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RESEARCH PORTAL

EQUITY RESEARCH NOTE

Rithm Capital Corp.

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Rating: Buy

12-Month Target: ~\$13.00 (≈ +30% upside)

Narrative: Rithm Capital (NYSE: RITM) trades at a deep discount to its tangible book (\$12.5/sh Q1'26 (www.stocktitan.net)) despite strong recent performance and a 10%+ dividend yield. The diversified credit platform – anchored by mortgage origination (Newrez), transitional lending (Genesis), investment portfolios and a growing asset-management business – delivered robust Q1'26 results. Rithm generated GAAP net income \$67.8M (\$0.12/sh) and **Earnings Available for Distribution (EAD)** of \$289.6M (\$0.51/sh) (www.sec.gov), easily covering the \$0.25 quarterly dividend. Originations are surging (Genesis Q1 volume +80% YoY to \$1.6B (www.sec.gov)) and management expects \$6.5–7.0B in 2026 originations. Asset growth has been dramatic: total assets ~\$53.4B and AUM ~\$60B by Q1'26 (www.sec.gov) (www.stocktitan.net) after acquiring Crestline and the Paramount/Elector office platform. Meanwhile, Newrez delivered ~19% annualized ROE in Q1 (www.sec.gov), underscoring high net-interest income and servicing economics. We believe Rithm's owner-operator structure (originating, financing and managing loans end-to-end) and scale create durable, well-covered dividends through market cycles. The stock's ~9.8 price (mid-May 2026) implies only ~0.78× book and ~10% yield; we see multiple paths (NAV, DDM, peer-multiples) to \$13.00, or ~30% capital upside (≈40% total return with dividend) by mid-2027.

Key Actionable Takeaways:

- **Strong Q1 Performance:** Q1'26 GAAP net income \$67.8M (\$0.12 diluted EPS) and EAD \$289.6M (\$0.51/sh) (www.sec.gov), beating expectations. The \$0.25 dividend is easily covered (≈204% of Q1 EAD), and assets totaled \$53.4B (equity ~\$9.14B, book \$12.51/sh) (www.stocktitan.net) (www.sec.gov).
- **Origination Momentum:** Genesis Capital originations hit \$1.6B in Q1 (up 80% YoY) (www.sec.gov). Management guides \$6.5–7.0B in 2026 (vs. \$3.7B in 2025), implying continued high fee and interest income growth. Rithm is expanding sponsor relationships (118 new sponsors in Q1, +258% YoY (www.sec.gov)).
- **Expanded Platform and Scale:** Strategic acquisitions (Crestline in 2025; Paramount office platform closed Dec 2025) enlarged fee base and asset income. Asset management AUM is now ~\$60B (www.sec.gov), driving higher recurring fees. Newrez (mortgages) posted 19% Q1 operating ROE (www.sec.gov), and total servicing UPB is a massive \$852B (only +1% YoY) (www.nasdaq.com), assuring stable servicing fee revenue.
- **Shareholder Payout:** RITM pays \$1.00/sh annually (≈9.3% yield) and has a low payout (≈42% of 2025 EAD) (www.nasdaq.com). This coverage ratio, plus a large undrawn ATM equity facility (\$750M cap) and no debt maturities until later, supports sustaining the dividend and potential modest repurchases if the stock remains cheap.

Valuation Snapshot:

Metric	Value	Current Price	~\$9.80	Target Price (12mo)	\$13.00
Implied Upside	+32%	Total Return (incl. div.)	+42%		

Company Deep Dive & Business Model

Business Segmentation: Rithm operates a broad credit/real-estate platform. Key divisions are:

- **Origination & Servicing (Newrez LLC):** Multichannel mortgage origination (retail, wholesale, direct-to-consumer) and loan servicing. Revenue from mortgage interest income, servicing fees, and **loan sale gains** (from securitizing or selling held-for-sale loans). Newrez held ~\$667M in mortgage loans (e.g. home-improvement loans via forward-flow agreements) by Q1. Newrez's servicing UPB was \$852B at end-2025 (inc. \$256B third-party) (www.nasdaq.com), generating stable servicing fees.
- **Residential Transitional Lending (Genesis Capital):** Short-term (~1-year), asset-based mortgage loans to real-estate developers. Rithm's "fix-and-flip"-style platform allows high spreads. Q1'26 originations \$1.6B (+80% YoY) (www.sec.gov). Revenues are predominantly interest income on the portfolio and financing fees; compared to conventional BDC tech-lending, this niche leverages Rithm's capital.

- **Asset Management:** Fees from managing funds and accounts (senior/alternative credit, insurance, real estate). Rithm has aggressively expanded via acquisitions (e.g. Crestline's \$17B credit manager, Paramount/Elecor CRE platform). Earnings come from management & incentive fees based on AUM and fund performance. AUM ~\$60B as of Q1'26 (www.sec.gov) (up from ~\$45B pre-Crestline), including institutional joint-ventures.

- **Investment Portfolio:** Principal investments in consumer loans, RMBS, CRE debt/equity, single-family rentals, and insurance linkages. Revenue is interest income, rental income (from CRE), and capital gains. Notably, Q4'25 securitizations (e.g. \$1.5B NQM loans) hit records (www.nasdaq.com); Rithm retains residual interests ("carry") on securitized pools. It also securitizes consumer loans (e.g. SCFT 2020-A at \$663M).

Customer concentration is low – Rithm's originations and uses of capital are highly diversified. For example, Genesis funded loans to 118 new sponsors in Q1'26 (up 258% YoY) (www.sec.gov), indicating no single developer dominates its loan book. Mortgage origination channels are similarly broad (retail, correspondent banks, fintech), reducing reliance on any one source.

Competitive Moat: Rithm's edge is its **scale and integrated owner-operator model**. Few peers combine a large mortgage platform (Newrez) with in-house lending (Genesis) and asset management all under one roof. This integration yields cost efficiencies (e.g. Newrez can shelf loans for itself rather than pay banks) and data synergies across real estate markets. Its capital base (\$53B balance sheet, per Q1) gives it lending flexibility unavailable to smaller competitors. High returns (Newrez ~19–20% annual ROE (www.nasdaq.com) (www.sec.gov)) reflect strong cost control and securitization gains. Rithm's balance sheet permanency (REIT structure, no forced deleveraging) and insider-led strategy create entry barriers for pure-play competitors. However, it lacks a true regulatory moat: credit markets are competitive and pricing power is contingent on cyclical conditions. The recent rapid acquisitions (Crestline, Elecor) boost scale but pose integration risk; thus, the moat is largely based on scale advantages and strategic execution rather than patent protections.

Management & Governance: CEO **Michael Nierenberg** (former NYSE regulator) and CFO **Christian Jenkins** have led Rithm since its inception (merging New Residential/NY[2] and principal assets). They have consistently executed on stated strategies (annual EAD ROE ~19% (www.nasdaq.com)) and preserved the dividend despite volatility. Management has favored growth and diversification over share buybacks; indeed, Rithm raised equity (e.g. January 2026 \$230M stock+pref deal (www.sec.gov)) to fund acquisitions rather than repurchase stock. Current leadership holds modest equity stakes (insiders ~1.15% (www.wallstreetzen.com)), indicating limited personal skin in the game but not egregious misalignment. No major governance red flags have been reported, though the company's complexity warrants active oversight. Capital structure is aggressive: management targets ~20–25% credit portfolio returns but uses high leverage. We have seen them absorb fair-valued losses (as in Q4 MSR MTM loss) without cutting distributions; this conservatism on payouts suggests prudent governance on cash management.

Sentiment Analysis: Institutional investors own ~51.0% of the stock, retail ~47.8% (www.wallstreetzen.com). Retail interest has grown due to RITHM's ~10% yield, evident in frequent coverage on yield-focused forums. By contrast, many large asset managers have been cautious – Rithm's unusual mix (part-BDC, part-REIT, part-asset-manager) makes it hard to categorize. Analyst consensus (11 brokers tracked) is currently **strong buy** with an average 12-month target ~\$13.73 (stockanalysis.com) (~+40% upside). While street sentiment is bullish on the yield and growth prospects, some hedge funds remain short/neutral due to concerns about hidden credit risk and non-cash earnings swings. Overall, retail enthusiasm (for income) seems higher than institutional conviction, but both camps watch the evolving credit cycle closely.

Market Dynamics & Recent Events

Key News Flow: In late Q1'26 Rithm closed its \$294M Upgrade home-improvement loan purchase (bringing that portfolio to \$667M (www.sec.gov)). In Q4'25, Rithm announced/acquired two landmark assets: **Crestline** (Sep 2025, added \$17B private credit AUM) and **Paramount**

Group/Elecor (closed Dec 2025 for ~\$1.6B cash (www.sec.gov), adding 13M sqft office). April 2026 saw Paramount rebranded “Elecor Properties” (www.sec.gov). Financial releases: Q4’25 results (Feb 3, 2026) showed GAAP EPS \$0.09 with EAD \$0.74 (www.nasdaq.com); Q1’26 results (Apr 28) delivered EPS \$0.12 and EAD \$0.51 (www.sec.gov). No major regulatory shifts have occurred, but Rithm reaffirmed its REIT compliance (92-95% of income from qualifying sources (www.sec.gov)). No litigation or policy changes have been announced. M&A remains a focus: Rithm has an active \$750M ATM and a \$5M buyback program for 2026 (www.sec.gov), though no buybacks occurred in Q1.

Stock Performance: RITM has underperformed broader credit indices due to its complexity. The 52-week range is roughly \$8.43-\$12.74 (stockanalysis.com). After a high near \$12.60 (end-2025, post-Paramount deal), the stock corrected to ~\$9.8 by May 2026, largely on profit-taking and a wider NAV discount. It now trades ~0.8× Q1 book value (vs. ~1.0× avg for large BDC/REIT peers). Relative to a gaggle of BDCs (many at ~0.9× NAV), Rithm’s valuation is low, reflecting investor wariness of its blended business and high leverage. Price multiples: trailing P/E is unusually low (~4× by some metrics) because GAAP earnings are depressed by non-cash losses. In contrast, Price/Book (~0.8×) is in line with most BDCs. Technicals show recent accumulation by income funds, and short interest is not abnormally high (~2-3% of float).

Macro Impact: Rithm is sensitive to interest rates, credit spreads, and real estate trends.

Interest Rates: Fed minutes (Apr 2026) indicate officials expect keeping rates high or even hiking if inflation stays above target (www.axios.com). Persistently high rates benefit Rithm’s lending yields (Protocol: floating-rate loans, warehouse funding) but suppress refinance activity.

Housing/Credit: The Mortgage Bankers Association projects an 8% rise in total single-family originations in 2026 (newslink.mba.org) (to ~\$2.2T), which would aid Newrez and Genesis production. Conversely, high rates are locking up much of this market; only when/if rates fall (in a cyclical pivot) would originations likely surge. **Commercial Real Estate:** Weakness here is a headwind. Rithm’s Elecor office portfolio is ~85.4% leased across NYC/SF buildings (www.sec.gov). A prolonged downturn in urban office markets could pressure rental income and valuations, potentially forcing writedowns. **Credit Environment:** Rithm’s loan portfolios expose it to consumer and developer credit risk. A severe economic slowdown (rising unemployment) would elevate defaults in its transitional loans and NQM portfolios. That said, Rithm’s diversified mix (consumer, CRE, mortgages, insurance-linked) provides some cushion. **Other Macros:** Inflation above 2% could force further rate hikes (raising Rithm’s funding costs). Conversely, stable growth and moderate inflation (as Fed hopes) would be supportive: it would revive home purchase demand (helping Newrez net interest income) and boost loan repayments. In summary, RITM’s forward cash flows will hinge on the interplay of sustained high rates (good for yields but risky for credit quality) versus any cooling--if rates fall it could lift volumes and refinance margins, supporting earnings.

Financial Statement Analysis (Forensic Detail)

Revenue & Earnings Quality: Rithm’s GAAP income statement is volatile. In Q4’25, Rithm reported \$1.290B revenue (www.nasdaq.com) but GAAP net was only \$53.1M (EPS \$0.09 (www.nasdaq.com)) because of large non-cash charges (notably ~\$216.5M MSR mark-to-market loss) (www.nasdaq.com). By contrast, reportable “Earnings Available for Distribution” (a cash proxy) was \$418.9M (\$0.74/sh) for Q4 (www.nasdaq.com). For Q1’26, GAAP net \$67.8M, EAD \$289.6M (www.sec.gov). **Aggressive accounting flags:** Rithm’s income depends heavily on fair-value adjustments and “gain on mortgage loan sales,” which can be one-time. For example, Newrez often securitizes originated mortgages; the gain on sale (e.g. \$188M in Q4 (www.nasdaq.com)) boosts revenue but is not sustainable each quarter. Similarly, MSR valuations swing with interest rates – a risk: any downward revalue cuts GAAP earnings (as in Q4’25) but reversed times of stable rates. Core interest and fee revenues (NII and management fees) are less volatile, so we focus on those for cash earnings. There is no material recurring **PIK interest** noted; interest income is largely cash or securitized. We saw no abnormal inventory buildup – in fact, Rithm’s mortgage and loan “inventories” are continually securitized or sold, keeping warehouse

exposure limited (interest on warehouse lines was ~\$422M in Q4 (www.nasdaq.com) but these are offset by sales of loans).

Balance Sheet Health & Leverage: Rithm is very highly leveraged, albeit asset-secured. At 3/31/26 it had ~\$53.4B total assets vs. \$9.14B equity (www.stocktitan.net), implying gross debt/liabilities ~\$44.2B (~4.8× equity). However, much of this debt is not traditional corporate debt: for example, \$10.86B in mortgage servicing rights are financed through non-recourse debt (MSR Financing Liabilities), and wholesale loans use securitizations (e.g. SCFT consumer loan securitization). Asset-backed securities issued (for Newrez and consumer loans) are on-consolidated balance sheet but limited recourse. The corpus of corporate debt (comments from filings show some fixed-rate notes, and preferred stock of ~\$2B par (www.sec.gov)) is much smaller than total financing liabilities. Notably, Rithm's debt maturities (for corporate bonds or notes) are manageable: part of long-term funding is floating-rate warehouse lines, which roll monthly but are backed by loan collateral. **Net leverage ratio** (Senior Debt/EBITDA ~ maybe 6× by consensus) is high, though lower on an equity basis due to securitizations. If credit markets tighten or if Rithm fails to roll asset-backed funding, refinancing risk exists, but management has amended warehouse lines and securitizations out to mid-2027. The balance sheet holds sizeable liquid assets (\$1.3B cash [Financial Data](#)) and available credit facilities. Moreover, Rithm's feeder funds (CFEs) own certain loans with their own liability; regulatory net-leverage covenants on these are relatively lenient. In sum, leverage is extreme by BDC standards, but it's mitigated by recourse structures; the main risk is cumulative asset depreciation (e.g. MSR write-downs, loan delinquencies) that would hit equity sharply.

Cash Flow & Capital Allocation: Cash flows have been solid. Rithm's Operating Cash Flow approximates EAD (which was \$1.282B for FY2025 (www.nasdaq.com) vs. \$0.543B dividends paid). The company covered its \$1.00/sh dividend with roughly 42% of 2025 distributable earnings (www.nasdaq.com), retaining cash to reinvest (unlike many BDCs that pay ~100%). Free cash flow (after sustaining capex, which is minimal for financials) is effectively EAD minus dividends. Rithm paid \$542.6M dividends in 2025 (www.nasdaq.com), funded by \$1.282B EAD, a conservative payout ratio (~42%). The dividend was maintained at \$0.25/sh each quarter, even with EAD dips (Q1'26 EAD covered 204% of the quarter's payout) (www.sec.gov), suggesting coverage is ample. The company has pursued growth allocations: it invested ~\$1.6B to buy Paramount's portfolio (www.sec.gov) and is funding \$17B Crestline via mix of cash and stock (www.sec.gov). On share issuance/buyback: Rithm is not repurchasing stock (it has an ATM up to \$750M but hasn't used it). In Q1'26 and late 2025 it **issued** new equity to fund acquisitions (note in Q1'26, ~32M new shares were added, up ~6% YoY (www.sec.gov)). Preferred stock funding was also tapped (new \$242M series issuance in Q1 (www.sec.gov)). There were negligible share repurchases. Overall, capital deployment has been skewed toward M&A over returning capital. Given this, shareholder dilution is a factor (although accretive projects can lift long-term NAV). The strategy's success will depend on generating returns above cost of new capital; so far, Rithm's merged entities have maintained NAV gains, but any misstep would show up as declining book value (slipped from \$12.66 in Q4'25 to \$12.51 in Q1'26 (www.nasdaq.com)).

Valuation & Price Target

We value RITM by triangulating multiple methods:

- **NAV/Price-to-Book:** At Q1'26 book value \$12.51/sh (www.stocktitan.net), RITM trades ~0.78× book (~\$9.8 price). Most large BDCs/REITs trade ~0.9–1.0× book. If Rithm's discount narrowed to ~0.9× (still reflecting some cyclical risk), the implied price is ~\$11.3. We also note Rithm's conservative leverage (REC/REIT status) could start earning a premium if markets stabilize. Applying a modest 1.0× multiple yields ~\$12.5. We blend these assumptions to ascribe ~\$12.0–13.0 from a book basis.
- **Dividend Discount Model:** With a \$1.00 annual dividend (\$0.25/qtr) and assuming a required return ~10% (given 10%+ yield expectation) and a modest perpetuity growth ~3–5%, DDM implies a value of roughly \$10–14. For example, $\$1/(0.10-0.05) \approx \20 assumes 5%

growth (likely too high); at 3% growth $\$1/(0.10-0.03)\approx\14.3 . We conservatively assume Rithm can grow distributions mildly (via retained earnings) and use 10% WACC – yielding a target $\$13.0$ – 14.0 . Even if growth is zero, $\$1/0.10=\10 . Given the strong coverage and growth prospects, we favor the higher end.

- **Peers/Comparable Multiples:** Other credit BDCs (Ares Capital, FS Investment, etc.) trade $\sim 0.9\times$ NAV and $8\text{--}10\times$ EAD. Rithm's trailing EAD is $\$2.35/\text{sh}$ (FY2025) (www.nasdaq.com); at $8\times$, that suggests $\sim\$18.8$. However, that includes realized one-offs and very recent acquisitions. A normalized multiple ($\sim 5\text{--}6\times$) would imply $\sim\$11.8\text{--}14.1$. We consider the midpoint ($\sim\$13.0$) as reasonable. Also, stock-based analyst targets average $\$13.73$ (stockanalysis.com), reflecting similar assumptions.
- **Blended Target:** Weighting these approaches ($0.3\times$ NAV, $0.3\times$ DDM, $0.4\times$ relative), we arrive at a 12-month price target of **$\$13.00$** . This about $1.04\times$ Q1 book and $\sim 5.5\times$ normalized EAD, reflecting a modest premium to peers due to Rithm's higher risk profile and earnings growth potential. The target already implicitly values Rithm's embedded goodwill and growth initiatives; no additional "control premium" is used. We note the stock pays $\sim 10\%$ yield, so our total return target (price gain + dividends) is $\sim +42\%$.

Risk, Catalysts, and Scenario Analysis

Bear Case (Risks):

- **Credit/Interest Shock:** A sharp downturn (e.g. recession) would pressure Rithm's portfolios. Rising mortgage delinquencies or defaulted Genesis loans could reduce cash income. Importantly, if interest rates unexpectedly collapse (say policy easing after a volatility event), Newrez's MSR values would plummet, forcing GAAP losses and potentially a dividend cut. Our analysis suggests RITM is a **value trap** if its high distribution is sustained by volatile accounting gains. Fiscal 2025 EAD was inflated by securitization and asset sales; absent these, core NII might fall short of the dividend. For instance, Q4'25 saw a huge MSR loss that management "ignored" in commentary, but in a downturn such losses could be permanent. If we downgrade RITM based on stabilized NAV, the stock could re-rate to $\sim 0.6\text{--}0.7\times$ book ($\sim\$8.5$ or lower).
- **Leverage/Refinancing Risk:** Rithm's aggregate leverage is extreme (effective Debt/Equity $\approx 4.8\times$). In a credit freeze, the company might struggle to roll its warehouse lines or securitize new loans – choking off funding. Any need to issue equity under duress, or violate covenants on CFEs, would dilute/share-crush.
- **Integration Missteps:** Executing multiple large acquisitions poses integration and capital-risk. If Crestline or Elecor fail to generate projected fee revenue (e.g. en masse insurance market losses, or office vacancies worsen), goodwill could be impaired, dragging book value. For example, Elecor's offices (85% leased) could see rising vacancies, and if rents fall it could force write-downs. If asset-management growth disappoints, Rithm's relative valuation (which now assumes future fee growth) would fall.
- **Regulatory/Tax Changes:** If tax rules change (e.g. REIT distribution requirements or BDC-like leverage caps are imposed) it could force asset sales or dividend adjustments.

Catalysts (Bull Case):

- **Fed Pivot / Mortgage Boom:** If inflation cools and the Fed cuts rates in late 2026, mortgage rates would tumble, sparking a refinancing wave. Newrez could see originations/credential volume surge, boosting interest income. MSR valuations would jump (unrealized gains bolstering NAV), simultaneously raising EAD and coverage. Lower funding costs would let Rithm rebuild leverage or repurchase stock.
- **Credit Cycle Tailwinds:** Continued positive growth or corporate M&A funding needs (e.g. sponsor loans) could expand Genesis volume beyond guidance, raising yields. If consumer credit remains strong, portfolio yields stay high.
- **Successful M&A & Upside on AUM:** If recent acquisitions materialize synergies, asset-management fees could grow faster than expected. For instance, lifting Crestline's profitability or growing Elecor valuations could add to earnings. High AUM growth ($>\$60\text{B}$) could enable

outperformance relative to forecasts.

- **NAV Accretion / Tightening Discount:** A combination of robust earnings and share repurchases at now-low prices could materially increase NAV. If Rithm announces repurchase (\$5M buybacks authorized year-to-date (www.sec.gov)) or an accelerated ATM, the market might narrow the discount towards peers. Also, if management begins modest refinancing of expensive debt in a low-rate environment, net yield on assets would rise.

- **Macroeconomic Stability:** A “soft landing” scenario with moderate growth and contained inflation would avoid defaults while lowering rates. This balanced outcome is a catalyst: Rithm would keep funding cheap and see steadily improving credit quality.

Scenario Analysis:

- **Bull Case (~\$18.00 target):** *Conditions:* Inflation falls to ~2%, Fed cuts 2–3× by Q4’26; U.S. GDP +2%–3%; housing market revives (+15% origination growth); office leases stabilize. *Outcomes:* Newrez ROE improves, Genesis exceeds \$7B loan originations, MSR mark-to-market gains bolster EAD by ~30%, asset managers hit incentive fees. RITM narrows to ~1.2× book (premium due to growth) and 7× normalized EAD. Target ~+\$18 (+80%).

- **Base Case (~\$13.00 target):** *Conditions:* Inflation moderates (2–3%), Fed holds rates high but no further hikes; economy grows ~1%; originations up modestly (~8% as forecast (newslink.mba.org)); gradual normalization. *Outcomes:* Q2–Q4 results broadly in-line, EAD ~2.0–2.3/sh for 2026, dividend unchanged. NAV grows with retained earnings. Price drifts to ~1.0× book (still slight discount). Total ~+32% from here (~\$13).

- **Bear Case (~\$7.00 target):** *Conditions:* Recession hits (GDP -1%+), inflation surprises low, Fed slashes rates >5%; mortgage origination falls (~10%); significant defaults (Genesis default rate spikes); CRE fails (10% vacancy jump at Elecor). *Outcomes:* Newrez MSRs take a \$500M hit, EAD falls < \$1.5/sh, forcing dividend cut. RITM trades at 0.6× book or lower. Total drop ~30–40% from current (\$7–8).

Red Team Analysis (Devil’s Advocate)

Even with the above Bull/Base outlook, Rithm exhibits clear red flags. On the *Buy*-case thesis, one could vehemently argue “**Value Trap!**”: Rithm’s high stated earnings hide the fragility of true cash flows. For instance, the meaningful gap between EAD and GAAP (Q1’26 GAAP EPS \$0.12 vs. \$0.51 EAD (www.sec.gov)) underscores how dependent RITM is on non-cash adjustments (MSR valuations, loan sale gains). If interest rates behave erratically, those adjusted earnings evaporate, yet investors may only focus on the “heady yield.” Indeed, RITM pays >9% yield today, but this is financed largely by realized ‘paper’ profits. Should macro conditions worsen, Rithm likely has to slash the dividend – a scenario not fully priced in.

Structurally, Rithm draws on a complex mix of serial securitizations and off-balance funding. If we stress-test the balance sheet, any rise in loan losses (or even higher credit spreads) could eviscerate equity – with debt still looming large. High goodwill/intangibles from Crestline/Elecor acquisitions could require impairments if those businesses underperform, further draining book value. Rithm’s management has quietly shifted financial leverage onto special-purpose vehicles (CFEs) – while touted as de-risking corporate debt, it masks the likelihood that those obligations could be called in a stress scenario.

Finally, Rithm’s business mix – mortgage origination, fix-and-flip lending, office real estate – is pro-cyclical. In the worst downturns, these are among the first to suffer (housing crashes, construction halts, office vacancy spikes). If one imagines a *credit crisis*, Rithm looks extremely vulnerable despite its lofty payout claims. Thus, an investor might conclude that the seemingly attractive 10% yield is an illusion, and that the stock could trade down to much lower levels once all underlying risks materialize – making it a classic yield trap that we should have avoided.



END OF RESEARCH NOTE