Western Asset Mortgage Capital Corp
Form 10-Q
August 05, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2016

o **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: 001-35543

Western Asset Mortgage Capital Corporation

(Exact name of Registrant as specified in its charter)

Delaware	**27-0298092**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

Western Asset Mortgage Capital Corporation

385 East Colorado Boulevard

Pasadena, California 91101

(Address of Registrant s principal executive offices)

(626) 844-9400

(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 x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting companyo

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Securities Exchange Act of 1934). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

As of August 3, 2016, there were 41,919,801 shares, par value $0.01, of the registrant s common stock issued and outstanding.

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Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Balance Sheets

(in thousands except share and per share data)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets:		
Cash and cash equivalents	$ 33,869	$ 24,711
Mortgage-backed securities and other securities, at fair value ($2,469,503 and $2,777,717 pledged as collateral, at fair value, respectively)	2,474,933	2,851,127
Residential Whole-Loans, at fair value ($189,696 and $218,538 pledged as collateral, at fair value, respectively)	189,696	218,538
Securitized commercial loan, at fair value	23,688	25,000
Investment related receivable	11,598	572
Accrued interest receivable	24,292	22,621
Due from counterparties	306,070	249,563
Derivative assets, at fair value	172,962	21,915
Other assets	878	382
Total Assets (1)	$ 3,237,986	$ 3,414,429
Liabilities and Stockholders Equity:		
Liabilities:		
Borrowings under repurchase agreements, net	$ 2,310,719	$ 2,585,667
Securitized debt, at fair value	10,423	11,000
Accrued interest payable	17,211	20,431
Investment related payables	1,581	66,146
Due to counterparties	16,664	9,950
Derivative liability, at fair value	401,674	180,177
Accounts payable and accrued expenses	2,112	2,078
Payable to related party	2,901	3,019
Dividend payable	12,995	24,313
Total Liabilities (2)	2,776,280	2,902,781
Commitments and contingencies		
Stockholders Equity:		
Common stock, $0.01 par value, 500,000,000 shares authorized, 41,919,801 shares issued and outstanding, respectively	419	419
Preferred stock, $0.01 par value, 100,000,000 shares authorized and no shares outstanding		
Additional paid-in capital	764,230	763,283
Retained earnings (accumulated deficit)	(302,943)	(252,054)
Total Stockholders Equity	461,706	511,648
Total Liabilities and Stockholders Equity	$ 3,237,986	$ 3,414,429

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Balance Sheets (Continued)

(in thousands except share and per share data)

	June 30, 2016 (Unaudited)	December 31, 2015
(1) Assets of consolidated VIEs included in the total assets above:		
Residential Whole-Loans, at fair value ($189,696 and $218,538 pledged as collateral, at fair value, respectively)	$ 189,696	$ 218,538
Securitized commercial loan, at fair value	23,688	25,000
Investment related receivable	6,370	
Accrued interest receivable	1,656	1,836
Total assets of consolidated VIEs	$ 221,410	$ 245,374
(2) Liabilities of consolidated VIEs included in the total liabilities above:		
Securitized debt, at fair value	$ 10,423	$ 11,000
Accrued interest payable	82	85
Accounts payable and accrued expenses	2	2
Total liabilities of consolidated VIEs	$ 10,507	$ 11,087

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Statements of Operations

(in thousands except share and per share data)

(Unaudited)

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Net Interest Income				
Interest income	$ 29,220	$ 41,029	$ 58,838	$ 81,835
Interest expense	7,727	6,577	15,706	12,979
Net Interest Income	21,493	34,452	43,132	68,856
Other Income (Loss)				
Realized gain (loss) on sale of investments, net	(352)	4,281	(6,407)	11,749
Other than temporary impairment	(6,356)	(4,316)	(17,153)	(8,967)
Unrealized gain (loss), net	21,510	(42,849)	32,278	(14,439)
Gain (loss) on derivative instruments, net	(14,165)	13,154	(59,335)	(35,148)
Other, net	234	(611)	(98)	1,773
Other Income (Loss)	871	(30,341)	(50,715)	(45,032)
Expenses				
Management fee to affiliate	2,588	2,679	5,340	5,372
Other operating expenses	183	260	621	673
General and administrative expenses				
Compensation expense (including non-cash stock based compensation of $346, $781, $918 and $1,460, respectively)	649	1,176	1,386	2,149
Professional fees	1,222	1,244	3,224	2,379
Other general and administrative expenses	419	445	847	798
Total general and administrative expenses	2,290	2,865	5,457	5,326
Total Expenses	5,061	5,804	11,418	11,371
Net income (loss) available to Common Stock and participating securities	$ 17,303	$ (1,693)	$ (19,001)	$ 12,453
Net income (loss) per Common Share Basic	$ 0.41	$ (0.05)	$ (0.46)	$ 0.29
Net income (loss) per Common Share Diluted	$ 0.41	$ (0.05)	$ (0.46)	$ 0.29
Dividends Declared per Share of Common Stock	$ 0.31	$ 0.64	$ 0.76	$ 1.31

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity

(in thousands except shares and share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated) Deficit	Total
	Shares	Par			
Balance at December 31, 2014	41,719,801	$ 417	$ 760,925	$ (138,130)	$ 623,212
Grants of restricted stock	200,000	2	(2)		
Vesting of restricted stock			2,301		2,301
Net loss				(9,484)	(9,484)
Dividends declared on common stock			59	(104,440)	(104,381)
Balance at December 31, 2015	41,919,801	$ 419	$ 763,283	$ (252,054)	$ 511,648
Vesting of restricted stock			918		918
Net loss				(19,001)	(19,001)
Dividends declared on common stock			29	(31,888)	(31,859)
Balance at June 30, 2016 (unaudited)	41,919,801	$ 419	$ 764,230	$ (302,943)	$ 461,706

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Cash flows from operating activities:		
Net income (loss)	$ (19,001)	$ 12,453
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Premium amortization and (discount accretion) on investments, net	1,861	3,596
Interest income earned added to principal of securities	(195)	
Amortization of deferred financing costs	134	34
Restricted stock amortization expense	918	1,460
Premium amortization for MAC interest rate swaps	(326)	(738)
Interest payments and basis recovered on MAC interest rate swaps	326	919
Premium on purchase of Residential Whole-Loans		(332)
Unrealized (gain) loss, net	(32,278)	14,439
Mark-to-market adjustments on derivative instruments	72,127	24,406
Other than temporary impairment	17,153	8,967
Realized (gain) loss on sale of securities, net	6,407	(11,749)
Realized loss on sale of Interest-Only Strips accounted for as derivatives, net	155	2
Realized loss on termination of MAC interest rate swaps containing an other-than-insignificant financing element		8,514
Realized gain on sale of TBAs, net	(8,587)	(6,477)
Realized loss on sale of swaptions, net	1,035	3,723
Realized (gain) loss on futures	(13,409)	459
Realized loss on forward contracts	193	846
Realized gain on options	(4,756)	
Realized gain on foreign currency swaps	(3,942)	
Realized gain on total return swaps	(15)	
(Gain) loss on foreign currency transactions, net	561	(1,738)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(1,671)	(13,544)
Increase in other assets	(496)	(554)
Increase (decrease) in accrued interest payable	(3,220)	17,267
Increase in accounts payable and accrued expenses	34	815
Increase (decrease) in payable to related party	(118)	679
Net cash provided by operating activities	12,890	63,447
Cash flows from investing activities:		
Purchase of securities	(1,065,782)	(473,683)
Proceeds from sale of securities	1,211,679	824,828
Principal payments and basis recovered on securities	163,960	210,145
Purchase of Residential Whole-Loans		(16,993)
Principal payments on Residential Whole-Loans	21,964	2,563
Purchase of Commercial Whole-Loans		(8,750)
Payment of premium for option derivatives	(17,951)	
Premium received from option derivatives	22,707	
Net settlements of TBAs	8,591	8,664
Net payments on termination of futures	13,409	(459)
Proceeds from sale of interest rate swaptions	2,075	25,621

Premium for MAC interest rate swaps		465		(3,245)
Interest payments and basis recovered on MAC interest rate swaps		(326)		(705)
Due from counterparties		(9,719)		
Payment on termination of foreign currency swaps		3,942		
Payments on total return swaps		15		
Premium for interest rate swaptions, net				(29,344)
Net cash provided by investing activities		355,029		538,642
Cash flows from financing activities:				
Proceeds from repurchase agreement borrowings		6,992,363		9,412,084
Repayments of repurchase agreement borrowings		(7,267,742)		(9,911,821)
Proceeds from forward contracts		49,441		153,085
Repayments of forward contracts		(49,634)		(153,931)
Payments on termination of MAC interest rate swaps				(18,414)
Interest payments and basis recovered on MAC interest rate swaps containing an other-than-insignificant financing element				(214)
Payments made for deferred financing costs				(202)
Due from counterparties, net		(46,788)		(46,912)
Due to counterparties, net		6,714		(3,670)
Dividends paid on common stock		(43,177)		(57,289)
Net cash used in financing activities		(358,823)		(627,284)
Effect of exchange rate changes on cash and cash equivalents		62		163
Net increase (decrease) in cash and cash equivalents		9,158		(25,032)
Cash and cash equivalents beginning of period		24,711		47,222
Cash and cash equivalents end of period	$	33,869	$	22,190
Supplemental disclosure of operating cash flow information:				
Interest paid	$	15,478	$	13,402
Supplemental disclosure of non-cash financing/investing activities:				
Principal payments of securities, not settled	$		$	22
Securities sold, not settled	$	3,652	$	
Net unsettled TBAs	$	(5)	$	(2)
Dividends and distributions declared, not paid	$	12,995	$	26,829
Principal payments of Residential Whole-Loans, not settled	$	6,370		

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

(in thousands- except share and per share data)

The following defines certain of the commonly used terms in these Notes to Consolidated Financial Statements: Agency or Agencies refer to a federally chartered corporation, such as the Federal National Mortgage Association (Fannie Mae or FNMA) or the Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC), or an agency of the U.S. Government, such as the Government National Mortgage Association (Ginnie Mae or GNMA); references to MBS refer to mortgage backed securities, including residential mortgage-backed securities or RMBS, commercial mortgage-backed securities or CMBS, and Interest-Only Strips (as defined herein); Agency MBS refer to RMBS, CMBS and Interest-Only Strips issued or guaranteed by the Agencies while Non-Agency MBS refer to RMBS, CMBS and Interest-Only Strips that are not issued or guaranteed by the Agencies; references to ARMs refers to adjustable rate mortgages; references to Interest-Only Strips refer to interest-only (IO) and inverse interest-only (IIO) securities issued as part of or collateralized with MBS; references to TBA refer to To-Be-Announced Securities; references to Residential Whole-Loans and Commercial Whole-Loans (collectively Whole-Loans) refer to individual mortgage loans secured by single family and commercial properties, respectively.

Note 1 Organization

Western Asset Mortgage Capital Corporation and subsidiaries (the Company) is a Delaware corporation commencing operations in May 2012 focusing on investing in, financing and managing a diversified portfolio of real estate related securities, whole-loans and other financial assets. The Company s portfolio is comprised of Agency RMBS (including TBAs as defined herein), Non-Agency RMBS, Agency and Non-Agency CMBS and Whole-Loans. In addition, and to a significantly lesser extent, the Company has invested in other securities including certain Agency obligations that are not technically MBS as well as certain Non U.S. CMBS and in asset-backed securities (ABS) investments secured by a portfolio of private student loans. The Company s investment strategy is based on Western Asset Management Company s (the Manager) perspective of which mix of portfolio assets it believes provides the Company with the best risk-reward opportunities at any given time. The Manager will vary the allocation among various asset classes subject to maintaining the Company s qualification as a REIT and maintaining its exemption from the Investment Company Act of 1940 (the 1940 Act). These restrictions limit the Company s ability to invest in non-qualifying MBS, non-real estate assets and/or assets which are not secured by real estate. Accordingly, the Company s portfolio will continue to be principally invested in qualifying MBS and other real estate related assets.

The Company is externally managed by the Manager, an investment advisor registered with the Securities and Exchange Commission (SEC). The Manager is a wholly-owned subsidiary of Legg Mason, Inc. The Company operates and has elected to be taxed as a real estate investment trust or REIT commencing with its taxable year ended December 31, 2012.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying unaudited financial statements and related notes have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. Certain prior period amounts have been reclassified to conform to the current period s presentation. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary have been made to present fairly the Company s financial position, results of operations and cash flows. The results of operations for the period ended June 30, 2016 are not necessarily indicative of the results to be expected for the full year or any future period. These consolidated financial statements should be read in conjunction with the Company s annual report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (SEC) on March 11, 2016.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and variable interest entities (VIEs) in which we are considered the primary beneficiary. Refer to Note 5 - Variable Interest Entities for additional information regarding the impact of consolidating these VIEs. All intercompany amounts between the Company and its subsidiary and consolidated VIEs have been eliminated in consolidation.

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Variable Interest Entities

VIEs are defined as entities that by design either lack sufficient equity for the entity to finance its activities without additional subordinated financial support or are unable to direct the entity s activities or are not exposed to the entity s losses or entitled to its residual returns. The Company evaluates all of its interests in VIEs for consolidation. When the interests are determined to be variable interests, the Company assesses whether it is deemed the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE s economic performance, it considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE s economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers is deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, it considers all of its economic interests. This assessment requires the Company to apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE s capital structure; and the reasons why the interests are held by the Company.

In instances when a VIE is owned by both the Company and related parties, the Company considers whether there is a single party in the related party group that meets both the power and losses or benefits criteria on its own as though no related party relationship existed. If one party within the related party group meets both these criteria, such reporting entity is the primary beneficiary of the VIE and no further analysis is needed. If no party within the related party group on its own meets both the power and losses or benefits criteria, but the related party group does as a whole meets these two criteria, the determination of primary beneficiary within the related party group is based upon an analysis of the facts and circumstances with the objective of determining which party is most closely associated with the VIE. Determining the primary beneficiary within the related party group requires significant judgment.

In instances when the Company is required to consolidate a VIE that is determined to be a qualifying collateralized financing entity, under GAAP, the Company will measure both the financial assets and financial liabilities of the VIE using the fair value of either the VIE s financial assets or financial liabilities, whichever is more observable.

Ongoing assessments of whether an enterprise is the primary beneficiary of a VIE are required.

Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly-liquid short term investments with original maturities of 90 days or less when purchased to be cash equivalents. Cash and cash equivalents are exposed to concentrations of credit risk. The Company places its cash and cash equivalents with what it believes to be high credit quality institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit.

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Fair Value Election

The Company has elected the fair value option for all of its investments and its securitized debt, which permits the Company to measure these financial instruments at fair value with the change in fair value included as a component of earnings. In the Manager s view, this election more appropriately reflects the results of the Company s operations for a particular reporting period, as financial asset fair value changes are presented in a manner consistent with the presentation and timing of the fair value changes of economic hedging instruments.

Valuation of financial instruments

The Company discloses the fair value of its financial instruments according to a fair value hierarchy (Levels I, II, and III, as defined below) in accordance with GAAP. GAAP establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value measurements. GAAP further specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level I Quoted prices in active markets for identical assets or liabilities.

Level II Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level III Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable, for example, when there is little or no market activity for an investment at the end of the period, unobservable inputs may be used.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels are determined by the Company at the end of the reporting period.

When available, the Company uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Company will use independent pricing services and if the independent pricing service cannot price a particular asset or liability, the Company will obtain third party broker quotes. The Manager s pricing group, which functions independently from its portfolio management personnel, reviews the third party broker quotes for reasonableness using alternate sources when available. If independent pricing service, or third party broker quotes are not available, the Company determines the fair value of the securities using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and when applicable, estimates of prepayment and credit losses.

Mortgage-Backed Securities and Other Securities

The Company s purchases and sales of mortgage-backed securities and other securities are recorded on the trade date, which results in an investment related payable (receivable) for MBS and other securities purchased (sold) for which settlement has not taken place as of the balance sheet date. In addition, the Company s TBAs (as defined herein) which have matured but have not settled as of the balance sheet date result in an investment related payable (receivable). The Company s MBS and other securities are pledged as collateral against borrowings under repurchase agreements. The Company s MBS and other securities are included in Mortgage-backed securities and other securities at fair value and Investment related receivables in the Consolidated Balance Sheets, with the fair value of such MBS and other securities pledged disclosed parenthetically.

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Residential Whole- Loans

The Company records its purchases of residential loans on settlement date as the amount paid to the seller plus any fees paid or less any fees received. All other costs incurred in connection with acquiring residential and commercial loans or committing to purchase residential and commercial loans are charged to expense as incurred. The Company amortizes or accretes any premium or discount over the life of the related loan utilizing the effective interest method, based on the contractual payment terms of the loan. On at least a quarterly basis, the Company evaluates the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether such loan is impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the Company does not record an allowance for loan loss as the Company has elected the fair value option. However, income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged.

Interest income recognition and Impairment

Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase

Interest income on mortgage-backed and other securities is accrued based on the respective outstanding principal balances and corresponding contractual terms. Premiums and discounts associated with Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase, are amortized into interest income over the estimated life of such securities using the effective yield method. Adjustments to premium and discount amortization are made for actual prepayment activity. The Company estimates prepayments at least quarterly for its securities and, as a result, if prepayments increase (or are expected to increase), the Company will accelerate the rate of amortization on premiums or discounts and make a retrospective adjustment to historical amortization. Alternatively, if prepayments decrease (or are expected to decrease), the Company will reduce the rate of amortization on the premiums or discounts and make a retrospective adjustment to historical amortization.

The Company assesses its Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase, for other-than-temporary impairment (OTTI) on at least a quarterly basis. The determination of whether a security is other than temporarily impaired involves judgment and assumptions based on subjective and objective factors. When the fair value of an investment is less than its amortized cost at the balance sheet date, during a reporting period, the security is considered impaired and the impairment is designated as either temporary or other-than-temporary. In deciding on whether or not a security is other-than-temporarily impaired, the Company considers several factors, including the nature of the investment, communications (if any) from the trustee of securitization regarding the credit quality of the security, the severity and duration of the impairment and the cause of the impairment. When a security is impaired an OTTI is considered to have occurred if there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the security is less than its carrying amount and either the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. The OTTI is recorded in the

Company s Consolidated Statements of Operations.

The determination as to whether OTTI exists is subjective given that such determination is based on information available at the time of assessment as well as the Company s estimates of the future performance and cash flow projections on the security. As a result, the timing and amount of an OTTI constitutes an accounting estimate that may change materially over time.

Finally, certain of the Company s MBS and other securities that are in an unrealized loss position at the end of the reporting period are not considered other-than-temporarily impaired because the Company has the ability and intent to hold the securities to maturity or for a period of time sufficient for a price recovery up to or above the amortized cost of the investment and the Company is not required to sell the security for regulatory or other reasons.

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Non-Agency MBS and other securities that are rated below AA at the time of purchase and Interest-Only Strips that are not classified as derivatives

Interest income on Non-Agency MBS and other securities that are rated below AA at the time of purchase and Interest-Only Strips that are not classified as derivatives are recognized based on the effective yield method. The effective yield on these securities is based on the projected cash flows from each security, which is estimated based on the Company s observation of the then current information and events, where applicable, and will include assumptions related to interest rates, prepayment rates and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Where appropriate, the Company may include in its cash flow projections the U.S Department of Justice s settlements with the major residential mortgage originators, regarding certain lending practices. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on such securities. Actual maturities of the securities are affected by the contractual lives of the underlying collateral, periodic payments of scheduled principal, and prepayments of principal. Therefore, actual maturities of the securities will generally be shorter than stated contractual maturities.

Based on the projected cash flow of such securities purchased at a discount to par value, the Company may designate a portion of such purchase discount as credit protection against future credit losses and, therefore, not accrete such amount into interest income. The amount designated as credit discount may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a credit discount is more favorable than forecasted, a portion of the amount designated as credit discount may be accreted into interest income prospectively.

In addition, an OTTI is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. The OTTI is recorded in the Company s Consolidated Statements of Operations as Other than temporary impairment.

Securities denominated in a foreign currency contain additional risk in that the amortized cost basis for those securities may not be recovered due to declines in currency exchange rates. The Company considers the length of time that the security s fair value has declined due to the decline in foreign exchange rates, when assessing OTTI.

The determination as to whether OTTI exists is subjective given that such determination is based on information available at the time of assessment as well as the Company s estimates of the future performance and cash flow projections on the security. As a result, the timing and amount of an OTTI constitutes an accounting estimate that may change materially over time.

Finally, certain of the Company s MBS and other securities that are in an unrealized loss position at the end of the reporting period are not be considered other-than-temporarily impaired because the Company has the ability and intent to hold the securities to maturity or for a period of time sufficient for a price recovery up to or above the amortized cost of the investment and the Company is not required to sell the security for regulatory or other reasons.

Sales of Investments

Sales of investments are driven by the Company s portfolio management process. The Company seeks to mitigate risks including those associated with prepayments, defaults and severities, amongst others and will opportunistically rotate the portfolio into securities and/or other investments the Company s Manager believes have more favorable attributes. Strategies may also be employed to manage net capital gains, which need to be distributed for tax purposes.

Realized gains or losses on sales of investments, including Agency Interest-Only Strips not characterized as derivatives, are included in Realized gain (loss) on sale of investments, net in the Consolidated Statements of Operations, and are recorded at the time of disposition. Realized gains or losses on Interest-Only Strips which are characterized as derivatives are included in Gain (loss) on derivative instruments, net in the Consolidated Statements of Operations. The cost of positions sold is calculated using the specific identification method.

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Foreign currency transactions

The Company has and expects to continue to enter into transactions denominated in foreign currency from time to time. At the date the transaction is recognized, the asset and/or liability will be measured and recorded using the exchange rate in effect at the date of the transaction. At each balance sheet date, such foreign currency assets and liabilities are re-measured using the exchange rate in effect at the date of the balance sheet, resulting in unrealized foreign currency gains or losses. Unrealized foreign currency gains or losses on MBS and other assets are recorded in Unrealized gain (loss), net in the Consolidated Statement of Operations. In addition, the Company evaluates whether an OTTI is deemed to have occurred on MBS and other assets denominated in a foreign currency. Cash flows from MBS and other assets denominated in foreign currencies are received in a foreign currency, and as a result, the Company may incur a loss due to changes in foreign exchange rates even when all contractual cash flows are received.   These adjustments are reflected in the Consolidated Statements of Operations as Other than temporary impairment. Unrealized and realized foreign currency gains or losses on borrowings under repurchase agreements are recorded in Other, net in the Consolidated Statement of Operations. Interest income from investments denominated in a foreign currency and interest expense on borrowings denominated in a foreign currency are recorded at the average rate of exchange during the period.

Due from counterparties/Due to counterparties

Due from counterparties represents cash posted by the Company with its counterparties as collateral for the Company s interest rate and/or currency derivative financial instruments, repurchase agreements, and TBAs. Due to counterparties represents cash posted with the Company by its counterparties as collateral under the Company s interest rate and/or currency derivative financial instruments, repurchase agreements, and TBAs. Included in the due from counterparties and/or due to counterparties are daily variation margin settlement amounts with counterparties which are based on the price movement of the Company s futures contracts. In addition, as provided below, Due to counterparties may include non-cash collateral in which the Company has the obligation to return and which the Company has either sold or pledged. To the extent the Company receives collateral other than cash from its counterparties such assets are not included in the Company s Consolidated Balance Sheets. Notwithstanding the foregoing, if the Company either rehypothecates such assets or pledges the assets as collateral pursuant to a repurchase agreement, the cash received and the corresponding liability are reflected in the Consolidated Balance Sheets.

Derivatives and hedging activities

Subject to maintaining its qualification as a REIT for U.S. federal income tax purposes, the Company utilizes derivative financial instruments, including interest rate swaps, interest rate swaptions, mortgage put options, currency forwards, futures contracts, TBAs and Agency and Non-Agency Interest-Only Strips to hedge the interest rate and currency risk associated with its portfolio and related borrowings. Derivatives, subject to REIT requirements, are used for hedging purposes rather than speculation. The Company has also entered into a total return swap, which transfer the total return of a referenced security to the Company. The Company determines the fair value of its derivative positions and obtains quotations from third parties, including the Chicago Mercantile Exchange or CME, to facilitate the process of determining such fair values. If the Company s hedging activities do not achieve the desired results, reported earnings may be adversely affected.

GAAP requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and to measure those instruments at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative. The fair value adjustment will affect either other comprehensive income in stockholders equity until the hedged item is recognized in earnings or net income depending on whether the derivative instrument is designated and qualifies as a for hedge for accounting purposes and if so, the nature of the hedging activity. The Company elected not to apply hedge accounting for its derivative instruments. Accordingly, the Company records the change in fair value of its derivative instruments, which includes net interest rate swap payments/receipts (including accrued amounts) and net currency payments (including accrued amounts) related to interest rate swaps and currency swaps, respectively, in Gain (loss) on derivative instruments, net in its Consolidated Statements of Operations.

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In the Company s Consolidated Statements of Cash Flows, premiums received or paid on termination of its interest rate swaps, excluding interest rate swaps containing an other-than-insignificant financing element and the unamortized premium of market agreed coupon (MAC) interest rate swaps, are included in cash flows from operating activities. Notwithstanding the foregoing, proceeds and payments on settlement of swaptions, mortgage put options, futures contracts and TBAs are included in cash flows from investing activities. Proceeds and payments on settlement of forward contracts are reflected in cash flows from financing activities in the Company s Consolidated Statements of Cash Flows. While payments made at the time of entering MAC interest rate swaps are included in cash flows from investing activities, payments received by the Company upon entering MAC interest rate swaps are included in either cash flows from investing activities or cash flows financing activities, depending on whether or not the derivative instrument includes an other-than-insignificant financing element. For MAC interest rate swaps containing an other-than-insignificant financing element, all cash flows over the life of the derivative are treated as cash flows from financing activities. Return and recovery of basis activity for MAC interest rate swaps is included in cash flows from investing activities for swaps not containing an other-than-insignificant financing element in the Company s Consolidated Statements of Cash Flows. For Agency and Non-Agency Interest-Only Strips accounted for as derivatives, the purchase, sale and recovery of basis activity is included with MBS and other securities under cash flows from investing activities in the Company s Consolidated Statements of Cash Flows.

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. An embedded derivative is separated from the host contact and accounted for separately when all of the guidance criteria are met. Hybrid instruments that are remeasured at fair value through earnings, including the fair value option are not bifurcated. Derivative instruments, including derivative instruments accounted for as liabilities, are recorded at fair value and are re-valued at each reporting date, with changes in the fair value together with interest earned or paid (including accrued amounts) reported in the Gain (loss) on derivative instruments, net in the Consolidated Statements of Operations.

Repurchase agreements and Reverse Repurchase agreements

The Company pledges its investments as collateral under repurchase agreements, which are treated as collateralized financing transactions, unless they meet sales treatment. The terms and conditions of the repurchase agreements are negotiated on a transaction by transaction basis. The borrowed amounts are dependent upon the fair value of the investment pledged as collateral, which fluctuates with changes in interest rates, type of investment and liquidity in the real estate markets. Declines in fair value of pledged investments may result in lenders requiring the Company to post additional collateral or pay down borrowings to re-establish borrowing limits. Interest paid and accrued in connection with the Company s repurchase agreements is recorded as interest expense in the Consolidated Statements of Operations.

The Company may borrow securities under reverse repurchase agreements to deliver a security owned and sold by the Company but pledged to a different counterparty under a separate repurchase agreement when in the Manager s view terminating the outstanding repurchase agreement is not in the Company s interest. Cash paid to the borrower is recorded in the Company s Consolidated Balance Sheets as an asset. Interest receivable in accordance with reverse repurchase agreements is recorded as accrued interest receivable in the Consolidated Balance Sheets. The Company reflects all proceeds on reverse repurchase agreement and repayment of reverse repurchase agreement, on a net basis in the Consolidated Statements of Cash Flows. Upon sale of a pledged security, the Company recognizes an obligation to return the borrowed security in the Consolidated Balance Sheets in Due to Counterparties. The Company establishes haircuts to ensure the market value of the underlying asset remains sufficient to protect the Company in the event of default by the counterparty. Realized gains and losses associated with the sale of the security are recognized in Realized gain (loss) on sale of investments, net in the Consolidated Statement of Cash Flows.

Securitized debt

Securitized debt was issued at par by a consolidated securitization trust. The Company elected the fair value option for the debt and as a result all changes in fair value are reflected in Unrealized gain (loss), net in the Consolidated Statement of Operations.

Share-based compensation

The Company accounts for share-based compensation to its independent directors, to its Manager and to employees of its Manager and its affiliates using the fair value based methodology prescribed by GAAP. Compensation cost related to restricted common stock issued to the Company s independent directors including any such restricted stock which is subject to a deferred compensation program, and is measured at its fair value at the grant date, and amortized into expense over the service period on a straight-line basis. Compensation cost related to restricted common stock issued to the Manager and to employees of the Manager, including officers of the Company who are employees of the Manager and its affiliates is initially measured at fair value at the grant date, and amortized into expense over the vesting period on a straight-line basis and re-measured on subsequent dates to the extent the awards are unvested.

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Warrants

For the Company s warrants, the Company uses a variation of the adjusted Black-Scholes option valuation model to record the financial instruments at their relative fair values at issuance. The warrants issued with the Company s common stock in the private placement to certain accredited institutional investors on May 15, 2012, were evaluated by the Company and were recorded at their relative fair value as a component of equity at the date of issuance.

Income taxes

The Company operates and has elected to be taxed as a REIT commencing with its taxable year ended December 31, 2012. Accordingly, the Company will generally not be subject to corporate U.S. federal or state income tax to the extent that the Company makes qualifying distributions to stockholders, and provided that the Company satisfies, on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, the Company will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which the Company lost its REIT qualification. Accordingly, the failure to qualify as a REIT could have a material adverse impact on the Company s results of operations and amounts available for distribution to stockholders.

The dividends paid deduction for qualifying dividends paid to stockholders is computed using the Company s taxable income as opposed to net income reported in the consolidated financial statements. Taxable income, generally, will differ from net income reported in the consolidated financial statements because the determination of taxable income is based on tax regulations and not GAAP.

The Company has elected to treat a wholly-owned subsidiary as a domestic Taxable REIT Subsidiary (TRS) and in the future may create and elect other subsidiaries as either a domestic or foreign TRS. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A domestic TRS is subject to U.S. federal, state and local corporate income taxes, and its value may not exceed 25% of the value of the Company. While a TRS may generate net income, a TRS can declare dividends to the Company, which will be included in the Company s taxable income and necessitate a distribution to its stockholders. Conversely, if the Company retains earnings at the TRS level, no distribution is required and it can increase book equity of the consolidated entity.

The Company evaluates uncertain tax positions, if any, and classifies interest and penalties, if any, related to unrecognized tax benefits, if any, as a component of the provision for income taxes. In addition, the Company evaluates the performance of the TRS each period to determine the need for a provision for income taxes.

Offering costs

Offering costs borne by the Company in connection with common stock offerings and private placements are reflected as a reduction of additional paid-in-capital.

Earnings per share

GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating securities as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for dividends declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for dividends declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity. The Company s participating securities are not allocated a share of the net loss, as the participating securities do not have a contractual obligation to share in the net losses of the Company.

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The remaining earnings are allocated to common stockholders and participating securities, to the extent that each security shares in earnings, as if all of the earnings for the period had been distributed. Each total is then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding common shares and all potential common shares assumed issued if they are dilutive. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of these potential common shares.

Comprehensive Income (Loss)

The Company has none of the components of comprehensive income (loss) and therefore comprehensive income (loss) is not presented.

Accounting standards applicable to emerging growth companies

The JOBS Act contains provisions that relax certain requirements for emerging growth companies , which includes the Company. For as long as the Company is an emerging growth company, which may be up to five full fiscal years, unlike other public companies, the Company will not be required to: (i) comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies under Section 102(b)(1) of the JOBS Act; (ii) provide an auditor s attestation report on management s assessment of the effectiveness of the Company s system of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act; (iii) comply with any new requirements adopted by the PCAOB requiring mandatory audit firm rotation or a supplement to the auditor s report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer; or (iv) comply with any new audit rules adopted by the PCAOB after April 5, 2012, unless the SEC determines otherwise. The Company currently takes advantage of some of these exemptions. The Company s qualification for remaining an emerging growth company under the five full fiscal years expires on December 31, 2017. However, the Company will no longer qualify for such exemption if its gross revenue for any year equals or exceeds $1.0 billion, the Company issues more than $1.0 billion in non-convertible debt during the three previous years, or if the Company is deemed to be a large accelerated filer.

Recent accounting pronouncements

Accounting Standards Adopted in 2016

In January 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-01, Income Statement - Extraordinary and Unusual Items. The guidance simplifies income statement presentation by eliminating the concept of extraordinary items. U.S. GAAP currently requires that a company separately classify, disclose and present extraordinary events and transactions. The guidance eliminates the concept of extraordinary items from U.S. GAAP. Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is of an unusual nature and occurs infrequently. This separate, net-of-tax presentation (and corresponding earnings per share impact) will no longer be allowed. The existing requirement to separately present items that are of an unusual nature or occur infrequently on a

pre-tax basis within income from continuing operations has been retained. The new guidance also requires similar separate presentation of items that are both unusual and infrequent. The standard is effective for periods beginning after December 15, 2015. The effective date is the same for both public companies and all other entities. The 2016 adoption of the new guidance did not have a material impact on the Company s consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation - Amendments to the Consolidation Analysis. The guidance simplifies and reduces the number of consolidation models through the elimination of an indefinite deferral for certain entities and by placing more emphasis on risk of loss when determining a controlling financial interest. The guidance affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The standard is effective for a public company for fiscal years, and for interim periods within fiscal years beginning after December 15, 2015. The 2016 adoption of the new guidance did not have a material impact on the Company s consolidated financial statements.

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In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest - Simplifying the Presentation of Debt Issuance Costs. The guidance amends the presentation of debt issuance cost related to a recognized debt liability. Under the new guidance, the debt issuance costs were presented in the balance sheet as a direct deduction from the carrying amount of the recognized debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected under the new guidance. The standard is effective for a public company for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The guidance should be applied on a retrospective basis. The Company s December 31, 2015 balance sheet was adjusted to reflect the effects of applying the new guidance on a retrospective basis and resulted in a $134 thousand reduction in Borrowings under repurchase agreements and a corresponding reduction in Other assets. Upon adoption, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (i.e., debt issuance cost asset and the debt liability). The 2016 adoption of the new guidance did not have a material impact on the Company s consolidated financial statements.

Accounting Standards to be Adopted in Future Periods

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance changes an entity s recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new guidance requires improved disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued implementation guidance which clarifies principal versus agent considerations in reporting revenue gross versus net (ASU 2016-08). In April 2016, the FASB issued implementation guidance which clarifies the identification of performance obligations (ASU 2016-10). In applying the new guidance, an entity may use either a retrospective approach to each prior reporting period or a retrospective approach with the cumulative effect recognized at the date of initial application. For a public company, the standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted for a public entity. The new guidance is not expected to have a material impact on the Company s consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. The guidance requires an entity s management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. According to the new guidance, substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the financial statements are issued. The term probable is used consistently with its current use in U.S. GAAP for loss contingencies. Disclosures will be required if conditions give rise to substantial doubt about the entity s ability to continue as a going concern, including whether management s plans that are intended to mitigate those conditions will alleviate the substantial doubt when implemented. The guidance is effective for annual periods ending after December 15, 2016. The effective date is the same for both public companies and all other entities. Early application is permitted. The Company s first assessment under the new guidance will be completed for the year ending December 31, 2016.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The guidance improves certain aspects of recognition,

measurement, presentation, and disclosure of financial instruments. The standard is effective for a public company for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. Early adoption by public companies for fiscal years or interim periods that have not yet been issued or, by all other entities, that have not yet been made available for issuance of this guidance are permitted as of the beginning of the fiscal year of adoption, under certain restrictions. The Company should apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The guidance related to equity securities without readily determinable fair values should be applied prospectively to equity investments that exist at the date of adoption. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements when adopted.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The guidance changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee s shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. For a public company, the standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted in any interim or annual period. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements when adopted.

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In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The guidance requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected by deducting an allowance for credit losses from the amortized cost basis of the financial assets. For available-for-sale debt securities, the new guidance aligns the income statement recognition of credit losses with the reporting period in which changes occur by recording credit losses through an allowance rather than a write-down and allowing subsequent reversals in credit loss estimates to be recognized in current income. The measurement of expected credit losses will be based on historical experience, current conditions and reasonable and supportable forecasts. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. For a public company, the standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption will be permitted for fiscal years beginning after December 15, 2018. The guidance should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. For certain assets, a prospective transition approach is required. The company is currently assessing the impact that this guidance will have on its consolidated financial statements when adopted.

Note 3 Fair Value of Financial Instruments

The following tables present the Company s financial instruments carried at fair value as of June 30, 2016 and December 31, 2015, based upon the valuation hierarchy (dollars in thousands):

	June 30, 2016 Fair Value			
	Level I	**Level II**	**Level III**	**Total**
Assets				
Agency RMBS:				
20-Year mortgage	$	$ 567,105	$	$ 567,105
30-Year mortgage		985,364		985,364
Agency RMBS Interest-Only Strips		25,238		25,238
Agency RMBS Interest-Only Strips accounted for as derivatives, included in MBS		27,452		27,452
Agency CMBS		12,870		12,870
Agency CMBS Interest-Only Strips		1,182		1,182
Agency CMBS Interest-Only Strips accounted for as derivatives, included in MBS		9,482		9,482
Subtotal Agency MBS		1,628,693		1,628,693
Non-Agency RMBS		247,748	78,863	326,611
Non-Agency RMBS Interest-Only Strips			84,865	84,865
Non-Agency Interest-Only Strips accounted for as derivatives, included in MBS			3,906	3,906
Non-Agency CMBS		353,386	28,207	381,593
Subtotal Non-Agency MBS		601,134	195,841	796,975
Other securities		18,280	30,985	49,265
Total mortgage-backed securities and other securities		2,248,107	226,826	2,474,933
Residential Whole-Loans			189,696	189,696
Securitized commercial loan			23,688	23,688
Derivative assets	8,861	164,101		172,962

Total	$	8,861	$	2,412,208	$	440,210	$	2,861,279
Liabilities								
Derivative liabilities	$		$	399,514	$	2,160	$	401,674
Securitized debt						10,423		10,423
Total	$		$	399,514	$	12,583	$	412,097

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	December 31, 2015 Fair Value			
	Level I	Level II	Level III	Total
Assets				
Agency RMBS:				
20-Year mortgage	$	$ 687,272	$	$ 687,272
30-Year mortgage		926,459		926,459
Agency RMBS Interest-Only Strips		71,954		71,954
Agency RMBS Interest-Only Strips accounted for as derivatives, included in MBS		45,362		45,362
Agency CMBS			24,690	24,690
Agency CMBS Interest-Only Strips		2,113		2,113
Agency CMBS Interest-Only Strips accounted for as derivatives, included in MBS		11,069		11,069
Subtotal Agency MBS		1,744,229	24,690	1,768,919
Non-Agency RMBS		278,885	166,564	445,449
Non-Agency RMBS Interest-Only Strips			81,189	81,189
Non-Agency RMBS Interest-Only Strips accounted for as derivatives, included in MBS			3,556	3,556
Non-Agency CMBS		332,574	118,341	450,915
Subtotal Non-Agency MBS		611,459	369,650	981,109
Other securities		29,103	71,996	101,099
Total mortgage-backed securities and other securities		2,384,791	466,336	2,851,127
Residential Whole-Loans			218,538	218,538
Securitized commercial loan			25,000	25,000
Derivative assets	63	21,852		21,915
Total	$ 63	$ 2,406,643	$ 709,874	$ 3,116,580
Liabilities				
Derivative liabilities	$ 698	$ 179,479	$	$ 180,177
Securitized debt			11,000	11,000
Total	$ 698	$ 179,479	$ 11,000	$ 191,177

When available, the Company uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Company will use independent pricing services and if the independent pricing service cannot price a particular asset or liability, the Company will obtain third party broker quotes. The Manager s pricing group, which functions independently from its portfolio management personnel, reviews the third party broker quotes for reasonableness to alternate sources when available. If independent pricing service, or third party broker quotes are not available, the Company determines the fair value of the securities using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and when applicable, estimates of prepayments and credit losses.

Mortgage-backed securities and other securities

In determining the proper fair value hierarchy or level, all securities are initially classified in Level III. The Company further determined, given the amount of available observable market data, Agency RMBS should be classified in Level II. For Non-Agency RMBS, CMBS and other securities, to determine whether a security should be a Level II, the securities are grouped by security type and the Manager reviews the internal trade history, for the quarter, for each security type. If there is sufficient trade data above a predetermined threshold of a security type, the Manager determines it has sufficient observable market data and the security will be categorized as a Level II.

Values for the Company s securities are based upon prices obtained from independent third party pricing services. The valuation methodology of the third party pricing services incorporates a commonly used market pricing method. Depending on the type of asset and the underlying collateral, the primary inputs to the model include yields for TBAs, Agency RMBS, the U.S. Treasury market and floating rate indices such as LIBOR, the Constant Maturity Treasury rate and the prime rate as a benchmark yield. In addition, the model may incorporate the current weighted average maturity and additional pool level information such as prepayment speeds, default frequencies and default severities, if applicable. When the third party pricing service cannot adequately price a particular security, the Company utilizes a broker s quote which is reviewed for reasonableness by the Manager s pricing group.

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Residential Whole-Loans

Values for the Company s residential whole-loans are based upon prices obtained from an independent third party pricing service that specializes in residential loans, utilizing a trade based valuation model. Their valuation methodology incorporates commonly used market pricing methods, including loan to value (LTV), debt to income, maturity, interest rates, collateral location, and unpaid principal balance, prepayment penalties, FICO scores, lien position and times late. Due to the inherent uncertainty of such valuation, the fair values established for residential loans held by the Company may differ from the fair values that would have been established if a ready market existed for these loans. Accordingly, the Company s loans are classified as Level III.

Securitized commercial loan and securitized debt

Values for the Company s securitized commercial loan and securitized debt are based on the fair value that is more observable. Since there is an extremely limited market for the securitized commercial loan, the Company determined the fair value of the securitized debt was more observable. The fair value of the securitized debt was based upon a third party broker quote, which is validated by the Manager s pricing group. Due to the inherent uncertainty of such valuation the Company classifies its securitized commercial loan and securitized debt as Level III.

Derivatives

Values for the Company derivatives are based upon prices from third party pricing services, whose pricing is subject to review by the Manager s pricing committee. In valuing its over-the-counter interest rate derivatives, such as swaps and swaptions, its currency derivatives, such as swaps and forwards and credit derivatives such as total return swaps, the Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both the Company and its counterparties. The majority of the Company s interest rate swaps are cleared through a central clearing house and subject to the clearing house margin requirements. The Company s agreements with its derivative counterparties also contain netting provisions; however the Company has elected to report its interest rate swaps and swaptions and currency swaps and forwards on a gross basis. No credit valuation adjustment was made in determining the fair value of interest rate and/or currency derivatives for the periods ended June 30, 2016 and December 31, 2015.

The Company performs quarterly reviews of the independent third party pricing data. These reviews may consist of a review of the daily change in the prices provided by the independent pricing vendor which exceed established tolerances or comparisons to executed transaction prices, utilizing the Manager s pricing group. The Manager s pricing group, which functions independently from its portfolio management personnel, reviews the price differences or changes in price by comparing the vendor price to alternate sources including other independent pricing services or broker quotations. If the price change or difference cannot be corroborated, the Manager s pricing group consults with the portfolio management team for market color in reviewing such pricing data as warranted. To the extent that the Manager has information, typically in the form of broker quotations that would indicate that a price received from the independent pricing service is outside of a tolerance range, the Manager generally challenges the independent pricing service price.

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The following tables present additional information about the Company s financial instruments which are measured at fair value on a recurring basis for which the Company has utilized Level III inputs to determine fair value:

	Three months ended June 30, 2016			Six months ended June 30, 2016		
$ in thousands	Mortgage-backed securities and other securities	Residential Whole-Loans	Securitized commercial loan	Mortgage-backed securities and other securities	Residential Whole-Loans	Securitized commercial loan
Beginning balance	$ 233,006	$ 201,267	$ 23,675	$ 466,336	$ 218,538	$ 25,000
Transfers into Level III from Level II						
Transfers from Level III into Level II				(158,567)		
Purchases				94		
Sales and settlements				(68,910)		
Principal repayments	(7,066)	(11,114)		(11,086)	(28,335)	
Total net gains / (losses) included in net income						
Realized gains/(losses), net	(244)			(6,435)		
Other than temporary impairment	(992)			(5,055)		
Unrealized gains/(losses), net(1)	5,139	37	13	15,858	584	(1,312)
Premium and discount amortization, net	(3,017)	(494)		(5,409)	(1,091)	
Ending balance	$ 226,826	$ 189,696	$ 23,688	$ 226,826	$ 189,696	$ 23,688

(1) For Mortgage-backed securities and other securities, Residential Whole-Loans and Securitized commercial loans classified as Level III at June 30, 2016, the Company recorded gross unrealized gains of approximately $7.1 million, $388 thousand and $13 thousand, respectively, and gross unrealized losses of approximately $2.0 million, $29 thousand and $0, respectively, for the three months ended June 30, 2016. For Mortgage-backed securities and other securities, Residential Whole-Loans and Securitized commercial loans classified as Level III at June 30, 2016, the Company recorded gross unrealized gains of approximately $21.9 million, $1.1 million and $0, respectively, and gross unrealized losses of approximately $2.3 million, $240 thousand and $1.3 million, respectively, for the six months ended June 30, 2016. These gains and losses are included in Unrealized gain (loss), net on the Consolidated Statements of Operations.

	Three months ended June 30, 2016		Six months ended June 30, 2016	
$ in thousands	Derivative Liability	Securitized debt	Derivative Liability	Securitized debt
Beginning balance	$ 866	10,417	$	$ 11,000
Transfers into Level III from Level II				
Transfers from Level III into Level II				
Purchases				
Sales and settlements				
Principal repayments				

Total net gains / (losses) included in net income								
Realized gains/(losses), net								
Other than temporary impairment								
Unrealized (gains)/losses, net(1)		1,294		6		2,160		(577)
Premium and discount amortization, net								
Ending balance	$	2,160	$	10,423	$	2,160	$	10,423

(1) For Derivative liability and Securitized debt classified as Level III at June 30, 2016, the Company recorded gross unrealized gains of $0 and approximately $0, respectively, and gross unrealized losses of approximately $1.3 million and $6 thousand, respectively, for the three months ended June 30, 2016. For Derivative liability and Securitized debt classified as Level III at June 30, 2016, the Company recorded gross unrealized gains of $0 and approximately $577 thousand, respectively, and gross unrealized losses of approximately $2.2 million and $0, respectively, for the six months ended June 30, 2016. These gains and losses are included in Gain (loss) on derivative instruments, net and Unrealized gain (loss), net in the Consolidated Statements of Operations, respectively.

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	Three months ended June 30, 2015		
$ in thousands	**Mortgage-backed securities and other securities**	**Residential Whole-Loans**	**Commercial Whole-Loan**
Beginning balance	$ 398,881	$ 17,860	$ 8,900
Fair value of securities previously accounted for as linked transactions(1)			
Fair value of financial instruments previously accounted for as linked transactions(1)			
Transfers into Level III from Level II	32,143		
Transfers from Level III into Level II	(18,228)		
Purchases	66,665	6,865	
Sales and settlements	(22,523)		
Principal repayments	(2,364)	(2,542)	
Total net gains / (losses) included in net income			
Realized gains/(losses), net	(9)		
Other than temporary impairment	(1,547)		
Unrealized gains/(losses), net(2)	1,225	67	(157)
Premium and discount amortization, net	(1,856)	(66)	
Ending balance	$ 452,387	$ 22,184	$ 8,743

(1) Resulting from the implementation of guidance issued by the FASB which eliminated the requirement to account for certain financial instruments as linked transactions.

(2) For Mortgage-backed securities and other securities, Residential Whole-Loans and Commercial Whole-Loan classified as Level III at June 30, 2015, the Company recorded gross unrealized gains of approximately $4.7 million, $172 thousand and $0, respectively, and gross unrealized losses of approximately $5.6 million, $59 thousand and $157 thousand, respectively. These gains and losses are included in Unrealized gain (loss), net in the Consolidated Statements of Operations.

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	Six months ended June 30, 2015			
$ in thousands	Mortgage-backed securities and other securities	Residential Whole-Loans	Commercial Whole-Loan	Linked Transactions
Beginning balance	$ 291,407	$ 7,220	$	$ 20,627
Fair value of securities previously accounted for as linked transactions(1)	52,484			
Fair value of financial instruments previously accounted for as linked transactions(1)				(20,627)
Transfers into Level III from Level II	37,499			
Transfers from Level III into Level II	(3,996)			
Purchases	156,326	16,747	8,750	
Sales and settlements	(72,247)			
Principal repayments	(4,709)	(1,997)		
Total net gains / (losses) included in net income				
Realized gains/(losses), net	4,461			
Other than temporary impairment	(2,741)			
Unrealized gains/(losses), net(2)	(827)	313	(7)	
Premium and discount amortization, net	(5,270)	(99)		
Ending balance	$ 452,387	$ 22,184	$ 8,743	$

(1) Resulting from the implementation of guidance issued by the FASB which eliminated the requirement to account for certain financial instruments as linked transactions.

(2) For Mortgage-backed securities and other securities, Residential Whole-Loans and Commercial Whole-Loan classified as Level III at June 30, 2015, the Company recorded for the six months ended gross unrealized gains of approximately $7.6 million, $363 thousand and $0, respectively, and gross unrealized losses of approximately $7.6 million, $50 thousand and $7 thousand, respectively. These gains and losses are included in Unrealized gain (loss), net in the Consolidated Statements of Operations.

Transfers between hierarchy levels for the six months ended June 30, 2016 and June 30, 2015 were based on the availability of sufficient observable inputs to meet Level II versus Level III criteria. The leveling of these assets was based on information received from a third party pricing service which, along with the back-testing of historical sales transactions performed by the Manager provided the sufficient observable data for the movement from Level III to Level II. The Company did not have transfers between Level I and Level II for the six months ended June 30, 2016 and June 30, 2015.

Other Fair Value Disclosures

Due from counterparties and Due to counterparties in the Company s Consolidated Balance Sheets are reflected at cost which approximates fair value.

The fair value of the repurchase agreements is based on a net present value technique. This method discounts future estimated cash flows using rates the Company determined best estimate current market interest rates that would be offered for loans with similar characteristics and credit quality. The use of different market assumptions or estimation methodologies could have a material effect on the fair value amounts. At June 30, 2016, the Company s borrowings under repurchase agreements had a carrying value which approximates its fair value. Inputs used to arrive at the fair value of the repurchase agreement borrowings and receivables under reverse repurchase agreements are generally observable, and therefore, they would be considered a Level II fair value measurement.

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Note 4 Mortgage-Backed Securities and other securities

The following tables present certain information about the Company s investment portfolio at June 30, 2016 and December 31, 2015 (dollars in thousands).

	June 30, 2016							
	Principal Balance	Unamortized Premium (Discount), net	Discount Designated as Credit Reserve and OTTI	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Net Weighted Average Coupon (1)
Agency RMBS:								
20-Year mortgage	$ 525,619	$ 27,772	$	$ 553,391	$ 13,714	$	$ 567,105	3.9%
30-Year mortgage	898,574	65,470		964,044	21,760	(440)	985,364	4.1%
Agency RMBS Interest-Only Strips (2)	N/A	N/A	N/A	24,430	1,299	(491)	25,238	2.8%(2)
Agency RMBS Interest-Only Strips, accounted for as derivatives (2) (3)	N/A	N/A	N/A	N/A	N/A	N/A	27,452	3.4%(2)
Agency CMBS	13,178			13,178	71	(379)	12,870	5.1%
Agency CMBS Interest-Only Strips(2)	N/A	N/A	N/A	1,063	119		1,182	4.6%(2)
Agency CMBS Interest-Only Strips accounted for as derivatives(2) (3)	N/A	N/A	N/A	N/A	N/A	N/A	9,482	0.6%(2)
Subtotal Agency	1,437,371	93,242		1,556,106	36,963	(1,310)	1,628,693	3.5%
Non-Agency RMBS	454,376	(22,549)	(115,964)	315,863	15,447	(4,699)	326,611	3.8%
Non-Agency RMBS Interest- Only Strips (2)	N/A	N/A	N/A	61,221	23,644		84,865	5.9%(2)
Non-Agency RMBS Interest-Only Strips, accounted for as derivatives (2) (3)	N/A	N/A	N/A	N/A	N/A	N/A	3,906	4.9%(2)
Non-Agency CMBS	498,546	(72,287)	(11,588)	414,671	3,501	(36,579)	381,593	5.0%
Subtotal Non-Agency	952,922	(94,836)	(127,552)	791,755	42,592	(41,278)	796,975	4.7%
Other securities (4)	30,607	(1,437)	(1,610)	49,523	744	(1,002)	49,265	6.4%
Total	$ 2,420,900	$ (3,031)	$ (129,162)	$ 2,397,384	$ 80,299	$ (43,590)	$ 2,474,933	4.0%

	December 31, 2015							
	Principal Balance	Unamortized Premium (Discount), net	Discount Designated as Credit Reserve and OTTI	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Net Weighted Average Coupon (1)
Agency RMBS:								
20-Year mortgage	$ 645,313	$ 35,216	$	$ 680,529	$ 8,562	$ (1,819)	$ 687,272	3.9%
30-Year mortgage	856,014	71,342		927,356	10,827	(11,724)	926,459	4.2%
Agency RMBS Interest-Only Strips (2)	N/A	N/A	N/A	71,632	2,499	(2,177)	71,954	3.1%(2)
Agency RMBS Interest-Only Strips, accounted for as derivatives (2) (3)	N/A	N/A	N/A	N/A	N/A	N/A	45,362	3.6%(2)

Agency CMBS	24,450			24,450	240		24,690	5.2%
Agency CMBS Interest-Only Strips(2)	N/A	N/A	N/A	1,915	198		2,113	4.7%(2)
Agency CMBS Interest-Only Strips accounted for as derivatives(2) (3)	N/A	N/A	N/A	N/A	N/A	N/A	11,069	0.7%(2)
Subtotal Agency	1,525,777	106,558		1,705,882	22,326	(15,720)	1,768,919	3.5%
Non-Agency RMBS	601,233	(16,669)	(141,014)	443,550	9,345	(7,446)	445,449	3.7%
Non-Agency RMBS Interest- Only Strips (2)	N/A	N/A	N/A	66,600	14,589		81,189	5.9%(2)
Non-Agency RMBS Interest-Only Strips, accounted for as derivatives (2) (3)	N/A	N/A	N/A	N/A	N/A	N/A	3,556	5.0%(2)
Non-Agency CMBS	550,901	(73,835)	(9,017)	468,049	4,049	(21,183)	450,915	5.0%
Subtotal Non-Agency	1,152,134	(90,504)	(150,031)	978,199	27,983	(28,629)	981,109	4.7%
Other securities (4)	81,518	1,135	(2,719)	102,778	1,233	(2,912)	101,099	4.8%
Total	$ 2,759,429	$ 17,189	$ (152,750)	$ 2,786,859	$ 51,542	$ (47,261)	$ 2,851,127	3.9%

(1) Net weighted average coupon as of June 30, 2016 and December 31, 2015 is presented, net of servicing and other fees.

(2) Agency RMBS IOs and IIOs, Non-Agency RMBS IOs and IIOs, Agency and Non-Agency RMBS IOs and IIOs, accounted for as derivatives, Agency CMBS IOs and IIOs, and Agency CMBS IOs and IIOs, accounted for as derivatives have no principal balances and bear interest based on a notional balance. The notional balance is used solely to determine interest distributions on interest-only class of securities. At June 30, 2016, the notional balance for Agency RMBS IOs and IIOs, Non-Agency RMBS IOs and IIOs, Agency RMBS IOs and IIOs, accounted for as derivatives, Non-Agency RMBS IOs and IIOs, accounted for as derivatives, Agency CMBS IOs and IIOs, accounted for as derivatives and Agency CMBS IOs and IIOs was $261.5 million, $301.1 million, $308.3 million $23.2 million, $233.3 million and $41.3 million, respectively. At December 31, 2015, the notional balance for Agency RMBS IOs and IIOs, Non-Agency RMBS IOs and IIOs, Agency RMBS IOs and IIOs, accounted for as derivatives, Non-Agency RMBS IOs and IIOs, accounted for as derivatives, Agency CMBS IOs and IIOs, accounted for as derivatives and Agency CMBS IOs and IIOs was $593.4 million, $321.0 million, $384.1 million, $24.9 million, $246.6 million and $43.2 million, respectively.

(3) Interest on these securities is reported as a component of Gain (loss) on derivative instruments, net in the Consolidated Statements of Operations.

(4) Other securities include residual interests in asset-backed securities which have no principal balance and an amortized cost of approximately $22.0 million and $22.8 million, as of June 30, 2016 and December 31, 2015, respectively.

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As of June 30, 2016 and December 31, 2015 the weighted average expected remaining term of the MBS and other securities investment portfolio was 5.6 years and 7.1 years, respectively.

The following tables present the changes in the components of the Company s purchase discount and amortizable premium on its Non-Agency RMBS, Non-Agency CMBS and other securities for the three and six months ended June 30, 2016 and June 30, 2015 (dollars in thousands):

	Three months ended June 30, 2016		
	Discount Designated as Credit Reserve and OTTI	**Accretable Discount(1)**	**Amortizable Premium(1)**
Balance at beginning of period	$ (118,090)	$ (143,896)	$ 43,407
Accretion of discount		4,493	
Amortization of premium			(1,408)
Realized credit losses	(524)		
Purchases	(14,266)		2,120
Sales	3,509	6,582	(1,993)
Net impairment losses recognized in earnings	(5,369)		
Transfers/release of credit reserve(2)	5,578	(6,854)	1,276
Balance at end of period	$ (129,162)	$ (139,675)	$ 43,402

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.

(2) Subsequent reductions of a security s non-accretable discount results in a corresponding reduction in its amortizable premium.

	Six months ended June 30, 2016		
	Discount Designated as Credit Reserve and OTTI	**Accretable Discount(1)**	**Amortizable Premium(1)**
Balance at beginning of period	$ (152,750)	$ (145,532)	$ 56,163
Accretion of discount		9,230	
Amortization of premium			(3,110)
Realized credit losses	3,142		
Purchases	(14,266)	(2,265)	2,120
Sales	31,663	14,413	(10,429)
Net impairment losses recognized in earnings	(13,814)		
Transfers/release of credit reserve(2)	16,863	(15,521)	(1,342)
Balance at end of period	$ (129,162)	$ (139,675)	$ 43,402

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.

(2) Subsequent reductions of a security s non-accretable discount results in a corresponding reduction in its amortizable premium.

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	Three months ended June 30, 2015		
	Discount Designated as Credit Reserve and OTTI	Accretable Discount(1)	Amortizable Premium(1)
Balance at beginning of period	$ (163,892)	$ (111,802)	$ 76,443
Accretion of discount		4,112	
Amortization of premium			(2,151)
Realized credit losses	2,327		
Purchases	(3,509)	(15,175)	4,751
Sales		323	(1,072)
Net impairment losses recognized in earnings	(1,862)		
Transfers/release of credit reserve(2)	2,005	(10,865)	8,860
Balance at end of period	$ (164,931)	$ (133,407)	$ 86,831

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.

(2) Subsequent reductions of a security s non-accretable discount results in a corresponding reduction in its amortizable premium.

	Six months ended June 30, 2015		
	Discount Designated as Credit Reserve and OTTI	Accretable Discount(1)	Amortizable Premium(1)
Balance at beginning of period	$ (182,007)	$ (105,804)	$ 82,228
Securities previously accounted for as linked transactions(2)	(2,320)	(1,393)	4,587
Accretion of discount		9,266	
Amortization of premium			(4,879)
Realized credit losses	4,995		
Purchases	(34,096)	(63,473)	6,808
Sales	53,815	37,175	(11,018)
Net impairment losses recognized in earnings	(5,391)		
Transfers/release of credit reserve(3)	73	(9,178)	9,105
Balance at end of period	$ (164,931)	$ (133,407)	$ 86,831

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.

(2) Resulting from the implementation of guidance issued by the FASB which eliminated the requirement to account for certain financial instruments as linked transactions.

(3) Subsequent reductions of a security s non-accretable discount results in a corresponding reduction in its amortizable premium.

The following tables present the fair value and contractual maturities of the Company s investment securities at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016				
	< or equal to 10 years	> 10 years and < or equal to 20 years	> 20 years and < or equal to 30 years	> 30 years	Total
Agency RMBS:					
20-Year mortgage	$	$ 567,105	$	$	$ 567,105
30-Year mortgage			985,364		985,364
Agency RMBS Interest-Only Strips		16,025	9,213		25,238
Agency RMBS Interest-Only Strips, accounted for as derivatives	2,247	7,512	17,693		27,452
Agency CMBS	12,870				12,870
Agency CMBS Interest-Only Strips	1,182				1,182
Agency CMBS Interest-Only Strips accounted for as derivatives				9,482	9,482
Subtotal Agency	16,299	590,642	1,012,270	9,482	1,628,693
Non-Agency RMBS	14	56,783	70,533	199,281	326,611
Non-Agency RMBS Interest-Only Strips		2,974	18,005	63,886	84,865
Non-Agency RMBS Interest-Only Strips, accounted for as derivatives			1,415	2,491	3,906
Non-Agency CMBS	25,811	38,179	144,141	173,462	381,593
Subtotal Non-Agency	25,825	97,936	234,094	439,120	796,975
Other securities	11,979	9,286	6,302	21,698	49,265
Total	$ 54,103	$ 697,864	$ 1,252,666	$ 470,300	$ 2,474,933

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	December 31, 2015				
	< or equal to 10 years	> 10 years and < or equal to 20 years	> 20 years and < or equal to 30 years	> 30 years	Total
Agency RMBS:					
20-Year mortgage	$	$ 687,272	$	$	$ 687,272
30-Year mortgage			926,459		926,459
Agency RMBS Interest-Only Strips		40,900	31,054		71,954
Agency RMBS Interest-Only Strips, accounted for as derivatives	1,310	10,081	33,971		45,362
Agency CMBS	24,690				24,690
Agency CMBS Interest-Only Strips(2)	2,113				2,113
Agency CMBS Interest-Only Strips accounted for as derivatives(2) (3)				11,069	11,069
Subtotal Agency	28,113	738,253	991,484	11,069	1,768,919
Non-Agency RMBS	15	86,172	59,502	299,760	445,449
Non-Agency RMBS Interest-Only Strips			20,639	60,550	81,189
Non-Agency RMBS Interest-Only Strips, accounted for as derivatives			1,248	2,308	3,556
Non-Agency CMBS	40,523	27,849	167,355	215,188	450,915
Subtotal Non-Agency	40,538	114,021	248,744	577,806	981,109
Other securities	29,102	11,088	39,256	21,653	101,099
Total	$ 97,753	$ 863,362	$ 1,279,484	$ 610,528	$ 2,851,127

The following tables present the gross unrealized losses and estimated fair value of the Company s MBS and other securities by length of time that such securities have been in a continuous unrealized loss position at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016								
	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Agency RMBS:									
30-Year mortgage	$	$		$ 114,857	$ (440)	25	$ 114,857	$ (440)	25
Agency RMBS Interest-Only Strips	14,201	(491)	10				14,201	(491)	10
Agency CMBS	4,610	(379)	1				4,610	(379)	1
Non-Agency RMBS	109,643	(4,211)	24	26,121	(487)	6	135,764	(4,698)	30
Non-Agency CMBS	174,909	(21,280)	43	104,618	(15,300)	18	279,527	(36,580)	61
Other securities	23,103	(1,002)	2				23,103	(1,002)	2
Total	$ 326,466	$ (27,363)	80	$ 245,596	$ (16,227)	49	$ 572,062	$ (43,590)	129

	December 31, 2015								
	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities

Agency RMBS:									
20-Year mortgage	$ 113,919	$ (1,229)	35	$ 44,470	$ (590)	10	$ 158,389	$ (1,819)	45
30-Year mortgage	68,890	(1,325)	17	329,716	(10,399)	55	398,606	(11,724)	72
Agency RMBS Interest-Only Strips	39,091	(2,177)	18				39,091	(2,177)	18
Non-Agency RMBS	234,897	(6,928)	36	19,656	(519)	5	254,553	(7,447)	41
Non-Agency CMBS	298,369	(19,888)	55	27,755	(1,294)	7	326,124	(21,182)	62
Other securities	59,610	(1,746)	5	11,334	(1,166)	1	70,944	(2,912)	6
Total	$ 814,776	$ (33,293)	166	$ 432,931	$ (13,968)	78	$ 1,247,707	$ (47,261)	244

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At June 30, 2016, the Company did not intend to sell any of its MBS and other securities that were in an unrealized loss position, and it is more likely than not that the Company will not be required to sell these MBS and other securities before recovery of their amortized cost basis, which may be at their maturity.

The Company assesses its Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase for other-than-temporary impairment on at least a quarterly basis. When the fair value of an investment is less than its amortized cost at the balance sheet date of the reporting period for which impairment is assessed, the impairment is designated as either temporary or other-than-temporary. In deciding on whether or not a security is other-than-temporarily impaired, the Company considers several factors, including the nature of the investment, communications (if any) from the securitization trustee regarding the credit quality of the security, the severity and duration of the impairment, the cause of the impairment, and the Company s intent not to sell the security and that it is more likely than not that the Company will not be required to sell the security until recovery of its amortized cost. In addition, an other-than-temporary impairment is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. These adjustments are reflected in the Company s Consolidated Statement of Operations as Other than temporary impairment.

For Non-Agency MBS and other securities rated below AA at the time of purchase and Agency and Non-Agency Interest-Only Strips, excluding Interest-Only Strips classified as derivatives, an other-than-temporary impairment is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the beneficial interest is less than its carrying amount. Other than for plain-vanilla variable rate Non-Agency MBS, the Company does not bifurcate the loss between credit loss and loss attributed to change in interest rates, therefore, the entire loss is recorded as other-than-temporary. These adjustments are reflected in the Company s Consolidated Statement of Operations as Other than temporary impairment. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. If an other-than-temporary impairment is recognized as a result of this analysis, the yield is maintained at the current accretion rate. The last revised estimated cash flows are then used for future impairment analysis purposes. The Company s prepayment speed estimate was the primary assumption used to determine other-than temporary-impairments for Interest-Only Strips, excluding Agency and Non-Agency Interest-Only Strips accounted for as derivatives, for the three and six months ended June 30, 2016, and June 30, 2015.

With respect to the Company s security portfolio, OTTI is generally recorded when the credit quality of the underlying collateral deteriorates and or the schedule payments are faster than previously projected. The credit deterioration could be as a result of, but not limited to, increased projected realized losses, foreclosures, delinquencies and the likelihood of the borrower being able to make payments in the future. Generally, a prepayment occurs when a loan has a higher interest rate relative to current interest rates and lenders are willing to extend credit at the lower current interest rate of the underlying collateral for the loan is sold or transferred. OTTI is reported in the Company s Consolidated Statement of Operations.

The following table presents the OTTI the Company recorded on its securities portfolio (dollars in thousands):

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Agency RMBS	$ 297	$ 2,056	$ 1,024	$ 3,178
Non-Agency RMBS	2,312	364	7,229	3,030
Non-Agency CMBS	2,754	1,498	5,539	2,098
Other securities	993	398	3,361	661
Total	$ 6,356	$ 4,316	$ 17,153	$ 8,967

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The Company has made investments in certain Non-Agency RMBS inverse floaters. The coupon rate on these securities has an inverse relationship to a benchmark rate. When the benchmark interest rate increases the coupon payment rate will decrease because the benchmark interest rate is deducted from the coupon payment. The Company has generally purchased these securities at a premium. Accelerated prepayments on these securities could result in an economic loss, as the Company would not recover the upfront premium. The premiums are amortized into income using the effective interest rate method. As of June 30, 2016 and June 30, 2015, the Company held $78.2 million and $94.0 million, respectively, in Non-Agency RMBS inverse floaters.

The following tables present components of interest income on the Company s MBS and other securities (dollars in thousands):

	For the three months ended June 30, 2016		
	Coupon Interest	Net (Premium Amortization/ Amortization Basis) Discount Amortization	Interest Income
Agency RMBS	$ 16,845	$ (7,460)	$ 9,385
Agency CMBS	729	(424)	305
Non-Agency RMBS	8,745	(1,098)	7,647
Non-Agency CMBS	6,465	1,771	8,236
Other securities	498	754	1,252
Total(1)	$ 33,282	$ (6,457)	$ 26,825

(1) Interest income in the Consolidated Statements of Operations includes coupon interest, net premium/discount amortization and interest income of approximately $2.3 million, $(494) thousand and $1.8 million on Residential Whole-Loans, respectively, and coupon interest, net premium amortization and interest income of $569 thousand, $0 and $569 thousand on a securitized commercial loan, respectively.

	For the six months ended June 30, 2016		
	Coupon Interest	Net (Premium Amortization/ Amortization Basis) Discount Amortization	Interest Income
Agency RMBS	$ 34,168	$ (15,965)	$ 18,203
Agency CMBS	1,517	(853)	664
Non-Agency RMBS	18,523	(2,934)	15,589
Non-Agency CMBS	13,249	3,559	16,808
Other securities	1,192	1,552	2,744
Total(1)	$ 68,649	$ (14,641)	$ 54,008

(1) Interest income in the Consolidated Statements of Operations includes coupon interest, net premium/discount amortization and interest income of approximately $4.8 million, $(1.1) million and $3.7 million on Residential Whole-Loans, respectively, and coupon interest, net premium amortization and interest income of $1.1 million, $0 and $1.1 million on a securitized commercial loan, respectively.

	For the three months ended June 30, 2015		
	Coupon Interest	Net (Premium Amortization/ Amortization Basis) Discount Amortization	Interest Income
Agency RMBS	$ 34,038	$ (12,505)	$ 21,533
Agency CMBS	943	(552)	391
Non-Agency RMBS	11,433	(1,881)	9,552
Non-Agency CMBS	6,509	502	7,011
Other securities	1,539	663	2,202
Total(1)	$ 54,462	$ (13,773)	$ 40,689

(1) Interest income in the Consolidated Statements of Operations includes coupon interest, net premium amortization and interest income of $227 thousand, $(66) thousand and $161 thousand on Residential Whole-Loans, respectively, and coupon interest, net premium amortization and interest income of $179 thousand, $0 and $179 thousand on Commercial Whole-Loans.

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	For the six months ended June 30, 2015		
	Coupon Interest	Net (Premium Amortization/ Amortization Basis) Discount Amortization	Interest Income
Agency RMBS	$ 71,489	$ (27,912)	$ 43,577
Agency CMBS	1,790	(1,093)	697
Non-Agency RMBS	23,302	(4,308)	18,994
Non-Agency CMBS	12,564	1,618	14,182
Other securities	2,806	1,094	3,900
Total(1)	$ 111,951	$ (30,601)	$ 81,350

(1) Interest income in the Consolidated Statements of Operations includes coupon interest, net premium amortization and interest income of $344 thousand, $(112) thousand and $232 thousand on Residential Whole-Loans, respectively and coupon interest, net premium amortization and interest income of $253 thousand, $0 and $253 thousand on Commercial Whole-Loans.

The following tables present the sales and realized gain (loss) of the Company s MBS and other securities (dollars in thousands):

	For the three months ended June 30, 2016			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS (1)	$ 5,122	$	$ (475)	$ (475)
Agency CMBS	3,645	9		9
Non-Agency RMBS	22,639	575	(315)	260
Non-Agency CMBS	12,735		(146)	(146)
Total	$ 44,141	$ 584	$ (936)	$ (352)

(1) Excludes proceeds for Agency Interest-Only Strips, accounted for as derivatives, of approximately $4.4 million, gross realized gains of $0 and gross realized losses of $(455).

	For the six months ended June 30, 2016			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS (1)	$ 315,602	$ 5,250	$ (5,626)	$ (376)
Agency CMBS	10,421	9	(55)	(46)
Non-Agency RMBS	105,440	1,794	(4,559)	(2,765)
Non-Agency CMBS	24,994		(2,929)	(2,929)
Other securities	750,226	1,818	(2,109)	(291)
Total	$ 1,206,683	$ 8,871	$ (15,278)	$ (6,407)

(1) Excludes proceeds for Agency Interest-Only Strips, accounted for as derivatives, of approximately $8.6 million, gross realized gains of $300 thousand and gross realized losses of $(455).

	For the three months ended June 30, 2015			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS	$ 208,249	$ 3,545	$ (680)	$ 2,865
Non-Agency CMBS	63,345	863	(9)	854
Other securities	16,365	562		562
Total	$ 287,959	$ 4,970	$ (689)	$ 4,281

	For the six months ended June 30, 2015			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS (1)	$ 509,981	$ 3,835	$ (3,577)	$ 258
Non-Agency RMBS	207,594	9,761	(174)	9,587
Non-Agency CMBS	90,888	1,351	(9)	1,342
Other securities	16,365	562		562
Total	$ 824,828	$ 15,509	$ (3,760)	$ 11,749

(1) Excludes gross realized gains of $(2) thousand for Agency Interest-Only Strips, accounted for as derivatives, as a result of the settlement of prior year sales in January 2015.

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Note 5 Variable Interest Entities

Residential Whole-Loan Trusts

The consolidated financial statements also include the consolidation of certain trusts that each meet the definition of a VIE related to the acquisition of Residential Whole-Loans in which the Company has determined itself to be the primary beneficiary of each such trust. The Company determined that it was the primary beneficiary of the two residential Whole-Loan trusts, which were merged into one trust during the first quarter of 2016, because it was involved in certain aspects of the design of each trust, has certain oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses and the right to receive benefits from the trust that could potentially be significant to the trust. The trust has issued a trust certificate to the Company, which represents the beneficial interest in pools of Residential Whole-Loans held by such trust. As of June 30, 2016, the Company financed the trust certificates with $154.9 million of repurchase borrowings, which is a liability held outside the trusts. The Company classifies the underlying Residential Whole-Loans owned by the trusts in Residential Whole-Loans at fair value in the Consolidated Balance Sheets and has eliminated the intercompany trust certificates in consolidation.

Commercial Loan Trust

In November 2015, the Company acquired $14.0 million interest in the trust certificate issued by CMSC Trust 2015 Longhouse MZ (CMSC Trust), with a fair value of $13.3 million at June 30, 2016, which is financed with $6.8 million of repurchase borrowings. The Company determined that CMSC Trust was a VIE and itself the primary beneficiary because it was involved in certain aspects of the design of the trust, has certain oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses and the right to receive benefits from the trust that could potentially be significant to the trust. The CMSC Trust holds a $25.0 million mezzanine loan collateralized by interests in commercial real estate. The mezzanine loan serves as collateral for the $25.0 million of trust certificates issued. As of June 30, 2016, the Company classified the mezzanine loan at fair value in Securitized commercial loan in the Consolidated Balance Sheets. The $25.0 million of trust certificates, of which $14.0 million was eliminated in consolidation and the remaining $11.0 million held by an affiliate is carried at a fair value of $10.4 million and classified as Securitized debt in the Consolidated Balance Sheets.

The Company assesses modifications to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company s initial consolidation assessment. The consolidated two trusts hold 486 performing Residential Whole-Loans and 1 performing commercial loan. The following table presents a summary of the assets and liabilities of the residential and commercial loan trusts included in the Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015 (dollars in thousands).

	June 30, 2016	December 31, 2015

Residential Whole-Loans, at fair value	$	189,696	$	218,538
Securitized commercial loan, at fair value		23,688		25,000
Investment related receivable		6,370		
Accrued interest receivable		1,656		1,836
Total assets	$	221,410	$	245,374
Securitized debt	$	10,423	$	11,000
Accrued interest payable		82		85
Accounts payable and accrued expenses		2		2
Total liabilities	$	10,507	$	11,087

The Company s risk with respect to its investment in each trust is limited to its direct ownership in the trust. The Residential Whole-Loans and securitized commercial loan held by the consolidated trusts are held solely to satisfy the liabilities of the trust, and creditors of the trust have no recourse to the general credit of the Company for the trust certificates issued by the trusts. The assets of a consolidated trust can only be used to satisfy the obligations of that trust. The Company is not contractually required and has not provided any additional financial support to the trusts for the three and six months ended June 30, 2016 and June 30, 2015. The Company did not deconsolidate any trusts during the three and six months ended June 30, 2016 and June 30, 2015.

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The following table presents the components of the carrying value of Residential Whole-Loans and securitized commercial loan as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	Residential Whole-Loans		Securitized Commercial Loan	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Principal balance	$ 184,312	$ 212,647	$ 25,000	$ 25,000
Unamortized premium	1,436	2,410		
Unamortized discount	(277)	(161)		
Gross unrealized gains	4,274	3,642		
Gross unrealized losses	(49)		(1,312)	
Fair value	$ 189,696	$ 218,538	$ 23,688	$ 25,000

The Residential Whole-Loans are comprised of non-qualifying, mostly adjustable rate mortgages with low loan to values (or LTV). The following tables present certain information about the Company s Residential Whole-Loans investment portfolio at June 30, 2016 and December 31, 2015 (dollars in thousands):

June 30, 2016

				Weighted Average			
Current Coupon Rate	Number of Loans	Principal Balance	Original LTV	Original FICO Score(1)	Expected Life (years)	Contractual Maturity (years)	Coupon Rate
3.01 4.00%	89	$ 29,339	57.4%	741	1.3	26.8	3.8%
4.01 5.00%	113	43,213	56.5%	718	1.3	27.1	4.6%
5.01 6.00%	278	108,644	54.7%	722	1.5	27.3	5.1%
6.01 7.00%	6	3,116	71.2%	738	1.3	21.6	6.3%
Total	486	$ 184,312	55.8%	725	1.4	27.1	4.8%

(1) The original FICO score is not available for 131 loans with a principal balance of approximately $53.3 million at June 30, 2016. The Company has excluded those loans from the weighted average computation.

December 31, 2015

				Weighted Average			
Current Coupon Rate	Number of Loans	Principal Balance	Original LTV	Original FICO Score(1)	Expected Life (years)	Contractual Maturity (years)	Coupon Rate
3.01 4.00%	2	$ 698	35.7%	766	1.9	29.4	3.9%
4.01 5.00%	211	79,696	56.6%	728	1.4	27.5	4.5%
5.01 6.00%	302	128,204	55.1%	723	1.6	27.9	5.1%
6.01 7.00%	9	4,049	71.0%	723	1.4	23.4	6.4%
Total	524	$ 212,647	55.9%	725	1.5	27.6	4.9%

(2) The original FICO score is not available for 139 loans with a principal balance of approximately $58.7 million at December 31, 2015. The Company has excluded those loans from the weighted average computation.

The following tables present the U.S. states in which the collateral securing the Company s Residential Whole-Loans at June 30, 2016 and December 31, 2015, based on principal balance, is located (dollars in thousands):

	June 30, 2016		
	State Concentration	**Principal Balance**	
California	83.2%	$	153,414
Washington	6.5		12,125
Massachusetts	5.9		10,812
New York	2.7		4,980
Georgia	0.9		1,599
Other	0.8		1,382
Total	100.0%	$	184,312

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	December 31, 2015		
	State Concentration		Principal Balance
California	83.1%	$	176,611
Washington	6.8		14,442
Massachusetts	5.6		12,000
New York	2.5		5,399
Georgia	0.9		1,813
Other	1.1		2,382
Total	100.0%	$	212,647

As of June 30, 2016, the aggregate fair value of the securitized debt issued by the consolidated VIE was $10.4 million which is classified as Securitized debt, at fair value in the Company s Consolidated Balance sheets. The cost of financing the securitized debt is approximately 8.9%.

Unconsolidated VIEs

As of June 30, 2016 and December 31, 2015, the Company had three investments in VIEs in which it was not the primary beneficiary, and accordingly, the VIEs were not consolidated in the Company s consolidated financial statements. As of June 30, 2016 and December 31, 2015, the Company s maximum exposure to loss from these investments did not exceed the sum of the $58.7 million and $58.2 million carrying value of the investments, respectively, which are classified in Mortgage-backed securities and other securities, at fair value in the Company s Consolidated Balance sheets.

Note 6 Borrowings under Repurchase Agreements

As of June 30, 2016, the Company had master repurchase agreements with 28 counterparties. As of June 30, 2016, the Company had borrowings under repurchase agreements with 20 counterparties. The following tables summarize certain characteristics of the Company s repurchase agreements at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016			
Securities Pledged		Repurchase Agreement Borrowings	Weighted Average Interest Rate on Borrowings Outstanding at end of period	Weighted Average Remaining Maturity (days)
Agency RMBS	$	1,547,407	0.75%	34
Agency CMBS		20,258	1.81%	7
Non-Agency RMBS		279,591	2.17%	32
Non-Agency CMBS		275,021	2.25%	32
Whole-Loans and securitized commercial loan(1)		161,732	2.47%	8
Other securities		26,710	2.71%	10
Borrowings under repurchase agreements, net	$	2,310,719	1.25%	31

(1) Repurchase agreement borrowings on Whole-Loans and securitized commercial loan owned through trust certificates. The trust certificates are eliminated upon consolidation.

Securities Pledged		Repurchase Agreement Borrowings	December 31, 2015 Weighted Average Interest Rate on Borrowings Outstanding at end of period	Weighted Average Remaining Maturity (days)
Agency RMBS	$	1,601,713	0.66%	41
Agency CMBS		32,699	1.80%	21
Non-Agency RMBS		380,177	1.91%	44
Non-Agency CMBS		323,670	1.84%	37
Whole-Loans and securitized commercial loan(1)		180,892	2.38%	26
Other securities		66,650	2.33%	60
Borrowings under repurchase agreements		2,585,801	1.17%	38
Less unamortized debt issuance cost		134	N/A	N/A
Borrowings under repurchase agreements, net	$	2,585,667	1.17%	38

(1) Repurchase agreement borrowings on Whole-Loans and securitized commercial loan owned through trust certificates. The trust certificates are eliminated upon consolidation.

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For the six months ended June 30, 2016 and the year ended December 31, 2015, the Company had average borrowings under its repurchase agreements of approximately $2.4 billion and $3.4 billion, respectively, and had a maximum month-end balance during the periods of approximately $2.4 billion and $4.0 billion, respectively. The Company had accrued interest payable at June 30, 2016 and December 31, 2015 of approximately $3.1 million and $3.0 million, respectively. In addition, at June 30, 2016, the Company had entered into repurchase agreement borrowings of approximately $34.5 million, which settled between July 1, 2016 and July 5, 2016, with a weighted average interest rate of 2.62%, a weighted average contractual maturity of 27 days and secured by collateral of approximately $63.7 million.

The repurchase agreements bear interest at a contractually agreed-upon rate and typically have terms ranging from one month to three months. The Company s repurchase agreement borrowings are accounted for as secured borrowings when the Company maintains effective control of the financed assets. Under the repurchase agreements, the respective counterparties retain the right to determine the fair value of the underlying collateral. A reduction in the value of pledged assets requires the Company to post additional securities as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, and is referred to as a margin call. The inability of the Company to post adequate collateral for a margin call by a counterparty, in a timeframe as short as the close of the same business day, could result in a condition of default under the Company s repurchase agreements, thereby enabling the counterparty to liquidate the collateral pledged by the Company, which may have a material adverse effect on the Company s financial position, results of operations and cash flows. During 2015, the Company also rehypothecated pledged U.S. Treasury securities it received from its repurchase agreement and interest rate swap counterparties as incremental collateral in order to increase the Company s cash position. The maximum amount of repurchase borrowings for the rehypothecated U.S. Treasury securities was $0 during the three and six months ended June 30, 2016, respectively, and $0 and $530 thousand during the three and six months ended June 30, 2015, respectively. At June 30, 2016 and June 30, 2015, the Company did not have any rehypothecated U.S. Treasury securities.

Volatility in the mortgage markets may create additional stress on the overall liquidity of the Company due to the long-term nature of its assets and the short-term nature of its liabilities. In an instance of severe volatility, or where the additional stress on liquidity resulting from volatility is sustained over an extended period of time, the Company could be required to sell assets, possibly even at a loss, to generate sufficient liquidity to satisfy collateral and margin requirements which could have a material adverse effect on the Company s financial position, results of operations and cash flows. The majority of the Company s repurchase agreement counterparties are either U.S. financial institutions or the U.S. broker-dealer subsidiaries of foreign financial institutions.

Further, if the Company is unable to renew, replace or expand repurchase financing with other sources of financing on substantially similar terms it may have a material adverse effect on the Company s financial position, results of operations and cash flow, due to the long term nature of the Company s investments and relatively short-term maturities of the Company s repurchase agreements. Certain of the repurchase agreements provide the counterparty with the right to terminate the agreement if the Company does not maintain certain equity and leverage metrics, the most restrictive of which include a limit on leverage based on the composition of the Company s portfolio. The Company was in compliance with the terms of such financial tests as of June 30, 2016.

At June 30, 2016 and December 31, 2015, repurchase agreements collateralized by investments had the following remaining maturities:

(dollars in thousands)	June 30, 2016	December 31, 2015(1)

Overnight	$		$	
1 to 29 days		1,370,098		1,335,119
30 to 59 days		530,144		362,940
60 to 89 days		391,969		847,781
90 to 119 days		11,579		
Greater than or equal to 120 days		6,929		39,961
Total	$	2,310,719	$	2,585,801

(1) Excludes unamortized debt issuance costs of $134 thousand.

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At June 30, 2016, the following table reflects amounts of collateral at risk under its repurchase agreements greater than 10% of the Company s equity with any counterparty (dollars in thousands):

	June 30, 2016		
Counterparty	Amount of Collateral at Risk, at fair value	Weighted Average Remaining Maturity (days)	Percentage of Stockholders Equity
RBC (Barbados) Trading Bank Corporation	$ 84,751	43	18.4%
Credit Suisse Securities (USA) LLC	64,515	10	14.0

Note 7 Collateral Positions

The following tables summarize the Company s collateral positions, with respect to its borrowings under repurchase agreements, securitized debt, derivatives and clearing margin account at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016		
	Assets Pledged- Fair Value	Accrued Interest	Fair Value of Assets Pledged and Accrued Interest
Assets pledged for borrowings under repurchase agreements:			
Agency RMBS	$ 1,599,803	$ 6,083	$ 1,605,886
Agency CMBS	23,534	291	23,825
Non-Agency RMBS	415,307	749	416,056
Non-Agency CMBS	381,594	2,370	383,964
Whole-Loans and securitized commercial loan(1)	202,961	1,555	204,516
Other securities	49,265	266	49,531
Cash (2)	30,681		30,681
Securitized commercial loan pledged for securitized debt	10,423	83	10,506
Cash collateral for derivatives (2):	275,389		275,389
Total	$ 2,988,957	$ 11,397	$ 3,000,354

(1) Whole-Loans and securitized commercial loan owned through trust certificates are pledged as collateral. The trust certificates are eliminated upon consolidation.

(2) Cash posted as collateral is included in Due from counterparties on the Company s Consolidated Balance Sheets.

	December 31, 2015		
	Assets Pledged- Fair Value	Accrued Interest	Fair Value of Assets Pledged and Accrued

			Interest
Assets pledged for borrowings under repurchase agreements:			
Agency RMBS	$ 1,658,865	$ 7,366	$ 1,666,231
Agency CMBS	37,872	342	38,214
Non-Agency RMBS	530,110	1,053	531,163
Non-Agency CMBS	449,771	2,949	452,720
Whole-Loans and securitized commercial loan(1)	232,538	1,750	234,288
Other securities	101,099	270	101,369
Cash (2)	38,300		38,300
Securitized commercial loan pledged for securitized debt	11,000	85	11,085
Cash collateral for derivatives (2):	211,263		211,263
Total	$ 3,270,818	$ 13,815	$ 3,284,633

(1) Whole-Loans and securitized commercial loan owned through trust certificates are pledged as collateral. The trust certificates are eliminated upon consolidation.

(2) Cash posted as collateral is included in Due from counterparties on the Company s Consolidated Balance Sheets.

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A reduction in the value of pledged assets typically results in the repurchase agreement counterparties, derivative counterparties and clearing margin counterparty initiating a daily margin call. At June 30, 2016 and December 31, 2015, investments held by counterparties as security for repurchase agreements totaled approximately $2.7 billion and approximately $3.0 billion, respectively. Cash collateral held by counterparties at June 30, 2016 and December 31, 2015 was approximately $306.1 million and approximately $249.6 million, respectively. Cash posted by counterparties at June 30, 2016 and December 31, 2015, was approximately $16.7 million and approximately $10.0 million, respectively. In addition, at June 30, 2016 and December 31, 2015, the Company did not hold securities as collateral from its repurchase agreement counterparties. The Company has the ability to repledge collateral received from its repurchase counterparties.

Note 8 Derivative Instruments

The Company s derivatives currently include interest rate swaps, interest rate swaptions, futures contracts, TBAs, currency swaps and forwards, Agency and Non-Agency Interest-Only Strips that are classified as derivatives, and total return swaps.

Interest rate swaps and interest rate swaptions

The Company is exposed to certain risks arising from both its business operations and economic conditions. Specifically, the Company s primary source of debt funding is repurchase agreements and the Company enters into derivative financial instruments to manage exposure to variable cash flows on portions of its borrowings under those repurchase agreements. Since the interest rates on repurchase agreements typically change with market interest rates such as LIBOR, the Company is exposed to constantly changing interest rates, which accordingly affects cash flows associated with these rates on its borrowings. To mitigate the effect of changes in these interest rates, the Company enters into interest rate swap agreements, which help to mitigate the volatility in the interest rate exposures and their related cash flows. Interest rate swaps generally involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the interest rate swap without exchange of the underlying notional amount. Notwithstanding the foregoing, in order to manage its hedge position with regard to its liabilities, the Company on occasion will enter into interest rate swaps which involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the interest rate swap without exchange of the underlying notional amount. The Company also enters into forward starting swaps and interest rate swaptions to help mitigate the effects of changes in interest rates on a portion of its borrowings under repurchase agreements. Interest rate swaptions provide the Company the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. On occasion the Company may enter into a MAC interest rate swap in which it may receive or make a payment at the time of entering such interest rate swap to compensate for the out of the market nature of such interest rate swap. Similar to all other interest rate swaps, these interest rate swaps are also subject to margin requirements as previously described.

While the Company has not elected to account for its interest rate swap derivative instruments as hedges under GAAP, it does not use interest rate swaps and swaptions for speculative purposes, but rather uses such instruments to manage interest rate risk and views them as economic hedges. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings together with periodic net interest settlement amounts.

Currency Swaps and Forwards

The Company has invested in and, in the future, may invest in additional securities which are denominated in a currency or currencies other than U.S. dollars. Similarly, it has and may in the future, finance such assets in a currency or currencies other than U.S. dollars. In order to mitigate the impact to the Company, the Company may enter into derivative financial instruments, including foreign currency swaps and foreign currency forwards, to manage fluctuations in the valuation between U.S. dollars and such foreign currencies. Foreign currency swaps involve the payment of a foreign currency at fixed interest rate on a fixed notional amount and the receipt of U.S. dollars at a fixed interest rate on a fixed notional amount. Foreign currency forwards provide for the payment of a fixed amount of a foreign currency in exchange for a fixed amount of U.S. dollars at a date certain in the future. The carrying value of foreign currency swaps and forwards is included in Derivative assets (liabilities), at fair value in the Consolidated Balance Sheets with changes in valuation included in Gain (loss) on derivative instruments, net in the Consolidated Statement of Operations.

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Interest-Only Strips

The Company also invests in Interest-Only Strips. In determining the classification of its holdings of Interest-Only Strips, the Company evaluates the securities to determine if the nature of the cash flows has been altered from that of the underlying mortgage collateral. Generally, Interest-Only Strips for which the security represents a strip off of a mortgage pass through security will be considered a hybrid instrument classified as a MBS investment in the Consolidated Balance Sheets utilizing the fair value option. Alternatively, those Interest-Only Strips, for which the underlying mortgage collateral has been included into a structured security that alters the cash flows from the underlying mortgage collateral, are accounted for as derivatives at fair value with changes recognized in Gain (loss) on derivative instruments, net in the Consolidated Statements of Operations, along with any interest received. The carrying value of these Interest-Only Strips is included in Mortgage-backed securities and other securities, at fair value in the Consolidated Balance Sheets.

To-Be-Announced Securities

The Company has also purchased or sold TBAs. As of June 30, 2016 and December 31, 2015, the Company had contracts to purchase (long position) and sell (short position) TBAs on a forward basis. TBAs having the characteristics of a derivative are accounted for at fair value with such changes recognized in Gain (loss) on derivatives, net in the Consolidated Statement of Operations.

Futures Contracts

The Company may enter into Eurodollar, Volatility Index, and U.S. Treasury futures. As of June 30, 2016, the Company had entered into contracts to buy (long position) U.S. Treasury futures with a notional amount of $357.9 million, a fair value in an asset position of $8.9 million and an expiration date of September 2016. As of December 31, 2015, the Company had entered into contracts to buy (long position) U.S. Treasuries with a notional amount of $480.8 million, a fair value in a liability position of $635 thousand and an expiration date of March 2016.

Total Return Swap

In 2016, the Company has entered into a total return swap and in the future may continue to enter into these types of credit derivatives. This swap transfers the total return of the referenced asset, including interim cash flows and capital appreciation or depreciation from a specified price to the Company. The total return swap has a referenced asset which is a security collateralized by residential loans with a notional of 51.0 million. The Company receives interest from the referenced asset equal to EURIBOR plus 2.75% and is required to pay the counterparty EURIBOR plus 0.50% through June 23, 2019, with the spread decreasing to 0.25% through December 2019, with the spread further decreasing to 0% through the maturity date of the referenced asset in December 2020. The Company was required to post $9.7 million in cash collateral which is recorded in Due from counterparties in the Consolidated Balance Sheets.

The following tables summarize the Company s derivative instruments at June 30, 2016 and December 31, 2015 (dollars in thousands):

			June 30, 2016		
Derivative Instrument	Accounting Designation	Consolidated Balance Sheets Location	Notional Amount	Fair Value, excluding accrued interest	Accrued Interest Payable (receivable)
Interest rate swaps, assets	Non-Hedge	Derivative assets, at fair value	$ 4,018,600	$ 155,492	$ (12,472)
Futures, assets	Non-Hedge	Derivative assets, at fair value	357,900	8,861	
Foreign currency swaps, asset	Non-Hedge	Derivative assets, at fair value	11,560	3,137	(177)
Foreign currency forward contracts, asset	Non-Hedge	Derivative assets, at fair value	5,805	155	
TBA securities, assets	Non-Hedge	Derivative assets, at fair value	705,000	5,317	
Total derivative instruments, assets				172,962	(12,649)
Interest rate swaps, liability	Non-Hedge	Derivative liability, at fair value	5,889,000	(395,572)	14,009
Total return swaps - liability	Non-Hedge	Derivative liability, at fair value			