UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

Or

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: 001-34416

PennyMac Mortgage Investment Trust

(Exact name of registrant as specified in its charter)

Maryland	**27-0186273**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
6101 Condor Drive, Moorpark, California	**91301**
(Address of principal executive offices)	(Zip Code)

(818) 224-7442
(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 ý 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 ý 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 ý Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	**Outstanding at May 3, 2012**
Common Shares of Beneficial Interest, $.01 par value	31,171,565

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST
FORM 10-Q
March 31, 2012

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	March 31, 2012	December 31, 2011
ASSETS		
Cash	$ 16,405	$ 14,589
Short-term investments	63,444	30,319
United States Treasury security		50,000
Mortgage-backed securities at fair value	174,604	72,813
Mortgage loans acquired for sale at fair value	155,295	232,016
Mortgage loans at fair value	667,542	696,266
Mortgage loans under forward purchase agreements at fair value	105,030	129,310
Real estate acquired in settlement of loans	81,209	80,570
Real estate acquired in settlement of loans under forward purchase agreements	23,661	22,979
Mortgage servicing rights:		
at lower of amortized cost or fair value	17,346	5,282
at fair value	1,188	749
Principal and interest collections receivable	14,950	8,664
Principal and interest collections receivable under forward purchase agreements	7,678	5,299
Interest receivable	2,018	2,099
Due from affiliates	5,464	347
Other assets	42,186	34,760
Total assets	$ 1,378,020	$ 1,386,062
LIABILITIES		
Accounts payable and accrued liabilities	$ 9,683	$ 9,198
Unsettled mortgage-backed securities purchases	115,636	
Assets sold under agreements to repurchase:		
Securities	53,068	115,493
Mortgage loans acquired for sale at fair value	143,819	212,677
Mortgage loans at fair value	282,810	275,649
Real estate acquired in settlement of loans	21,744	27,494
Note payable secured by mortgage loans at fair value		28,617
Borrowings under forward purchase agreements	127,591	152,427
Contingent underwriting fees payable	5,883	5,883
Payable to affiliates	17,347	12,166
Income taxes payable	4,483	441
Total liabilities	782,064	840,045
Commitments and contingencies		
SHAREHOLDERS' EQUITY		

Common shares of beneficial interest authorized, 500,000,000 common shares of $0.01 par value; issued and outstanding, 31,023,863 and 28,404,554 common shares, respectively	310	284
Additional paid-in capital	564,819	518,272
Retained earnings	30,827	27,461
Total shareholders' equity	595,956	546,017
Total liabilities and shareholders' equity	$ 1,378,020	$ 1,386,062

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

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	Quarter ended March 31,	
	2012	**2011**
Investment income		
Net gain (loss) on investments:		
Mortgage-backed securities	$ 357	$ (442)
Mortgage loans	11,131	10,332
	11,488	9,890
Interest income:		
Short-term investments	31	31
Mortgage-backed securities	574	1,086
Mortgage loans	15,820	5,086
	16,425	6,203
Net gain on mortgage loans acquired for sale	13,370	83
Results of real estate acquired in settlement of loans	3,717	1,089
Net loan servicing fees	197	(3)
Other	1,452	21
Net investment income	46,649	17,283
Expenses		
Interest	6,674	2,278
Loan fulfillment fees payable to affiliate	6,124	12
Loan servicing fees	4,186	2,206
Management fees	1,804	1,549
Compensation	1,301	1,014
Professional services	442	877
Other	1,543	1,061
Total expenses	22,074	8,997
Income before provision for income taxes	24,575	8,286
Provision for income taxes	5,517	641
Net income	$ 19,058	$ 7,645
Earnings per share		
Basic	$ 0.65	$ 0.35
Diluted	$ 0.65	$ 0.35
Weighted-average shares outstanding		
Basic	29,076	21,938
Diluted	29,355	22,148
Dividends declared per share	$ 0.55	$

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

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(In thousands, except share data)

	Number of shares	Par value	Additional paid-in capital	Retained earnings	Total
Balance at December 31, 2010	16,832,343	$ 168	$ 317,175	$ 2,570	$ 319,913
Net income				7,645	7,645
Share-based compensation	5,500		795		795
Proceeds from offerings of common shares	10,925,000	110	196,540		196,650
Underwriting and offering costs			(8,241)		(8,241)
Balance at March 31, 2011	27,762,843	$ 278	$ 506,269	$ 10,215	$ 516,762
Balance at December 31, 2011	28,404,554	$ 284	$ 518,272	$ 27,461	$ 546,017
Net income				19,058	19,058
Share-based compensation	87,999		883		883
Cash dividends declared, $0.55 per share				(15,692)	(15,692)
Proceeds from offerings of common shares	2,531,310	26	46,581		46,607
Underwriting and offering costs			(917)		(917)
Balance at March 31, 2012	31,023,863	$ 310	$ 564,819	$ 30,827	$ 595,956

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

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Quarter ended March 31, 2012	Quarter ended March 31, 2011
Cash flows from operating activities		
Net income	$ 19,058	$ 7,645
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Net (gain) loss on mortgage-backed securities at fair value	(357)	442
Net gain on mortgage loans at fair value	(11,131)	(10,332)
Accrual of unearned discounts on mortgage-backed securities at fair value	(335)	(714)
Net gain on mortgage loans acquired for sale at fair value	(13,370)	(83)
Results of real estate acquired in settlement of loans	(3,717)	(1,089)
Change in fair value and amortization of mortgage servicing rights	455	3
Amortization of credit facility commitment fees	559	312
Accrual of costs related to forward purchase agreements	1,954	
Share-based compensation expense	883	795
Purchases of mortgage loans acquired for sale at fair value	(1,858,147)	(19,576)
Sales of mortgage loans acquired for sale at fair value	1,931,024	19,155
Increase in principal and interest collections receivable	(6,286)	(18,605)
Increase in principal and interest collections receivable under forward purchase agreements	(2,379)	
Decrease (increase) in interest receivable	113	(478)
Increase in due from affiliates	(5,117)	(2,465)
Increase in other assets	(6,491)	(2,215)
Increase (decrease) in accounts payable and accrued liabilities	579	(3,384)
Increase in payable to affiliates	5,181	2,659
Increase in income taxes payable	4,042	
Net cash provided (used) by operating activities	56,518	(27,930)
Cash flows from investing activities		
Net increase in short-term investments	(33,125)	(53,194)
Maturity of United States Treasury security	50,000	
Purchases of mortgage servicing rights	(29)	
Repayments of mortgage-backed securities at fair value	11,086	17,949
Purchases of mortgage loans at fair value		(243,128)
Repayments of mortgage loans at fair value	26,181	15,569
Sales of mortgage loans at fair value		2,565
Repayments of mortgage loans under forward purchase agreements at fair value	8,701	
Purchases of real estate acquired in settlement of loans		(247)
Sales of real estate acquired in settlement of loans	26,777	13,911
Sales of real estate acquired in settlement of loans under forward purchase agreements	6,787	
Decrease (increase) in margin deposits and restricted cash	4,540	(1,246)
Net cash provided (used) by investing activities	100,918	(247,821)
Cash flows from financing activities		
Sales of securities under agreements to repurchase	291,914	257,952
Repurchases of securities sold under agreements to repurchase	(354,339)	(271,089)
Sales of loans under agreements to repurchase	1,728,180	121,844
Repurchases of loans sold under agreements to repurchase	(1,816,450)	(48,899)
Repayments of note payable secured by mortgage loans at fair value	(2,044)	
Repayments of borrowings under forward purchase agreements	(27,129)	
Sales of real estate acquired in settlement of loans financed under agreement to repurchase	3,797	
Repurchases of real estate acquired in settlement of loans financed under agreements to repurchase	(9,547)	

Proceeds from issuance of common shares	46,607	196,650
Payment of underwriting and offering costs relating to issuance of common shares	(917)	(8,241)
Payment of dividends	(15,692)	(7,070)
Net cash (used) provided by financing activities	(155,620)	241,147
Net increase in cash	1,816	(34,604)
Cash at beginning of period	14,589	45,447
Cash at end of period	$ 16,405	$ 10,843

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

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Organization and Basis of Presentation

PennyMac Mortgage Investment Trust ("PMT" or the "Company") was organized in Maryland on May 18, 2009, and began operations on August 4, 2009, when it completed its initial offerings of common shares of beneficial interest ("shares"). The Company is a specialty finance company, which, through its subsidiaries (all of which are wholly-owned), invests primarily in residential mortgage loans and mortgage-related assets.

The Company's objective is to provide attractive risk-adjusted returns to its investors over the long-term, principally through dividends and secondarily through capital appreciation. The Company intends to achieve this objective largely by investing in distressed mortgage assets and acquiring, pooling, securitizing or selling newly originated prime credit quality residential mortgage loans ("correspondent lending").

The Company operates two segments: investment activities and correspondent lending. The investment activities segment focuses on mortgage assets that are acquired and held for investment purposes and the correspondent lending segment focuses on the purchase for resale of newly originated mortgage loans.

The investment activities segment represents the Company's investments in distressed mortgage loans, real estate acquired in settlement of loans ("REO"), mortgage-backed securities ("MBS") and mortgage servicing rights ("MSRs"). Management seeks to maximize the value of the distressed mortgage loans acquired by the Company through proprietary loan modification programs, special servicing and other initiatives focused on keeping borrowers in their homes. Where this is not possible, such as in the case of many nonperforming mortgage loans, the Company seeks to effect property resolution in a timely, orderly and economically efficient manner, including through the use of resolution alternatives to foreclosure.

The correspondent lending segment represents the Company's operations aimed at serving as an intermediary between mortgage lenders and the capital markets by purchasing, pooling and reselling the loans either directly or in the form of MBS, using the operations of the Company's Manager.

The Company believes that it qualifies, and has elected to be taxed, as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), beginning with its taxable period ended on December 31, 2009. To maintain its tax status as a REIT, the Company plans to distribute at least 90% of its taxable income in the form of qualifying distributions to shareholders.

The Company is externally managed by an affiliate, PNMAC Capital Management, LLC ("PCM" or the "Manager"), an investment adviser registered with the Securities and Exchange Commission (the "SEC") that specializes in and focuses on residential mortgage loans. Under the terms of a management agreement, PCM is paid a management fee with a base component and a performance incentive component. Determination of the amount of management fees is discussed in Note 3 *Transactions with Related Parties*.

The Company conducts substantially all of its operations and makes substantially all of its investments through its subsidiary, PennyMac Operating Partnership, L.P. (the "Operating Partnership"), and the Operating Partnership's subsidiaries. A subsidiary of the Company is the sole general partner, and the Company is the sole limited partner, of the Operating Partnership.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 1 Organization and Basis of Presentation (Continued)

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the SEC's instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by U.S. GAAP for complete financial statements. The interim consolidated information should be read together with the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the "Annual Report").

Preparation of financial statements in compliance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results will likely differ from those estimates.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the period ended March 31, 2012 are not necessarily indicative of the results for the year ending December 31, 2012.

Note 2 Concentration of Risks

As discussed in Note 1 *Organization and Basis of Presentation* above, PMT's investing activities are centered in real estate-related assets, a substantial portion of which are distressed at acquisition. Because of the Company's investment strategy, many of the mortgage loans in its targeted asset class are purchased at discounts reflecting their distressed state or perceived higher risk of default, as well as a greater likelihood of collateral documentation deficiencies. Prior to the acquisition of loans or other assets, PCM validates key information provided by the sellers that is necessary to determine the value of the acquired asset. A substantial portion of the non-correspondent lending loans purchased by the Company has been acquired from or through one or more subsidiaries of Citigroup, Inc.

Through its management agreement with PCM and its loan servicing agreements with its loan servicers, primarily an affiliated company, PennyMac Loan Services, LLC ("PLS"), PMT works with borrowers to perform loss mitigation activities. Such activities include the use of loan modification programs (such as the U.S. Department of the Treasury and Housing and Urban Development's Home Affordable Modification Program ("HAMP")) and workout options that PCM believes have the highest probability of successful resolution for both borrowers and PMT. Loan modification or resolution may include PMT accepting a reduction of the principal balances of certain mortgage loans in its investment portfolio. When loan modifications and other efforts are unable to cure distressed loans, the Company's objective is to effect timely acquisition and liquidation of the property securing the mortgage loan.

Because of the Company's investment focus, PMT is exposed, to a greater extent than traditional mortgage investors, to the risks that borrowers may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due, and to the effects of fluctuations in the residential real estate market on the performance of its investments. Factors influencing these risks include, but are not limited to:

- changes in the overall economy, unemployment and residential real estate values in the markets where the properties securing the Company's mortgage loans are located;

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2 Concentration of Risks (Continued)

PCM's ability to identify, and the Company's loan servicers' ability to execute, optimal resolutions of problem mortgage loans;

the accuracy of valuation information obtained during the Company's due diligence activities;

PCM's ability to effectively model, and to develop appropriate model assumptions that properly anticipate, future outcomes;

the level of government support for problem loan resolution and the effect of current and future proposed and enacted legislative and regulatory changes on the Company's ability to effect cures or resolutions to distressed loans; and

regulatory, judicial and legislative support of the foreclosure process, and the resulting impact on the Company's ability to acquire and liquidate the real estate securing its portfolio of distressed mortgage loans in a timely manner or at all.

Due to these uncertainties, there can be no assurance that risk management activities identified and executed on PMT's behalf will prevent significant losses arising from the Company's investments in real estate-related assets.

On December 20, 2011 and July 12, 2011, the Company entered into forward purchase agreements with Citigroup Global Markets Realty Corp. ("CGM"), a subsidiary of Citigroup Inc., to purchase certain nonperforming residential mortgage loans and residential real property acquired in settlement of loans (collectively, the "CGM Assets"). The CGM Assets were acquired by CGM from unaffiliated money center banks. The initial purchase price under the forward commitment on December 20, 2011 was $22.1 million. The remaining purchase price as of March 31, 2012 is $20.1 million. Remaining subsequent adjustments may increase the purchase price to $20.5 million based on the date the purchase is settled. The initial purchase price under the forward commitment on July 12, 2011 was $172.7 million. The remaining purchase price as of March 31, 2012, is $98.3 million. Remaining subsequent adjustments may increase the purchase price to $99.2 million based on the date the purchase is settled.

The Company also pays CGM a cost of carry on the CGM Assets pending purchase through the date such CGM Assets are ultimately acquired. The Company recognized the assets subject to the transactions and the related liability. The CGM Assets are serviced by PLS.

The CGM Assets are included on the Company's consolidated balance sheet as *Mortgage loans under forward purchase agreements at fair value* and *Real estate acquired in settlement of loans under forward purchase agreements* and the related liabilities are included as *Borrowings under forward purchase agreements*. The CGM Assets are being held by CGM within a separate trust entity deemed a variable interest entity. The Company's interest in the CGM Assets is deemed to be contractually segregated from all other interests in the trust. When assets are contractually segregated, they are often referred to as a "silo." The silo consists of the CGM Assets and its related liability. The Company directs all of the activities that drive the economic results of the CGM Assets. All of the changes in the fair value and cash flows of the CGM Assets are attributable solely to the Company, and such cash flows can only be used to settle the related liability.

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2 Concentration of Risks (Continued)

As a result of consolidating the silo, the Company's consolidated statement of income for the three months ended March 31, 2012 includes net gain on mortgage loans of $6.7 million, interest income on mortgage loans of $502,000, interest expense of $1.5 million and loan servicing fees expense of $585,000. The Company received repayments of mortgage loans totaling $8.7 million and repaid borrowings under the forward purchase agreements totaling $27.1 million during the three months ended March 31, 2012. The Company has no other variable interests in the trust entity, or other exposure to the creditors of the trust entity which could expose the Company to loss.

On April 13 and April 24, 2012, PCM committed to acquire on the Company's behalf mortgage loans from or through one or more subsidiaries of Citigroup, Inc. with purchase prices totaling approximately $20.2 million and $139.2 million, respectively.

On April 27, 2012, the Company, through PCM, completed the purchase of $56.5 million in fair value of mortgage loans from a subsidiary of Citigroup, Inc.

During the three months ended March 31, 2011, the Company purchased $243.1 million of mortgage loans at fair value for its investment portfolio. Of that total, $227.3 million at fair value of mortgage loans were purchased from or through one or more subsidiaries of Citigroup, Inc.

Beginning in the fourth quarter of 2011, the Company's correspondent lending activities have experienced substantial growth. As a result of such growth, the Company's correspondent lending segment contributed approximately 42% of PMT's pre-tax income during the quarter ended March 31, 2012 and the inventory of mortgage loans acquired for sale at fair value represented approximately 12% of the Company's investments at March 31, 2012.

Correspondent lending activities introduce different risks from those posed by investments in distressed assets. The Company's correspondent lending activities and the MSRs that are held in the Company's investment segment that the Company receives as proceeds from such correspondent lending sales are more sensitive to the level and volatility of interest rates. For example, a decline in mortgage rates generally increases the demand for home loans as borrowers refinance, but also generally leads to accelerated payoffs in the Company's mortgage servicing portfolio, which negatively impacts the value of MSRs.

Management attempts to manage the sensitivity of earnings to this risk through the use of derivative financial instruments to moderate the effects of changes in the level and volatility of interest rates on the fair value of the Company's inventory of mortgage loans acquired for sale at fair value and commitments to purchase mortgage loans for sale. The Company does not presently use derivative financial instruments to moderate the effects of changes in the fair value of its investment in MSRs on PMT's earnings.

The success of the Company's interest rate risk management strategies is dependent on management's ability to predict the earnings sensitivity of its loan servicing and loan production operations in various interest rate environments. There are many market factors that affect the performance of the Company's interest rate risk management activities including interest rate volatility, the shape of the yield curve and the spread between mortgage interest rates and United States Treasury or swap rates. The success of this strategy affects PMT's net income and the effect can be either positive or negative, and can be material to the Company.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2 Concentration of Risks (Continued)

The correspondent lending segment's ability to sell loans profitably is affected by many factors, including the relative demands for such loans and MBS evidencing interests in such loans, the cost of credit enhancements, investor perceptions of such loans and MBS and the risks posed by such products.

Note 3 Transactions with Related Parties

The Company is managed externally by PCM under the terms of a management agreement that expires on August 4, 2012 and will be automatically renewed for a one-year term each anniversary date thereafter unless previously terminated. The management agreement provides for an annual review of PCM's performance under the management agreement by the Company's independent trustees. PMT's board of trustees reviews the Company's financial results, policy compliance and strategic direction.

As more fully described in the Company's Annual Report, certain of the underwriting costs incurred in the Company's initial public offering ("IPO") were paid on PMT's behalf by PCM and a portion of the underwriting discount was deferred by agreement with the underwriters of the offering. PMT will reimburse PCM the underwriting costs as discussed in Note 25 *Shareholders' Equity*.

PMT pays PCM a base management fee and may pay a performance incentive fee, both payable quarterly and in arrears.

Following is a summary of management fee expense and the related liability recorded by the Company for the periods presented:

	Quarter ended March 31, 2012	2011
	(in thousands)	
Base management fee	$ 1,804	$ 1,549
Performance incentive fee		
Total management fee incurred during the period	1,804	1,549
Fee paid during the period	(1,095)	(1,228)
Fee outstanding at beginning of period	1,095	1,228
Fee outstanding at period end	$ 1,804	$ 1,549

Both the management and termination fees are more fully described in Note 4 *Transactions with Related Parties* to the Company's Annual Report.

The Company, through its Operating Partnership, also has a loan servicing agreement with PLS. Servicing fee rates are based on the risk characteristics of the mortgage loans serviced and total servicing compensation is established at levels that management believes are competitive with those charged by other servicers or specialty servicers, as applicable.

Servicing fee rates for nonperforming loans are expected to range between 30 and 100 basis points per year on the unpaid principal balance of the mortgage loans serviced on the Company's behalf. PLS is also entitled to certain customary market-based fees and charges, including boarding and deboarding fees, liquidation and disposition fees, assumption, modification and origination fees and late charges, as well as interest on funds on deposit in custodial accounts. In the event PLS either effects a refinancing

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 Transactions with Related Parties (Continued)

of a loan on the Company's behalf and not through a third party lender and the resulting loan is readily saleable, or originates a loan to facilitate the disposition of real estate that the Company has acquired in settlement of a loan, PLS is entitled to receive from the Company market-based fees and compensation.

PLS, on behalf of the Company, currently participates in HAMP (and other similar mortgage loan modification programs), which establishes standard loan modification guidelines for "at risk" homeowners and provides incentive payments to certain participants, including loan servicers, for achieving modifications and successfully remaining in the program. The loan servicing agreement entitles PLS to retain any incentive payments made to it and to which it is entitled under HAMP; provided, however, that with respect to any such incentive payments paid to PLS under HAMP in connection with a mortgage loan modification for which the Company previously paid PLS a modification fee, PLS shall reimburse the Company an amount equal to the lesser of such modification fee or such incentive payments.

In connection with the Company's correspondent lending business, through which the Company acquires mortgage loans originated by correspondent lenders for resale to the government-sponsored agencies such as the Federal National Mortgage Association ("Fannie Mae") or securitization through Government National Mortgage Association ("Ginnie Mae") (Fannie Mae and Ginnie Mae are each referred to as an "Agency" and, collectively, as the "Agencies") and other investors, PLS is entitled to base servicing fees, which range from 4 to 20 basis points per year of the unpaid principal balance of such loans, and other customary market-based fees and charges as described above. PLS also provides certain mortgage banking services, including fulfillment and disposition-related services, to the Company for a fulfillment fee based on a percentage of the unpaid principal balance of the mortgage loans to be sold to non-affiliates where the Company is approved or licensed to sell to such non-affiliate. The fulfillment fee for such services is currently 50 basis points. During the quarter ended March 31 2012 and 2011, the Company recorded fulfillment fees totaling $6.1 million and $12,000, respectively.

The Company collects interest income and a sourcing fee of three basis points for each mortgage loan it purchases from a correspondent and sells to PLS for ultimate disposition to a third party where the Company is not approved or licensed to sell to such third party. During the quarters ended March 31, 2012 and 2011, the Company sold loans with unpaid balances totaling approximately $799.2 million and $3.5 million and received sourcing fees totaling approximately $240,000 and $4,000, respectively. The Company held mortgage loans pending sale to PLS with unpaid balances totaling approximately $39.5 million and $44.2 million at March 31, 2012 and December 31, 2011, respectively.

The Company paid servicing and other fees to PLS as described above and as provided in its loan servicing agreement and recorded other expenses, including common overhead expenses incurred on its behalf by PCM and its affiliates, in accordance with the terms of its management agreement.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 Transactions with Related Parties (Continued)

Following is a summary of those expenses for the periods presented:

	Quarter ended March 31, 2012	Quarter ended March 31, 2011
	(in thousands)	
Loan servicing and fulfillment fees payable to PLS	$ 6,941	$ 2,171
Reimbursement of expenses incurred on PMTs behalf :		
Compensation	304	128
Other	2,106	659
	2,410	787
Reimbursement of common overhead incurred by PCM and its affiliates	386	587
	$ 9,737	$ 3,545
Payments during the period	$ 5,485	$ 1,206

Amounts due to affiliates are summarized below as of the dates presented:

	March 31, 2012	December 31, 2011
	(in thousands)	
Contingent offering costs	$ 2,941	$ 2,941
Management fee	1,804	1,096
Other expenses	12,602	8,129
	$ 17,347	$ 12,166

Amounts due from affiliates totaled $5.5 million and $347,000 at March 31, 2012 and December 31, 2011, respectively, and represent amounts receivable pursuant to loan sales to PLS and reimbursable expenses paid on the affiliates' behalf by the Company.

PCM's parent company, Private National Mortgage Acceptance Company, LLC, held 75,000 of the Company's common shares of beneficial interest at both March 31, 2012 and December 31, 2011.

Note 4 Earnings Per Share

Basic earnings per share is determined using net income divided by the weighted-average common shares outstanding during the period. Diluted earnings per share is computed by dividing net income attributable to common shareholders by the weighted-average common shares outstanding, assuming all potentially dilutive common shares were issued. In periods in which the Company records a loss, potentially dilutive common shares are excluded from the diluted loss per share calculation, as their effect on loss per share is anti-dilutive.

During the year ended December 31, 2011, the Company made grants of restricted share units which entitle the recipients to receive dividend equivalents during the vesting period on a basis equivalent to the dividends paid to holders of common shares. For purposes of calculating earnings per

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 4 Earnings Per Share (Continued)

share, unvested share-based compensation awards containing non-forfeitable rights to dividends or dividend equivalents (collectively, "dividends") are classified as "participating securities" and are included in the basic earnings per share calculation using the two-class method. Under the two-class method, all earnings (distributed and undistributed) are allocated to each class of common shares and participating securities, based on their respective rights to receive dividends.

The following table summarizes the basic and diluted earnings per share calculations for the periods presented:

	Quarter ended March 31, 2012	Quarter ended March 31, 2011
	(in thousands)	
Basic earnings per share:		
Net income	$ 19,058	$ 7,645
Effect of participating securities share-based compensation instruments	(213)	(31)
Net income attributable to common shareholders	18,845	7,614
Weighted-average shares outstanding	29,076	21,938
Basic earnings per share	$ 0.65	$ 0.35
Diluted earnings per share:		
Net income	$ 19,058	$ 7,645
Weighted-average shares outstanding	29,076	21,938
Dilutive potential common shares shares issuable under share-based compensation plan	279	210
Diluted weighted-average number of common shares outstanding	29,355	22,148
Diluted earnings per common share	$ 0.65	$ 0.35

Note 5 Loan Sales

The Company purchases and sells mortgage loans into the secondary mortgage market without recourse for credit losses. However the Company maintains continuing involvement with the loans in the form of servicing arrangements and the potential liability under representations and warranties it makes to purchasers and insurers of the loans.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 5 Loan Sales (Continued)

The following table summarizes cash flows between the Company and transferees upon sale of loans in transactions whereby the Company maintains continuing involvement with the mortgage loan and period-end information relating to such loans:

	Quarter ended March 31, 2012
	(in thousands)
Cash flows:	
Proceeds from sales	$ 1,931,024
Service fees received	$ 701
Period-end information:	
Unpaid principal balance of loans outstanding at period-end	$ 1,532,615
Loans delinquent 30 - 89 days	$ 1,487
Loans delinquent 90 or more days or in foreclosure or bankruptcy	$

Note 6 Fair Value

The Company's financial statements include assets and liabilities that are measured based on their estimated fair values. The application of fair value estimates may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability and whether management has elected to carry the item at its estimated fair value as discussed in the following paragraphs.

Fair Value Accounting Elections

Management identified all of its financial assets, including short-term investments, United States Treasury security, MBS, and mortgage loans as well as its securities sold under agreements to repurchase and its MSRs relating to loans with initial interest rates of more than 4.5% that were acquired as a result of its correspondent lending operations to be accounted for at estimated fair value so such changes in fair value will be reflected in income as they occur and more timely reflect the results of the Company's investment performance.

For MSRs relating to mortgage loans with initial interest rates of less than or equal to 4.5% that were acquired as a result of the Company's correspondent lending operations, management has concluded that such assets present different risks to the Company than MSRs relating to mortgage loans with initial interest rates of more than 4.5% and therefore require a different risk management approach. Management's risk management efforts relating to these assets are aimed at moderating the effects of non-interest rate risks on fair value, such as the effect of changes in home prices on the assets' values. Management has identified these assets for accounting using the amortization method. Management's risk management efforts in connection with MSRs relating to mortgage loans with initial interest rates of more than 4.5% are aimed at moderating the effects of changes in interest rates on the assets' values.

For loans sold under agreements to repurchase subject to agreements made beginning in December 2010, REO financed through agreements to repurchase beginning in June 2011 and borrowings under forward purchase agreements beginning in July 2011, management has determined

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

that historical cost accounting is more appropriate because under this method debt issuance costs are spread over the term of the debt, thereby matching the debt issuance expense to the periods benefiting from the usage of the debt.

Financial Statement Items Measured at Fair Value on a Recurring Basis

Following is a summary of financial statement items that are measured at estimated fair value on a recurring basis as of the dates presented:

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Short-term investments	$ 63,444	$	$	$ 63,444
Mortgage-backed securities at fair value		112,179	62,425	174,604
Mortgage loans acquired for sale at fair value		155,295		155,295
Mortgage loans at fair value			667,542	667,542
Mortgage loans under forward purchase agreements at fair value			105,030	105,030
Mortgage servicing rights at fair value			1,188	1,188
Derivative financial instruments		9,624		9,624
	$ 63,444	$ 277,098	$ 836,185	$ 1,176,727
Liabilities:				
Securities sold under agreements to repurchase	$	$	$ 53,068	$ 53,068
	$	$	$ 53,068	$ 53,068

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Short-term investments	$ 30,319	$	$	$ 30,319
United States Treasury security	50,000			50,000
Mortgage-backed securities at fair value			72,813	72,813
Mortgage loans acquired for sale at fair value		232,016		232,016
Mortgage loans at fair value			696,266	696,266
Mortgage loans under forward purchase agreements at fair value			129,310	129,310
Mortgage servicing rights at fair value			749	749
Derivative financial instruments		1,938		1,938
	$ 80,319	$ 233,954	$ 899,138	$ 1,213,411
Liabilities:				
Securities sold under agreements to repurchase	$	$	$ 115,493	$ 115,493
	$	$	$ 115,493	$ 115,493

The Company's non-Agency MBS, mortgage loans at fair value, mortgage loans under forward purchase agreements at fair value, MSRs and securities sold under agreements to repurchase were

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

measured using Level 3 inputs on a recurring basis. The following is a summary of changes in those items for the periods presented:

	Quarter ended March 31, 2012				
	Mortgage-backed securities	Mortgage loans	Mortgage loans under forward purchase agreements	Mortgage servicing rights	Total
			(in thousands)		
Assets:					
Balance, December 31, 2011	$ 72,813	$ 696,266	$ 129,310	$ 749	$ 899,138
Purchases			286	20	306
Repayments	(11,086)	(26,187)	(8,701)		(45,974)
Accrual of unearned discounts	335				335
Servicing received as proceeds from sales of mortgage loans				520	520
Changes in fair value included in income arising from:					
Changes in instrument-specific credit risk		7,704	1,743		9,447
Other factors	363	(3,367)	4,957	(101)	1,852
	363	4,337	6,700	(101)	11,299
Transfer of mortgage loans to REO		(24,201)			(24,201)
Transfer from mortgage loans acquired for sale		18			18
Transfer of mortgage loans under forward purchase agreements to REO under forward purchase agreements			(5,256)		(5,256)
Transfer of mortgage loans under forward purchase agreements to mortgage loans		17,309	(17,309)		
Balance, March 31, 2012	$ 62,425	$ 667,542	$ 105,030	$ 1,188	$ 836,185
Changes in fair value recognized during the period relating to assets still held at March 31, 2012	$ 363	$ 26	$ 4,494	$ (101)	$ 4,782
Accumulated changes in fair value relating to assets still held at March 31, 2012	$ (2,288)	$ 58,748	$ 9,091		

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

	Securities sold under agreements to repurchase
	(in thousands)
Liabilities:	
Balance, December 31, 2011	$ 115,493
Changes in fair value included in income	
Sales	291,914
Repurchases	(354,339)
Balance, March 31, 2012	$ 53,068
Changes in fair value recognized during the period relating to liabilities still outstanding at March 31, 2012	$

	Quarter ended March 31, 2011			
	Mortgage-backed securities	Mortgage loans	Mortgage servicing rights	Total
	(in thousands)			
Assets:				
Balance, December 31, 2010	$ 119,872	$ 364,250	$	$ 484,122
Purchases		243,128		243,128
Repayments	(17,949)	(15,529)		(33,478)
Accrual of unearned discounts	714			714
Sales		(2,565)		(2,565)
Servicing received as proceeds from sales of mortgage loans			40	40
Changes in fair value included in income arising from:				
Changes in instrument-specific credit risk		5,470		5,470
Other factors	(442)	7,457	(3)	7,012
	(442)	12,927	(3)	12,482
Transfer of mortgage loans to REO		(14,175)		(14,175)
Balance, March 31, 2011	$ 102,195	$ 588,036	$ 37	$ 690,268
Changes in fair value recognized during the period relating to assets still held at March 31, 2011	$ (442)	$ 24,157	$ (3)	$ 23,712
Accumulated changes in fair value relating to assets still held at March 31, 2011	$ (57)	$ 24,157		

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

	Securities sold under agreements to repurchase (in thousands)
Liabilities:	
Balance, December 31, 2010	$ 101,202
Changes in fair value included in income	
Sales	257,952
Repurchases	(271,089)
Balance, March 31, 2011	$ 88,065
Changes in fair value recognized during the period relating to liabilities still outstanding at March 31, 2011	$

Following are the fair values and related principal amounts due upon maturity of mortgage loans accounted for under the fair value option (including mortgage loans acquired for sale, mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value) as of the dates presented:

	March 31, 2012		
	Fair value	Principal amount due upon maturity	Difference
		(in thousands)	
Mortgage loans acquired for sale:			
Current through 89 days delinquent	$ 155,295	$ 149,834	$ 5,461
90 or more days delinquent(1)			
	155,295	149,834	5,461
Other mortgage loans at fair value(2):			
Current through 89 days delinquent	243,632	404,728	(161,096)
90 or more days delinquent(1)	528,940	1,013,291	(484,351)
	772,572	1,418,019	(645,447)
	$ 927,867	$ 1,567,853	$ (639,986)

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

	December 31, 2011		
	Fair value	Principal amount due upon maturity	Difference
	(in thousands)		
Mortgage loans acquired for sale:			
Current through 89 days delinquent	$ 232,016	$ 222,399	$ 9,617
90 or more days delinquent(1)			
	232,016	222,399	9,617
Other mortgage loans at fair value(2):			
Current through 89 days delinquent	209,599	345,140	(135,541)
90 or more days delinquent(1)	615,977	1,184,687	(568,710)
	825,576	1,529,827	(704,251)
	$ 1,057,592	$ 1,752,226	$ (694,634)

(1) Loans delinquent 90 or more days are placed on nonaccrual status and previously accrued interest is reversed.

(2) Includes mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value.

Following are the changes in fair value included in current period income by consolidated statements of income line item for financial statement items accounted for under the fair value option:

	Changes in fair value included in current period income				
	Quarter ended March 31, 2012				
	Net gain on investments	Interest income	Net gain on mortgage loans acquired for sale	Net loan servicing fees	Total
Assets:					
Short-term investments	$	$	$	$	$
Mortgage-backed securities at fair value	357	335			692
Mortgage loans acquired for sale at fair value			13,370		13,370
Mortgage loans at fair value	4,431				4,431
Mortgage loans under forward purchase agreements at fair value	6,700				6,700
Mortgage servicing rights at fair value				(101)	(101)

	$	11,488	$	335	$	13,370	$	(101)	$	25,092
Liabilities:										
Securities sold under agreements to repurchase at fair value	$		$		$		$		$	
	$		$		$		$		$	

19

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

	Changes in fair value included in current period income				
	Quarter ended March 31, 2011				
	Net gain (loss) on investments	Interest income	Net gain on mortgage loans acquired for sale	Net loan servicing fees	Total
Assets:					
Short-term investments	$	$	$	$	$
Mortgage-backed securities at fair value	(442)	714			272
Mortgage loans acquired for sale at fair value			83		83
Mortgage loans at fair value	10,332				10,332
Mortgage servicing rights at fair value				(3)	(3)
	$ 9,890	$ 714	$ 83	$ (3)	$ 10,684
Liabilities:					
Securities sold under agreements to repurchase at fair value	$	$	$	$	$
	$	$	$	$	$

Financial Statement Items Measured at Fair Value on a Nonrecurring Basis

Following is a summary of financial statement items that are measured at estimated fair value on a nonrecurring basis as of the dates presented:

	March 31, 2012				
	Period-end balance				Gains (losses) recognized during the quarter
	Level 1	Level 2	Level 3	Total	
	(in thousands)				
Assets:					
Real estate asset acquired in settlement of loans	$	$	$ 32,635	$ 32,635	$ (2,782)
Real estate asset acquired in settlement of loans under forward purchase agreements			20,446	20,446	(348)
Mortgage servicing assets at lower of amortized cost or fair value			8,024	8,024	106
	$	$	$ 61,105	$ 61,105	$ (3,024)

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

	December 31, 2011				
	Period-end balance				Gains (losses) recognized during the period
	Level 1	Level 2	Level 3	Total	
	(in thousands)				
Assets:					
Real estate asset acquired in settlement of loans	$	$	$ 32,356	$ 32,356	$ (3,182)
Real estate asset acquired in settlement of loans under forward purchase agreements			19,836	19,836	(241)
	$	$	$ 52,192	$ 52,192	$ (3,423)

Real Estate Acquired in Settlement of Loans

The Company measures its investment in REO at the respective properties' estimated fair values less cost to sell on a nonrecurring basis. The value of the REO is initially established as the lesser of (a) either the fair value of the loan at the date of transfer, (b) the fair value of the real estate less estimated costs to sell as of the date of transfer or (c) the purchase price of the property. REO may be subsequently revalued due to the Company receiving greater access to the property, the property being held for an extended period or management receiving indications that the property's value may not be supported by developing market conditions. Any subsequent change in fair value to a level that is less than or equal to the value at which the property was initially recorded is recognized in *Results of real estate acquired in settlement of loans* in the consolidated statements of income.

Mortgage Servicing Rights at Lower of Amortized Cost or Fair Value

The Company evaluates its MSRs at lower of amortized cost or fair value with reference to the assets' fair value. For purposes of performing its MSR impairment evaluation, the Company stratifies its MSR at lower of amortized cost or fair value based on the interest rates borne by the mortgage loans underlying the MSRs. Mortgage loans are grouped into note rate pools of 50 basis points for fixed-rate mortgage loans with note rates between 3% and 4.5% and a single pool for mortgage loans with note rates below 3%. MSRs relating to adjustable rate mortgage loans with initial interest rates of 4.5% or less are evaluated in a single pool. If the fair value of MSRs in any of the note rate pools is below the amortized cost of the MSRs for that pool reduced by any existing valuation allowance, those MSRs are impaired.

When MSRs are impaired, the impairment is recognized in current-period earnings and the carrying value of the MSRs is adjusted using a valuation allowance. If the value of the MSRs subsequently increases, the restoration of value is recognized in current period earnings only to the extent of the valuation allowance.

Management periodically reviews the various impairment strata to determine whether the value of the impaired MSRs in a given stratum is likely to recover. When management deems recovery of the value to be unlikely in the foreseeable future, a write-down of the cost of the MSRs for that stratum to its estimated fair value is charged to the valuation allowance.

Table of Contents

Note 6 Fair Value (Continued)

Fair Value of Financial Instruments Carried at Amortized Cost

The Company has debt facilities to finance its investment in nonperforming loans and REO in the form of repurchase agreements and borrowings under forward purchase agreements. As discussed in *Fair Value Accounting Elections* above, management designated these agreements to be accounted for at amortized cost.

Management has concluded that the estimated fair values of *Mortgage loans acquired for sale at fair value sold under agreements to repurchase, Mortgage loans at fair value sold under agreements to repurchase, Real estate acquired in settlement of loans financed under agreements to repurchase, Note payable secured by mortgage loans at fair value* and *Borrowings under forward purchase agreements* approximate the agreements' carrying values due to the agreements' short terms and variable interest rates.

Valuation Techniques and Assumptions

Most of the Company's assets are carried at fair value with changes in fair value recognized in current period results of operations. A substantial portion of those assets are "Level 3" financial statement items which require the use of significant unobservable inputs in its estimation of the assets' values. Unobservable inputs reflect the Company's own assumptions about the factors that market participants use in pricing an asset or liability, and are based on the best information available in the circumstances.

The Manager has assigned the responsibility for estimating the fair values of its "Level 3" financial statement items to a specialized valuation group and has developed procedures and controls governing the valuation process relating to these assets. The estimation of fair values of the Company's financial assets are assigned to the Manager's Financial Analysis and Valuation group (the "FAV group"), which is responsible for valuing and monitoring the Company's investment portfolios as well as the maintenance of the valuation policies and procedures.

The FAV group reports to the Manager's senior management valuation committee, which oversees and approves the valuations. The valuation committee includes the chief executive, financial, investment and credit officers of the Manager. The FAV group monitors the models used for valuation of the Company's "Level 3" financial statement items, including the models' performance versus actual results and reports those results to the valuation committee. The results developed in the FAV group's monitoring activites are used by the FAV group to calibrate subsequent projections used for valuation.

The FAV group is also responsible for reporting to the valuation committee on a monthly basis on the changes in the valuation of the portfolio, including major drivers affecting the valuation and any changes in model methods and assumptions. To assess the reasonableness of its valuations, the FAV group presents an analysis of the effect on the valuation of each of the changes to the significant inputs to the models.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

The following describes the methods used in estimating the fair values of Level 2 and Level 3 financial statement items:

Mortgage-Backed Securities

MBS values are presently determined based on whether the securities are issued by one of the Agencies as discussed below:

Agency MBS are categorized as "Level 2" financial statement items. Fair value of Agency MBS is estimated based on quoted market prices for similar securities.

Non-Agency MBS are categorized as "Level 3" financial statement items. Fair value of non-Agency MBS is estimated using broker indications of value. For indications of value received, the FAV group reviews the price indications provided by non-affiliate brokers for completeness, accuracy and consistency across all similar bonds managed by PCM. Bond-level analytics such as yield, weighted average life and projected prepayment and default speeds of the underlying collateral are computed. The reasonableness of the brokers' indications of value and of changes in value from period to period is evaluated in light of the analytical review performed and considering market conditions. The review of the FAV group is reported to PCM's valuation committee as part of their review and approval of monthly valuation results. PCM has not adjusted, and does not intend to adjust, its fair value estimates to amounts different than the brokers' indications of value.

The significant unobservable inputs used in the fair value measurement of the Company's non-Agency MBS are discount rates, prepayment speeds, default speeds and loss severities in the event of default (or "collateral remaining loss percentage"). Significant changes in any of those inputs in isolation could result in a significant change in fair value measurement. Changes in these assumptions are not directly correlated, as they may be separately affected by changes in collateral characteristics and performance, servicer behavior, legal and regulatory actions, economic and housing market data and market sentiment.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

Following is a quantitative summary of key inputs used by PCM's valuation staff to evaluate the reasonableness of the fair value of Non-Agency MBS:

		Range (Weighted Average)	
Security Class	**Key Inputs(1)**	**March 31, 2012**	**December 31, 2011**
Non-Agency subprime	Discount rate	2.8% - 29.6% (10.0)%	3.1% - 23.0% (8.0)%
	Prepayment speed(2)	0.1% - 6.6% (3.8)%	0.1% - 8.4% (4.4)%
	Default speed(3)	4.4% - 18.6% (11.3)%	3.6% - 19.8% (12.3)%
	Collateral remaining loss percentage(4)	23.2% - 67.6% (46.1)%	23.9% - 63.7% (47.0)%
Non-Agency Alt-A	Discount rate	4.2% - 7.3% (5.0)%	4.4% - 10.0% (6.2)%
	Prepayment speed(2)	2.2% - 7.7% (5.0)%	0.5% - 8.9% (5.4)%
	Default speed(3)	3.2% - 11.8% (9.9)%	3.0% - 11.5% (9.7)%
	Collateral remaining loss percentage(4)	12.44% - 36.21% (24.8)%	11.4% - 36.4% (26.0)%
Non-Agency prime jumbo	Discount rate	4.7% - 4.7% (4.7)%	6.5% - 6.5% (6.5)%
	Prepayment speed(2)	15.1% - 15.1% (15.1)%	14.3% - 14.3% (14.3)%
	Default speed(3)	1.0% - 1.0% (1.0)%	1.5% - 1.5% (1.5)%
	Collateral remaining loss percentage(4)	0.5% - 0.5% (0.5)%	0.4% - 0.4% (0.4)%

(1) Key inputs are those used to evaluate broker indications of value.

(2) Prepayment speed is measured using Life Voluntary Conditional Prepayment Rate ("CPR").

(3) Default speed is measured using Life Constant Default Rate ("CDR").

(4) The projected future losses on the loans in the collateral groups paying to each bond as a percentage of the current balance of the loans.

24

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

Mortgage Loans

Fair value of mortgage loans is estimated based on whether the mortgage loans are saleable into active markets with established counterparties and transparent pricing:

Mortgage loans that are saleable into active markets, comprised of the Company's mortgage loans acquired for sale at fair value, are categorized as "Level 2" financial statement items and their fair values are estimated using their quoted market or contracted price or market price equivalent.

Loans that are not saleable into active markets are categorized as "Level 3" financial statement items, and their fair values are estimated using a discounted cash flow approach. Inputs to the model include current interest rates, loan amount, payment status and property type, and forecasts of future interest rates, home prices, prepayment speeds, default and loss severities. The valuation process includes the computation by stratum of loan population and a review for reasonableness of various measures such as weighted average life, projected prepayment and default speeds, and projected default and loss percentages. The FAV group computes the effect on the valuation of changes in input variables such as interest rates, home prices, and delinquency status to assess the reasonableness of changes in the loan valuation. The results of the estimates of fair value of "Level 3" mortgage loans are reported to PCM's valuation committee as part of their review and approval of monthly valuation results.

Changes in fair value attributable to changes in instrument-specific credit risk are measured by the change in the respective loan's delinquency status at period-end from the later of the beginning of the period or acquisition date.

The significant unobservable inputs used in the fair value measurement of the Company's distressed mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value, are discount rate, home price projections, voluntary prepayment speeds and default speeds. Significant changes in any of those inputs in isolation could result in a significant change to the loans' fair value measurement. Increases in home price projections are generally accompanied by an increase in voluntary prepayment speeds.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

Following is a quantitative summary of key inputs used in the valuation of mortgage loans at fair value:

	Range (Weighted Average)	
Key Inputs	**March 31, 2012**	**December 31, 2011**
Discount rate	9.1% - 20.8%	9.1% - 20.8%
	(14.6)%	(14.8)%
Twelve-month projected housing price index change	-1.1% - 1.0%	-0.9% - 2.3%
	(-0.5)%	(-0.3)%
Prepayment speed(1)	0.2% - 6.1%	0.2% - 6.2%
	(2.6)%	(2.1)%
Total prepayment speed(2)	1.0% - 32.5%	1.0% - 33.8%
	(23.5)%	(26.5)%

(1) Prepayment speed is measured using Life Voluntary CPR.

(2) Total prepayment speed is measured using Life Total CPR.

Derivative Financial Instruments

The Company estimates the fair value of an interest rate lock commitment based on quoted Agency MBS prices, its estimate of the fair value of the mortgage servicing rights it expects to receive in the sale of the loans and the probability that the mortgage loan will fund within the terms of the interest rate lock commitment. The Company estimates the fair value of commitments to sell loans based on quoted MBS prices. The Company estimates the fair value of the MBS options and futures it purchases and sells based on observed interest rate volatilities in the MBS market. The Company estimates the fair value of its MBS interest rate swaptions based on quoted market prices.

Real Estate Acquired in Settlement of Loans

REO is measured based on its fair value on a nonrecurring basis and is categorized as a "Level 3" financial statement item. Fair value of REO is determined by using a current estimate of value from a broker's price opinion, a full appraisal or the price given in a current contract of sale.

REO values are reviewed by PCM's staff appraisers when the Company obtains multiple indications of value and there is a significant discrepancy between the values received. PCM's staff appraisers will attempt to resolve the discrepancy between the indications of value. In circumstances where the appraisers are not able to generate adequate data to support a value conclusion, the staff appraisers will order an additional appraisal to resolve the property's value.

Mortgage Servicing Rights

MSRs are categorized as "Level 3" financial statement items. The Company uses a discounted cash flow approach to estimate the fair value of MSRs. The key assumptions used in the estimation of

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

the fair value of MSRs include prepayment and default rates of the underlying loans, the applicable discount rate, and cost to service loans. The key assumptions used in the Company's discounted cash flow model are based on market factors which management believes are consistent with assumptions and data used by market participants valuing similar MSRs. The results of the estimates of fair value of MSRs are reported to PCM's Valuation Committee as part of their review and approval of monthly valuation results.

The significant unobservable inputs used in the fair value measurement of the Company's MSRs are pricing spreads, prepayment speeds (or life) and annual per-loan cost of servicing. Significant changes to any of those inputs in isolation could result in a significant change in the MSR fair value measurement. Changes in these key assumptions are not necessarily directly related.

Following are the key assumptions used in determining the fair value of MSRs at the time of initial recognition:

	Quarter ended March 31,			
	2012		2011(3)	
	Range (Weighted Average)			
Key Inputs	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Pricing spread(1)	7.5% - 14.5% (7.5)%	7.5% - 14.5% (8.3)%		
Life (in years)	2.8 - 7.0 (6.5)	2.8 - 7.0 (5.8)		
Annual total prepayment speed(2)	6.7% - 27.4% (7.9)%	7.9% - 27.4% (13.1)%		
Annual per-loan cost of servicing	$68 - $140 $(69)	$68 - $140 $(89)		

(1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans.

(2) Annual total prepayment speed is measured using Life Total Conditional Prepayment Rate.

(3) The Company's amount of mortgage servicing rights as of March 31, 2011 was negligible.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 Fair Value (Continued)

Following is a quantitative summary of key assumptions used in the valuation of MSRs, and the effect on the estimated fair value from adverse changes in those assumptions as of the dates presented (weighted averages are based upon unpaid principal balance or fair value where applicable):

	March 31, 2012		December 31, 2011	
	Range (Weighted Average)			
Key Inputs	Amortized cost	Fair value	Amortized cost	Fair value
	(effect on value amounts in thousands)			
Pricing spread(1)	7.5% - 13.9%	7.5% - 13.9%	7.5% - 16.5%	7.5% - 16.5%
	(7.5)%	(8.5)%	(7.5)%	(8.6)%
Effect on value of 5% adverse change	$(283)	$(19)	$(89)	$(10)
Effect on value of 10% adverse change	$(558)	$(37)	$(176)	$(20)
Effect on value of 20% adverse change	$(1,082)	$(72)	$(341)	$(39)
Average life (in years)	2.8 - 7.0	3.1 - 7.0	3.0 - 6.9	1.7 - 6.9
	(6.5)	(6.0)	(6.7)	(5.3)
Prepayment speed(2)	6.7% - 24.2%	7.9% - 24.2%	6.9% - 30.8%	8.4% - 59.0%
	(8.0)%	(13.1)%	(8.2)%	(16.3)%
Effect on value of 5% adverse change	$(279)	$(25)	$(90)	$(16)
Effect on value of 10% adverse change	$(548)	$(49)	$(178)	$(31)
Effect on value of 20% adverse change	$(1,062)	$(94)	$(343)	$(60)
Annual per-loan cost of servicing	$68 - $140	$68 - $140	$68 - $140	$68 - $140
	$(69)	$(89)	$(69)	$(89)
Effect on value of 5% adverse change	$(102)	$(8)	$(30)	$(4)
Effect on value of 10% adverse change	$(205)	$(15)	$(61)	$(9)
Effect on value of 20% adverse change	$(409)	$(30)	$(122)	$(17)

(1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the 10-year United States Treasury security curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans and purchased MSRs not backed by pools of distressed mortgage loans.

(2) Prepayment speed is measured using Life Total CPR.

The preceding sensitivity analyses are limited in that they were performed at a particular point in time; only contemplate the movements in the indicated variables; do not incorporate changes in the variables in relation to other variables; are subject to the accuracy of various models and assumptions used; and do not incorporate other factors that would affect the Company's overall financial performance in such scenarios, including operational adjustments made by management to account for changing circumstances. For these reasons, the preceding estimates should not be viewed as an earnings forecast.

Securities Sold Under Agreements to Repurchase

Fair value of securities sold under agreements to repurchase is based on the accrued cost of the agreements, which approximates the agreements' fair values, due to the agreements' short maturities.

28

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 7 Short-Term Investments

The Company's short-term investments are comprised of money market accounts deposited with U.S. commercial banks.

Note 8 United States Treasury Security

The Company's investment in a U.S. Treasury security of $50.0 million as of December 31, 2011 matured on January 19, 2012 and had a coupon interest rate of 0.00%.

Note 9 Mortgage-Backed Securities at Fair Value

Investments in MBS were as follows as of the dates presented:

	March 31, 2012						
		Fair value					
			Credit rating				
Security collateral type	Unpaid Balance	Total	AAA	AA	BBB	Non-investment grade	Yield
	(in thousands)						
Agency:							
Fannie Mae 30-year fixed	$ 109,077	$ 112,179		$ 112,179	$	$	3.14%
Non-Agency:							
Non-Agency subprime	55,042	50,492			348	50,144	9.98%
Non-Agency Alt-A	7,561	7,431	372			7,059	5.01%
Non-Agency prime jumbo	4,557	4,502		4,502			4.65%
	$ 176,237	$ 174,604	$ 372	$ 116,681	$ 348	$ 57,203	5.40%

	December 31, 2011						
		Fair value					
			Credit rating				
	Unpaid Balance	Total	AAA	AA	BBB	Non-investment grade	Yield
	(in thousands)						
Non-Agency:							
Non-Agency subprime	$ 63,712	$ 58,634	$	$	$ 920	$ 57,714	8.01%
Non-Agency Alt-A	8,910	8,710	440		5,362	2,908	6.23%
Non-Agency prime jumbo	5,624	5,469		5,469			6.51%
	$ 78,246	$ 72,813	$ 440	$ 5,469	$ 6,282	$ 60,622	7.70%

All of the Company's MBS had remaining contractual maturities of more than ten years at March 31, 2012 and at December 31, 2011. At March 31, 2012, the Company had pledged $62.4 million of its MBS and at December 31, 2011, the Company had pledged all of its MBS to secure agreements to repurchase.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10 Mortgage Loans Acquired for Sale at Fair Value

Mortgage loans acquired for sale at fair value is comprised of recently originated mortgage loans purchased by the Company for resale. Following is a summary of the distribution of the Company's mortgage loans acquired for sale at fair value as of the dates presented:

Loan Type	March 31, 2012 Fair value	March 31, 2012 Unpaid principal balance	December 31, 2011 Fair value	December 31, 2011 Unpaid principal balance
	(in thousands)			
Government insured or guaranteed	$ 41,247	$ 39,524	$ 46,266	$ 44,229
Fixed-rate:				
Agency eligible	114,048	110,310	173,457	166,174
Jumbo loans			12,293	11,996
	$ 155,295	$ 149,834	$ 232,016	$ 222,399

The Company is not approved by Ginnie Mae as an issuer of securities backed by government insured or guaranteed loans. Therefore, the Company transfers such government insured or guaranteed loans that it purchases from correspondent lenders to PLS, which is a Ginnie Mae-approved issuer, for a sourcing fee of three basis points on the unpaid principal balance of each such loan.

Mortgage loans acquired for sale at fair value totaling $155.3 million and $231.7 million were pledged to secure sales of loans under agreements to repurchase at March 31, 2012 and December 31, 2011, respectively.

Note 11 Derivative Financial Instruments

Following is a summary of the distribution of the Company's derivative financial instruments which are included in *Other assets* on the consolidated balance sheets as of the dates presented:

Instrument	March 31, 2012 Notional amount	March 31, 2012 Fair value	December 31, 2011 Notional amount	December 31, 2011 Fair value
	(in thousands)			
Assets:				
Interest rate lock commitments	$ 890,632	$ 4,308	$ 563,487	$ 5,772
Hedging derivatives:				
MBS put options	75,000	258	28,000	26
MBS call options	15,000	112	5,000	57
MBS swaptions	95,000	3,419		
	185,000	3,789	33,000	83
Forward sales contracts	452,956	1,527	358,291	(3,917)
	$ 1,528,588	$ 9,624	$ 954,778	$ 1,938

The Company is exposed to price risk relative to its mortgage loans acquired for sale, to the commitments it makes to acquire loans from correspondent lenders and to the holding of Agency MBS.

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11 Derivative Financial Instruments (Continued)

The Company bears price risk from the time a commitment to purchase a loan is made to a correspondent lender to the time the purchased mortgage loan is sold. Similarly, the Company bears price risk relative to its holdings of Agency MBS during the period it holds such securities. During this period, the Company is exposed to losses if mortgage interest rates rise, because the value of the purchase commitment or mortgage loan acquired for sale declines.

The Company engages in interest rate risk management activities in an effort to reduce the variability of earnings caused by changes in interest rates. To manage this price risk resulting from interest rate risk, the Company uses derivative financial instruments acquired with the intention of moderating the risk that changes in market interest rates will result in unfavorable changes in the value of the Company's interest rate lock commitments, inventory of mortgage loans acquired for sale and Agency MBS. The Company does not use derivative financial instruments for purposes other than in support of its risk management activities.

The following table summarizes the activity for derivative contracts used to hedge the Company's interest rate lock commitments, inventory of mortgage loans acquired for sale and Agency MBS at notional value:

	Balance, Beginning of Period	Additions	Dispositions/ Expirations	Balance, End of Period
		(in thousands)		
Quarter ended March 31, 2012				
MBS put options	$ 28,000	$ 100,000	$ (53,000)	$ 75,000
MBS call options	$ 5,000	$ 15,000	$ (5,000)	$ 15,000
MBS swaptions	$	$ 95,000	$	$ 95,000
Forward sales contracts	$ 358,291	$ 1,569,763	$ (1,475,098)	$ 452,956

As of March 31, 2012 and December 31, 2011, the Company had $850,000 and $1.5 million, respectively, on deposit with its derivatives counterparties. Margin deposits are included in *Other assets* on the consolidated balance sheets as of March 31, 2012 and December 31, 2011.

Note 12 Mortgage Loans at Fair Value

Mortgage loans at fair value are comprised of mortgage loans not acquired for resale. Such loans may be sold at a later date pursuant to a management determination that such a sale represents the most advantageous liquidation strategy for the identified loan.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 12 Mortgage Loans at Fair Value (Continued)

Following is a summary of the distribution of the Company's mortgage loans at fair value as of the dates presented:

	March 31, 2012		December 31, 2011	
Loan Type	Fair value	Unpaid principal balance	Fair value	Unpaid principal balance
	(in thousands)			
Nonperforming loans	$ 428,068	$ 826,947	$ 494,711	$ 952,473
Performing loans:				
Fixed	116,362	193,919	97,582	162,145
ARM/hybrid	73,144	115,734	73,166	116,693
Interest rate step-up	49,783	87,767	30,621	52,507
Balloon	185	316	186	316
	239,474	397,736	201,555	331,661
	$ 667,542	$ 1,224,683	$ 696,266	$ 1,284,134

At March 31, 2012, approximately 72% of the mortgage loan portfolio consisted of mortgage loans that were originated between 2005 and 2007. Approximately 74% of the estimated fair value of the mortgage loans in this portfolio was comprised of loans with unpaid-principal-balance-to-current-property-value ratios in excess of 100% at March 31, 2012.

The mortgage loan portfolio consists of mortgage loans originated throughout the United States with loans secured by California real estate comprising approximately 22% of the loan portfolio's estimated fair value at March 31, 2012. The mortgage loan portfolio contained loans from New York, Florida and New Jersey that each represented 5% or more of the portfolio's estimated fair value at March 31, 2012.

At December 31, 2011, approximately 72% of the mortgage loan portfolio consisted of mortgage loans that were originated between 2005 and 2007. Approximately 72% of the estimated fair value of the mortgage loans in this portfolio was comprised of loans with unpaid-principal-balance-to-current-property-value ratios in excess of 100% at December 31, 2011.

The mortgage loan portfolio consisted of mortgage loans originated throughout the United States with loans secured by California real estate that comprised approximately 24% of the loan portfolio's estimated fair value at December 31, 2011. The mortgage loan portfolio contained loans from New York, Florida and New Jersey that each represented 5% or more of the portfolio's estimated fair value at December 31, 2011.

At March 31, 2012 and December 31, 2011, mortgage loans in this portfolio with fair values totaling $626.0 million and $607.3 million, respectively, were pledged to secure sales of loans under agreements to repurchase and mortgage loans with fair values totaling $1.2 million and $1.9 million, respectively, were held in a consolidated subsidiary of the Company whose stock was pledged to secure financing of the mortgage loans held in that subsidiary.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 13 Mortgage Loans Under Forward Purchase Agreements at Fair Value

Mortgage loans under forward purchase agreements at fair value are comprised of mortgage loans not acquired for resale. Such loans may be sold at a later date pursuant to a management determination that such a sale represents the most advantageous liquidation strategy for the identified loan.

Following is a summary of the distribution of the Company's mortgage loans under forward purchase agreements at fair value as of the periods presented:

Loan Type	March 31, 2012 Fair value	March 31, 2012 Unpaid principal balance	December 31, 2011 Fair value	December 31, 2011 Unpaid principal balance
	(in thousands)			
Nonperforming loans	$ 100,872	$ 186,345	$ 121,266	$ 232,213
Performing loans:				
Fixed	2,252	4,024	3,316	6,084
ARM/hybrid	1,222	1,645	3,965	6,002
Interest rate step-up	684	1,323	763	1,393
	4,158	6,992	8,044	13,479
	$ 105,030	$ 193,337	$ 129,310	$ 245,692

At March 31, 2012, approximately 75% of the estimated fair value of the mortgage loans under forward purchase agreements consisted of mortgage loans that were originated between 2005 and 2007. Approximately 72% of the estimated fair value of the mortgage loans in this portfolio was comprised of loans with unpaid-principal-balance-to-current-property-value ratios in excess of 100% at March 31, 2012.

Mortgage loans under forward purchase agreements consists of mortgage loans originated throughout the United States with loans secured by California real estate comprising approximately 29% of the loan portfolio's estimated fair value at March 31, 2012. The mortgage loan portfolio contained loans from Florida, New York and New Jersey that each represented 5% or more of the portfolio's estimated fair value at March 31, 2012.

At December 31, 2011, approximately 74% of the estimated fair value of the mortgage loans under forward purchase agreements consisted of mortgage loans that were originated between 2005 and 2007. Approximately 74% of the estimated fair value of the mortgage loans in this portfolio was comprised of loans with unpaid-principal-balance-to-current-property-value ratios in excess of 100% at December 31, 2011.

Mortgage loans under forward purchase agreements consists of mortgage loans originated throughout the United States with loans secured by California real estate that comprised approximately 33% of the loan portfolio's estimated fair value at December 31, 2011. The mortgage loan portfolio contained loans from Florida, New York and New Jersey that each represented 5% or more of the portfolio's estimated fair value at December 31, 2011.

At both March 31, 2012 and December 31, 2011, the entire balance of mortgage loans under forward purchase agreements was subject to borrowings under forward purchase agreements.

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 14 Real Estate Acquired in Settlement of Loans

Following is a summary of the activity in REO for the periods presented:

	Quarter ended March 31, 2012	Quarter ended March 31, 2011
	(in thousands)	
Balance at beginning of period	$ 80,570	$ 29,685
Purchases		247
Transfers from mortgage loans at fair value and advances	25,419	14,175
Results of REO:		
Valuation adjustments, net	(2,554)	1,111
Gain (loss) on sale, net	4,551	(22)
	1,997	1,089
Sale proceeds	(26,777)	(13,911)
Balance at period end	$ 81,209	$ 31,285

At March 31, 2012, REO with carrying values totaling $6.0 million were financed under agreements to repurchase and $43.3 million was held in a consolidated subsidiary of the Company whose stock was pledged to secure financing of the real estate held in that subsidiary. At December 31, 2011, REO with carrying values totaling $4.3 million were financed under agreements to repurchase and no stock was pledged to secure financing of real estate held in a consolidated subsidiary.

Note 15 Real Estate Acquired in Settlement of Loans Under Forward Purchase Agreements

Following is a summary of the activity in REO under forward purchase agreements for the periods presented:

	Quarter ended March 31, 2012	Quarter ended March 31, 2011
	(in thousands)	
Balance at beginning of period	$ 22,979	$
Purchases	53	
Transfers from mortgage loans under forward purchase agreements at fair value and advances	5,696	
Results of REO under forward purchase agreements:		
Valuation adjustments, net	(381)	
Gain on sale, net	2,101	
	1,720	
Sale proceeds	(6,787)	
Balance at period end	$ 23,661	$

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 15 Real Estate Acquired in Settlement of Loans Under Forward Purchase Agreements (Continued)

At March 31, 2012, REO under forward purchase agreements totaling $22.4 million were subject to borrowings under forward purchase agreements. The Company did not have REO under forward purchase agreements during the quarter ended March 31, 2011.

Note 16 Mortgage Servicing Rights

Carried at Fair Value:

The activity in MSRs carried at fair value is as follows:

	Quarter ended March 31,	
	2012	2011
	(in thousands)	
Balance at beginning of period	$ 749	$
Additions:		
Purchases	20	
MSRs resulting from loan sales	520	40
Total additions	540	40
Change in fair value:		
Due to changes in valuation inputs or assumptions used in valuation model(1)	(64)	
Other changes in fair value(2)	(37)	(3)
	(101)	(3)
Balance at period end	$ 1,188	$ 37

(1) Principally reflects changes in discount rates and prepayment speed assumptions, primarily due to changes in interest rates.

(2) Represents changes due to realization of expected cash flows.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 16 Mortgage Servicing Rights (Continued)

Carried at Amortized Cost:

The activity in MSRs carried at amortized cost is summarized below for the periods presented:

	Quarter ended March 31, 2012	2011
	(in thousands)	
Mortgage Servicing Rights:		
Balance at beginning of period	$ 5,282	$
MSRs resulting from loan sales	12,409	
Purchases	9	
Amortization	(248)	
Application of valuation allowance to write down MSRs with other-than temporary impairment		
Balance before valuation allowance at period end	17,452	
Valuation Allowance for Impairment of Mortgage Servicing Rights		
Balance at beginning of period	$	$
Additions (reductions)	(106)	
Application of valuation allowance to write down MSRs with other-than temporary impairment		
Balance at period end	(106)	
Mortgage Servicing Rights, net	$ 17,346	$
Estimated Fair Value of MSRs at Period End	$ 17,396	$

The following table summarizes the Company's estimate of amortization of its existing MSRs carried at amortized cost. This projection was developed using the assumptions made by management in its March 31, 2012 valuation of MSRs. The assumptions underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

12-month period ended March 31,	Estimated MSR Amortization
	(in thousands)
2013	$ 1,804
2014	1,786
2015	1,669
2016	1,537
2017	1,411
Thereafter	9,245
Total	$ 17,452

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 17 Securities Sold Under Agreements to Repurchase at Fair Value

Following is a summary of financial information relating to securities sold under agreements to repurchase at fair value as of and for the periods presented:

	Quarter ended March 31,	
	2012	2011
	(dollar amounts in thousands)	
Period end balance	$ 53,068	$ 88,065
Weighted-average interest rate at end of period	0.99%	1.26%
Weighted-average interest rate during the period	0.90%	1.30%
Average balance of securities sold under agreements to repurchase	$ 69,030	$ 95,307
Maximum daily amount outstanding	$ 115,493	$ 101,202
Total interest expense	$ 157	$ 309
Fair value of securities securing agreements to repurchase at period end	$ 62,425	$ 102,195

The repurchase agreements collateralized by securities have an average term of 18 days. All repurchase agreements collateralized by securities matured within 30 days of March 31, 2012 and all such repurchase agreements were subsequently replaced with new repurchase agreements. At March 31, 2012, all non-Agency MBS owned by the Company were pledged under the repurchase agreements and such pledged securities were held by the buyer. All agreements collateralized by MBS are to repurchase the same or substantially identical securities.

The amount at risk (the fair value of the securities pledged plus the related margin deposit, less the amount advanced by the counterparty and accrued interest) relating to the Company's securities sold under agreements to repurchase is summarized by counterparty below as of March 31, 2012:

Counterparty	Amount at risk	Weighted-average repurchase agreement maturity
	(in thousands)	
Wells Fargo Bank, N.A.	$ 9,350	April 18, 2012

The Company is subject to margin calls during the period the agreements are outstanding and therefore may be required to repay a portion of the borrowings before the respective agreements mature if the value (as determined by the applicable lender) of the MBS or mortgage loans securing those agreements decreases. As of March 31, 2012, the Company did not have any amount on deposit with its securities repurchase agreement counterparties. As of December 31, 2011, the Company had $3.8 million on deposit with its securities repurchase agreement counterparties. Margin deposits are included in *Other assets* in the consolidated balance sheets.

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 18 Mortgage Loans Acquired for Sale Sold Under Agreements to Repurchase

Following is a summary of financial information relating to mortgage loans acquired for sale sold under agreements to repurchase as of and for the periods presented:

	Quarter ended March 31,	
	2012	2011
	(dollar amounts in thousands)	
Period end:		
Balance	$ 143,819	$ 3,905
Unused amount(1)	$ 246,181	$ 71,095
Weighted-average interest rate at end of period	2.27%	2.72%
Weighted-average interest rate during the period(2)	2.11%	2.11%
Average balance of loans sold under agreements to repurchase	$ 177,864	$ 3,816
Maximum daily amount outstanding	$ 263,890	$ 6,906
Total interest expense	$ 1,364	$ 146
Fair value of mortgage loans acquired for sale securing agreements to repurchase at period end	$ 155,295	$ 4,405

(1) The amount the Company is able to borrow under loan repurchase agreements is tied to the fair value of unencumbered mortgage loans eligible to secure those agreements and the Company's ability to fund the agreements' margin requirements relating to the collateral sold.

(2) Weighted-average interest rate during the period excludes the effect of amortization of debt issuance costs of $417,000 during the three months ended March 31, 2012.

The