is retaining all of the residual interests in the securitization trusts and servicing the residential loans collateralizing the mortgage−backed debt.

The following table presents delinquencies as a percent of amounts outstanding on the principal balance of residential loans of securitization trusts:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| 31−60 days | 1.10% | 1.17% |
| 61−90 days | 0.50% | 0.54% |
| 91 days or more | 1.78% | 2.74% |
| | 3.38% | 4.45% |

**8. Subordinate Security**

The Company's subordinate security totaled $1.8 million at June 30, 2010 and December 31, 2009. The subordinate security was acquired as part of the Merger with Hanover. Subordinate security is summarized as follows (in thousands):

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Principal balance | $ 3,812 | $ 3,812 |
| Purchase price and other adjustments | (2,200) | (2,200) |
| Amortized cost | $ 1,612 | $ 1,612 |
| Unrealized gain | 211 | 189 |
| Carrying value (fair value) | $ 1,823 | $ 1,801 |

Actual maturities on mortgage−backed securities are generally shorter than the stated contractual maturities because the actual maturities are affected by the contractual lives of the underlying notes, periodic payments of principal, and prepayments of principal. The contractual maturity of the subordinate security is 2038.

**9. Mortgage−Backed Debt and Related Collateral of Securitization Trusts**

**Mortgage−Backed Debt**

Mortgage−backed debt consists of mortgage−backed/asset−backed notes and collateralized mortgage obligations issued by the Company to fund its residential loans via the securitization market. The securitization trusts beneficially owned by Walter Investment and its wholly owned subsidiary, Mid−State Capital, LLC, or Mid−State Capital, are the depositors under the Company's outstanding mortgage−backed and asset−backed notes (the "Trust Notes"), which consist of eight separate series of public debt offerings and one private offering. Hanover Capital Grantor Trust, acquired from Hanover as part of the Merger, is a public debt offering. These ten trusts have an aggregate of $1.2 billion of outstanding debt, collateralized by $1.5 billion of assets, including residential loans, REO and restricted cash at June 30, 2010. All of the Company's mortgage−backed debt is non−recourse and not cross−collateralized and, therefore, must be satisfied exclusively from the proceeds of the residential loans and REO held in each securitization trust. The Company services the collateral underlying the nine securitization trusts owned by Walter Investment and Mid−State Capital.

The securitization trusts contain provisions that require the cash payments received from the underlying residential loans be applied to reduce the principal balance of the Trust Notes unless certain overcollateralization or other similar targets are satisfied. The securitization trusts also contain delinquency and loss triggers, that, if exceeded, require that any excess overcollateralization be paid to reduce the outstanding principal balance of the Trust Notes for that particular securitization at an accelerated pace. Assuming no servicer trigger events have occurred and the overcollateralization targets have been met, any excess cash is released to the Company either monthly or quarterly, in accordance with the terms of the respective underlying trust agreements. As of June 30, 2010, Mid−State Trust 2006−1, or Trust 2006−1, exceeded certain triggers and did not provide any significant levels of excess cash flow to the Company. The delinquency trigger for Mid−State Trust 2005−1, or Trust 2005−1, cured during the three months ended June 30, 2010. The loss trigger for Trust X cured during the three months ended March 31, 2010. With the exception of Trust 2006−1 which exceeded its trigger and the recently cured Trust 2005−1 and Trust X, none of the Company's other securitization trusts have reached the levels of underperformance that would trigger a delay in cash releases.

Borrower remittances received on the residential loan collateral are used to make payments on the mortgage−backed debt. The maturity of the mortgage−backed debt is directly affected by principal prepayments on the related residential loan collateral. As a result, the actual maturity of the mortgage−backed debt is likely to occur earlier than the stated maturity. Certain of the Company's mortgage−backed debt is also subject to redemption at the option of the Company according to specific terms of the respective indenture agreements.

**Collateral for Mortgage−Backed Debt**

The following table summarizes the carrying value of the collateral for the mortgage−backed debt as of June 30, 2010 and December 31, 2009, respectively (in thousands):

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Residential loans of securitization trusts, principal balance | $ 1,407,673 | $ 1,454,062 |
| Restricted cash of securitization trusts | 39,829 | 42,691 |
| Real estate owned of securitization trusts | 35,212 | 41,143 |
| Total mortgage−backed debt collateral of securitization trusts | $ 1,482,714 | $ 1,537,896 |

**10. Share−Based Compensation Plans**

The Company's share−based compensation expense has been reflected in the consolidated statements of income in salaries and benefits expense.

**Option Activity**

On January 4, 2010, certain executive officers of the Company were awarded a total of 118,651 nonqualified options, or the Executive Options, to acquire common stock of the Company pursuant to the 2009 LTIP. The Executive Options granted to each executive officer of the Company will vest and become exercisable in equal installments on the first, second and third anniversary of the date of grant. The exercise price of $14.39 for each of the Executive Options was determined based on the mean of the high and low sales prices for a share of common stock of the Company as reported by the NYSE Amex on the date of grant.

On January 22, 2010, an executive, in connection with his employment with the Company, was awarded a total of 90,000 nonqualified options to acquire common stock of the Company pursuant to the 2009 LTIP. The options granted will vest and become exercisable on the fourth anniversary of the award. The exercise price of $14.29 for each option was determined based on the mean of the high and low sales prices for a share of common stock of the Company as reported by the NYSE Amex on the date of grant.

On March 3, 2010, the Company granted stock options to its new non−employee director who was awarded a total of 5,195 nonqualified options to acquire common stock of the Company pursuant to the 2009 LTIP. The options granted will vest and become exercisable in equal installments on the first, second and third anniversary of the date of grant. The exercise price of $14.79 for each option was determined based on the mean of the high and low sales prices for a share of common stock of the Company as reported by the NYSE Amex on the date of grant.

On April 30, 2010, members of the Board of Directors of the Company were awarded a total of 20,672 nonqualified options to acquire common stock of the Company pursuant to the 2009 LTIP. The options granted to the members of the Board of Directors will vest and become exercisable in equal installments on the first, second and third anniversary of the date of grant. The exercise price of $18.36 for each of the options was determined based on the mean of the high and low sales prices for a share of common stock of the Company as reported by the NYSE Amex on the date of grant.

The grant date fair value of the stock options granted during the six months ended June 30, 2010 approximated $0.7 million.

**Non−Vested Share Activity**

The Company's non−vested share−based awards consist of restricted stock and restricted stock units.

On January 4, 2010, certain executive officers of the Company were awarded a total of 100,548 restricted stock units, or the Executive RSUs, of the Company pursuant to the 2009 LTIP. The Executive RSUs granted to each executive officer of the Company will vest in equal installments on the first, second and third anniversary of the date of grant. The settlement date for these RSUs is January 22, 2013. Each executive receiving Executive RSUs will be entitled to receive cash payments equivalent to any dividend paid to the holders of common stock of the Company, but they will not be entitled to any voting rights otherwise associated with the common stock.

On January 22, 2010, an executive, in connection with his employment with the Company, was awarded a total of 135,556 restricted stock units, or RSUs, of the Company under the 2009 LTIP. Of the RSUs granted, 110,000 will vest in equal installments on the first, second and third anniversary of the date of grant. The settlement date for these RSUs is January 22, 2013, and each such RSU vested on such date will be paid out with a single share of common stock of the Company. The remaining 25,556 RSUs granted will vest on the first anniversary of the date of grant. The settlement date for these RSUs is March 14, 2011, and each such RSU vested on such date will be paid out with a single share of common stock of the Company. The executive receiving the RSUs will be entitled to receive cash payments equivalent to any dividend paid to the holders of common stock of the Company, but they will not be entitled to any voting rights otherwise associated with the common stock.

The grant date fair value of RSUs granted during the six months ended June 30, 2010 approximated $3.4 million.

**11. Credit Agreements**

The Company's syndicated credit agreement, revolving credit agreement and security agreement, and support letter of credit agreement mature on April 20, 2011. As of June 30, 2010, no funds have been drawn under any of the credit agreements and the Company is in compliance with all covenants.

**12. Transactions with Walter Energy**

Following the spin−off, Walter Investment and Walter Energy have operated independently, and neither has any ownership interest in the other. In order to govern certain of the ongoing relationships between the Company and Walter Energy after the spin−off and to provide mechanisms for an orderly transition, the Company and Walter Energy entered into certain agreements, pursuant to which (a) the Company and Walter Energy provide certain services to each other, (b) the Company and Walter Energy will abide by certain non−compete and non−solicitation arrangements, and (c) the Company and Walter Energy will indemnify each other against certain liabilities arising from their respective businesses. The specified services that the Company and Walter Energy may provide each other, as requested, include tax and accounting services, certain human resources services, communications systems and support, and insurance/risk management. Each party will be compensated for services rendered, as set forth in the Transition Services Agreement. The Transition Services Agreement provides for terms not to exceed 24 months for the various services, with some of the terms capable of extension. See Note 3 for further information regarding the spin−off transaction.

**13. Comprehensive Income and Accumulated Other Comprehensive Income**

The components of comprehensive income are as follows (in thousands):

| | Three Months Ended June 30, | |
|---|---|---|
| | 2010 | 2009 |
| Net income | $ 8,563 | $ 89,811 |
| Other comprehensive loss: | | |
| Change in postretirement benefit plans, net of $7 tax effect | (126) | — |
| Net unrealized gain on subordinate security, net of $0 tax effect | (14) | — |
| Net amortization of realized gain on closed hedges, net of $0 and $29 tax effect, respectively | (60) | (49) |
| Comprehensive income | $ 8,363 | $ 89,762 |

| | Six Months Ended June 30, | |
|---|---|---|
| | 2010 | 2009 |
| Net income | $ 16,675 | $ 97,013 |
| Other comprehensive income (loss): | | |
| Change in postretirement benefit plans, net of $14 tax effect | (252) | — |
| Net unrealized gain on subordinate security, net of $0 tax effect | 22 | — |
| Net amortization of realized gain on closed hedges, net of $0 and $58 tax effect, respectively | (124) | (100) |
| Comprehensive income | $ 16,321 | $ 96,913 |

The components of accumulated other comprehensive income are as follows (in thousands):

| | Excess of Additional Postretirement Employee Benefits Liability | Net Unrealized Gain on Subordinate Security | Net Amortization of Realized Gain on Closed Hedges | Total |
|---|---|---|---|---|
| Balance at December 31, 2009 | $ 1,117 | $ 189 | $ 637 | $ 1,943 |
| Pre−tax amount | (133) | 36 | (64) | (161) |
| Tax benefit | 7 | — | — | 7 |
| Balance at March 31, 2010 | 991 | 225 | 573 | 1,789 |
| Pre−tax amount | (133) | (14) | (60) | (207) |
| Tax benefit | 7 | — | — | 7 |
| Balance at June 30, 2010 | $ 865 | $ 211 | $ 513 | $ 1,589 |

**14. Common Stock and Earnings Per Share**

In accordance with the accounting guidance concerning earnings per share, or EPS, unvested share−based payment awards that include non−forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are considered participating securities. As a result, the awards are required to be included in the calculation of basic earnings per common share pursuant to the “two−class” method. For the Company, participating securities are comprised of certain unvested restricted stock and restricted stock units.

Under the two−class method, net income is reduced by the amount of dividends declared in the period for common stock and participating securities. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net income for the period had been distributed. Basic earnings per share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted−average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income allocable to common shares by the weighted−average number of common shares for the period, as adjusted for the potential dilutive effect of non−participating share−based awards.

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations shown on the face of the accompanying consolidated statements of income (in thousands, except per share data):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Basic earnings per share:** | | | | |
| Net income | $ 8,563 | $ 89,811 | $ 16,675 | $ 97,013 |
| Less: net income allocated to unvested restricted stock units | (123) | — | (235) | — |
| Net income available to common stockholders (numerator) | $ 8,440 | $ 89,811 | $ 16,440 | $ 97,013 |
| Weighted−average common shares | 25,703 | 19,871 | 25,681 | 19,871 |
| Add: vested restricted stock units | 711 | 880 | 698 | 880 |
| Total weighted−average common shares outstanding (denominator) | 26,414 | 20,751 | 26,379 | 20,751 |
| Basic earnings per share | $ 0.32 | $ 4.33 | $ 0.62 | $ 4.68 |
| **Diluted earnings per share:** | | | | |
| Net income | $ 8,563 | $ 89,811 | $ 16,675 | $ 97,013 |
| Less: net income allocated to unvested restricted stock units | (122) | — | (235) | — |
| Net income available to common stockholders (numerator) | $ 8,441 | $ 89,811 | $ 16,440 | $ 97,013 |
| Weighted−average common shares | 25,703 | 19,871 | 25,681 | 19,871 |
| Add: Potentially dilutive stock options and restricted stock units | 809 | 1,039 | 776 | 1,039 |
| Diluted weighted−average common shares outstanding (denominator) | 26,512 | 20,910 | 26,457 | 20,910 |
| Diluted earnings per share | $ 0.32 | $ 4.30 | $ 0.62 | $ 4.64 |

The calculation of diluted earnings per share for the three and six months ended June 30, 2010, does not include 0.2 million and 0.3 million shares, respectively, and does not include 0.3 million and 0.3 million shares for the same periods in 2009, respectively, because their effect would have been anti−dilutive.

**15. REIT Qualification**

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. The Company’s continuing qualification as a REIT depends on its ability to meet the various requirements imposed by the Code, which relate to organizational structure, distribution levels, diversity of stock ownership and certain restrictions with regard to owned assets and categories of income. As a REIT, the Company will generally not be subject to United States, or U.S., federal corporate income tax on its taxable income that is currently distributed to stockholders. Even as a REIT, the Company may be subject to U.S. federal income and excise taxes in various situations, such as on the Company’s undistributed income.

Certain of the Company’s operations or portions thereof, including mortgage advisory and insurance ancillary businesses, are conducted through taxable REIT subsidiaries, or TRSs. A TRS is a C−corporation that has not elected REIT status and, as such, is

subject to U.S. federal corporate income tax. The Company's TRSs facilitate its ability to offer certain services and conduct activities that generally cannot be offered directly by the REIT. The Company also will be required to pay a 100% tax on any net income on non−arm's length transactions between the REIT and any of its TRSs.

**16. Income Taxes**

The Company recorded income tax expense of $0.4 million for the three months ended June 30, 2010. During the three months ended June 30, 2010 and 2009, an estimated tax rate of 4.3% and (946.0)%, respectively, was used to derive income tax expense (benefit) of $0.4 million and $(81.2) million, respectively, calculated on our income from operations, before taxes, of $8.9 million and $8.6 million, respectively. The change in income tax was due to the Company's REIT qualification in conjunction with the spin−off from Walter Energy and Merger with Hanover which resulted in only the Company's TRSs being taxable entities.

The Company recorded income tax expense of $0.5 million for the six months ended June 30, 2010. During the six months ended June 30, 2010 and 2009, an estimated tax rate of 3.0% and (386.5)%, respectively, was used to derive income tax expense (benefit) of $0.5 million and $(77.1) million, respectively, calculated on our income from operations, before taxes, of $17.2 million and $19.9 million, respectively. The change in income tax was due to the Company's REIT qualification in conjunction with the spin−off from Walter Energy and Merger with Hanover which resulted in only the Company's TRSs being taxable entities.

The Company recognizes tax benefits in accordance with the FASB guidance concerning uncertainty in income taxes. This guidance establishes a "more−likely−than−not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. As of June 30, 2010 and December 31, 2009, the total gross liability for unrecognized tax benefits was $7.7 million.

**17. Commitments and Contingencies**

**Securities Sold with Recourse**

In October 1998, Hanover sold 15 adjustable−rate FNMA certificates and 19 fixed−rate FNMA certificates that the Company received in a swap for certain adjustable−rate and fixed−rate mortgage loans. These securities were sold with recourse. Accordingly, the Company retains credit risk with respect to the principal amount of these mortgage securities. As of June 30, 2010, the unpaid principal balance of the 14 remaining mortgage securities was approximately $1.6 million.

**Income Tax Exposure**

A dispute exists with regard to federal income taxes owed by the Walter Energy consolidated group. The Company was part of the Walter Energy consolidated group prior to the spin−off and Merger. As such, the Company is jointly and severally liable with Walter Energy for any final taxes, interest and/or penalties owed by the Walter Energy consolidated group during the time that the Company was a part of the Walter Energy consolidated group. According to Walter Energy's most recent public filing, they state that the IRS has filed a proof of claim for a substantial amount of taxes, interest and penalties with respect to fiscal years ended August 31, 1983 through May 31, 1994. The public filing goes on to disclose that the amounts initially asserted by the IRS do not reflect the subsequent resolution of various issues through settlements or concessions by the parties; and that Walter Energy believes, should the IRS prevail on any remaining issues, Walter Energy's financial exposure is limited to interest and possible penalties. Walter Energy discloses further that it believes that all of its current and prior tax filing positions have substantial merit and it intends to defend vigorously any tax claims asserted. Under the terms of the Tax Separation Agreement between the Company and Walter Energy dated April 17, 2009, Walter Energy is responsible for the payment of all federal income taxes (including any interest or penalties applicable thereto) of the consolidated group, which includes the aforementioned claims of the IRS. However, to the extent that Walter Energy is unable to pay any amounts owed, the Company could be responsible for any unpaid amounts.

The Tax Separation Agreement also provides that Walter Energy is responsible for the preparation and filing of any tax returns for the consolidated group for the periods when the Company was part of the Walter Energy consolidated group. This arrangement may result in conflicts between Walter Energy and the Company. In addition, the spin−off of WIM from Walter Energy was intended to qualify as a tax−free spin−off under Section 355 of the Code. The Tax Separation Agreement provides generally that if the spin−off is determined not to be tax−free pursuant to Section 355 of the Code, any taxes imposed on Walter Energy or a Walter Energy shareholder as a result of such determination ("Distribution Taxes") which are the result of the acts or omissions of Walter Energy or its affiliates, will be the responsibility of Walter Energy. However, should Distribution Taxes result from the acts or omissions of the Company or its affiliates, such Distribution Taxes will be the responsibility of the Company. The Tax Separation Agreement goes on to provide that Walter Energy and the Company shall be jointly liable, pursuant to a designated allocation formula, for any Distribution Taxes that are not specifically allocated to Walter Energy or the Company. To the extent that Walter Energy is unable or unwilling to pay any Distribution Taxes for which it is responsible under the Tax Separation Agreement, the Company could be liable for those taxes as a result of being a member of the Walter Energy consolidated group for the year in which the spin−off occurred. The Tax Separation Agreement also provides for payments from Walter Energy in the event that an additional taxable dividend is required to cure a REIT disqualification from the determination of a shortfall in the distribution of non−REIT earnings and profits made immediately following the spin−off. As with Distribution Taxes, the Company will be responsible for this dividend if Walter Energy is unable or unwilling to pay.

**Other Tax Exposure**

On June 28, 2010, the Alabama Department of Revenue, or ADOR, preliminarily assessed financial institution excise tax of approximately $4.2 million, which includes interest and penalties, on a predecessor entity for the years 2004 through 2008. This tax is imposed on financial institutions doing business in the State of Alabama. The Company has contested the assessment and believes that the Company did not meet the definition of a financial institution doing business in the State of Alabama as defined by the Alabama Tax Code.

**Miscellaneous Litigation**

The Company is a party to a number of lawsuits arising in the ordinary course of its business. While the results of such litigation cannot be predicted with certainty, the Company believes that the final outcome of such litigation will not have a materially adverse effect on the Company's financial condition, results of operations or cash flows.

**18. Subsequent Events**

**Letters of Intent to Purchase Pools of Loans**

The Company entered into two separate letters of intent, one on July 16, 2010 and the other on August 4, 2010, to purchase additional pools of performing and non−performing residential loans which, when settled, are expected to utilize approximately $20 million of the proceeds from the Company's secondary offering that closed on October 21, 2009. These letters of intent are not binding on the seller or the Company and the proposed purchases may or may not close.

**Dividend Declaration**

On August 3, 2010, the Company declared a dividend of $0.50 per share on its common stock to stockholders of record on August 13, 2010 which will be paid on August 27, 2010.

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10−Q and in our results for the year ended December 31, 2009, filed in our Annual Report on Form 10−K on March 2, 2010. Historical results and trends which might appear should not be taken as indicative of future operations. Our results of operations and financial condition, as reflected in the accompanying statements and related footnotes, are subject to management's evaluation and interpretation of business conditions, changing capital market conditions, and other factors.

Our website can be found at *www.walterinvestment.com*. We make available, free of charge through the investor relations section of our website, access to our Annual Reports on Form 10−K, Quarterly Reports on Form 10−Q, current reports on Form 8−K, other documents and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also make available, free of charge, access to our Corporate Governance Standards, charters for our Audit Committee, Compensation and Human Resources Committee, and Nominating and Corporate Governance Committee, and our Code of Conduct governing our directors, officers, and employees. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to the Code of Conduct and any waiver applicable to any executive officer, director, or senior officer (as defined in the Code of Conduct). In addition, our website includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non−GAAP and financial measures (as defined by SEC Regulation G) that we may make public orally, telephonically, by webcast, by broadcast, or by similar means from time to time. The information on our website is not part of this Quarterly Report on Form 10−Q.

Our Investor Relations Department can be contacted at 3000 Bayport Drive, Suite 1100, Tampa, FL 33607, Attn: Investor Relations, telephone (813) 421−7694.

**Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995**

Certain statements in this report, including, without limitation, matters discussed under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," should be read in conjunction with the financial statements, related notes, and other detailed information included elsewhere in this Quarterly Report on Form 10−Q. We are including this cautionary statement to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements that are not historical fact are forward−looking statements. Certain of these forward−looking statements can be identified by the use of words such as "believes," "anticipates," "expects," "intends," "plans," "projects," "estimates," "assumes," "may," "should," "will," or other similar expressions. Such forward−looking statements involve known and unknown risks, uncertainties and other important factors, which could cause actual results, performance or achievements to differ materially from future results, performance or achievements. These forward−looking statements are based on our current beliefs, intentions and expectations. These statements are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward−looking statements include, but are not limited to, those factors, risks and uncertainties described in our Annual Report on Form 10−K filed on March 2, 2010 under the caption "Risk Factors" and in our other securities filings with the SEC.

In particular (but not by way of limitation), the following important factors and assumptions could affect our future results and could cause actual results to differ materially from those expressed in the forward−looking statements: local, regional, national and global economic trends and developments in general, and local, regional and national real estate and residential mortgage market trends and developments in particular; the availability of suitable qualifying investments for the proceeds of our October 2009 secondary offering and risks associated with any such investments we may pursue; the availability of additional investment capital and suitable qualifying investments, and risks associated with the expansion of our business activities, including risks associated with expanding our business outside of our current geographic footprint and/or expanding the scope of our business to include activities not currently undertaken by our business; limitations imposed on our business due to our real estate investment trust, or REIT, status and our continued qualification as a REIT for federal income tax purposes; financing sources and availability, and future interest expense; fluctuations in interest rates and levels of mortgage prepayments; increases in costs and other general competitive factors; natural disasters and adverse weather conditions, especially to the extent they result in material payouts under insurance policies placed with our captive insurance subsidiary; changes in federal, state and local policies, laws and regulations affecting our business, including, without limitation, mortgage financing or servicing, changes to licensing requirements, and/or the rights and obligations of property owners, mortgagees and tenants; the effectiveness of risk management strategies; unexpected losses resulting from pending, threatened or unforeseen litigation or other third party claims against us; the ability or willingness of Walter Energy, Inc. and other counterparties to satisfy material obligations under agreements with us; our continued listing on the NYSE Amex; uninsured losses or losses in excess of insurance limits and the availability of adequate insurance coverage at reasonable costs; the integration of the former Hanover Capital Mortgage Holdings, Inc., or Hanover, business into that of Walter Investment Management, LLC and its affiliates as a result of the merger of the two companies, and the realization of anticipated synergies, cost savings and growth opportunities from the Merger; future performance generally; and other presently unidentified factors.

All forward looking statements set forth herein are qualified by these cautionary statements and are made only as of the date hereof. We undertake no obligation to update or revise the information contained herein, including without limitation any forward−

looking statements whether as a result of new information, subsequent events or circumstances, or otherwise, unless otherwise required by law.

**The Company**

We are a mortgage servicer and mortgage portfolio owner specializing in credit−challenged, non−conforming residential loans primarily in the southeastern United States, or U.S. We also operate anciallary mortgage advisory and insurance businesses. At June 30, 2010, we had four wholly owned, primary subsidiaries: Hanover Capital Partners 2, Ltd., doing business as Hanover Capital, Walter Mortgage Company, LLC, or WMC, Best Insurors, Inc., or Best, and Walter Investment Reinsurance Co., Ltd., or WIRC. We operate as an internally managed, publicly traded real estate investment trust, or REIT.

Throughout this Quarterly Report on Form 10−Q, references to “residential loans” refer to residential mortgage loans and residential retail instalment agreements and references to “borrowers” refer to borrowers under our residential mortgage loans and instalment obligors under our residential retail instalment agreements.

**Basis of Presentation**

The consolidated financial statements reflect the historical operations of the Financing business which was operated as part of Walter Energy prior to the spin−off. Under Walter Energy’s ownership, the Financing business operated through separate subsidiaries. A direct ownership relationship did not exist among the legal entities prior to the contribution to Walter Investment Management LLC, or WIM. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, which requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates. All significant intercompany balances have been eliminated in the consolidated financial statements.

Although we have operated as an independent, stand−alone entity only since April 17, 2009, management believes the assumptions underlying the consolidated financial statements as of June 30, 2009 are reasonable. However, the consolidated financial statements included herein do not include all of the expenses that would have been incurred had we been a separate, stand−alone entity, although, the consolidated financial statements do include certain costs and expenses that have been allocated to us from Walter Energy. As such, the financial information does not necessarily reflect or is not necessarily indicative of our consolidated financial position, results of operations and cash flows in the future, or what would have been reflected had we been a separate, stand−alone entity during the period presented prior to the Merger.

Results of operations for the three and six months ended June 30, 2010 and 2009 include the results of operations of legacy WIM. The results of operations of legacy Hanover are included for the three and six months ended June 30, 2010 as well as for the period from April 17, 2009 through June 30, 2009. Since the Merger constitutes a reverse acquisition for accounting purposes, the pre−acquisition consolidated financial statements of WIM are treated as the historical financial statements of Walter Investment. The combined financial statements of WMC, Best and WIRC (collectively representing substantially all of Walter Energy’s Financing business prior to the Merger) are considered the predecessor to WIM for accounting purposes. The combined financial statements of WMC, Best and WIRC have become WIM’s historical financial statements for periods prior to the Merger.

**Business Separation and Merger**

On September 30, 2008, Walter Energy outlined its plans to separate its Financing business from its core Natural Resources business through a spin−off to stockholders and subsequent Merger with Hanover. In furtherance of these plans, on September 30, 2008, Walter Energy and WIM entered into a definitive agreement to merge with Hanover which agreement was amended and restated on February 17, 2009. Immediately prior to the spin−off, substantially all of the assets and liabilities related to the Financing business were contributed, through a series of transactions, to WIM in return for all of WIM’s membership units. On April 17, 2009, immediately following the spin−off from Walter Energy, WIM was merged with and into Hanover with Hanover continuing as the surviving corporation in the Merger. Following the Merger, Hanover was renamed Walter Investment Management Corp. After the spin−off and Merger, Walter Energy’s stockholders that became members of WIM as a result of the spin−off, and certain holders of options to acquire limited liability company interests of WIM, collectively owned 98.5% of the shares of common stock of the surviving corporation in the Merger, while stockholders of Hanover owned 1.5% of the shares of common stock of such corporation. As a result, the business combination has been accounted for as a reverse acquisition, with WIM considered the accounting acquirer. On April 20, 2009, our common stock began trading on the NYSE Amex under the symbol “WAC”.

Although Hanover was the legal and tax surviving entity in the Merger, for accounting purposes the Merger was treated as a reverse acquisition of the operations of Hanover and has been accounted for pursuant to the guidance concerning business combinations, with WIM as the accounting acquirer. As such, the pre−acquisition financial statements of WIM are treated as the historical financial statements of Walter Investment. The Hanover assets acquired and the liabilities assumed were recorded at the date of acquisition, April 17, 2009, at their respective fair values. The results of operations of Hanover were included in the consolidated statements of income for periods subsequent to the Merger.

On April 17, 2009, we completed our separation from Walter Energy. In connection with the separation, WIM and Walter Energy executed the following transactions or agreements which involved no cash:

- Walter Energy distributed 100% of its interest in WIM to holders of Walter Energy's common stock;
- All intercompany balances between WIM and Walter Energy were settled with the net balance recorded as a dividend to Walter Energy;
- In accordance with the Tax Separation Agreement, Walter Energy will, in general, be responsible for any and all taxes reported on any joint return through the date of the separation, which may also include WIM for periods prior to the separation. WIM will be responsible for any and all taxes reported on any WIM separate tax return and on any consolidated returns for Walter Investment subsequent to the separation;
- Walter Energy's share−based awards held by WIM employees were converted to equivalent share−based awards of Walter Investment, with the number of shares and the exercise price being equitably adjusted to preserve the intrinsic value. The conversion was accounted for as a modification under the provisions of the guidance concerning stock compensation.

The assets and liabilities transferred to WIM from Walter Energy also included $26.6 million in cash, which was contributed to WIM by Walter Energy on April 17, 2009. Following the spin−off, WIM paid a taxable dividend consisting of cash of $16.0 million and additional equity interests to its members. The Merger occurred immediately following the spin−off and taxable dividend on April 17, 2009. The surviving company continues to operate as a publicly traded REIT subsequent to the Merger.

**Critical Accounting Policies**

The significant accounting policies used in preparation of our consolidated financial statements are described in Note 2 of "Notes to Consolidated Financial Statements" for the year ended December 31, 2009 included in our Annual Report on Form 10−K filed with the SEC on March 2, 2010. There have been no material changes to our critical accounting policies or the methodologies or assumptions we apply under them.

**Results of Operations**

***Revenue by Portfolio Type***

For the three and six months ended June 30, 2010, we reported net income of $8.6 million and $16.7 million, respectively, as compared to $89.8 million and $97.0 million for the same periods, respectively, in the prior year. The main components of the change in net income for the three and six months ended June 30, 2010 and 2009 are detailed in the following table (in thousands):

| | Three Months Ended June 30, | | Increase/ | Six Months Ended June 30, | | Increase/ |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | (Decrease) | 2010 | 2009 | (Decrease) |
| Residential loans | | | | | | |
| Interest income | $ 8,064 | $ 8,572 | $ (508) | $ 15,778 | $ 17,500 | $ (1,722) |
| Less: Interest expense | — | — | — | — | — | — |
| Net interest income | 8,064 | 8,572 | (508) | 15,778 | 17,500 | (1,722) |
| Less: Provision for loan losses (1) | 1,685 | 1,090 | 595 | 3,084 | 2,359 | 725 |
| Net interest income after provision for loan losses | 6,379 | 7,482 | (1,103) | 12,694 | 15,141 | (2,447) |
| Residential loans of securitization trusts | | | | | | |
| Interest income | 33,818 | 36,105 | (2,287) | 67,732 | 73,006 | (5,274) |
| Interest expense | 21,022 | 22,654 | (1,632) | 42,296 | 45,743 | (3,447) |
| Net interest income | 12,796 | 13,451 | (655) | 25,436 | 27,263 | (1,827) |
| Less: Provision for loan losses (1) | 1,762 | 2,643 | (881) | 3,553 | 5,750 | (2,197) |
| Net interest income after provision for loan losses | 11,034 | 10,808 | 226 | 21,883 | 21,513 | 370 |
| Non−interest income | | | | | | |
| Premium revenue | 2,167 | 2,996 | (829) | 4,858 | 6,061 | (1,203) |
| Other income, net | 1,016 | 643 | 373 | 1,776 | 803 | 973 |
| Total | 3,183 | 3,639 | (456) | 6,634 | 6,864 | (230) |
| Total revenues, net | 20,596 | 21,929 | (1,333) | 41,211 | 43,518 | (2,307) |
| Total non−interest expenses | 11,648 | 13,343 | (1,695) | 24,020 | 23,575 | 445 |
| Income before income taxes | 8,948 | 8,586 | 362 | 17,191 | 19,943 | (2,752) |
| Income tax expense (benefit) | 385 | (81,225) | 81,610 | 516 | (77,070) | 77,586 |
| Net income | $ 8,563 | $ 89,811 | $ (81,248) | $ 16,675 | $ 97,013 | $ (80,338) |

(1) Excludes the impact of the REO sale from the securitized residential loan portfolio to the unencumbered residential loan portfolio that occurred in the three months ended March 31, 2010.

*Net Interest Income*

Our results of operations for our portfolio during a given period typically reflect the net interest spread earned on our residential loan portfolio. The net interest spread is impacted by factors such as the interest rate our residential loans are earning and our cost of funds. Furthermore, the amount of discount on the residential loans will impact the net interest spread as such amounts will be amortized over the expected term of the residential loans and the amortization will be accelerated due to voluntary prepayments. Loan losses due to defaults will also negatively impact our earnings.

The following table summarizes the average balance, interest and weighted−average yield on residential loan assets and mortgage−backed debt for the periods indicated.

| | For the Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Average Balance | Interest | (3) Yield | Average Balance | Interest | (3) Yield |
| Assets | | | | | | |
| Residential loans | $ 338,780 | $ 8,064 | 9.52% | $ 354,832 | $ 8,572 | 9.66% |
| Residential loans of securitization trusts | 1,296,295 | 33,818 | 10.44% | 1,384,796 | 36,105 | 10.43% |
| Total interest−earning assets | $1,635,075 | $ 41,882 | 10.25% | $1,739,628 | $ 44,677 | 10.27% |
| Liabilities | | | | | | |
| Mortgage−backed debt | $1,234,393 | $ 21,022 | 6.81% | $1,332,428 | $ 22,654 | 6.80% |
| Total interest−bearing liabilities | $1,234,393 | $ 21,022 | 6.81% | $1,332,428 | $ 22,654 | 6.80% |
| Net interest spread (1)(3) | | $ 20,860 | 3.44% | | $ 22,023 | 3.47% |
| Net interest margin (2)(3) | | | 5.10% | | | 5.06% |

| | For the Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Average Balance | Interest | (3) Yield | Average Balance | Interest | (3) Yield |
| Assets | | | | | | |
| Residential loans | $ 341,748 | $ 15,778 | 9.23% | $ 358,780 | $ 17,500 | 9.76% |
| Residential loans of securitization trusts | 1,305,500 | 67,732 | 10.38% | 1,398,307 | 73,006 | 10.44% |
| Total interest−earning assets | $1,647,248 | $ 83,510 | 10.14% | $1,757,087 | $ 90,506 | 10.30% |
| Liabilities | | | | | | |
| Mortgage−backed debt | $1,245,931 | $ 42,296 | 6.79% | $1,346,258 | $ 45,743 | 6.80% |
| Total interest−bearing liabilities | $1,245,931 | $ 42,296 | 6.79% | $1,346,258 | $ 45,743 | 6.80% |
| Net interest spread (1)(3) | | $ 41,214 | 3.35% | | $ 44,763 | 3.50% |
| Net interest margin (2)(3) | | | 5.00% | | | 5.10% |

(1) Net interest spread is calculated by subtracting the weighted average yield on interest−bearing liabilities from the weighted average yield on interest−earning assets.

(2) Net interest margin is calculated by dividing the net interest spread by total average interest−earning assets.

(3) Annualized.

*Net Interest Spread*

Net interest spread decreased for both the three and six months ended June 30, 2010 as compared to the same periods in 2009, due primarily to declining portfolio balances as a result of principal repayments and foreclosures, a decrease in voluntary prepayments and lower average outstanding borrowings as a result of principal payments on the mortgage−backed debt with no new issuances during the year. The average prepayment rate for the unencumbered portfolio was 3.9% and 3.4% for the three and six months ended June 30, 2010, respectively, as compared to 5.6% and 5.0% in the same periods of 2009, respectively. The average prepayment rate for the securitized portfolio was 2.8% and 2.7% for the three and six months ended June 30, 2010, respectively, as compared to 3.6% and 3.4% in the same periods of 2009, respectively.

*Net Interest Margin*

Net interest margin increased marginally for the three months ended June 30, 2010 as compared to the same period in 2009 due to improvements in non−performing assets which positively impacted residential loans previously designated as non−accrual status partially offset by lower outstanding balances and the impact of the decrease in prepayment speeds. Net interest margin decreased for the six months ended June 30, 2010 as compared to the same period in 2009 due to lower outstanding balances and the impact of the decrease in prepayment speeds.

*Provision for Loan Losses*

The increase in the unencumbered residential loan provision for loan losses for the three and six months ended June 30, 2010, as compared to the same periods in 2009 was primarily due to increased frequency of default offset by an improvement in loss severities.

The decrease in the securitized residential loan provision for loan losses for the three and six months ended June 30, 2010, as compared to the same periods in 2009 was primarily due to improved loss severities.

*Non−Interest Income*

The decrease in non−interest income for the three and six months ended June 30, 2010, as compared to the same periods in 2009 was primarily due to lower earned premiums from our insurance business, partially offset by the addition of mortgage advisory services revenue as a result of our Merger with Hanover in April 2009 as well as an improvement in taxes, insurance and other advances as a result of lower insurance advances and an increase in collections.

*Non−Interest Expenses*

The decrease in non−interest expenses for the three months ended June 30, 2010, as compared to the same period in 2009 was primarily due to one−time spin−off related legal and professional fees incurred in 2009 and lower claims expense resulting from lower active policy counts.

The increase in non−interest expenses for the six months ended June 30, 2010, as compared to the same period in 2009 was primarily due to the additional expenses incurred in order to support the stand−alone corporate functions required subsequent to the spin−off from Walter Energy and Merger with Hanover. Specifically, salaries and benefits increased due to additional employees to support the stand−alone company, additional stock compensation expense, as well as severance costs incurred in 2010. The salaries and benefits increase was partially offset by a decrease in claims expense due to fewer active policies and prior year claims in our insurance business, a decrease in legal and professional expenses that related primarily to the spin−off and Merger as well as no longer incurring related party corporate charges from our former parent.

*Income Taxes*

The change in income taxes for the three and six months ended June 30, 2010, as compared to the same periods in 2009 was due to our REIT qualification in conjunction with the spin−off from Walter Energy and Merger with Hanover. Our continued qualification as a REIT may limit our income tax expense to the activities of our TRSs.

***Additional Analysis of Residential Loan Portfolio***

*Allowance for Loan Losses*

The allowance for loan losses represents management's estimate of probable incurred credit losses inherent in our residential loan portfolio as of the balance sheet date. The determination of the level of the allowance for loan losses and, correspondingly, the provision for loan losses, is based on delinquency levels and trends, prior loan loss severity experience, and management's judgment and assumptions regarding various matters, including the composition of the residential loan portfolio, the estimated value of the underlying real estate collateral, the level of the allowance in relation to total loans and to historical loss levels, national and local economic conditions, changes in unemployment levels and the impact that changes in interest rates have on a borrower's ability to refinance their loan and to meet their repayment obligations. Management continuously evaluates these assumptions and various other relevant factors impacting credit quality and inherent losses when quantifying our exposure to credit losses and assessing the adequacy of our allowance for such losses as of each reporting date. The level of the allowance is adjusted based on the results of management's analysis.

Given continuing pressure on residential property values, especially in our southeastern U.S. market, continued high unemployment and a generally uncertain economic backdrop, we expect the allowance for loan losses to continue to remain elevated until such time as we experience a sustained improvement in the credit quality of the residential loan portfolio. The future growth of the allowance is highly correlated to unemployment levels and changes in home prices within our markets.

While we consider the allowance for loan losses to be adequate based on information currently available, future adjustments to the allowance may be necessary due to changes in economic conditions, delinquency levels, foreclosure rates, loss severity rates, and further declines in real estate values.

The following table shows information about the allowance for losses by portfolio for the periods presented.

| | Allowance for Loan Losses | Allowance as a % of Residential Loans (1) | Net Losses and Charge−offs Deducted from the Allowance | Net Losses and Charge−offs as a % of Average Residential Loans (2) |
|---|---|---|---|---|
| | (in thousands) | | | |
| Residential loans: | | | | |
| June 30, 2010 | $ 3,320 | 0.96% | $ 6,448(3) | 1.89%(3)(4) |
| December 31, 2009 | $ 3,460 | 1.03% | $ 4,317 | 1.23% |
| Residential loans of securitization trusts: | | | | |
| June 30, 2010 | $ 13,413 | 1.04% | $ 8,682(3) | 0.67%(3)(4) |
| December 31, 2009 | $ 14,201 | 1.07% | $ 12,173 | 0.89% |

(1) The allowance for loan loss ratio is calculated as period end allowance for loan losses divided by period end residential loans, by portfolio type, before the allowance for loan losses.

(2) The charge off ratio is calculated as charge−offs, net of recoveries divided by average residential loans, by portfolio type, before the allowance for loan losses.

(3) Annualized.

(4) Excludes the impact of the REO sale from the securitized residential loan portfolio to the unencumbered residential loan portfolio in February 2010.

The following table summarizes activity in the allowance for loan losses in our residential loan portfolios, net for the six months ended June 30, 2010 and 2009 (in thousands):

| | Residential Loans Six Months Ended June 30, | | Residential Loans of Securitization Trusts Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Balance, December 31 | $ 3,460 | $ 3,418 | $ 14,201 | $ 15,551 |
| Provision charged to income | 1,399 | 1,269 | 1,791 | 3,107 |
| Less: Charge−offs, net of recoveries | (1,475) | (1,314) | (2,052) | (3,549) |
| Balance, March 31 | 3,384 | 3,373 | 13,940 | 15,109 |
| Provision charged to income | 1,685 | 1,090 | 1,762 | 2,643 |
| Less: Charge−offs, net of recoveries | (1,749) | (1,025) | (2,289) | (2,883) |
| Balance, June 30 | $ 3,320 | $ 3,438 | $ 13,413 | $ 14,869 |

*Delinquency Information*

The following table presents information about delinquencies as a percent of amounts outstanding in our residential loan portfolios:

| | Residential Loans | | Residential Loans of Securitization Trusts | |
|---|---|---|---|---|
| | June 30, 2010 | December 31, 2009 | June 30, 2010 | December 31, 2009 |
| Principal balance outstanding (in thousands) | $379,065 | $ 365,797 | $1,407,673 | $ 1,454,062 |
| 31−60 days | 2.37% | 1.98% | 1.10% | 1.17% |
| 61−90 days | 0.94% | 1.53% | 0.50% | 0.54% |
| 91 days or more | 4.30% | 5.84% | 1.78% | 2.74% |
| | 7.61% | 9.35% | 3.38% | 4.45% |

The following table presents information about delinquencies as a percent of the total number of loans outstanding in our residential loan portfolios:

| | Residential Loans | | Residential Loans of Securitization Trusts | |
|---|---|---|---|---|
| | June 30, 2010 | December 31, 2009 | June 30, 2010 | December 31, 2009 |
| Total number of residential loans | 4,150 | 3,703 | 29,569 | 30,502 |
| 31−60 days | 2.39% | 1.84% | 1.01% | 1.07% |
| 61−90 days | 0.99% | 1.51% | 0.38% | 0.47% |
| 91 days or more | 3.54% | 5.51% | 1.39% | 2.15% |
| | 6.92% | 8.86% | 2.78% | 3.69% |

The past due or delinquency status is generally determined based on the contractual payment terms. The calculation of delinquencies excludes from delinquent amounts those accounts that are in bankruptcy proceedings that are paying their mortgage payments in contractual compliance with the bankruptcy court approved mortgage payment obligations.

The following table summarizes our residential loans placed in non−accrual status due to delinquent payments of 90 days past due or greater:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Residential loans | | |
| Number of loans | 147 | 204 |
| Balance (in millions) | $15.8 | $ 21.4 |
| Residential loans of securitization trusts | | |
| Number of loans | 411 | 656 |
| Balance (in millions) | $25.0 | $ 39.8 |
| Total | | |
| Number of loans | 558 | 860 |
| Balance (in millions) | $40.8 | $ 61.2 |

*Portfolio Characteristics*

The weighted average original loan−to−value, or LTV, dispersion of our portfolios is as follows:

| | Residential Loans | | Residential Loans of Securitization Trusts | |
|---|---|---|---|---|
| | June 30, 2010 | December 31, 2009 | June 30, 2010 | December 31, 2009 |
| Weighted Average LTV | 88.00% | 88.00% | 89.00% | 89.00% |
| 0.00 − 70.00 | 3.67% | 3.91% | 0.93% | 0.95% |
| 70.01 − 80.00 | 6.30% | 6.88% | 1.93% | 1.93% |
| 80.01 − 90.00(1) | 45.98% | 43.56% | 76.70% | 76.90% |
| 90.01 − 100.00 | 44.05% | 45.65% | 20.44% | 20.22% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% |

(1) For those residential loans in the portfolio prior to electronic tracking of original LTVs, the maximum LTV was 90%, or 10% equity. Thus, these residential loans have been included in the 80.01 to 90.00 LTV category.

Original LTVs do not include additional value contributed by the borrower to complete the home. This additional value typically was created by the installation and completion of wall and floor coverings, landscaping, driveways and utility connections in more recent periods.

Current LTVs are not readily determinable given the rural geographic distribution of our portfolio which precludes us from obtaining reliable comparable sales information to utilize in valuing the collateral.

The weighted average FICO score dispersion of the loans in our residential loan portfolios, refreshed as of December 31, 2009, is as follows:

| | Residential Loans | | Residential Loans of Securitization Trusts | |
|---|---|---|---|---|
| | June 30, 2010 | December 31, 2009 | June 30, 2010 | December 31, 2009 |
| Weighted Average FICO | 567 | 566 | 584 | 583 |
| <=600 | 63.08% | 62.77% | 55.18% | 54.90% |
| 601 − 640 | 11.63% | 11.07% | 14.02% | 13.97% |
| 641 − 680 | 6.96% | 6.84% | 8.82% | 8.85% |
| 681 − 720 | 4.61% | 4.55% | 4.92% | 4.99% |
| 721 − 760 | 2.36% | 2.42% | 2.94% | 2.94% |
| 761−800 | 1.81% | 2.01% | 2.39% | 2.46% |
| >=801 | 0.76% | 0.84% | 0.98% | 0.99% |
| Unknown or unavailable | 8.79% | 9.50% | 10.75% | 10.90% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% |

Our residential loans are concentrated in the following states:

| | Residential Loans | | Residential Loans of Securitization Trusts | |
|---|---|---|---|---|
| | June 30, 2010 | December 31, 2009 | June 30, 2010 | December 31, 2009 |
| Texas | 35.88% | 33.85% | 34.22% | 33.92% |
| Mississippi | 12.44% | 12.86% | 16.14% | 16.11% |
| Alabama | 9.68% | 10.25% | 8.35% | 8.31% |
| Louisiana | 7.82% | 8.00% | 6.15% | 6.15% |
| Florida | 8.78% | 9.38% | 5.23% | 5.25% |
| South Carolina | 6.37% | 6.73% | 5.56% | 5.63% |
| Other (1) | 19.03% | 18.93% | 24.35% | 24.63% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% |

(1) Other consists of loans in 25 states, individually representing a concentration of less than 5%.

Our residential loans outstanding as of June 30, 2010 were originated in the following periods:

| | Residential Loans | Residential Loans of Securitization Trusts |
|---|---|---|
| Year 2010 Origination | 3.24% | 2.19% |
| Year 2009 Origination | 4.83% | 3.02% |
| Year 2008 Origination | 28.51% | 1.96% |
| Year 2007 Origination | 54.43% | 1.59% |
| Year 2006 Origination | 6.60% | 12.83% |
| Year 2005 Origination | 0.32% | 10.37% |
| Year 2004 Origination and earlier | 2.07% | 68.04% |
| Total | 100.00% | 100.00% |

*Real Estate Owned*

The following table presents information about foreclosed property (dollars in thousands):

| | Real Estate Owned Related to the Residential Loan Portfolio | | Real Estate Owned Related to the Residential Loans of Securitization Trusts | |
|---|---|---|---|---|
| | Units | Balance | Units | Balance |
| Balance, December 31, 2009 | 271 | $ 21,981 | 760 | $ 41,143 |
| Foreclosures, net of fair value adjustments | 177 | 14,172 | 534 | 27,925 |
| Purchases from the securitized residential loan portfolio | 72 | 3,882 | — | — |
| Sales to the residential loan portfolio | — | — | (72) | (3,882) |
| Sales to third parties | (176) | (13,072) | (585) | (29,974) |
| Balance, June 30, 2010 | 344 | $ 26,963 | 637 | $ 35,212 |

During February 2010, we purchased, at our discretion, 72 Mid−State Trust X, or Trust X, REO accounts in order to cure the loss trigger. We purchased these accounts for approximately $3.9 million which was the economic value of the accounts as defined by the Trust agreement. As a result of this transaction, on February 16, 2010 we received a $4.2 million release of excess overcollateralization and we continue to receive monthly cash releases from Trust X. The purchased REO accounts are now included in the unencumbered REO balance.

**Liquidity and Capital Resources**

***Overview***

Our principal sources of funds are our existing cash balances, monthly principal and interest payments we receive from our unencumbered residential loan portfolio, cash releases from our securitized residential loan portfolio, proceeds from our secondary offering and other financing activities. We generally use our liquidity for our operating costs, to make additional investments, and to make dividend payments.

Our securitization trusts are consolidated for financial reporting purposes under GAAP. Our results of operations and cash flows include the activity of these Trusts. The cash proceeds from the repayment of the collateral held in securitization trusts are owned by the Trusts and serve to only repay the obligations of the Trusts unless certain overcollateralization or other similar targets are satisfied. Principal and interest on the mortgage−backed debt of the Trusts can only be paid if there are sufficient cash flows from the underlying collateral. As of June 30, 2010, total debt decreased $43.0 million as compared to December 31, 2009.

The securitization trusts contain delinquency and loss triggers, that, if exceeded, result in any excess overcollateralization going to pay down our outstanding mortgage−backed and asset−backed notes for that particular securitization at an accelerated pace. Assuming no servicer trigger events have occurred and the overcollateralization targets have been met, any excess cash flow is released to the Company either monthly or quarterly, in accordance with the terms of the respective underlying trust agreements. As of June 30, 2010, Mid−State Trust 2006−1, or Trust 2006−1, exceeded certain triggers and did not provide any excess cash flow to us. The delinquency trigger for Mid−State Trust 2005−1, or Trust 2005−1, cured during the three months ended June 30, 2010. The loss trigger for Trust X cured during the three months ended March 31, 2010. With the exception of Trust 2006−1 which exceeded its trigger and the recently cured Trust 2005−1 and Trust X, none of our other securitization trusts have reached the levels of underperformance that would trigger a delay in cash releases.

We believe that, based on current forecasts and anticipated market conditions, funding generated from the residential loans and the proceeds from our recent secondary offering will be sufficient to meet operating needs, to invest in residential loans, to make planned capital expenditures and to pay cash dividends as required for our qualification as a REIT. However, our operating cash flows and liquidity are significantly influenced by numerous factors, including the general economy, interest rates and, in particular, conditions in the mortgage markets.

***Mortgage−Backed Debt***

We have historically funded our residential loans through the securitization market. As of June 30, 2010, we had nine separate non−recourse securitization trusts where we service the underlying collateral and one non−recourse securitization trust for which we do not service the underlying collateral. These ten trusts have an aggregate of $1.2 billion of outstanding debt, collateralized by residential loans, REO and restricted cash with a principal balance of $1.5 billion. All of our mortgage−backed debt is non−recourse and not cross−collateralized and, therefore, must be satisfied exclusively from the proceeds of the residential loans and REO held in each securitization trust. As we retained the residual interests in the securitizations and significantly direct the activities of the securitization trusts, we have consolidated the securitization entities and treat the residential loans as our assets and the related mortgage−backed debt as our debt.

Borrower remittances received on the residential loan collateral held in securitization trusts are used to make payments on the mortgage−backed debt. The maturity of the mortgage−backed debt is directly affected by principal prepayments on the related residential loan collateral. As a result, the actual maturity of the mortgage−backed debt is likely to occur earlier than the stated maturity. Certain of our mortgage−backed debt are also subject to redemption according to specific terms of the respective indenture agreements.

***Credit Agreements***

In April 2009, we entered into a syndicated credit agreement, a revolving credit agreement and security agreement, and a support letter of credit agreement. All three of these agreements mature on April 20, 2011. As of June 30, 2010, no funds have been drawn under any of the credit agreements and we are in compliance with all covenants.

***Sources and Uses of Cash***

One of the financial metrics on which we focus is our sources and uses of cash. As a supplement to the Consolidated Statements of Cash Flows included in this Quarterly Report on Form 10−Q, we provide the table below which sets forth, for the periods indicated, our sources and uses of cash (in millions). The cash balance at the beginning and ending of each period of 2010 and 2009 are GAAP amounts and the sources and uses of cash are organized in a manner consistent with how management monitors the cash flows of our business. The presentation of our sources and uses of cash for the table below is derived by aggregating and netting all items within our GAAP Consolidated Statements of Cash Flows for the respective periods. The table excludes the gross cash flows generated by our securitization trusts as those amounts are generally not available to us. The table does include the cash releases distributed to us as a result of our investment in the residual interests of the securitization trusts.

| | Six Months Ended June 30, | |
|---|---|---|
| | **2010** | **2009** |
| Beginning cash and cash equivalents balance | $ 99.3 | $ 1.3 |
| Principal sources of cash: | | |
| Cash collections from the unencumbered portfolio | 24.6 | 29.5 |
| Cash releases from the securitized portfolio | 27.1 | 17.0 |
| Net cash flow from ancillary businesses | 5.5 | 5.0 |
| | 57.2 | 51.5 |
| Other sources of cash: | | |
| Cash received from Walter Energy | — | 15.4 |
| Other | 0.4 | 2.4 |
| Total sources of cash | 57.6 | 69.3 |
| Principal uses of cash: | | |
| Acquisition of REO from the securitized portfolio | (3.9) | — |
| Operating expenses paid | (22.0) | (25.3) |
| | (25.9) | (25.3) |
| Other uses of cash: | | |
| Dividends paid | (26.6) | — |
| Loan pool acquisitions | (19.7) | — |
| Cash paid to Walter Energy | — | (15.3) |
| Capital expenditures | (0.1) | (2.1) |
| Other | (5.3) | (7.0) |
| Total uses of cash | (77.6) | (49.7) |
| Net (uses) sources of cash | (20.0) | 19.6 |
| Ending cash and cash equivalents balance | $ 79.3 | $ 20.9 |

Our principal business cash flows are those associated with managing our portfolio and totaled $31.3 million for the six months ended June 30, 2010, up $5.1 million from the six months ended June 30, 2009, due to an increase of cash releases from our securitized portfolio of $10.1 million, a $0.5 million increase in net cash provided by our ancillary businesses, and a decrease of

$3.3 million of cash operating expenses primarily due to lower insurance premiums and non−recurring expenses incurred in 2009 as well as $1.2 million of one−time spin−off costs incurred in the six months ended June 30, 2009. This was partially offset by a decrease of cash collections from our unencumbered residential loan portfolio of $4.9 million due to the declining balance nature of our portfolio and a decline in the level of voluntary prepayments.

Cash of $3.9 million was used to acquire REO from Trust X within the securitized residential loan portfolio. The cash utilized to acquire REO from Trust X resulted in subsequent monthly cash releases totaling $10.5 million through June 30, 2010, from Trust X with the remaining overcollateralization expected to be released in early 2011. The release of overcollateralization was a direct result of the loss trigger being cured. Once the overcollateralization from Trust X has been released and assuming that the loss trigger remains cured, Trust X cash releases will consist of servicing fees and residual cash flows, similar to our other securitization trusts.

Cash releases from the securitized portfolio consist of servicing fees and residual cash flows from residential loans held as securitized collateral within the securitization trusts after distributions are made to bondholders of the securitized mortgage−backed debt to the extent required credit enhancements are maintained and the delinquency and loss triggers are not exceeded. These cash flows represent the difference between principal and interest payments received on the underlying residential loans reduced by principal payments, including accelerated payments, if any, on the securitized mortgage−backed debt; interest paid on the securitized mortgage−backed debt; actual losses, net of any gains incurred upon disposition of REO; and the maintenance of overcollateralization requirements.

Our net other cash use totaled $51.3 million for the six months ended June 30, 2010, up $44.7 million from the six months ended June 30, 2009, primarily due to dividends paid to stockholders and the acquisition of loan pools, partially offset by the termination of transactions with Walter Energy as a result of our spin−off.

During the quarter ended June 30, 2010, we deployed $19.7 million of the proceeds from our secondary offering to purchase two pools of residential loans. We intend to invest the remainder of the proceeds from the secondary offering in our targeted asset classes. We expect our future sources of cash will continue to be generated from our existing residential loan portfolios, as well as from future acquisitions of residential loans. If conditions in the securitization market improve, we may securitize in the future. Additionally, we expect that our future cash operating expenses will be relatively consistent with annualized fourth quarter 2009 actual results as a stand−alone entity.

The following table sets forth, for the periods indicated, selected consolidated cash flow information (in thousands):

| | For the Six Months Ended June 30, | |
|---|---|---|
| | **2010** | **2009** |
| Cash flows provided by operating activities | $ 18,554 | $ 25,192 |
| Cash flows provided by investing activities | 30,879 | 56,155 |
| Cash flows used in financing activities | (69,449) | (61,813) |
| Net increase (decrease) in cash and cash equivalents | $ (20,016) | $ 19,534 |

*Operating activities.* Net cash provided by operating activities was $18.6 million for the six months ended June 30, 2010 as compared to $25.2 million for the same period in 2009. During the six months ended June 30, 2010 and 2009, the primary sources of cash in operating activities were the income generated from our portfolio and our ancillary businesses.

*Investing activities.* Net cash provided by investing activities was $30.9 million for the six months ended June 30, 2010 as compared to $56.2 million for the same period in 2009. For the six months ended June 30, 2010 and 2009, the primary source of cash from investing activities was provided by principal payments received on our residential loans, which was partially offset by the acquisition of pools of residential loans in the 2010 period.

*Financing activities.* Net cash used in financing activities was $69.4 million for the six months ended June 30, 2010 as compared to $61.8 million for the same period in 2009. For the six months ended June 30, 2010 and 2009, the primary uses of cash in financing activities were principal payments on our mortgage−backed debt as well as the payment of dividends to our stockholders.

**Off−Balance Sheet Arrangements**

As of June 30, 2010, we retained credit risk on 14 remaining mortgage securities totaling $1.6 million that were sold with recourse by Hanover in a prior year. Accordingly, we are responsible for credit losses, if any, with respect to these securities.

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, special purpose or variable interest entities, which would have been established for the purpose of facilitating off−balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, and have not entered into any derivative contracts or synthetic leases. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

**Dividends**

As a REIT, we are required to have declared dividends amounting to at least 90% of our net taxable income (excluding net capital gain) for each year by the time our U.S. federal tax return is filed. Therefore, a REIT generally passes through substantially all of its earnings to stockholders without paying U.S. federal income tax at the corporate level.

As of June 30, 2010, we expect to pay dividends to our stockholders of all or substantially all of our earnings in each year to qualify for the tax benefits accorded to a REIT under the Code. All distributions will be made at the discretion of our Board of Directors and will depend on our operating results, estimates of taxable earnings, cash flows and liquidity, maintenance of REIT qualification and such other factors as the Board of Directors deems relevant.

On August 3, 2010, we declared a dividend of $0.50 per share on our common stock to stockholders of record on August 13, 2010 which will be paid on August 27, 2010.

**Item 3.** ***Quantitative and Qualitative Disclosures About Market Risk***

**Qualitative Information on Market Risk**

We seek to manage the risks inherent in our business — including but not limited to credit risk, interest rate risk, prepayment risk, liquidity risk, real estate risk and inflation risk — in a prudent manner designed to enhance our earnings and dividends and preserve our capital. In general, we seek to assume risks that can be quantified from historical experience, to actively manage such risks, and to maintain capital levels consistent with these risks.

***Credit Risk***

Credit risk is the risk that we will not fully collect the principal we have invested in residential loans due to borrower defaults. Our portfolio as of June 30, 2010 consisted of securitized residential loans with a principal balance of $1.4 billion and approximately $0.4 billion of unencumbered residential loans.

The residential loans were principally originated by or for JWH prior to our spin−off from Walter Energy. These are predominantly credit−challenged, non−conforming loans with an average LTV ratio at origination of approximately 89% and average borrower credit score of 580. While we feel that our origination and underwriting of these loans will help to mitigate the risk of significant borrower default on these loans, we cannot assure you that all borrowers will continue to satisfy their payment obligations under these loans, thereby avoiding default.

The $1.5 billion of residential loans and other collateral of securitization trusts are permanently financed with $1.2 billion of mortgage−backed debt leaving us with a net credit exposure of $258.3 million, which approximates our residual interest in the securitization trusts.

When we purchase residential loans, the credit underwriting process will vary depending on the pool characteristics, including loan seasoning or age, LTV ratios, payment histories and counterparty representations and warranties. We will perform a due diligence review of potential acquisitions which may include a review of the residential loan documentation, appraisal reports and credit underwriting. Generally, an updated property valuation is obtained.

***Interest Rate Risk***

Interest rate risk is the risk of changing interest rates in the market place. Our primary interest rate risk exposures relate to the interest rates on mortgage−backed debt of the Trusts and the yields on our residential loan portfolios and prepayments thereof.

Our fixed−rate residential loan portfolio had $1.8 billion of unpaid principal as of June 30, 2010 and December 31, 2009, and fixed−rate mortgage−backed debt was $1.2 billion and $1.3 billion as of June 30, 2010 and December 31, 2009, respectively. The fixed rate nature of these instruments and their offsetting positions effectively mitigate significant interest rate risk exposure from these instruments. If interest rates decrease, we may be exposed to higher prepayment speeds. This could result in a modest increase in short−term profitability. However, it could adversely impact long−term profitability as a result of a shrinking portfolio. Changes in interest rates may impact the fair value of these financial instruments.

***Prepayment Risk***

Prepayment risk is the risk that borrowers will pay more than their required monthly mortgage payment including payoffs of residential loans. When borrowers repay the principal on their residential loans before maturity, or faster than their scheduled amortization, the effect is to shorten the period over which interest is earned, and therefore, increases the yield for residential loans purchased at a discount to their then current balance, as with the majority of our portfolio. Conversely, residential loans purchased at a premium to their then current balance exhibit lower yields due to faster prepayments. Historically, when market interest rates declined, borrowers had a tendency to refinance their residential loans, thereby increasing prepayments. However, with tightening credit standards, the current low interest rate environment has not yet resulted in higher prepayments. Increases in residential loan prepayment rates could result in GAAP earnings volatility including substantial variation from quarter to quarter.

We monitor prepayment risk through periodic reviews of the impact of a variety of prepayment scenarios on revenues, net earnings, dividends, and cash flow.

***Liquidity Risk***

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay mortgage−backed debt of the Trusts, fund and maintain the portfolio, pay dividends to our stockholders and other general business needs. We recognize the need to have funds available to operate our business. It is our policy to have adequate liquidity at all times.

Our principal sources of liquidity are the mortgage−backed debt of the Trusts we have issued to finance our residential loans held in securitization trusts, the principal and interest payments received from unencumbered residential loans, cash releases from our securitized loan portfolio, cash proceeds from our secondary offering and other financing activities. We expect these sources of funds will be sufficient to meet our liquidity requirements.

Our unencumbered and securitized mortgage loans are accounted for as held−for−investment and reported at amortized cost. Thus, changes in the fair value of the residential loans do not have an impact on our liquidity. However, the delinquency and loss triggers discussed previously may impact our liquidity. Our obligations consist solely of mortgage−backed debt issued by our securitization trusts. Changes in fair value of mortgage−backed debt generally have no impact on our liquidity. Mortgage−backed debt issued by the securitization trusts are reported at amortized cost as are the residential loans collateralizing the debt.

***Real Estate Risk***

We own assets secured by real property and own property directly as a result of foreclosures. 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); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses.

***Inflation Risk***

Virtually all of our assets and liabilities are financial in nature. As a result, changes in interest rates and other factors influence our performance far more so than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our consolidated financial statements are prepared in accordance with GAAP. Our activities and balance sheets are measured with reference to historical cost or fair value without considering inflation.

***Effect of Government Initiatives on Market Risk***

As a result of ongoing challenges facing the United States economy, new laws and regulations have been and may continue to be proposed that impact the financial services industry. On July 21, 2010, the Dodd−Frank Wall Street Reform and Consumer Protection Act, or the Act, was enacted and signed into law. The Act includes, among other things, provisions establishing a Bureau of Consumer Financial Protection, which will have broad authority to develop and implement rules regarding most consumer financial products, including provisions addressing mortgage reform as well as provisions affecting corporate governance and executive compensation at all publicly−traded companies. The Act also requires securitizers of asset−backed securities to retain an economic interest (generally 5%) in the credit risk of the securitized asset. Many aspects of the law are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact to our Company or the financial services industry.

**Quantitative Information on Market Risk**

Our future earnings are sensitive to a number of market risk factors; changes in these factors may have a variety of secondary effects that, in turn, will also impact our earnings. To supplement this discussion on the market risk we face, the following table incorporates information that may be useful in analyzing certain market risks.

The table presents principal cash flows by year of repayment. The timing of principal cash flows includes assumptions on the prepayment speeds of assets based on their recent performance and future prepayment expectations. Our future results depend greatly on the credit performance of the underlying loans (this table assumes no credit losses).

| | Principal Amounts Maturing and Effective Rates During Period | | | | | | At June 30, 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Q3−Q4 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter | Principal Value | Book Value | Fair Value |
| **Residential loans** | | | | | | | | | |
| Principal | $ 8,107 | $ 18,116 | $ 19,112 | $ 18,335 | $ 17,467 | $ 297,928 | $ 379,065 | $ 343,080 | $ 317,000 |
| **Residential loans of securitization trusts** | | | | | | | | | |
| Principal | 46,158 | 93,508 | 90,817 | 87,175 | 82,564 | 1,007,451 | 1,407,673 | 1,272,676 | 1,270,000 |
| **Mortgage−backed debt** | | | | | | | | | |
| Principal | 41,599 | 99,564 | 95,205 | 91,945 | 88,584 | 808,095 | 1,224,992 | 1,224,407 | 1,165,000 |

Approximately 99% of residential loans have fixed interest rates. Residential loans with adjustable interest rates comprise only $1.2 million of the unencumbered loans and $19.0 million of the securitized loans. Similarly, all of our mortgage−backed debt of securitization trusts is fixed rate. The weighted−average coupon is 9.2% for residential loans, 9.1% for residential loans of securitization trusts and 6.6% for mortgage−backed debt.

**Item 4.** ***Controls and Procedures***

(a) *Evaluation of Disclosure Controls and Procedures*. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a−15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings.

(b) *Changes in Internal Controls*. There have been no changes in our internal control over financial reporting during our second quarter ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

**Item 1.** ***Legal Proceedings***

See Part II, Item 1, “Legal Proceedings,” of our Quarterly Report on Form 10−Q for the three months ended March 31, 2010 filed on May 5, 2010. See also the item under Note 17 entitled “Other Tax Exposure”.

**Item 1A.** ***Risk Factors***

For risk factors, see Item 1A, “Risk Factors,” of our Annual Report on Form 10−K for the year ended December 31, 2009. Our risk factors have not changed materially since December 31, 2009.

**Item 2.** ***Unregistered Sales of Equity Securities and Use of Proceeds***

(a) Not applicable.
(b) Not applicable.
(c) Not applicable.

**Item 3.** ***Defaults Upon Senior Securities***

None.

**Item 4.** ***Removed and Reserved***

**Item 5.** ***Other Information***

None.

**Item 6.** ***Exhibits***

The exhibits listed on the Exhibit Index, which appears immediately following the signature page below, are included or incorporated by reference herein.

**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 thereunto duly authorized.

WALTER INVESTMENT MANAGEMENT CORP.

By: /s/ Mark J. O'Brien
Mark J. O'Brien
*Chief Executive Officer*
*(Principal Executive Officer)*

Dated: August 9, 2010

By: /s/ Kimberly A. Perez
Kimberly A. Perez
*Vice President and Chief Financial Officer*
*(Principal Financial Officer and*
*Principal Accounting Officer)*

Dated: August 9, 2010

## INDEX TO EXHIBITS

| Exhibit No | Notes | Description |
|---|---|---|
| 2.1 | (1) | Second Amended and Restated Agreement and Plan of Merger dated as of February 6, 2009, among Registrant, Walter Industries, Inc., JWH Holding Company, LLC, and Walter Investment Management LLC. |
| 2.2 | (1) | Amendment to the Second Amended and Restated Agreement and Plan of Merger, entered into as of February 17, 2009 between Registrant, Walter Industries, Inc., JWH Holding Company, LLC and Walter Investment Management LLC |
| 3.1 | (2) | Articles of Amendment and Restatement of Registrant effective April 17, 2009. |
| 3.2 | (2) | By−Laws of Registrant, effective April 17, 2009. |
| 10.1 | (3) | Amendment No. 2 dated June 23, 2010 to Revolving Credit Agreement between the Registrant as borrower, Regions Bank as syndication agent, SunTrust Bank as administrative agent, and the additional lenders thereto. |
| 31.1 | (3) | Certification by Mark J. O'Brien pursuant to Securities Exchange Act Rule 13a−14(a), as Adopted Pursuant to Section 302 of the Sarbanes−Oxley Act of 2002. |
| 31.2 | (3) | Certification by Kimberly A. Perez pursuant to Securities Exchange Act Rule 13a−14(a), as Adopted Pursuant to Section 302 of the Sarbanes−Oxley Act of 2002. |
| 32 | (3) | Certification by Mark J. O'Brien and Kimberly A. Perez pursuant to 18 U.S.C. Section 1352, as Adopted Pursuant to Section 906 of the Sarbanes−Oxley Act of 2002 |

| Note | Notes to Exhibit Index |
|---|---|
| (1) | Incorporated herein by reference to the Annexes to the proxy statement/ prospectus forming a part of Amendment No. 4 to the Registrant's Registration Statement on Form S−4, Registration No. 333−155091, as filed with the Securities and Exchange Commission on February 17, 2009. |
| (2) | Incorporated herein by reference to Registrant's Current Report on Form 8−K filed with the Securities and Exchange Commission on April 21, 2009. |
| (3) | Filed herewith |

**Exhibit 10.1**
***Execution Version***

**SECOND AMENDMENT TO REVOLVING CREDIT AGREEMENT**

**THIS SECOND AMENDMENT TO REVOLVING CREDIT AGREEMENT** (this ***"Amendment"),*** is made and entered into as of June 23, 2010, by and among WALTER INVESTMENT MANAGEMENT CORP., a Maryland corporation (the ***"Borrower"),*** the several banks and other financial institutions from time to time party hereto (collectively, the ***"Lenders")*** and SUNTRUST BANK, in its capacity as Administrative Agent for the Lenders (the ***"Administrative Agent").***

**W I T N E S S E T H:**

WHEREAS, the Borrower, the Lenders and the Administrative Agent are parties to a certain **Revolving** Credit Agreement, dated as of April 20, 2009, and amended by that certain First Amendment to Revolving Credit Agreement dated as of February 16, 2010, (as so amended and as further amended, restated, supplemented or otherwise modified from time to time, the ***"Credit Agreement";*** capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement), pursuant to which the Lenders have made certain financial accommodations available to the Borrower;

WHEREAS, the Borrower has requested that the Lenders and the Administrative Agent amend certain provisions of the Credit Agreement, and subject to the terms and conditions hereof, the Lenders are willing to do so;

NOW, THEREFORE, for good and valuable consideration, the sufficiency and receipt of all of which are acknowledged, the Borrower, the Lenders and the Administrative Agent agree as follows:

1. **Amendments.**

(a) Section 1.1 of the Credit Agreement is hereby amended by (i) deleting the definition of "Unencumbered Assets" and (ii) replacing the definition of "Revolving Commitment Termination Date" in its entirety with the following definition:

"Revolving Commitment Termination Date" shall mean the earliest of (i) (A) April 13, 2011 for Revolving Commitments and (B) April 8, 2011 for the Swingline Commitments and the LC Commitments, (ii) the date on which the Revolving Commitments are terminated pursuant to Section 2.8, (iii) the date on which the Administrative Agent draws on the Support Letter of Credit and (iv) the date on which all amounts outstanding under this Agreement have been declared or have automatically become due and payable (whether by acceleration or otherwise).

(b) Section 6.1 of the Credit Agreement is hereby amended by replacing such Section in its entirety with the following:

**Section 6.1 [Reserved.]**

(c) Section 7.6 of the Credit Agreement is hereby amended by adding the word "and" to the end of clause (c) thereof, replacing "; and" at the end of clause (d) thereof with "." and deleting clause (e) thereof in its entirety.

(d) Section 7.8 of the Credit Agreement is hereby amended by replacing clause (iv) of the proviso thereto in its entirety with the following:

(iv) clause (a) shall not apply to restrictions or conditions imposed by any agreement governing Indebtedness permitted under Sections 7.1(h) or (i)

2. **Conditions to Effectiveness of this Amendment.** Notwithstanding any other provision of this Amendment and without affecting in any manner the rights of the Lenders hereunder, it is understood and agreed that this Amendment shall not become effective, and the Borrower shall have no rights under this Amendment, until the Administrative Agent shall have received (i) reimbursement or payment of its costs and expenses incurred in connection with this Amendment or the Credit Agreement (including reasonable fees, charges and disbursements of King & Spalding LLP, counsel to the Administrative Agent), and (ii) executed counterparts to this Amendment from the Borrower, each of the Subsidiary Loan Parties and the Lenders.

3. **Representations and Warranties.** To induce the Lenders and the Administrative Agent to enter into this Amendment, the Borrower hereby represents and warrants to the Lenders and the Administrative Agent:

(a) The Borrower and each of its Subsidiaries (i) is duly organized, validly existing and in good standing as a corporation, partnership or limited liability company under the laws of the jurisdiction of its organization, (ii) has all requisite power and authority to carry on its business as now conducted, and (iii) is duly qualified to do business, and is in good standing, in each jurisdiction where such qualification is required, except where a failure to be so qualified could not reasonably be expected to result in a Material Adverse Effect;

(b) The execution, delivery and performance by each Loan Party of the Loan Documents to which it is a party are within such Loan Party's organizational powers and have been duly authorized by all necessary organizational, and if required, shareholder, partner or member, action;

(c) The execution, delivery and performance by the Borrower of this Agreement, and by each Loan Party of the other Loan Documents to which it is a party (i) do not require any consent or approval of, registration or filing with, or any action by, any Governmental Authority, except those as have been obtained or made and are in full force and effect, (ii) will not violate any Requirements of Law applicable to the Borrower or any of its Subsidiaries or any judgment, order or ruling of any Governmental Authority, (iii) will not violate or result in a default under any indenture, agreement or other instrument binding on the Borrower or any of its Subsidiaries or any of its assets or give rise to a right thereunder to require any payment to be made by the Borrower or any of its Subsidiaries and (iv) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries;

(d) This Amendment has been duly executed and delivered for the benefit of or on behalf of each Loan Party and constitutes a valid and binding obligation of each Loan Party, enforceable against such Loan Party in accordance with its terms except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity; and

(e) After giving effect to this Amendment, the representations and warranties contained in the Credit Agreement and the other Loan Documents are true and correct in all material respects, and no Default or Event of Default has occurred and is continuing as of the date hereof.

4. **Reaffirmation of Subsidiary Guaranty Agreement.** Each Subsidiary Loan Party consents to the execution and delivery by the Borrower of this Amendment and jointly and severally ratify and confirm the terms of the Subsidiary Guaranty Agreement with respect to the indebtedness now or hereafter outstanding under the Credit Agreement as amended hereby and all promissory notes issued thereunder. Each Subsidiary Loan Party acknowledges that, notwithstanding anything to the contrary contained herein or in any other document evidencing any indebtedness of the Borrower to the Lenders or any other obligation of the Borrower, or any actions now or hereafter taken by the Lenders with respect to any obligation of the Borrower, the Subsidiary Guaranty Agreement (i) is and shall continue to be a primary obligation of the Subsidiary Loan Parties, (ii) is and shall continue to be an absolute, unconditional, joint and several, continuing and irrevocable guaranty of payment, and (iii) is and shall continue to be in full force and effect in accordance with its terms. Nothing contained herein to the contrary shall release, discharge, modify, change or affect the original liability of the Subsidiary Loan Parties under the Subsidiary Guaranty Agreement.

5. **Effect of Amendment.** Except as set forth expressly herein, all terms of the Credit Agreement, as amended hereby, and the other Loan Documents shall be and remain in full force and effect and shall constitute the legal, valid, binding and enforceable obligations of the Borrower to the Lenders and the Administrative Agent. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Lenders under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement. This Amendment shall constitute a Loan Document for all purposes of the Credit Agreement.

6. **Governing Law**. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of New York and all applicable federal laws of the United States of America.

7. **No Novation.** This Amendment is not intended by the parties to be, and shall not be construed to be, a novation of the Credit Agreement or an accord and satisfaction in regard thereto.

8. **Costs and Expenses**. The Borrower agrees to pay on demand all costs and expenses of the Administrative Agent in connection with the preparation, execution and delivery

of this Amendment, including, without limitation, the reasonable fees and out−of−pocket expenses of outside counsel for the Administrative Agent with respect thereto.

9. **Counterparts.** This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, each of which shall be deemed an original and all of which, taken together, shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by facsimile transmission or by electronic mail in pdf form shall be as effective as delivery of a manually executed counterpart hereof.

10. **Binding Nature.** This Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors, successors−in−titles, and assigns.

11. **Entire Understanding.** This Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

[*Signature Pages To Follow*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed, under seal in the case of the Borrower and the Subsidiary Loan Parties, by their respective authorized officers as of the day and year first above written.

**BORROWER:**

WALTER INVESTMENT MANAGEMENT CORP.

By: /s/ Kimberly A. Perez
Name: Kimberly A. Perez
Title: CFO

**SUBSIDIARY LOAN PARTIES:**

BEST INSURORS, INC.

By: /s/ Kimberly A. Perez
Name: Kimberly A. Perez
Title: CFO

HANOVER CAPITAL PARTNERS 2, LTD.

By: /s/ Kimberly A. Perez
Name: Kimberly A. Perez
Title: CFO

HANOVER CAPITAL SECURITIES, INC.

By: /s/ Kimberly A. Perez
Name: Kimberly A. Perez
Title: CFO

WALTER MORTGAGE COMPANY, LLC

By: /s/ Kimberly A. Perez
Name: Kimberly A. Perez
Title: CFO

**[SECOND AMENDMENT TO REVOLVING CREDIT AGREEMENT]**

**LENDERS:**

SUNTRUST BANK, individually and as Administrative Agent

By: /s/ Steven A. Deily

Name: Steven A. Deily
Title: Managing Director

REGIONS BANK

By: /s/ April Monteith

Name: April Monteith
Title: Vice President

**[SECOND AMENDMENT TO REVOLVING CREDIT AGREEMENT]**

EXHIBIT 31.1

CERTIFICATION BY MARK J. O'BRIEN
PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A−14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES−OXLEY ACT OF 2002

I, Mark J. O'Brien, certify that:

1. I have reviewed this Quarterly Report on Form 10−Q of Walter Investment Management Corp. (the "Registrant") for the period ended June 30, 2010 (the "Report");

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.

/s/ Mark J. O'Brien
Mark J. O'Brien
Chief Executive Officer

Date: August 9, 2010

EXHIBIT 31.2

CERTIFICATION BY KIMBERLY A. PEREZ
PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A−14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES−OXLEY ACT OF 2002

I, Kimberly A. Perez, certify that:

1. I have reviewed this Quarterly Report on Form 10−Q of Walter Investment Management Corp. (the "Registrant") for the period ended June 30, 2010 (the "Report");

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.

/s/ Kimberly A. Perez
Kimberly A. Perez
Vice President and Chief Financial Officer

Date: August 9, 2010

EXHIBIT 32

WALTER INVESTMENT MANAGEMENT CORP. AND SUBSIDIARIES
CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES−OXLEY ACT OF 2002

Mark J. O'Brien, Chief Executive Officer, and Kimberly A. Perez, Chief Financial Officer, of Walter Investment Management Corp. (the "Company"), certify to each such officer's knowledge, pursuant to Section 906 of the Sarbanes−Oxley Act of 2002, 18 U.S.C. Section 1350 that:

1. The Quarterly Report on Form 10−Q of the Company for the quarter ended June 30, 2010 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m), as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2010

By: /s/ Mark J. O'Brien
Mark J. O'Brien
Chief Executive Officer

Date: August 9, 2010

By: /s/ Kimberly A. Perez
Kimberly A. Perez
Vice President and Chief Financial Officer