

Edgar Filing: AGNC Investment Corp. - Form 10-Q

AGNC Investment Corp.

Form 10-Q

May 03, 2019

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agnc:AdjustableRateMember us-gaap:AgencySecuritiesMember 2019-03-31 0001423689
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agnc:InterestOnlyAndPrincipalOnlyStripMember us-gaap:AgencySecuritiesMember 2019-03-31 0001423689
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us-gaap:GovernmentNationalMortgageAssociationCertificatesAndObligationsGNMAMember 2018-01-01
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended March 31, 2019

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-34057

AGNC INVESTMENT CORP.

(Exact name of registrant as specified in its charter)

Delaware 26-1701984
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)
2 Bethesda Metro Center, 12th Floor
Bethesda, Maryland 20814
(Address of principal executive offices)
(301) 968-9315
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of April 30, 2019 was 536,412,404.

**AGNC INVESTMENT CORP.
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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****AGNC INVESTMENT CORP.****CONSOLIDATED BALANCE SHEETS****(in millions, except per share data)**

	March 31, 2019 (Unaudited)	December 31, 2018
Assets:		
Agency securities, at fair value (including pledged securities of \$89,471 and \$78,619, respectively)	\$ 93,044	\$ 82,291
Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities)	425	436
Credit risk transfer securities, at fair value (including pledged securities of \$142 and \$141, respectively)	1,129	1,012
Non-Agency securities, at fair value (including pledged securities of \$45 and \$45, respectively)	672	548
U.S. Treasury securities, at fair value (including pledged securities of \$121 and \$0, respectively)	121	46
Cash and cash equivalents	929	921
Restricted cash	517	599
Derivative assets, at fair value	253	273
Receivable for investment securities sold (pledged securities)	439	489
Receivable under reverse repurchase agreements	20,430	21,813
Goodwill	526	526
Other assets	322	287
Total assets	\$ 118,807	\$ 109,241
Liabilities:		
Repurchase agreements	\$ 86,685	\$ 75,717
Debt of consolidated variable interest entities, at fair value	266	275
Payable for investment securities purchased	1,125	1,204
Derivative liabilities, at fair value	53	84
Dividends payable	107	106
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	19,275	21,431
Accounts payable and other liabilities	795	518
Total liabilities	108,306	99,335
Stockholders' equity:		
7.750% Series B Cumulative Redeemable Preferred Stock (aggregate liquidation preference of \$175)	169	169
7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (aggregate liquidation preference of \$325)	315	315
6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (aggregate liquidation preference of \$235)	227	—
Common stock - \$0.01 par value; 900 shares authorized; 536.3 shares issued and outstanding	5	5
Additional paid-in capital	13,795	13,793
Retained deficit	(3,467	) (3,433)
Accumulated other comprehensive loss	(543	) (943)
Total stockholders' equity	10,501	9,906
Total liabilities and stockholders' equity	\$ 118,807	\$ 109,241

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in millions, except per share data)

	Three Months Ended March 31,	
	2019	2018
Interest income:		
Interest income	\$705	\$431
Interest expense	541	206
Net interest income	164	225
Other gain (loss), net:		
Gain (loss) on sale of investment securities, net	60	(2)
Unrealized gain (loss) on investment securities measured at fair value through net income, net	1,060	(523)
Gain (loss) on derivative instruments and other securities, net	(1,000)	738
Management fee income	—	4
Total other gain, net:	120	217
Expenses:		
Compensation and benefits	10	10
Other operating expense	9	8
Total operating expense	19	18
Net income	265	424
Dividend on preferred stock	10	9
Net income available to common stockholders	\$255	\$415
Net income	\$265	\$424
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities, net	400	(621)
Comprehensive income (loss)	665	(197)
Dividend on preferred stock	10	9
Comprehensive income (loss) available (attributable) to common stockholders	\$655	\$(206)
Weighted average number of common shares outstanding - basic	536.7	391.3
Weighted average number of common shares outstanding - diluted	537.2	391.5
Net income per common share - basic	\$0.48	\$1.06
Net income per common share - diluted	\$0.47	\$1.06
Dividends declared per common share	\$0.54	\$0.54
See accompanying notes to consolidated financial statements.		

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(in millions)

	7.750% Series B Cumulative Redeemable Preferred Stock	7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	6.875% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	\$ 169	\$ 315	—	391.3	\$ 4	\$ 11,173	\$(2,562)	\$(345)	\$8,754
Net income	—	—	—	—	—	—	424	—	424
Other comprehensive loss:									
Unrealized loss on available-for-sale securities, net	—	—	—	—	—	—	—	(621)	(621)
Stock-based compensation	—	—	—	—	—	1	—	—	1
Preferred dividends declared	—	—	—	—	—	—	(9)	—	(9)
Common dividends declared	—	—	—	—	—	—	(211)	—	(211)
Balance, March 31, 2018	\$ 169	\$ 315	\$ —	391.3	\$ 4	\$ 11,174	\$(2,358)	\$(966)	\$8,338
Balance, December 31, 2018	\$ 169	\$ 315	—	536.3	\$ 5	\$ 13,793	\$(3,433)	\$(943)	\$9,906
Net income	—	—	—	—	—	—	265	—	265
Other comprehensive income:									
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	—	—	400	400
Stock-based compensation	—	—	—	—	—	2	—	—	2
Issuance of preferred stock	—	—	227	—	—	—	—	—	227
Preferred dividends declared	—	—	—	—	—	—	(10)	—	(10)
Common dividends declared	—	—	—	—	—	—	(289)	—	(289)
Balance, March 31, 2019	\$ 169	\$ 315	\$ 227	536.3	\$ 5	\$ 13,795	\$(3,467)	\$(543)	\$10,501

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Three Months Ended March 31,	
	2019	2018
Operating activities:		
Net income	\$ 265	\$ 424
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and discounts on mortgage-backed securities, net	142	69
Amortization of intangible assets	—	1
Stock-based compensation	2	1
(Gain) loss on sale of investment securities, net	(60	) 2
Unrealized (gain) loss on investment securities measured at fair value through net income, net	(1,060	) 523
(Gain) loss on derivative instruments and other securities, net	1,000	(738
(Increase) decrease in other assets	(35	) 3
Increase in accounts payable and other accrued liabilities	75	3
Net cash provided by operating activities	329	288
Investing activities:		
Purchases of Agency mortgage-backed securities	(16,038)	(2,287
Purchases of credit risk transfer and non-Agency securities	(499	) (215
Proceeds from sale of Agency mortgage-backed securities	4,694	1,181
Proceeds from sale of credit risk transfer and non-Agency securities	297	208
Principal collections on Agency mortgage-backed securities	1,889	1,661
Principal collections on credit risk transfer and non-Agency securities	5	—
Payments on U.S. Treasury securities	(7,550)	(1,345
Proceeds from U.S. Treasury securities	5,103	1,403
Net proceeds from reverse repurchase agreements	1,526	231
Net proceeds from (payments on) derivative instruments	(714	) 466
Net payments on other investing activity	—	(16
Net cash (used in) provided by investing activities	(11,287)	1,287
Financing activities:		
Proceeds from repurchase arrangements	930,289	243,168
Payments on repurchase agreements	(919,321)	(244,507)
Payments on debt of consolidated variable interest entities	(13	) (21
Net proceeds from preferred stock issuance	227	—
Cash dividends paid	(298	) (220
Net cash (used in) provided by financing activities	10,884	(1,580
Net change in cash, cash equivalents and restricted cash	(74	) (5
Cash, cash equivalents and restricted cash at beginning of period	1,520	1,363
Cash, cash equivalents and restricted cash at end of period	\$ 1,446	\$ 1,358
See accompanying notes to consolidated financial statements.		

AGNC INVESTMENT CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The unaudited interim consolidated financial statements of AGNC Investment Corp. (referred throughout this report as the "Company," "we," "us" and "our") are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. 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 income and expenses during the reporting period. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year.

Our unaudited interim consolidated financial statements include the accounts of all of our wholly-owned subsidiaries and variable interest entities for which we are the primary beneficiary. Significant intercompany accounts and transactions have been eliminated.

Note 2. Organization

We were organized in Delaware on January 7, 2008 and commenced operations on May 20, 2008 following the completion of our initial public offering. Our common stock is traded on The Nasdaq Global Select Market under the symbol "AGNC."

We are internally-managed, and our principal objective is to provide our stockholders with attractive risk-adjusted returns through a combination of monthly dividends and tangible net book value accretion. We generate income from the interest earned on our investments, net of associated borrowing and hedging costs, and net realized gains and losses on our investment and hedging activities.

We operate to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As a REIT, we are required to distribute annually 90% of our taxable income. As a REIT, we will generally not be subject to U.S. federal or state corporate taxes on our taxable income to the extent that we distribute our annual taxable income to our stockholders on a timely basis. It is our intention to distribute 100% of our taxable income, after application of available tax attributes, within the limits prescribed by the Internal Revenue Code, which may extend into the subsequent tax year.

We invest primarily in Agency residential mortgage-backed securities ("Agency RMBS") for which the principal and interest payments are guaranteed by a U.S. Government-sponsored enterprise ("GSE") or a U.S. Government agency. We also invest in other types of mortgage and mortgage-related securities, such as credit risk transfer ("CRT") securities and non-Agency residential and commercial mortgage-backed securities ("non-Agency RMBS" and "CMBS," respectively), where repayment of principal and interest is not guaranteed by a GSE or U.S. Government agency and in other investments in, or related to, the housing, mortgage or real estate markets. We fund our investments primarily through borrowings structured as repurchase agreements.

Note 3. Summary of Significant Accounting Policies

Investment Securities

Agency RMBS consist of residential mortgage pass-through securities and collateralized mortgage obligations ("CMOs") guaranteed by the Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs") or the Government National Mortgage Association ("Ginnie Mae").

CRT securities are risk sharing instruments issued by the GSEs, and similarly structured transactions issued by third-party market participants, that transfer a portion of the risk associated with credit losses within pools of conventional residential mortgage loans from the GSEs and/or third parties to private investors. Unlike Agency

RMBS, full repayment of the original principal balance of CRT securities is not guaranteed by a GSE or U.S. Government agency; rather, "credit risk transfer" is achieved by writing down the outstanding principal balance of the CRT securities if credit losses on a related pool of loans exceed certain thresholds. By reducing the amount that they are obligated to repay to holders of CRT securities, the GSEs and/or other third parties offset credit losses on the related loans.

Non-Agency RMBS and CMBS (together, "Non-Agency MBS") are backed by residential and commercial mortgage loans, respectively, packaged and securitized by a private institution, such as a commercial bank. Non-Agency MBS typically benefit from credit enhancements derived from structural elements, such as subordination, overcollateralization or insurance, but nonetheless carry a higher level of credit exposure than Agency RMBS. All of our securities are reported at fair value on our consolidated balance sheet. Accounting Standards Codification ("ASC") Topic 320, *Investments—Debt and Equity Securities*, requires that at the time of purchase, we designate a security as held-to-maturity, available-for-sale or trading, depending on our ability and intent to hold such security to maturity. Alternatively, we may elect the fair value option of accounting for securities pursuant to ASC Topic 825, *Financial Instruments*. Prior to fiscal year 2017, we primarily designated our investment securities as available-for-sale. On January 1, 2017, we began electing the fair value option of accounting for all investment securities acquired after fiscal year 2016. Unrealized gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income ("OCI"). Unrealized gains and losses on securities for which we elected the fair value option or are classified as trading are reported in net income through other gain (loss) during the period in which they occur. Upon the sale of a security designated as available-for-sale, we determine the cost of the security and the amount of unrealized gains or losses to reclassify out of accumulated OCI into earnings based on the specific identification method. In our view, the election of the fair value option simplifies the accounting for investment securities and more appropriately reflects the results of our operations for a reporting period, as the fair value changes for these assets are presented in a manner consistent with the presentation and timing of the fair value changes of our derivative instruments.

We estimate the fair value of our investment securities based on prices provided by multiple third-party pricing services and non-binding dealer quotes (collectively "pricing sources"). These pricing sources use various valuation approaches, including market and income approaches, using "Level 2" inputs. The pricing sources primarily utilize a matrix pricing technique that interpolates the estimated fair value of our Agency RMBS based on observed quoted prices for forward contracts in the Agency RMBS "to-be-announced" market ("TBA securities") of the same coupon, maturity and issuer, adjusted to reflect the specific characteristics of the pool of mortgages underlying the Agency security, which may include maximum loan balance, loan vintage, loan-to-value ratio, geography and other characteristics as may be appropriate. The pricing sources may also utilize discounted cash flow model-derived pricing techniques to estimate the fair value of investment securities. Such models incorporate market-based discount rate assumptions based on observable inputs such as recent trading activity, credit data, volatility statistics, benchmark interest rate curves and other market data that are current as of the measurement date and may include certain unobservable inputs, such as assumptions of future levels of prepayment, defaults and loss severities. We review the pricing estimates obtained from the pricing sources and perform procedures to validate their reasonableness. Refer to Note 8 for further discussion of fair value measurements.

We evaluate our investments designated as available-for-sale for other-than-temporary impairment ("OTTI") on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired may involve judgments and assumptions based on subjective and objective factors. When a security is impaired, an OTTI is considered to have occurred if any one of the following three conditions exists as of the financial reporting date: (i) we intend to sell the security (that is, a decision has been made to sell the security), (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis or (iii) we do not expect to recover the security's amortized cost basis, even if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security. A general allowance for unidentified impairments in a portfolio of securities is not permitted.

Interest Income

Interest income is accrued based on the outstanding principal amount of the investment securities and their contractual terms. Premiums or discounts associated with the purchase of Agency RMBS and non-Agency MBS of high credit quality are amortized or accreted into interest income, respectively, over the projected lives of the securities, including contractual payments and estimated prepayments, using the effective interest method in accordance with ASC Subtopic 310-20, *Receivables—Nonrefundable Fees and Other Costs*.

We estimate long-term prepayment speeds of our mortgage securities using a third-party service and market data. The third-party service provider estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates, mortgage rates of the outstanding loans, age and size of the outstanding loans, loan-to-value ratios, interest rate volatility and other factors. We review the prepayment speeds estimated by the third-party service and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate the reasonableness of the third-party estimates. We review our actual and anticipated prepayment experience on at least a quarterly basis and effective yields are recalculated when differences arise between (i) our previously estimated future prepayments and (ii) actual prepayments to date and our current estimated future prepayments. If the actual and estimated future prepayment experience differs from our prior estimate of prepayments, we are required to record an adjustment in the current period to the amortization or accretion of premiums and discounts for the cumulative difference in the effective yield through the reporting date.

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At the time we purchase CRT securities and non-Agency MBS that are not of high credit quality, we determine an effective yield based on our estimate of the timing and amount of future cash flows and our cost basis. Our initial cash flow estimates for these investments are based on our observations of current information and events and include assumptions related to interest rates, prepayment rates and the impact of default and severity rates on the timing and amount of credit losses. On at least a quarterly basis, we review the estimated cash flows and make appropriate adjustments based on inputs and analysis received from external sources, internal models, and our judgment regarding such inputs and other factors. Any resulting changes in effective yield are recognized prospectively based on the current amortized cost of the investment adjusted for credit impairments, if any.

Repurchase Agreements

We finance the acquisition of securities for our investment portfolio primarily through repurchase transactions under master repurchase agreements. Pursuant to ASC Topic 860, *Transfers and Servicing*, we account for repurchase transactions as collateralized financing transactions, which are carried at their contractual amounts (cost), plus accrued interest. Our repurchase agreements typically have maturities of less than one year but may extend up to five years or more. Interest rates on our repurchase agreements generally correspond to one or three-month LIBOR plus or minus a fixed spread. The fair value of our repurchase agreements is assumed to equal cost as the interest rates are considered to be at market.

Reverse Repurchase Agreements and Obligation to Return Securities Borrowed under Reverse Repurchase Agreements

We borrow securities to cover short sales of U.S. Treasury securities through reverse repurchase transactions under our master repurchase agreements (see *Derivative Instruments* below). We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on the balance sheet based on the value of the underlying borrowed securities as of the reporting date. Our reverse repurchase agreements typically have maturities of 30 days or less. The fair value of our reverse repurchase agreements is assumed to equal cost as the interest rates are considered to be at market.

Derivative Instruments

We use a variety of derivative instruments to hedge a portion of our exposure to market risks, including interest rate, prepayment, extension and liquidity risks. The objective of our risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing during a period of rising interest rates. The primary instruments that we use are interest rate swaps, options to enter into interest rate swaps ("swaptions"), U.S. Treasury securities and U.S. Treasury futures contracts. We also use forward contracts in the Agency RMBS "to-be-announced" market, or TBA securities, to invest in and finance Agency securities as well as to periodically reduce our exposure to Agency RMBS.

We account for derivative instruments in accordance with ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). ASC 815 requires an entity to recognize all derivatives as either assets or liabilities in our accompanying consolidated balance sheets and to measure those instruments at fair value. None of our derivative instruments have been designated as hedging instruments for accounting purposes under the provisions of ASC 815, consequently changes in the fair value of our derivative instruments are reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Our derivative agreements generally contain provisions that allow for netting or setting off derivative assets and liabilities with the counterparty; however, we report related assets and liabilities on a gross basis in our consolidated balance sheets. Derivative instruments in a gain position are reported as derivative assets at fair value and derivative instruments in a loss position are reported as derivative liabilities at fair value in our consolidated balance sheets. Changes in fair value of derivative instruments and periodic settlements related to our derivative instruments are recorded in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Cash receipts and payments related to derivative instruments are classified in our consolidated statements of cash flows according to the underlying nature or purpose of the derivative transaction, generally in the investing section.

The use of derivative instruments creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. Our derivative agreements

require that we post or receive collateral to mitigate such risk. We also attempt to minimize our risk of loss by limiting our counterparties to registered central clearing exchanges and major financial institutions with acceptable credit ratings, monitoring positions with individual counterparties and adjusting posted collateral as required.

Interest rate swap agreements

We use interest rate swaps to economically hedge the variable cash flows associated with our borrowings made under repurchase agreements. Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based

on one or three-month LIBOR ("payer swaps") with terms up to 20 years. The majority of our interest rate swaps are centrally cleared through a registered commodities exchange. We value centrally cleared interest rate swaps using the daily settlement price, or fair value, determined by the clearing exchange based on a pricing model that references observable market inputs, including LIBOR, swap rates and the forward yield curve. Our centrally cleared swaps require that we post an "initial margin" amount determined by the clearing exchange, which is generally intended to be set at a level sufficient to protect the exchange from the interest rate swap's maximum estimated single-day price movement. We also exchange daily settlements of "variation margin" based upon changes in fair value, as measured by the exchange. Pursuant to rules governing central clearing activities, we recognize variation margin settlements as a direct reduction of the carrying value of the interest rate swap asset or liability.

We value non-centrally cleared swaps using a combination of third-party valuations obtained from pricing services and the swap counterparty. The third-party valuations are model-driven using observable inputs, including LIBOR, swap rates and the forward yield curve. We also consider both our own and our counterparties' nonperformance risk in estimating the fair value of our interest rate swaps. In considering the effect of nonperformance risk, we assess the impact of netting and credit enhancements, such as collateral postings and guarantees, and have concluded that our own and our counterparty risk is not significant to the overall valuation of these agreements.

Interest rate swaptions

We purchase interest rate swaptions to help mitigate the potential impact of larger, more rapid changes in interest rates on the performance of our investment portfolio. Interest rate swaptions provide us the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. Our interest rate swaption agreements are not subject to central clearing. The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. We estimate the fair value of interest rate swaptions using a combination of inputs from counterparty and third-party pricing models based on the fair value of the future interest rate swap that we have the option to enter into as well as the remaining length of time that we have to exercise the option, adjusted for non-performance risk, if any. The difference between the premium paid and the fair value of the swaption is reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. If a swaption expires unexercised, the realized loss on the swaption would be equal to the premium paid. If we sell or exercise a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash or the fair value of the underlying interest rate swap and the premium paid.

TBA securities

A TBA security is a forward contract for the purchase or sale of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS to be delivered into the contract are not known until shortly before the settlement date. We may choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting TBA position, net settling the offsetting positions for cash, and simultaneously purchasing or selling a similar TBA contract for a later settlement date (together referred to as a "dollar roll transaction"). The Agency securities purchased or sold for a forward settlement date are typically priced at a discount to equivalent securities settling in the current month. This difference, or "price drop," is the economic equivalent of interest income on the underlying Agency securities, less an implied funding cost, over the forward settlement period (referred to as "dollar roll income"). Consequently, forward purchases of Agency securities and dollar roll transactions represent a form of off-balance sheet financing.

We account for TBA contracts as derivative instruments since either the TBA contracts do not settle in the shortest period of time possible or we cannot assert that it is probable at inception and throughout the term of the TBA contract that we will physically settle the contract on the settlement date. We account for TBA dollar roll transactions as a series of derivative transactions. We estimate the fair value of TBA securities based on similar methods used to value our Agency RMBS securities.

U.S. Treasury securities

We use U.S. Treasury securities and U.S. Treasury futures contracts to mitigate the potential impact of changes in interest rates on the performance of our portfolio. We borrow U.S. Treasury securities under reverse repurchase agreements to cover short sales of U.S. Treasury securities. We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on our accompanying consolidated balance

sheets based on the value of the underlying U.S. Treasury security as of the reporting date. Gains and losses associated with U.S. Treasury securities and U.S. Treasury futures contracts are recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Loss Contingencies

We evaluate the existence of any pending or threatened litigation or other potential claims against the Company in accordance with ASC Topic 450, *Contingencies*, which requires that we assess the likelihood and range of potential outcomes of any such

matters. We are the defendant in three stockholder derivative lawsuits alleging that certain of our current and former directors and officers breached fiduciary duties and wasted corporate assets relating to past renewals of the management agreement with our former external manager and the internalization of our management on July 1, 2016. Although the outcomes of these cases cannot be predicted with certainty, we do not believe that these cases have merit or will result in a material liability, and, as of March 31, 2019, we did not accrue a loss contingency related to these matters.

Recent Accounting Pronouncements

We consider the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board. ASUs not listed below were determined to be either not applicable, are not expected to have a significant impact on our consolidated financial statements when adopted or did not have a significant impact on our consolidated financial statements upon adoption.

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. Allowances for credit losses on available-for-sale debt securities will be recognized, rather than direct reductions in the amortized cost of the investments. The new model also requires the estimation of lifetime expected credit losses and corresponding recognition of allowance for losses on trade and other receivables, held-to-maturity debt securities, loans, and other instruments held at amortized cost. The ASU requires certain recurring disclosures and is effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2019, with early adoption permitted for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2018. ASU 2016-13 is not expected to have a significant impact on our consolidated financial statements.

Note 4. Investment Securities

As of March 31, 2019 and December 31, 2018, our investment portfolio consisted of \$95.3 billion and \$84.3 billion of investment securities, at fair value, respectively, and \$7.0 billion and \$7.3 billion of TBA securities, at fair value, respectively. Our TBA position is reported at its net carrying value of \$70 million and \$70 million as of March 31, 2019 and December 31, 2018, respectively, in derivative assets / (liabilities) on our accompanying consolidated balance sheets. The net carrying value of our TBA position represents the difference between the fair value of the underlying Agency security in the TBA contract and the cost basis or the forward price to be paid or received for the underlying Agency security.

As of March 31, 2019 and December 31, 2018, our investment securities had a net unamortized premium balance of \$3.0 billion and \$2.9 billion, respectively.

The following tables summarize our investment securities as of March 31, 2019 and December 31, 2018, excluding TBA securities, (dollars in millions). Details of our TBA securities as of each of the respective dates are included in Note 6.

Investment Securities	March 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agency RMBS:				
Fixed rate	\$92,374	\$92,502	\$83,047	\$81,753
Adjustable rate	199	201	212	213
CMO	555	555	588	583
Interest-only and principal-only strips	166	179	172	178
Multifamily	31	32	—	—
Total Agency RMBS	93,325	93,469	84,019	82,727
Non-Agency RMBS	313	319	264	266
CMBS	343	353	280	282
CRT securities	1,109	1,129	1,006	1,012
Total investment securities	\$95,090	\$95,270	\$85,569	\$84,287

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Investment Securities	March 31, 2019						
	Agency RMBS			Non-Agency			Total
	Fannie Mae	Freddie Mac	Ginnie Mae	RMBS	CMBS	CRT	
Available-for-sale securities:							
Par value	\$ 16,709	\$ 5,493	\$ 23	\$ 6	\$ —	\$ —	\$ 22,231
Unamortized discount	(11)	(2)	—	—	—	—	(13)
Unamortized premium	849	325	—	—	—	—	1,174
Amortized cost	17,547	5,816	23	6	—	—	23,392
Gross unrealized gains	19	5	1	—	—	—	25
Gross unrealized losses	(402)	(166)	—	—	—	—	(568)
Total available-for-sale securities, at fair value	17,164	5,655	24	6	—	—	22,849
Securities remeasured at fair value through earnings:							
Par value	42,546	25,501	—	317	409	1,087	69,860
Unamortized discount	(74)	(6)	—	(11)	(70)	(13)	(174)
Unamortized premium	1,138	834	—	—	5	35	2,012
Amortized cost	43,610	26,329	—	306	344	1,109	71,698
Gross unrealized gains	620	340	—	7	10	22	999
Gross unrealized losses	(172)	(101)	—	—	(1)	(2)	(276)
Total securities remeasured at fair value through earnings	44,058	26,568	—	313	353	1,129	72,421
Total securities, at fair value	\$ 61,222	\$ 32,223	\$ 24	\$ 319	\$ 353	\$ 1,129	\$ 95,270
Weighted average coupon as of March 31, 2019	3.83 %	3.92 %	3.72 %	3.86 %	4.65 %	5.69 %	3.88 %
Weighted average yield as of March 31, 2019 ¹	3.24 %	3.30 %	2.06 %	4.22 %	4.61 %	4.75 %	3.29 %

¹. Incorporates a weighted average future constant prepayment rate assumption of 10.5% based on forward rates as of March 31, 2019.

Investment Securities	December 31, 2018						
	Agency RMBS			Non-Agency			Total
	Fannie Mae	Freddie Mac	Ginnie Mae	RMBS	CMBS	CRT	
Available-for-sale securities:							
Par value	\$ 17,591	\$ 5,673	\$ 25	\$ 6	\$ —	\$ —	\$ 23,295
Unamortized discount	(10)	(2)	—	—	—	—	(12)
Unamortized premium	912	343	—	—	—	—	1,255
Amortized cost	18,493	6,014	25	6	—	—	24,538
Gross unrealized gains	4	2	1	—	—	—	7
Gross unrealized losses	(686)	(264)	—	—	—	—	(950)
Total available-for-sale securities, at fair value	17,811	5,752	26	6	—	—	23,595
Securities remeasured at fair value through earnings:							
Par value	39,453	18,428	—	268	281	968	59,398
Unamortized discount	(78)	(9)	—	(10)	(6)	—	(103)
Unamortized premium	1,055	638	—	—	5	38	1,736
Amortized cost	40,430	19,057	—	258	280	1,006	61,031
Gross unrealized gains	223	57	—	2	—	—	230