CHIMERA INVESTMENT CORP
Form 10-Q
February 21, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2013

OR

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

FOR THE TRANSITION PERIOD FROM _______________ TO _________________

COMMISSION FILE NUMBER: 1-33796

CHIMERA INVESTMENT CORPORATION
(Exact name of Registrant as specified in its Charter)

MARYLAND	26-0630461
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1211 AVENUE OF THE AMERICAS, SUITE 2902
NEW YORK, NEW YORK
(Address of principal executive offices)

10036
(Zip Code)

(646) 454-3759
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all documents and 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 o No þ

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 (Section 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 o No þ

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the last practicable date:

Class	Outstanding at February 21, 2014
Common Stock, $.01 par value	1,027,588,342

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Part I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements:

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share and per share data)

	March 31, 2013 (Unaudited)	December 31, 2012 (1)
Assets:		
Cash and cash equivalents	$ 649,526	$ 621,153
Non-Agency RMBS, at fair value		
Senior	69	88
Senior interest-only	120,051	122,869
Subordinated	585,340	547,794
Subordinated interest-only	14,534	16,253
Agency RMBS, at fair value	1,632,644	1,806,697
Accrued interest receivable	14,195	15,248
Other assets	11,752	13,970
Subtotal	3,028,111	3,144,072
Assets of Consolidated VIEs:		
Non-Agency RMBS transferred to consolidated variable interest entities ("VIEs"), at fair value	3,299,350	3,274,204
Securitized loans held for investment, net of allowance for loan losses of $12.0 million and $11.6 million, respectively	1,082,316	1,300,131
Accrued interest receivable	22,278	24,082
Subtotal	4,403,944	4,598,417
Total assets	$ 7,432,055	$ 7,742,489
Liabilities:		
Repurchase agreements, Agency RMBS ($1.5 billion and $1.6 billion pledged as collateral, respectively)	$ 1,420,375	$ 1,528,025
Accrued interest payable	2,938	2,441
Dividends payable	92,433	92,431
Accounts payable and other liabilities	2,369	1,170
Investment management fees and expenses payable to affiliate	3,447	7,675
Interest rate swaps, at fair value	48,537	53,939
Subtotal	1,570,099	1,685,681
Non-Recourse Liabilities of Consolidated VIEs		
Securitized debt, collateralized by Non-Agency RMBS ($3.3 billion and $3.3 billion pledged as collateral, respectively)	1,241,297	1,336,261
Securitized debt, collateralized by loans held for investment ($1.1 billion and $1.3 billion pledged as collateral, respectively)	959,602	1,169,710
Accrued interest payable	7,384	8,358
Subtotal	2,208,283	2,514,329
Total liabilities	$ 3,778,382	$ 4,200,010

Commitments and Contingencies (See Note 15)

Stockholders' Equity:

Preferred Stock: par value $0.01 per share; 100,000,000 shares authorized, 0 shares issued and outstanding, respectively	$	-	$	-
Common stock: par value $0.01 per share; 1,500,000,000 shares authorized, 1,027,595,493 and 1,027,597,458 shares issued and outstanding, respectively		10,270		10,268
Additional paid-in-capital		3,604,627		3,604,554
Accumulated other comprehensive income (loss)		1,113,687		989,936
Retained earnings (accumulated deficit)		(1,074,911)		(1,062,279)
Total stockholders' equity	$	3,653,673	$	3,542,479
Total liabilities and stockholders' equity	$	7,432,055	$	7,742,489

(1) Derived from the audited consolidated financial statements.
See accompanying notes to consolidated financial statements.

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CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(dollars in thousands, except share and per share data)
(unaudited)

	For the Quarter Ended March 31, 2013	March 31, 2012
Net Interest Income:		
Interest income	$ 29,067	$ 51,319
Interest expense	(1,833)	(2,326)
Interest income, Assets of consolidated VIEs	96,728	98,349
Interest expense, Non-recourse liabilities of consolidated VIEs	(26,996)	(34,049)
Net interest income (expense)	96,966	113,293
Other-than-temporary impairments:		
Total other-than-temporary impairment losses	-	(32,077)
Portion of loss recognized in other comprehensive income (loss)	(6,163)	(16,287)
Net other-than-temporary credit impairment losses	(6,163)	(48,364)
Other gains (losses):		
Net unrealized gains (losses) on interest rate swaps	5,402	812
Net realized gains (losses) on interest rate swaps	(5,530)	(4,398)
Net gains (losses) on interest rate swaps	(128)	(3,586)
Net unrealized gains (losses) on interest-only RMBS	(1,013)	17,947
Net realized gains (losses) on sales of investments	6	16,010
Total other gains (losses)	(1,135)	30,371
Net investment income (loss)	89,668	95,300
Other expenses:		
Management fees	6,449	12,909
Expense recoveries from Manager	(1,855)	-
Net management fees	4,594	12,909
Provision for loan losses, net	424	167
General and administrative expenses	4,847	1,989
Total other expenses	9,865	15,065
Income (loss) before income taxes	79,803	80,235
Income taxes	2	2
Net income (loss)	$ 79,801	$ 80,233
Net income (loss) per share available to common shareholders:		
Basic	$ 0.08	$ 0.08
Diluted	$ 0.08	$ 0.08
Weighted average number of common shares outstanding:		
Basic	1,027,009,515	1,026,762,092
Diluted	1,027,595,515	1,027,489,586

Dividends declared per share of common stock	$	0.09	$	0.11
Comprehensive income (loss):				
Net income (loss)	$	79,801	$	80,233
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities, net		117,594		123,134
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses		6,163		48,364
Reclassification adjustment for net realized losses (gains) included in net income (loss)		(6)		(16,010)
Other comprehensive income (loss)		123,751		155,488
Comprehensive income (loss)	$	203,552	$	235,721

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(dollars in thousands, except per share data)
(unaudited)

	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
Balance, December 31, 2011	$ 10,267	$ 3,603,739	$ 433,453	$ (999,840)	$ 3,047,619
Net income	-	-	-	80,233	80,233
Unrealized gains (losses) on available-for-sale securities, net	-	-	123,134	-	123,134
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	-	-	48,364	-	48,364
Reclassification adjustment for net realized losses (gains) included in net income (loss)	-	-	(16,010)	-	(16,010)
Proceeds from direct purchase and dividend reinvestment	1	116	-	-	117
Proceeds from restricted stock grants	-	81	-	-	81
Common dividends declared, $0.11 per share	-	-	-	(112,946)	(112,946)
Balance, March 31, 2012	$ 10,268	$ 3,603,936	$ 588,941	$ (1,032,553)	$ 3,170,592
Balance, December 31, 2012	$ 10,268	$ 3,604,554	$ 989,936	$ (1,062,279)	$ 3,542,479
Net income (loss)	-	-	-	79,801	79,801
Unrealized gains (losses) on available-for-sale securities, net	-	-	117,594	-	117,594
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	-	-	6,163	-	6,163

Reclassification adjustment for net realized losses (gains) included in net income (loss)	-	-	(6)	-	(6)
Proceeds from restricted stock grants	2	73	-	-	75
Common dividends declared, $0.09 per share	-	-	-	(92,433)	(92,433)
Balance, March 31, 2013	$ 10,270	$ 3,604,627	$ 1,113,687	$ (1,074,911)	$ 3,653,673

See accompanying notes to consolidated financial statements.

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CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	For the Quarter Ended March 31, 2013	March 31, 2012
Cash Flows From Operating Activities:		
Net income (loss)	$79,801	$80,233
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Accretion) amortization of investment discounts/premiums, net	(19,052)	(10,355)
Amortization of deferred financing costs	2,114	3,221
Accretion (amortization) of securitized debt discounts/premiums, net	1,813	8,103
Net unrealized losses (gains) on interest rate swaps	(5,402)	(812)
Net unrealized losses (gains) on interest-only RMBS	1,013	(17,947)
Net realized losses (gains) on sales of investments	(6)	(16,010)
Net other-than-temporary credit impairment losses	6,163	48,364
Provision for loan losses, net	424	167
Equity-based compensation expense	75	81
Changes in operating assets:		
Decrease (increase) in accrued interest receivable, net	2,857	(1,288)
Decrease (increase) in other assets	109	2
Changes in operating liabilities:		
Increase (decrease) in accounts payable and other liabilities	1,199	(115)
Increase (decrease) in investment management fees and expenses payable to affiliate	(4,228)	5
Increase (decrease) in accrued interest payable, net	(477)	898
Net cash provided by (used in) operating activities	$66,403	$94,547
Cash Flows From Investing Activities:		
RMBS portfolio:		
Purchases	$(7,424)	$(91,429)
Sales	182	79,059
Principal payments	159,189	183,612
Non-Agency RMBS transferred to consolidated VIEs:		
Principal payments	105,550	132,630
Securitized loans held for investment:		
Purchases	-	(753,692)
Principal payments	211,439	21,061
Net cash provided by (used in) investing activities	$468,936	$(428,759)
Cash Flows From Financing Activities:		
Proceeds from repurchase agreements	$1,686,498	$2,034,833
Payments on repurchase agreements	(1,794,148)	(2,204,952)
Payment of deferred financing costs	-	(4,369)
Proceeds from securitized, collateralized by loans held for investment	-	696,113
Payments on securitized debt borrowings, collateralized by loans held for investment	(209,430)	(19,730)
Payments on securitized debt borrowings, collateralized by Non-Agency RMBS	(97,455)	(129,889)
Net proceeds from direct purchase and dividend reinvestment	-	117
Common dividends paid	(92,431)	(112,937)
Net cash provided by (used in) financing activities	$(506,966)	$259,186

Net increase (decrease) in cash and cash equivalents	$28,373	$(75,026)
Cash and cash equivalents at beginning of period	621,153	206,299
Cash and cash equivalents at end of period	$649,526	$131,273
Supplemental disclosure of cash flow information:		
Interest received	$109,600	$138,909
Interest paid	$25,380	$27,374
Management fees and expenses paid to affiliate	$10,677	$12,958
Non-cash investing activities:		
Net change in unrealized gain (loss) on available-for sale securities	$123,751	$155,488
Non-cash financing activities:		
Common dividends declared, not yet paid	$92,433	$112,946

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Chimera Investment Corporation (the "Company") was organized in Maryland on June 1, 2007. The Company commenced operations on November 21, 2007 when it completed its initial public offering. The Company elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder (the "Code"). The Company formed the following wholly-owned qualified REIT subsidiaries: Chimera Securities Holdings, LLC in July 2008; Chimera Asset Holding LLC and Chimera Holding LLC in June 2009; and Chimera Special Holding LLC in January 2010 which is a wholly-owned subsidiary of Chimera Asset Holding LLC. In July 2010, the Company formed CIM Trading Company LLC, a wholly-owned taxable REIT subsidiary ("TRS").

Annaly Capital Management, Inc. ("Annaly") owns approximately 4.38% of the Company's common shares. The Company is managed by Fixed Income Discount Advisory Company ("FIDAC"), an investment advisor registered with the Securities and Exchange Commission ("SEC"). FIDAC is a wholly-owned subsidiary of Annaly.

2. Summary of the Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2012. Certain prior year amounts have been reclassified to conform to the current year's presentation.

The consolidated financial statements include, on a consolidated basis, the Company's accounts, the accounts of its wholly-owned subsidiaries, and variable interest entities ("VIEs") in which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company uses securitization trusts considered to be VIEs in its securitization and re-securitization transactions. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary, and is generally the entity with (i) the power to direct the activities that most significantly impact the VIEs' economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. For VIEs that do not have substantial on going activities, the power to direct the activities that most significantly impact the VIEs' economic performance may be determined by an entity's involvement with the design and structure of the VIE.

(b) Statements of Financial Condition Presentation

The Company's Consolidated Statements of Financial Condition separately present: (i) the Company's direct assets and liabilities, and (ii) the assets and liabilities of consolidated securitization vehicles. Assets of each consolidated VIE can only be used to satisfy the obligations of that VIE, and the liabilities of consolidated VIEs are non-recourse to the Company.

The Company has aggregated all the assets and liabilities of the consolidated securitization vehicles due to the determination that these entities are substantively similar and therefore a further disaggregated presentation would not be more meaningful. The notes to the consolidated financial statements describe the Company’s direct assets and liabilities and the assets and liabilities of consolidated securitization vehicles. See Note 8 for additional information related to the Company’s investments in consolidated securitization vehicles.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash deposited overnight in money market funds, which are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation. There were no restrictions on cash and cash equivalents at March 31, 2013 and December 31, 2012.

(d) Agency and Non-Agency Residential Mortgage-Backed Securities

The Company invests in residential mortgage-backed securities (“RMBS”) representing interests in obligations backed by pools of mortgage loans. The Company delineates between Agency RMBS and Non-Agency RMBS as follows: Agency RMBS are mortgage pass-through certificates, collateralized mortgage obligations (“CMOs”), and other RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by agencies of the U.S. Government, such as Ginnie Mae, or federally chartered corporations such as Freddie Mac or Fannie Mae where principal and interest repayments are guaranteed by the respective agency of the U.S. Government or federally chartered corporation. Non-Agency RMBS are not issued or guaranteed by a U.S. Government Agency or other institution and are subject to credit risk. Repayment of principal and interest on Non-Agency RMBS is subject to the performance of the mortgage loans or RMBS collateralizing the obligation.

The Company classifies its RMBS as available-for-sale, records investments at estimated fair value as described in Note 5 of these consolidated financial statements, and includes unrealized gains and losses considered to be temporary on all RMBS, excluding interest-only (“IO”) strips, in Other comprehensive income (loss) in the Consolidated Statements of Operations and Comprehensive Income (Loss). IO strips are recorded at estimated fair value and all unrealized gains and losses are included in earnings in the Consolidated Statements of Operations and Comprehensive Income (Loss). From time to time, as part of the overall management of its portfolio, the Company may sell any of its RMBS investments and recognize a realized gain or loss as a component of earnings in the Consolidated Statements of Operations and Comprehensive Income (Loss) utilizing the average cost method.

The Company’s accounting policy for interest income and impairment related to its RMBS is as follows:

Interest Income Recognition

The recognition of interest income on RMBS securities varies depending on the characteristics of the security as follows:

Agency RMBS and Non-Agency RMBS of High Credit Quality

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 310-20, Nonrefundable Fees and Other Costs (“ASC 310-20”) is applied to the recognition of interest income for the following securities:

Agency RMBS

Non-Agency RMBS that meet all of the following conditions at the acquisition date (referred to hereafter as “Non-Agency RMBS of High Credit Quality”):

1. Rated AA or higher by a nationally recognized credit rating agency. The Company uses the lowest rating available.
2. The Company expects to collect all of the security's contractual cash flows.
3. The security cannot be contractually prepaid such that the Company would not recover substantially all of its recorded investment.

Under ASC 310-20, interest income, including premiums and discounts associated with the acquisition of these securities, is recognized over the life of such securities using the interest method based on the contractual cash flows of the security. In applying the interest method, the Company considers estimates of future principal prepayments in the calculation of the constant effective yield. Differences that arise between previously anticipated prepayments and actual prepayments received, as well as changes in future prepayment assumptions, result in a recalculation of the effective yield on the security on a quarterly basis. This recalculation results in the recognition of an adjustment to the carrying amount of the security based on the revised prepayment assumptions and a corresponding increase or decrease in reported interest income.

Non-Agency RMBS Not of High Credit Quality

Non-Agency RMBS that are purchased at a discount and that are not of high credit quality at the time of purchase are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”) or ASC 325-40, Beneficial Interests in Securitized Financial Assets (“ASC 325-40”) (referred to hereafter as “Non-Agency RMBS Not of High Credit Quality”).

Non-Agency RMBS are accounted for under ASC 310-30 if the following conditions are met as of the acquisition date:

1. There is evidence of deterioration in credit quality of the security from its inception.
2. It is probable that the Company will be unable to collect all contractual cash flows of the security.

Non-Agency RMBS that are not within the scope of ASC 310-30 are accounted for under ASC 325-40 if at the acquisition date:

1. The security is not of high credit quality (defined as rated below AA or is unrated), or
2. The security can contractually be prepaid or otherwise settled in such a way that the Company would not recover substantially all of its recorded investment.

Interest income on Non-Agency RMBS Not of High Credit Quality is recognized using the interest method based on management’s estimates of cash flows expected to be collected. The effective interest rate on these securities is based on management’s estimate for each security of the projected cash flows, which are estimated based on observation of current market information and include assumptions related to fluctuations in prepayment speeds and the timing and amount of credit losses. Quarterly, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on inputs and analyses received from external sources, internal models, and the Company’s judgments about prepayment rates, the timing and amount of credit losses, and other factors. Changes in the amount and/or timing of cash flows from those originally projected, or from those estimated at the last evaluation date, are considered to be either positive changes or adverse changes. For securities accounted for under ASC 325-40, any positive or adverse change in cash flows that does not result in the recognition of an other-than-temporary impairment (“OTTI”) results in a prospective increase or decrease in the effective interest rate used to recognize interest income. For securities accounted for under ASC 310-30, only significant positive changes are reflected prospectively in the effective interest rate used to recognize interest income. Adverse changes in cash flows expected to be collected are generally treated consistently for RMBS accounted for under ASC 325-40 and ASC 310-30, and generally result in recognition of an OTTI with no change in the effective interest rate used to recognize interest income.

Impairment

Considerations Applicable to all RMBS

When the fair value of an available-for-sale RMBS is less than its amortized cost, the security is considered impaired. On at least a quarterly basis, the Company evaluates its securities for OTTI. If the Company intends to sell an impaired security, or it is more-likely-than-not that the Company will be required to sell an impaired security before its anticipated recovery, then the Company must recognize an OTTI through a charge to earnings equal to the entire difference between the investment’s amortized cost and its fair value at the measurement date. If the Company does not intend to sell an impaired security and it is not more-likely-than-not that it would be required to sell an impaired security before recovery, the Company must further evaluate the security for impairment due to credit losses. The credit component of OTTI is recognized in earnings and the remaining or non-credit component is recorded as a component of Other comprehensive income (loss) (“OCI”). Following the recognition of an OTTI through earnings, a new amortized cost basis is established for the security and subsequent recoveries in fair value may not be adjusted through earnings.

When evaluating whether the Company intends to sell an impaired security or will more-likely-than-not be required to sell an impaired security before recovery, the Company makes judgments that consider among other things, its liquidity, leverage, contractual obligations, and targeted investment strategy to determine its intent and ability to hold the investments that are deemed impaired. The determination as to whether an OTTI exists is subjective as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of future conditions. As a result, the determination of OTTI and its timing and amount is based on estimates that may change materially over time.

The Company's estimate of the amount and timing of cash flows for its RMBS is based on its review of the underlying securities or mortgage loans securing the RMBS. The Company considers historical information available and expected future performance of the underlying securities or mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, extent of credit support available, Fair Isaac Corporation ("FICO") scores at loan origination, year of origination, loan-to-value ratios, geographic concentrations, as well as reports by credit rating agencies, such as Moody's Investors Service, Inc., Standard & Poor's Rating Services or Fitch Ratings, Inc., general market assessments and dialogue with market participants. As a result, substantial judgment is used in the Company's analysis to determine the expected cash flows for its RMBS.

Considerations Applicable to Non-Agency RMBS of High Credit Quality

The impairment assessment for Non-Agency RMBS of High Credit Quality involves comparing the present value of the remaining cash flows expected to be collected to the amortized cost of the security at the assessment date. The discount rate used to calculate the present value of the expected future cash flows is based on the security's effective interest rate as calculated under ASC 310-20 (i.e., the discount rate implicit in the security as of the last measurement date). If the present value of the remaining cash flows expected to be collected is less than the amortized cost basis, an OTTI is recognized in earnings for the difference. This amount is considered to be the credit loss component; the remaining difference between amortized cost and the fair value of the security is considered to be the portion of loss recognized in other comprehensive income (loss).

Following the recognition of an OTTI through earnings for the credit loss component, a new amortized cost basis is established for the security and subsequent recoveries in fair value may not be adjusted through earnings.

Considerations Applicable to Non-Agency RMBS Not of High Credit Quality

Non-Agency RMBS within the scope of ASC 325-40 or ASC 310-30 are considered other-than-temporarily impaired when the following two conditions exist: (1) the fair value is less than the amortized cost basis, and (2) there has been an adverse change in cash flows expected to be collected from the last measurement date (i.e., adverse changes in either the amount or timing of cash flows from those previously expected).

The OTTI is separated into a credit loss component that is recognized in earnings and the portion of loss recognized in other comprehensive income (loss). The credit component is comprised of the impact of the fair value decline due to changes in assumptions related to default (collection) risk and prepayments. The portion of loss recognized in other comprehensive income (loss) comprises the change in fair value of the security due to all other factors, including changes in benchmark interest rates and market liquidity. In determining the OTTI related to credit losses for securities, the Company compares the present value of the remaining cash flows adjusted for prepayments expected to be collected at the current financial reporting date to the present value of the remaining cash flows expected to be collected at the original purchase date (or the last date those estimates were revised for accounting purposes). The discount rate used to calculate the present value of expected future cash flows is the effective interest rate used for income recognition purposes as determined under ASC 325-40 or ASC 310-30.

Following the recognition of an OTTI through earnings for the credit component, a new amortized cost basis is established for the security and subsequent recoveries in fair value may not be adjusted through earnings. However, to the extent that there are subsequent increases in cash flows expected to be collected, the OTTI previously recorded through earnings may be accreted into interest income following the guidance in ASC 325-40 or ASC 310-30.

The determination of whether an OTTI exists and, if so, the extent of the credit component is subject to significant judgment and management's estimates of both historical information available at the time of assessment, the current market environment, as well as the Company's estimates of the future performance and projected amount and timing of cash flows expected to be collected on the security. As a result, the timing and amount of OTTI constitutes an accounting estimate that may change materially over time.

(e) Interest-Only RMBS

The Company invests in IO Agency and Non-Agency RMBS strips. IO RMBS strips represent the Company's right to receive a specified proportion of the contractual interest flows of the collateral. The Company has accounted for IO RMBS strips at fair value with changes in fair value recognized in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss). The Company has elected the fair value option to account for IO RMBS strips to simplify the reporting of changes in fair value. The IO RMBS strips are included in RMBS, at fair value, on the accompanying Consolidated Statements of Financial Condition. Interest income on IO RMBS strips is accrued based on the outstanding notional balance and the security's contractual terms, and amortization of any premium or discount is calculated in accordance with ASC 325-40. Changes in fair value are presented in Net unrealized gains (losses) on interest-only RMBS on the Consolidated Statement of Operations and Comprehensive Income (Loss). Interest income reported on IO RMBS strips was $3.5 million and $6.0 million for the quarters ended March 31, 2013, and 2012, respectively.

(f) Securitized Loans Held for Investment and Related Allowance for Loan Losses

The Company's securitized residential mortgage loans are comprised of fixed-rate and variable-rate loans. Mortgage loans are designated as held for investment, and are carried at their principal balance outstanding, plus any premiums, less discounts and allowances for loan losses. Interest income on loans held for investment is recognized over the expected life of the loans using the interest method. Nonrefundable fees and costs related to acquiring the Company's securitized residential mortgage loans are recognized as expenses over the life of the associated debt using the interest method of amortization. Income recognition is suspended for loans when, based on information from the servicer, a full recovery of interest or principal becomes doubtful. The Company estimates the fair value of securitized loans for disclosure purposes only as described in Note 5 of these consolidated financial statements.

(g) Allowance for Loan Losses – Securitized Loans Held for Investment

The securitized loan portfolio is comprised primarily of non-conforming, single family, owner occupied, jumbo, prime loans that are not guaranteed as to repayment of principal or interest. Securitized loans are serviced and modified by a third-party servicer. The Company generally has the ability to approve certain loan modifications and determine the course of action to be taken as it relates to certain loans in technical default, including whether or not to proceed with foreclosure.

The Company has established an allowance for loan losses related to securitized loans that is composed of a general and specific reserve. The general reserve relates to loans that have not been individually evaluated for impairment. The general reserve is based on historical loss rates for pools of loans with similar credit characteristics, adjusted for current trends and conditions.

Certain loans are individually evaluated for impairment, including securitized loans modified by the servicer and loans more than 60 days delinquent. Loan modifications made by the servicer are evaluated to determine if they constitute troubled debt restructurings ("TDRs"). A restructuring of a loan constitutes a TDR if the servicer, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Impairment of modified loans considered to be TDRs is measured based on the present value of expected cash flows discounted at the loan’s effective interest rate at inception. If the present value of expected cash flows is less than the recorded investment in the loan, an allowance for loan losses is recognized with a corresponding charge to the provision for loan losses. Impairment of all other loans individually evaluated is measured as the difference between the unpaid principal balance and the estimated fair value of the collateral, less estimated costs to sell. The Company charges off the corresponding loan allowance and related principal balance when the servicer reports a realized loss. A complete discussion of securitized loans held for investment is included in Note 4 to these consolidated financial statements.

(h) Repurchase Agreements

The Company finances the acquisition of a significant portion of its Agency mortgage-backed securities with repurchase agreements. The Company has evaluated each agreement and determined that each of the repurchase agreements be accounted for as secured borrowings. None of the Company's repurchase agreements are accounted for as components of linked transactions. As a result, the Company separately accounts for the financial assets posted as collateral and related repurchase agreements in the accompanying consolidated financial statements.

(i) Securitized Debt, Non-Agency RMBS Transferred to Consolidated VIEs, and Securitized Debt, Loans Held for Investment

The Company has issued securitized debt to finance a portion of its residential mortgage loan and RMBS portfolios. Certain transactions involving residential mortgage loans are accounted for as secured borrowings, and are recorded as "Securitized loans held for investment" and the corresponding debt as "Securitized debt, loans held for investment" in the Consolidated Statements of Financial Condition. These securitizations are collateralized by residential adjustable or fixed rate mortgage loans that have been placed in a trust and pay interest and principal to the debt holders of that securitization. Re-securitization transactions classified as "Securitized debt, Non-Agency RMBS transferred to consolidated VIEs" reflect the transfer to a trust of fixed or adjustable rate RMBS which are classified as "Non-Agency RMBS transferred to consolidated VIEs" that pay interest and principal to the debt holders of that re-securitization. Re-securitization transactions completed by the Company that did not qualify as sales are accounted for as secured borrowings. The holders of securitized debt have no recourse to the Company and the Company does not receive any interest or principal paid on such debt. The associated securitized debt is carried at amortized cost. The Company estimates the fair value of its securitized debt for disclosure purposes as described in Note 5 to these consolidated financial statements.

(j) Fair Value Disclosure

A complete discussion of the methodology utilized by the Company to estimate the fair value of its financial instruments is included in Note 5 to these consolidated financial statements.

(k) Derivative Financial Instruments

The Company's investment policies permit it to enter into derivative contracts, including interest rate swaps and interest rate caps, as a means of managing its interest rate risk. The Company intends to use interest rate derivative instruments to manage interest rate risk rather than to enhance returns. Interest rate swaps are recorded as either assets or liabilities in the Consolidated Statements of Financial Condition and measured at fair value. Net payments on interest rate swaps are included in the Consolidated Statements of Cash Flows as a component of net income (loss). Unrealized gains (losses) on interest rate swaps are removed from net income (loss) to arrive at cash flows from operating activities. The Company estimates the fair value of interest rate swaps as described in Note 5 of these consolidated financial statements.

The Company elects to net by counterparty the fair value of interest rate swap contracts. These contracts contain legally enforceable provisions that allow for netting or setting off of all individual swaps receivable and payable with each counterparty and, therefore, the fair value of those swap contracts are reported net by counterparty. The credit support annex provisions of the Company's interest rate swap contracts allow the parties to mitigate their credit risk by requiring the party which is in a net payable position to post collateral. As the Company elects to net by counterparty the fair value of interest rate swap contracts, it also nets by counterparty any collateral exchanged as part of the interest rate swap contracts.

(l) Sales, Securitizations, and Re-Securitizations

The Company periodically enters into transactions in which it sells financial assets, such as RMBS, and mortgage loans. Gains and losses on sales of assets are calculated using the average cost method whereby the Company records a gain or loss on the difference between the average amortized cost of the asset and the proceeds from the sale. In addition, the Company from time to time securitizes or re-securitizes assets and sells tranches in the newly securitized assets. These transactions may be recorded as either sales and the assets contributed to the securitization are removed from the Consolidated Statements of Financial Condition and a gain or loss is recognized, or as secured borrowings whereby the assets contributed to the securitization are not derecognized but rather the debt issued by the securitization entity are recorded to reflect the term financing of the assets. In these securitizations and re-securitizations, the Company may retain senior or subordinated interests in the securitized and/or re-securitized assets.

(m) Income Taxes

The Company has elected to be taxed as a REIT and intends to comply with the provision of the Code, with respect thereto. Accordingly, the Company will not be subject to federal, state or local income tax to the extent that qualifying distributions are made to stockholders and as long as certain asset, income, distribution and stock ownership tests are met. If the Company failed to qualify as a REIT and did not qualify for certain statutory relief provisions, the Company would be subject to 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 REIT qualification was lost. The Company and CIM Trading made a joint election to treat CIM Trading as a TRS. As such, CIM Trading is taxable as a domestic C corporation and subject to federal, state, and local income taxes based upon its taxable income.

A tax position is recognized only when, based on management's judgment regarding the application of income tax laws, it is more likely than not that the tax position will be sustained upon examination. The Company does not have any unrecognized tax benefits that would affect its financial position or require disclosure. No accruals for penalties and interest were necessary as of March 31, 2013 or December 31, 2012.

(n) Net Income per Share

The Company calculates basic net income per share by dividing net income for the period by the basic weighted-average shares of its common stock outstanding for that period. Diluted net income per share takes into account the effect of dilutive instruments such as unvested restricted stock.

(o) Stock-Based Compensation

The Company accounts for stock-based compensation awards granted to the employees of FIDAC and FIDAC's affiliates at the fair value of the stock-based compensation provided. The Company measures the fair value of the equity instrument using the stock prices and other measurement assumptions as of the earlier of either the date at which a performance commitment by the recipient is reached or the date at which the recipient's performance is complete. Compensation expense related to the grants of stock is recognized over the vesting period of such grants based on the fair value of the stock on each quarterly vesting date, at which the recipient's performance is complete.

Compensation expense for equity based awards granted to the Company's independent directors is recognized pro-rata over the vesting period of such awards, based upon the fair value of such awards at the grant date.

(p) Use of Estimates

The preparation of financial statements in conformity with GAAP 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 period. Although the Company's estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could be materially different than anticipated in those estimates, which could have a material adverse impact on the Company's results of operations and its financial condition. Management has made significant estimates in accounting for income recognition and OTTI on Agency and Non-Agency RMBS and IO RMBS (Note 3), valuation of Agency and Non-Agency RMBS (Notes 3 and 5), and interest rate swaps (Notes 5 and 9). Actual results could differ materially from those estimates.

(q) Recent Accounting Pronouncements

Presentation

Balance Sheet (Topic 210)

On December 23, 2011, the FASB released Accounting Standards Update ("ASU") 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Under this update, the Company is required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and transactions subject to an agreement similar to a master netting arrangement. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements and securities borrowing and securities lending arrangements. This disclosure is intended to enable financial statement users to understand the effect of such arrangements on the Company's financial position. The Company adopted this guidance in the first quarter of 2013. As this standard only requires additional disclosure, the adoption of ASU 2011-11 did not have any effect on the consolidated financial statements. The additional disclosures related to the Company's repurchase agreements and derivatives are presented in Note 14.

Comprehensive Income (Topic 220)

In February 2013, the FASB issued ASU 2013-02 Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This update requires the disclosure of information about the amounts reclassified out of accumulated OCI by component. In addition, it requires presentation, either on the face of the statement where net income is presented or in the Notes, significant amounts reclassified out of accumulated OCI by the respective line items of net income, but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, a cross-reference must be provided to other disclosures required under GAAP that provide additional detail about those amounts. The Company adopted this guidance in the first quarter of 2013. As this standard only requires additional disclosure, the adoption of ASU 2013-02 did not have any effect on the consolidated financial statements. The additional disclosures related to accumulated OCI are presented in Note 11.

Broad Transactions

Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40)

In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. This update clarifies when the Company is considered to have obtained physical possession, from an in-substance possession or foreclosure, of a residential real estate property collateralizing a mortgage loan. Current guidance indicates that the Company should reclassify a collateralized mortgage loan such that the loan should be derecognized and the collateral asset recognized when it determines that there has been in substance a repossession or foreclosure by the Company. This update defines the term in substance repossession or foreclosure to reduce diversity in interpretation of when such an event occurs. The guidance in this update is effective for the Company beginning January 1, 2015. The Company is evaluating the impact of this update.

3. Residential Mortgage-Backed Securities

The Company classifies its Non-Agency RMBS as senior, senior IO, subordinated, subordinated IO, and Non-Agency RMBS transferred to consolidated VIEs. The Company also invests in Agency RMBS. Senior interests in Non-Agency RMBS are considered to be entitled to the first principal repayments in their pro-rata ownership interests at the reporting date. The total fair value of the Non-Agency RMBS that are held by consolidated re-securitization trusts was $3.3 billion at March 31, 2013 and December 31, 2012, respectively. See Note 8 of these consolidated financial statements for further discussion of consolidated VIEs.

The following tables present the principal or notional value, total premium, total discount, amortized cost, fair value, gross unrealized gains, gross unrealized losses, and net unrealized gain (loss) related to the Company's available-for-sale RMBS portfolio as of March 31, 2013 and December 31, 2012, by asset class.

March 31, 2013
(dollars in thousands)

	Principal or Notional Value	Total Premium	Total Discount	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Non-Agency RMBS								
Senior	$126	$-	$(69)	$57	$69	$12	$-	$12
Senior interest-only	2,973,384	132,251	-	132,251	120,051	10,574	(22,774)	(12,200)
Subordinated	1,043,333	-	(572,464)	470,869	585,340	117,142	(2,671)	114,471
Subordinated interest-only	249,466	15,192	-	15,192	14,534	935	(1,593)	(658)
RMBS transferred to consolidated variable interest entities ("VIEs")	4,444,160	8,588	(1,994,734)	2,367,626	3,299,350	931,724	-	931,724
Agency RMBS	1,623,245	47,597	-	1,558,159	1,632,644	75,213	(728)	74,485
Total	$10,333,714	$203,628	$(2,567,267)	$4,544,154	$5,651,988	$1,135,600	$(27,766)	$1,107,834

December 31, 2012
(dollars in thousands)

	Principal or Notional Value	Total Premium	Total Discount	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Non-Agency RMBS								
Senior	$126	$-	$(54)	$72	$88	$16	$-	$16
Senior interest-only	3,012,868	135,868	-	135,868	122,869	7,976	(20,975)	(12,999)
Subordinated	1,057,821	-	(584,772)	473,049	547,794	81,492	(6,747)	74,745
Subordinated interest-only	256,072	16,180	-	16,180	16,253	1,466	(1,393)	73
RMBS transferred to consolidated variable interest	4,610,109	8,955	(2,088,125)	2,437,048	3,274,204	837,353	(197)	837,156

entities ("VIEs")								
Agency RMBS	1,756,580	51,502	-	1,720,595	1,806,697	86,419	(317)	86,102
Total	$10,693,576	$212,505	$(2,672,951)	$4,782,812	$5,767,905	$1,014,722	$(29,629)	$985,093

The table below presents changes in Accretable Yield, or the excess of the security's cash flows expected to be collected over the Company's investment, solely as it pertains to the Company's Non-Agency RMBS portfolio accounted for according to the provisions of ASC 310-30.

	For the Quarter Ended	
	March 31, 2013	March 31, 2012
	(dollars in thousands)	
Balance at beginning of period	$ 2,107,387	$ 2,342,462
Purchases	-	86,847
Accretion	(85,935)	(95,108)
Reclassification (to) from non-accretable difference	(6,632)	(11,662)
Sales	(31)	(21,663)
Balance at end of period	$ 2,014,789	$ 2,300,876

The table below presents the outstanding principal balance and related amortized cost at March 31, 2013 and December 31, 2012 as it pertains to the Company's Non-Agency RMBS portfolio accounted for according to the provisions of ASC 310-30.

	For the Quarter Ended	For the Year Ended
	March 31, 2013	December 31, 2012
	(dollars in thousands)	
Outstanding principal balance:		
Beginning of period	$ 4,508,475	$ 5,245,184
End of period	$ 4,346,043	$ 4,508,475
Amortized cost:		
Beginning of period	$ 2,268,751	$ 2,649,303
End of period	$ 2,209,140	$ 2,268,751

The following tables present the gross unrealized losses and estimated fair value of the Company's RMBS by length of time that such securities have been in a continuous unrealized loss position at March 31, 2013 and December 31, 2012. All securities in an unrealized loss position have been evaluated by the Company for OTTI as discussed in Note 2(d).

March 31, 2013
(dollars in thousands)

	Unrealized Loss Position for Less than 12 Months			Unrealized Loss Position for 12 Months or More			Total		
	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities
Non-Agency RMBS									
Senior	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Senior interest-only	40,400	(7,268)	23	25,398	(15,506)	15	65,798	(22,774)	38
Subordinated	-	-	1	17,720	(2,671)	3	17,720	(2,671)	4
Subordinated interest-only	8,615	(1,593)	1	-	-	-	8,615	(1,593)	1
RMBS transferred to consolidated VIEs	-	-	-	-	-	-	-	-	-
Agency RMBS	5,108	(702)	5	174	(26)	1	5,282	(728)	6
Total	$ 54,123	$ (9,563)	30	$ 43,292	$ (18,203)	19	$ 97,415	$ (27,766)	49

December 31, 2012
(dollars in thousands)

	Unrealized Loss Position for Less than 12 Months			Unrealized Loss Position for 12 Months or More			Total		
	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities
Non-Agency RMBS									
Senior	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Senior interest-only	17,764	(2,828)	12	52,920	(18,147)	26	70,684	(20,975)	38
Subordinated	-	-	-	54,774	(6,747)	5	54,774	(6,747)	5
Subordinated interest-only	-	-	-	9,659	(1,393)	1	9,659	(1,393)	1
RMBS transferred to consolidated VIEs	-	-	-	22,490	(197)	1	22,490	(197)	1
Agency RMBS	234	(76)	2	993	(241)	2	1,227	(317)	4
Total	$ 17,998	$ (2,904)	14	$ 140,836	$ (26,725)	35	$ 158,834	$ (29,629)	49

At March 31, 2013, the Company did not intend to sell any of its RMBS that were in an unrealized loss position, and it was not more likely than not that the Company would be required to sell these RMBS before recovery of their amortized cost basis, which may be at their maturity. With respect to RMBS held by consolidated VIEs, the ability of any entity to cause the sale by the VIE prior to the maturity of these RMBS is either expressly prohibited, not probable, or is limited to specified events of default, none of which have occurred to date.

Gross unrealized losses on the Company's Agency RMBS were $728 thousand and $317 thousand at March 31, 2013 and December 31, 2012, respectively. Given the credit quality inherent in Agency RMBS, the Company does not consider any of the current impairments on its Agency RMBS to be credit related. In evaluating whether it is more likely than not that it will be required to sell any impaired security before its anticipated recovery, which may be at their maturity, the Company considers the significance of each investment, the amount of impairment, the projected future performance of such impaired securities, as well as the Company's current and anticipated leverage capacity and liquidity position. Based on these analyses, the Company determined that at March 31, 2013 and December 31, 2012 unrealized losses on its Agency RMBS were temporary.

Gross unrealized losses on the Company's Non-Agency RMBS (including Non-Agency RMBS held by consolidated VIEs) were $27.0 million and $29.3 million at March 31, 2013 and December 31, 2012, respectively. Based upon the most recent evaluation, the Company does not consider these unrealized losses to be indicative of OTTI and does not believe that these unrealized losses are credit related, but rather are due to other factors. The Company has reviewed its Non-Agency RMBS that are in an unrealized loss position to identify those securities with losses that are other-than-temporary based on an assessment of changes in cash flows expected to be collected for such RMBS, which considers recent bond performance and expected future performance of the underlying collateral.

A summary of the OTTI included in earnings for the quarters ended March 31, 2013 and 2012 is presented below.

	For the Quarter Ended	
	March 31, 2013	March 31, 2012
	(dollars in thousands)	
Total other-than-temporary impairment losses	$ -	$ (32,077)
Portion of loss recognized in other comprehensive income (loss)	(6,163)	(16,287)
Net other-than-temporary credit impairment losses	$ (6,163)	$ (48,364)

The following table presents a roll forward of the credit loss component of OTTI on the Company's Non-Agency RMBS for which a portion of loss was previously recognized in OCI. The table delineates between those securities that are recognizing OTTI for the first time as opposed to those that have previously recognized OTTI.

	For the Quarter Ended March 31, 2013	March 31, 2012
	(dollars in thousands)	
Cumulative credit loss beginning balance	$ 510,089	$ 452,060
Additions:		
Other-than-temporary impairments not previously recognized	712	31,827
Reductions for securities sold during the period	(359)	(290)
Increases related to other-than-temporary impairments on securities with previously recognized other-than-temporary impairments	5,451	16,537
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(1,947)	(6,234)
Cumulative credit loss ending balance	$ 513,946	$ 493,900

Cash flows generated to determine net other-than-temporary credit impairment losses recognized in earnings are estimated using significant unobservable inputs. The significant inputs used to measure the component of OTTI recognized in earnings for the Company's Non-Agency RMBS are summarized as follows:

	For the Quarter Ended March 31, 2013	March 31, 2012
Loss Severity		
Weighted Average	45%	54%
Range	41% - 69%	33% - 74%
60+ days delinquent		
Weighted Average	16%	28%
Range	0% - 34%	0% - 45%
Credit Enhancement (1)		
Weighted Average	10%	14%
Range	0% - 48%	0% - 72%
3 Month CPR		
Weighted Average	18%	14%
Range	0% - 25%	0% - 25%
12 Month CPR		
Weighted Average	20%	16%

Range	9% - 35%	9% - 35%

(1) Calculated as the combined credit enhancement to the Re-REMIC and underlying from each of their respective capital structures.

The following tables present a summary of unrealized gains and losses at March 31, 2013 and December 31, 2012. IO RMBS included in the tables below represent the right to receive a specified proportion of the contractual interest cash flows of the underlying principal balance of specific securities. At March 31, 2013, IO RMBS had a net unrealized loss of $5.9 million and had an amortized cost of $162.0 million. At December 31, 2012, IO RMBS had a net unrealized loss of $4.8 million and had an amortized cost of $166.0 million. The fair value of IOs at March 31, 2013 and December 31, 2012 was $156.1 million, and $161.2 million, respectively. All changes in fair value of IOs are reflected in Net income (loss).

March 31, 2013
(dollars in thousands)

	Gross Unrealized Gain Included in Accumulated Other Comprehensive Income	Gross Unrealized Gain Included in Accumulated Deficit	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated Other Comprehensive Income	Gross Unrealized Loss Included in Accumulated Deficit	Total Gross Unrealized Loss
Non-Agency RMBS						
Senior	$ 12	$ -	$ 12	$ -	$ -	$ -
Senior interest-only	-	10,574	10,574	-	(22,774)	(22,774)
Subordinated	117,142	-	117,142	(2,671)	-	(2,671)
Subordinated interest-only	-	935	935	-	(1,593)	(1,593)
RMBS transferred to consolidated VIEs	923,991	7,733	931,724	-	-	-
Agency RMBS	75,213	-	75,213	-	(728)	(728)
Total	$ 1,116,358 &#					