

Invesco Mortgage Capital Inc.
Form 10-Q
November 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

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 001-34385

(Exact Name of Registrant as Specified in Its Charter)

Maryland	26-2749336
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1555 Peachtree Street, N.E., Suite 1800
Atlanta, Georgia 30309
(Address of Principal Executive Offices) (Zip Code)
(404) 892-0896

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (§ 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 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of November 1, 2016, there were 111,588,883 outstanding shares of common stock of Invesco Mortgage Capital Inc.

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PART I

ITEM 1. FINANCIAL STATEMENTS

INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

\$ in thousands except share amounts	As of	
	September 30, 2016	December 31, 2015
ASSETS		
Mortgage-backed and credit risk transfer securities, at fair value (including pledged securities of \$15,493,599 and \$15,553,934, respectively)	16,074,077	16,065,935
Commercial loans, held-for-investment	273,291	209,062
Cash and cash equivalents	47,282	53,199
Due from counterparties	241,161	110,009
Investment related receivable	44,944	154,594
Accrued interest receivable	49,390	50,779
Derivative assets, at fair value	505	8,659
Other assets	183,514	115,072
Total assets	16,914,164	16,767,309
LIABILITIES AND EQUITY		
Liabilities:		
Repurchase agreements	12,060,502	12,126,048
Secured loans	1,650,000	1,650,000
Exchangeable senior notes	396,420	394,573
Derivative liabilities, at fair value	382,321	238,148
Dividends and distributions payable	50,921	51,734
Investment related payable	17	167
Accrued interest payable	23,915	21,604
Collateral held payable	—	4,900
Accounts payable and accrued expenses	1,477	2,376
Due to affiliate	10,295	10,851
Total liabilities	14,575,868	14,500,401
Equity:		
Preferred Stock, par value \$0.01 per share; 50,000,000 shares authorized:		
7.75% Series A Cumulative Redeemable Preferred Stock: 5,600,000 shares issued and outstanding (\$140,000 aggregate liquidation preference)	135,356	135,356
7.75% Fixed-to-Floating Series B Cumulative Redeemable Preferred Stock: 6,200,000 shares issued and outstanding (\$155,000 aggregate liquidation preference)	149,860	149,860
Common Stock, par value \$0.01 per share; 450,000,000 shares authorized; 111,588,883 and 113,619,471 shares issued and outstanding, respectively	1,116	1,136
Additional paid in capital	2,382,847	2,407,372
Accumulated other comprehensive income	585,563	318,624
Retained earnings (distributions in excess of earnings)	(943,771)	(771,313)
Total stockholders' equity	2,310,971	2,241,035
Non-controlling interest	27,325	25,873
Total equity	2,338,296	2,266,908
Total liabilities and equity	16,914,164	16,767,309
The accompanying notes are an integral part of these condensed consolidated financial statements.		

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
\$ in thousands, except share amounts				
Interest Income				
Mortgage-backed and credit risk transfer securities	112,467	128,305	347,573	395,844
Residential loans ⁽¹⁾	—	28,380	—	88,001
Commercial loans	5,680	3,743	16,520	11,349
Total interest income	118,147	160,428	364,093	495,194
Interest Expense				
Repurchase agreements	24,892	41,303	97,952	125,544
Secured loans	2,746	1,622	8,149	4,639
Exchangeable senior notes	5,620	5,620	16,847	16,840
Asset-backed securities ⁽¹⁾	—	20,686	—	64,913
Total interest expense	33,258	69,231	122,948	211,936
Net interest income	84,889	91,197	241,145	283,258
Reduction in provision for loan losses	—	81	—	213
Net interest income after reduction in provision for loan losses	84,889	91,278	241,145	283,471
Other Income (loss)				
Gain (loss) on investments, net	(7,155)	(1,967)	5,860	11,019
Equity in earnings of unconsolidated ventures	729	1,894	1,992	9,131
Gain (loss) on derivative instruments, net	35,378	(220,602)	(293,528)	(287,344)
Realized and unrealized credit derivative income (loss), net	31,926	2,928	57,564	24,904
Other investment income (loss), net	(554)	739	(3,617)	1,518
Total other income (loss)	60,324	(217,008)	(231,729)	(240,772)
Expenses				
Management fee – related party	6,719	10,058	25,292	28,816
General and administrative	1,836	2,507	5,769	6,186
Consolidated securitization trusts ⁽¹⁾	—	2,132	—	6,544
Total expenses	8,555	14,697	31,061	41,546
Net income (loss)	136,658	(140,427)	(21,645)	1,153
Net income (loss) attributable to non-controlling interest	1,723	(1,628)	(235)	(10)
Net income (loss) attributable to Invesco Mortgage Capital Inc.	134,935	(138,799)	(21,410)	1,163
Dividends to preferred stockholders	5,716	5,716	17,148	17,148
Net income (loss) attributable to common stockholders	129,219	(144,515)	(38,558)	(15,985)
Earnings (loss) per share:				
Net income (loss) attributable to common stockholders				
Basic	1.16	(1.18)	(0.34)	(0.13)
Diluted	1.05	(1.18)	(0.34)	(0.13)
Dividends declared per common share	0.40	0.40	1.20	1.30

The condensed consolidated statements of operations for the three and nine months ended September 30, 2015 include income and expenses of consolidated variable interest entities ("VIEs"). The Company deconsolidated (1) these VIEs in December 2015. Refer to Note 2 - "Summary of Significant Accounting Policies" for further discussion.

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

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
\$ in thousands	2016	2015	2016	2015
Net income (loss)	136,658	(140,427)	(21,645)	1,153
Other comprehensive income (loss):				
Unrealized gain (loss) on mortgage-backed and credit risk transfer securities, net	32,015	42,933	270,591	(30,611)
Reclassification of unrealized (gain) loss on sale of mortgage-backed and credit risk transfer securities to gain (loss) on investments, net	—	389	(11,581)	(4,152)
Reclassification of amortization of net deferred (gain) loss on de-designated interest rate swaps to repurchase agreements interest expense	(4,831)	15,724	11,331	51,182
Currency translation adjustments on investment in unconsolidated venture	(235)	(33)	(10)	(33)
Total other comprehensive income	26,949	59,013	270,331	16,386
Comprehensive income (loss)	163,607	(81,414)	248,686	17,539
Less: Comprehensive income (loss) attributable to non-controlling interest	(2,063)	942	(3,157)	(191)
Less: Dividends to preferred stockholders	(5,716)	(5,716)	(17,148)	(17,148)
Comprehensive income (loss) attributable to common stockholders	155,828	(86,188)	228,381	200

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

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CONDENSED CONSOLIDATED STATEMENT OF EQUITY

For the nine months ended September 30, 2016

(Unaudited)

\$ in thousands except share amounts	Series A Preferred Stock		Series B Preferred Stock		Attributable to Common Stockholders Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Distributions in excess of earnings)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2015	5,600,000	135,356	6,200,000	149,860	113,619,471	1,136	2,407,372	318,624	(771,313)	2,241,035
Net loss	—	—	—	—	—	—	—	—	(21,410)	(21,410)
Other comprehensive income	—	—	—	—	—	—	—	266,939	—	266,939
Proceeds from issuance of common stock, net of offering costs	—	—	—	—	3,201	—	35	—	—	35
Repurchase of shares of common stock	—	—	—	—	(2,063,451)	(20)	(24,980)	—	—	(25,000)
Stock awards	—	—	—	—	29,662	—	—	—	—	—
Common stock dividends	—	—	—	—	—	—	—	—	(133,900)	(133,900)
Common unit dividends	—	—	—	—	—	—	—	—	—	—
Preferred stock dividends	—	—	—	—	—	—	—	—	(17,148)	(17,148)
Amortization of equity-based compensation	—	—	—	—	—	—	420	—	—	420
Balance at September 30, 2016	5,600,000	135,356	6,200,000	149,860	111,588,883	1,116	2,382,847	585,563	(943,771)	2,310,971

The accompanying notes are an integral part of this condensed consolidated financial statement.

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

\$ in thousands	Nine Months Ended		
	2016	2015	
Cash Flows from Operating Activities			
Net income (loss)	(21,645	) 1,153
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of mortgage-backed and credit risk transfer securities premiums and (discounts), net	85,522	90,900	
Amortization of residential loans and asset-backed securities premiums (discount), net	—	(639)
Amortization of commercial loan origination fees	(219) (51)
Reduction in provision for loan losses	—	(213)
Unrealized (gain) loss on derivative instruments, net	150,842	104,546	
Unrealized (gain) loss on credit derivatives, net	(45,192) (7,923)
(Gain) loss on investments, net	(5,860) (11,019)
Realized (gain) loss on derivative instruments, net	62,222	44,394	
Realized (gain) loss on credit derivatives, net	6,017	2,184	
Equity in earnings of unconsolidated ventures	(1,992) (9,131)
Amortization of equity-based compensation	425	422	
Amortization of deferred securitization and financing costs	1,847	2,391	
Amortization of net deferred losses on de-designated interest rate swaps	11,331	51,182	
(Gain) loss on foreign currency transactions, net	6,080	619	
Changes in operating assets and liabilities:			
(Increase) decrease in operating assets	1,260	(3,289)
Increase in operating liabilities	858	10,512	
Net cash provided by operating activities	251,496	276,038	
Cash Flows from Investing Activities			
Purchase of mortgage-backed and credit risk transfer securities	(2,367,991) (1,821,811)
Purchase of U.S. Treasury securities	(403,105) —	
Proceeds from sale of U.S. Treasury securities	524,478	—	
(Contributions) distributions (from) to investment in unconsolidated ventures, net	7,632	15,174	
Change in other assets	(73,875) (12,875)
Principal payments from mortgage-backed and credit risk transfer securities	1,920,352	1,910,904	
Proceeds from sale of mortgage-backed and credit risk transfer securities	659,959	290,561	
Payments on sale of credit derivatives	(6,017) (2,184)
Payment of premiums for interest rate swaptions	—	(1,485)
Payments for termination of futures, forwards, swaps and TBAs, net	(60,737) (34,066)
Purchase of residential loans held-for-investment	—	(372,305)
Principal payments from residential loans held-for-investment	—	424,644	
Principal payments from commercial loans held-for-investment	15,000	63,132	
Origination and advances of commercial loans, net of origination fees	(85,033) (104,965)
Net cash provided by investing activities	130,663	354,724	
Cash Flows from Financing Activities			
Proceeds from issuance of common stock	35	158	
Repurchase of common stock	(25,000) (49,999)
Cost of issuance of preferred stock	—	(36)

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Due from counterparties	(138,959)	(118,562)
Change in collateral held payable	(4,900)	(14,890)
Proceeds from repurchase agreements	97,653,895	105,832,915
Principal repayments of repurchase agreements	(97,719,439)	(106,543,411)
Proceeds from asset-backed securities issued by securitization trusts	—	336,077
Principal repayments of asset-backed securities issued by securitization trusts	—	(400,207)
Proceeds from secured loans	125,000	2,100,000
Principal repayments on secured loans	(125,000)	(1,675,000)
Payments of deferred costs	(136)	—
Payments of dividends and distributions	(153,572)	(185,293)
Net cash used in financing activities	(388,076)	(718,248)
Net change in cash and cash equivalents	(5,917)	(87,486)
Cash and cash equivalents, beginning of period	53,199	164,144
Cash and cash equivalents, end of period	47,282	76,658
Supplement Disclosure of Cash Flow Information		
Interest paid	116,401	162,906
Non-cash Investing and Financing Activities Information		
Net change in unrealized gain on mortgage-backed and credit risk transfer securities	259,010	(34,763)
Dividends and distributions declared not paid	50,921	54,067
Net change in investment related payable (receivable)	117,295	53,089
Change in due from counterparties	7,807	1,425

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

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Organization and Business Operations

Invesco Mortgage Capital Inc. (the “Company”) is a Maryland corporation primarily focused on investing in, financing and managing residential and commercial mortgage-backed securities and mortgage loans. The Company conducts its business through IAS Operating Partnership LP (the “Operating Partnership”), a variable interest entity (“VIE”), as its sole general partner. As of September 30, 2016, the Company owned 98.7% of the Operating Partnership, and a wholly-owned subsidiary of Invesco owned the remaining 1.3%. The Company has one operating segment.

The Company primarily invests in:

Residential mortgage-backed securities (“RMBS”) that are guaranteed by a U.S. government agency such as the Government National Mortgage Association, or a federally chartered corporation such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”) (collectively “Agency RMBS”);

RMBS that are not guaranteed by a U.S. government agency (“non-Agency RMBS”);

Credit risk transfer securities that are unsecured obligations issued by government-sponsored enterprises (“GSE CRT”);

Commercial mortgage-backed securities (“CMBS”);

Residential and commercial mortgage loans; and

Other real estate-related financing agreements.

The Company is externally managed and advised by Invesco Advisers, Inc. (the “Manager”), a registered investment adviser and an indirect, wholly-owned subsidiary of Invesco Ltd. (“Invesco”), a leading independent global investment management firm. The Company elected to be taxed as a real estate investment trust (“REIT”) for U.S. federal income tax purposes under the provisions of the Internal Revenue Code of 1986, as amended, commencing with the Company's taxable year ended December 31, 2009. To maintain the Company's REIT qualification, the Company is generally required to distribute at least 90% of its REIT taxable income to its stockholders annually. The Company operates its business in a manner that permits exclusion from the “Investment Company” definition under the Investment Company Act of 1940, as amended.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

Certain disclosures included in the Company's Annual Report on Form 10-K are not required to be included on an interim basis in the Company's quarterly reports on Form 10-Q. The Company has condensed or omitted these disclosures. Therefore, this Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for a fair statement of the financial condition and results of operations for the periods presented. All significant intercompany transactions, balances, revenues and expenses are eliminated upon consolidation.

The condensed consolidated financial statements have been prepared in accordance with U.S. GAAP and consolidate the financial statements of the Company and its controlled subsidiaries. During the period from January 1, 2015 through December 9, 2015, the condensed consolidated financial statements also include the results of operations of certain residential loan securitization trusts (the “residential securitizations”) that meet the definition of a VIE. On December 9, 2015, the Company completed the sale of certain beneficial interests in the residential securitizations and deconsolidated the residential securitizations.

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Revision of Previously Issued Financial Statements

During the second quarter of 2016, the Company corrected errors in its accounting for premiums and discounts associated with non-Agency RMBS not of high credit quality. The Company concluded that the errors are immaterial to each of the annual and interim consolidated financial statements which were included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and its interim report on Form 10-Q for the quarter ended March 31, 2016. The Company has corrected its financial statements for previous periods included in this filing on Form 10-Q and will correct its previously issued financial statements for these errors as the financial statements are presented in future periodic filings.

Refer to Note 16 - "Revision of Previously Issued Financial Statements" for additional details.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Examples of estimates include, but are not limited to, estimates of the fair values of financial instruments, interest income on mortgage-backed and credit risk transfer securities, allowance for loan losses and other-than-temporary impairment charges. Actual results may differ from those estimates.

Significant Accounting Policies

There have been no changes to the Company's accounting policies included in Note 2 to the consolidated financial statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, other than the significant accounting policies disclosed below.

U.S. Treasury Securities

U.S. Treasury Securities are classified as trading securities and are recorded at fair value. The Company records its purchases of U.S. Treasury Securities on the trade date. Changes in fair value are recognized in gain (loss) on investments, net in the Company's consolidated statements of operations. Interest income is accrued based on the outstanding principal balance of the securities and their contractual terms. Premiums are amortized into interest income over the contractual lives of the securities using a level yield method.

Fair Value Measurements

The Company reports its mortgage-backed and credit risk transfer securities and derivative assets and liabilities at fair value as determined by an independent pricing service. The Company generally obtains one price per instrument from its primary pricing service. If the primary pricing service cannot provide a price, the Company will seek a value from other pricing services.

The pricing service uses two types of valuation approaches to determine the valuation of the Company's various mortgage-backed and credit risk transfer securities: a market approach, which uses observable prices and other relevant information that is generated by market transactions involving identical or comparable assets or liabilities; and an income approach, which uses valuation techniques to convert future amounts to a single, discounted present value amount. In instances where sufficient market activity may not exist, the pricing service may utilize proprietary valuation models that may consider market transactions in comparable securities and the various relationship between securities in determining fair value and/or market characteristics to estimate relevant cash flows, which are then discounted to calculate the fair values. Observable inputs may include a combination of benchmark yields, executed trades, broker/dealer quotes, issuer spreads, bids, offers and benchmark securities to determine prices. In addition, the valuation models utilized by pricing services may consider additional pool level information such as prepayment speeds, default frequencies and default severities, if applicable. Both the Company and the pricing service continuously monitor market indicators and economic events to determine if any may have an impact on the valuations.

The pricing service values interest rate swaps and interest rate swaptions under the income approach using valuation models. The significant inputs in these models are readily available in public markets or can be derived from observable market transactions for substantially the full terms of the contracts.

The pricing service values U.S. Treasury futures, currency forward contracts and to-be-announced securities ("TBAs") under the market approach through the use of quoted market prices available in an active market.

Overrides of prices from pricing services are rare in the current market environment for the assets the Company holds. Examples of instances that would cause an override include if the Company recently traded the same security or there is an indication of market activity that would cause the pricing service price to no longer be indicative of fair value. In the rare instance where a price is adjusted, the Company has a control process to monitor the reason for such adjustment.

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To gain comfort that pricing service prices are representative of current market information, the Company compares the transaction prices of security purchases and sales to the valuation levels provided by the pricing services. Price differences exceeding pre-defined tolerance levels are identified and investigated and may be challenged. Trends are monitored over time and if there are indications that the valuations are not comparable to market activity, the pricing services are asked to provide detailed information regarding their methodology and inputs. Transparency tools are also available from the pricing services which help the Company understand data points and/or market inputs used for pricing securities.

The Company also reviews daily price movements for interest rate swaps, interest rate swaptions, U.S. Treasury futures, currency forward contracts and TBAs. Price movements exceeding pre-defined tolerance levels are investigated using an alternate price from another pricing service as well as available market information. Based on the Company's findings, the primary pricing service may be challenged, or in rare cases, overridden with an alternate pricing source.

In addition, the Company performs due diligence procedures on all pricing services on at least an annual basis. A questionnaire is sent to pricing services which requests information such as changes in methodologies, business recovery preparedness, internal controls and confirmation that evaluations are generated based on market data. Physical visits are also made to each pricing service's office.

As described in Note 10 - "Fair Value of Financial Instruments," the Company evaluates the source used to fair value its assets and liabilities and makes a determination on its categorization within the fair value hierarchy. If the price of a security is obtained from quoted prices for identical instruments in active markets, the security is classified as a level 1 security. If the price of a security is obtained from quoted prices for similar instruments or model-derived valuations whose inputs are observable, the security is classified as a level 2 security. If the inputs appear to be unobservable, the security would be classified as a level 3 security. Transfers between levels, if any, are determined by the Company at the end of the reporting period.

Mortgage-Backed and Credit Risk Transfer Securities

All of the Company's mortgage-backed securities ("MBS") and GSE CRTs are reported at fair value. Fair value is determined by obtaining valuations from an independent source. If the fair value of a security is not available from a third-party pricing service, or such data appears unreliable, the Company may estimate the fair value of the security using a variety of methods including other pricing services, discounted cash flow analysis, matrix pricing, option adjusted spread models and other fundamental analysis of observable market factors.

The Company records its purchases of MBS and GSE CRTs on the trade date. Although the Company generally intends to hold most of its MBS and GSE CRTs until maturity, the Company may sell any of its mortgage-backed and credit risk transfer securities as part of its overall management of its investment portfolio.

The Company has elected the fair value option for all of its MBS purchased on or after September 1, 2016. Prior to September 1, 2016, the Company had also elected the fair value option for its RMBS interest-only securities ("RMBS IOs"). RMBS IOs are hybrid financial instruments that contain embedded derivatives. Under the fair value option, changes in fair value are recognized in the Company's consolidated statements of operations. In the Company's view, this election more appropriately reflects the results of the Company's operations because MBS fair value changes are accounted for in the same manner as fair value changes in economic hedging instruments.

Except for RMBS IOs, MBS purchased prior to September 1, 2016 are classified as available-for-sale securities. Unrealized gains or losses on available-for-sale securities are recorded in accumulated other comprehensive income, a separate component of stockholders' equity, until sale or disposition of the investment. Upon sale or disposition, the cumulative gain or loss previously reported in stockholders' equity is recognized in income. Realized gains and losses from sales of MBS are determined based upon the specific identification method.

The Company has elected the fair value option for GSE CRTs purchased on or after August 24, 2015. GSE CRTs are hybrid financial instruments that contain embedded derivatives. Coupon payments on the securities are based on LIBOR, and principal payments are based on prepayments, losses and defined credit events in a reference pool of mortgage loans that collateralize Agency RMBS. The Company elected the fair value option for these securities due to the complexities associated with bifurcation of GSE CRTs into the debt host contract and embedded

derivative. Under the fair value option, changes in fair value for GSE CRTs are recognized in the Company's consolidated statements of operations.

GSE CRTs purchased prior to August 24, 2015 are also reported at fair value but are accounted for as hybrid financial instruments consisting of a debt host contract and an embedded derivative. Unrealized gains or losses arising from changes in fair value of the debt host contract, excluding other-than-temporary impairment, are recognized in accumulated other comprehensive income, a separate component of stockholders' equity, until sale or disposition of the investment. Upon sale or disposition of the debt host contract, the cumulative gain or loss previously reported in stockholders' equity is recognized in income. Realized gains and losses from sales of GSE CRTs are determined based upon the specific identification method.

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Realized and unrealized gains or losses arising from changes in fair value of the embedded derivative are recognized in realized and unrealized credit derivative income (loss), net in the Company's consolidated statements of operations. The Company's interest income recognition policies for MBS and GSE CRTs is described below in the Interest Income Recognition section of this Note 2 to the Company's consolidated financial statements.

The Company considers its portfolio of Agency RMBS to be of high credit quality under applicable accounting guidance. For non-Agency RMBS, GSE CRTs and CMBS, the Company does not rely on ratings from third party agencies to determine the credit quality of the investment. The Company uses internal models that analyze the loans underlying each security and evaluates factors including, but not limited to, delinquency status, loan-to-value ratios, borrower credit scores, occupancy status and geographic concentration to estimate the expected future cash flows. The Company places reliance on these internal models in determining credit quality.

While non-Agency RMBS, GSE CRTs and CMBS with expected future losses would generally be purchased at a discount to par, the potential for a significant adverse change in expected cash flows remains. The Company therefore evaluates each security for other-than-temporary impairment at least quarterly.

The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. Consideration is given to (i) the length of time and the extent to which the fair value has been less than amortized cost, (ii) the financial condition and near-term prospects of recovery in fair value of the security, and (iii) the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis.

The Company recognizes in earnings and reflects as a reduction in the cost basis of the security the amount of any other-than-temporary impairment related to credit losses or impairments on securities that the Company intends to sell or for which it is more likely than not that the Company will need to sell before recoveries. The amount of the other-than-temporary impairment on debt securities related to other factors is recorded consistent with changes in the fair value of all other available-for-sale securities as a component of consolidated stockholders' equity in other comprehensive income or loss with no change to the cost basis of the security.

Interest Income Recognition

Mortgage-Backed Securities

Interest income on MBS is accrued based on the outstanding principal balance of the securities and their contractual terms. Premiums or discounts are amortized or accreted into interest income over the life of the investment using the effective interest method.

Interest income on the Company's non-Agency MBS (and other prepayable mortgage-backed securities where the Company may not recover substantially all of its initial investment) is based on estimated future cash flows.

Management estimates future expected cash flows at the time of purchase and determines the effective interest rate based on these estimated cash flows and the Company's purchase price. Over the life of the investments, management updates these estimated future cash flows and computes a revised yield based on the current amortized cost of the investment. In estimating these future cash flows, there are a number of assumptions that are subject to uncertainties and contingencies, including the rate and timing of principal payments (prepayments, repurchases, defaults and liquidations), the pass through or coupon rate, and interest rate fluctuations. These uncertainties and contingencies are difficult to predict and are subject to future events that may impact management's estimates and the Company's interest income. When actual cash flows vary from expected cash flows, the difference is recorded as an adjustment to the amortized cost of the security and the security's yield is revised prospectively. Changes in cash flows from the Company's original or most recent projection may result in a prospective change in interest income recognized on these securities, or the amortized cost of these securities.

For Agency RMBS that cannot be prepaid in such a way that the Company would not recover substantially all of its initial investment, interest income recognition is based on contractual cash flows. The Company does not estimate prepayments in applying the effective interest method.

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Reverse Repurchase Agreements

Reverse repurchase agreements are treated as collateralized financing transactions. Cash paid to the borrower is recorded as other assets on the Company's consolidated balance sheets. Interest receivable on reverse repurchase agreements is recorded as accrued interest receivable. The Company reflects all proceeds and repayments of reverse repurchase agreement on a net basis in the Company's consolidated statement of cash flows. The Company monitors the market value of the underlying collateral to ensure it remains sufficient to protect the Company in the event of default by the counterparty. If the Company were to sell the underlying collateral, the Company would recognize its obligation to return the underlying collateral as due to counterparties on the Company's consolidated balance sheets.

Reclassifications

Certain prior period reported amounts have been reclassified to be consistent with the current presentation. Such reclassifications had no impact on net income or equity attributable to common stockholders.

Accounting Pronouncements Recently Adopted and Pending Accounting Pronouncements

Effective January 1, 2016, the Company adopted the newly issued accounting guidance for presentation of debt issuance costs. Under the new standard, debt issuance costs are required to be presented in the consolidated balance sheets as a direct deduction from the carrying value of the associated debt liability. The Company adopted the accounting standard on a retrospective basis, which required the restatement of the Company's December 31, 2015 balance sheet. The adoption resulted in a \$5.4 million reduction in exchangeable senior notes and a corresponding reduction in other assets.

Effective January 1, 2016, the Company adopted the newly issued accounting guidance for reporting entities that are required to determine whether they should consolidate certain legal entities. The Company adopted the accounting standard on a modified retrospective approach which did not require restatement of prior periods to conform to the post adoption presentation. The Company did not consolidate or deconsolidate any legal entities as a result of implementing the new guidance.

In January 2016, the FASB issued guidance to improve certain aspects of classification and measurement of financial instruments, including significant revisions in accounting related to the classification and measurement of investments in equity securities and presentation of certain fair value changes for financial liabilities when the fair value option is elected. The guidance also amends certain disclosure requirements associated with the fair value of financial instruments. The Company is required to adopt the new guidance in the first quarter of 2018. Early adoption is permitted. The Company is currently evaluating the potential impact of the new guidance on its consolidated financial statements, as well as available transition methods.

In June 2016, the FASB issued an amendment to the guidance on reporting credit losses for assets measured at amortized cost and available-for-sale securities. The Company is required to adopt the new guidance in the first quarter of 2020. Early adoption is permitted. The Company is currently evaluating the potential impacts of the new guidance on its consolidated financial statements, as well as available transition methods.

In August 2016, the FASB issued new guidance that is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The Company is required to adopt the new guidance in the first quarter of 2018. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The Company is currently evaluating the potential impacts of the new guidance on its consolidated financial statements.

Note 3 – Variable Interest Entities

The Company's maximum risk of loss in VIEs in which the Company is not the primary beneficiary at September 30, 2016 is presented in the table below.

\$ in thousands	Carrying Amount	Company's Maximum Risk of Loss
CMBS	2,668,290	2,668,290
Non-Agency RMBS	2,109,115	2,109,115

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Investments in unconsolidated ventures	32,763	32,763
Total	4,810,168	4,810,168

Refer to Note 4 - "Mortgage-Backed and Credit Risk Transfer Securities" and Note 6 - "Other Assets" for additional details regarding these investments.

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Note 4 – Mortgage-Backed and Credit Risk Transfer Securities

The following tables summarize the Company's MBS and GSE CRT portfolio by asset type as of September 30, 2016 and December 31, 2015.

September 30, 2016

\$ in thousands	Principal/ Notional Balance	Unamortized Premium (Discount)	Amortized Cost	Unrealized Gain/ (Loss), net	Fair Value	Net Weighted Average Coupon (1)	Period- end Weighted Average Yield (2)	Quarterly Weighted Average Yield (3)
Agency RMBS:								
15 year fixed-rate	3,453,364	153,698	3,607,062	30,890	3,637,952	3.13 %	2.21 %	1.86 %
30 year fixed-rate	3,331,034	215,594	3,546,628	88,937	3,635,565	4.21 %	2.72 %	2.55 %
ARM*	321,140	2,917	324,057	7,896	331,953	2.71 %	2.62 %	2.18 %
Hybrid ARM	2,593,484	46,411	2,639,895	44,213	2,684,108	2.71 %	2.55 %	2.06 %
Total Agency pass-through	9,699,022	418,620	10,117,642	171,936	10,289,578	3.38 %	2.49 %	2.17 %
Agency-CMO ⁽⁴⁾	1,611,750	(1,257,836)	353,914	10,122	364,036	2.22 %	3.25 %	2.42 %
Non-Agency RMBS ⁽⁵⁾⁽⁶⁾⁽⁷⁾	4,078,976	(2,065,395)	2,013,581	95,534	2,109,115	2.18 %	5.06 %	5.06 %
GSE CRT ⁽⁸⁾⁽⁹⁾	591,460	20,580	612,040	31,018	643,058	1.53 %	0.83 %	0.98 %
CMBS ⁽¹⁰⁾⁽¹¹⁾	3,076,101	(559,789)	2,516,312	151,978	2,668,290	3.89 %	4.33 %	4.28 %
Total	19,057,309	(3,443,820)	15,613,489	460,588	16,074,077	3.05 %	3.07 %	2.84 %

* Adjustable-rate mortgage ("ARM")

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

(2) Period-end weighted average yield is based on amortized cost as of September 30, 2016 and incorporates future prepayment and loss assumptions.

Quarterly weighted average portfolio yield for the period was calculated by dividing interest income, including amortization of premiums and discounts, by the Company's average of the amortized cost of the investments. All yields are annualized.

(4) Agency collateralized mortgage obligation ("Agency-CMO") includes interest-only securities ("Agency IO"), which represent 83.5% of principal/notional balance, 24.0% of amortized cost and 24.3% of fair value.

(5) Non-Agency RMBS held by the Company is 46.8% fixed rate, 46.1% variable rate, and 7.1% floating rate based on fair value.

(6) Of the total discount in non-Agency RMBS, \$261.7 million is non-accretable based on the Company's estimated future cash flows of the securities.

(7) Non-Agency RMBS includes interest-only securities which represent 44.0% of principal/notional balance, 1.5% of amortized cost and 1.4% of fair value.

The Company has elected the fair value option for GSE CRT purchased on or after August 24, 2015, which represent 3.5% of the balance based on fair value. As a result, GSE CRT accounted for under the fair value option are not bifurcated between the debt host contract and the embedded derivative.

GSE CRT weighted average coupon and weighted average yield excludes coupon interest associated with embedded derivatives not accounted for under the fair value option recorded as realized and unrealized credit derivative income (loss), net.

(10) CMBS includes interest-only securities which represent 20.2% of principal/notional balance, 0.9% of amortized cost and 0.9% of fair value.

(11) The Company has elected the fair value option for CMBS purchased on or after September 1, 2016 which represent 0.4% of principal/notional balance, 0.6% of amortized cost and 0.5% of fair value.

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December 31, 2015

\$ in thousands	Principal/Notional Balance	Unamortized Premium (Discount)	Amortized Cost	Unrealized Gain/(Loss), net	Fair Value	Net Weighted Average Coupon (1)	Period-end Weighted Average Yield (2)	Quarterly Weighted Average Yield (3)
Agency RMBS:								
15 year fixed-rate	1,527,877	72,389	1,600,266	10,664	1,610,930	3.72 %	2.47 %	2.40 %
30 year fixed-rate	3,796,091	249,285	4,045,376	18,581	4,063,957	4.24 %	2.81 %	2.85 %
ARM	417,424	4,625	422,049	3,976	426,025	2.72 %	2.58 %	2.26 %
Hybrid ARM	3,240,967	63,324	3,304,291	5,234	3,309,525	2.73 %	2.56 %	2.22 %
Total Agency pass-through	8,982,359	389,623	9,371,982	38,455	9,410,437	3.54 %	2.65 %	2.53 %
Agency-CMO ⁽⁴⁾	1,774,621	(1,386,284)	388,337	482	388,819	2.23 %	4.29 %	3.42 %
Non-Agency RMBS ⁽⁵⁾⁽⁶⁾⁽⁷⁾	4,965,978	(2,363,799)	2,602,179	90,308	2,692,487	2.20 %	5.11 %	4.90 %
GSE CRT ⁽⁸⁾⁽⁹⁾	657,500	22,593	680,093	(21,865)	658,228	1.32 %	0.72 %	0.62 %
CMBS ⁽¹⁰⁾	3,429,655	(558,749)	2,870,906	45,058	2,915,964	3.95 %	4.30 %	4.35 %
Total	19,810,113	(3,896,616)	15,913,497	152,438	16,065,935	3.08 %	3.31 %	3.16 %

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

(2) Period-end weighted average yield is based on amortized cost as of December 31, 2015 and incorporates future prepayment and loss assumptions.

Quarterly weighted average portfolio yield for the period was calculated by dividing interest income, including amortization of premiums and discounts, by the Company's average of the amortized cost of the investments. All yields are annualized.

(4) Agency collateralized mortgage obligation ("Agency CMO") includes interest-only securities ("Agency IO"), which represent 84.4% of principal (notional) balance, 27.5% of amortized cost and 27.6% of fair value.

(5) Non-Agency RMBS held by the Company is 48.4% variable rate, 45.2% fixed rate, and 6.4% floating rate based on fair value.

(6) Of the total discount in non-Agency RMBS, \$281.6 million is non-accretable based on the Company's estimated future cash flows of the securities.

(7) Non-Agency RMBS includes interest-only securities, which represent 42.1% of principal/notional balance, 1.3% of amortized cost and 1.3% of fair value.

The Company has elected the fair value option for GSE CRT purchased on or after August 24, 2015, which represent 1.9% of the balance based on fair value. As a result, GSE CRT accounted for under the fair value option are not bifurcated between the debt host contract and the embedded derivative.

GSE CRT weighted average coupon and weighted average yield excludes coupon interest associated with embedded derivatives not accounted for under the fair value option recorded as realized and unrealized credit derivative income (loss), net.

(10) CMBS includes interest-only securities and commercial real estate mezzanine loan pass-through certificates, which represent 0.9% and 0.7% of the balance based on fair value, respectively.

The following table summarizes the Company's non-Agency RMBS portfolio by asset type based on fair value as of September 30, 2016 and December 31, 2015.

\$ in thousands	September 30, 2016	% of Non-Agency	December 31, 2015	% of Non-Agency
Prime	938,893	44.5 %	1,081,428	40.2 %

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Alt-A	465,127	22.1	%	544,306	20.2	%
Re-REMIC	406,703	19.3	%	663,853	24.7	%
Subprime/reperforming	298,392	14.1	%	402,900	14.9	%
Total Non-Agency	2,109,115	100.0	%	2,692,487	100.0	%

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The following table summarizes the credit enhancement provided to the Company's re-securitization of real estate mortgage investment conduit ("Re-REMIC") holdings as of September 30, 2016 and December 31, 2015.

Re-REMIC Subordination ⁽¹⁾	Percentage of Re-REMIC Holdings at Fair Value			
	September 30, 2016		December 31, 2015	
0% - 10%	15.9	%	11.0	%
10% - 20%	7.3	%	5.6	%
20% - 30%	13.5	%	12.7	%
30% - 40%	16.1	%	20.8	%
40% - 50%	28.5	%	32.8	%
50% - 60%	16.1	%	13.3	%
60% - 70%	2.6	%	3.8	%
Total	100.0	%	100.0	%

Subordination refers to the credit enhancement provided to the Re-REMIC tranche held by the Company by any junior Re-REMIC tranche or tranches in a resecuritization. This figure reflects the percentage of the balance of the underlying securities represented by any junior tranche or tranches at the time of resecuritization. Generally, (1) principal losses on the underlying securities in excess of the subordination amount would result in principal losses on the Re-REMIC tranche held by the Company. 32.6% of the Company's Re-REMIC holdings are not senior tranches.

The components of the carrying value of the Company's MBS and GSE CRT portfolio at September 30, 2016 and December 31, 2015 are presented below.

\$ in thousands	September 30, 2016	December 31, 2015
Principal balance	19,057,309	19,810,113
Unamortized premium	512,631	495,539
Unamortized discount	(3,956,451)	(4,392,155)
Gross unrealized gains	485,503	303,890
Gross unrealized losses	(24,915)	(151,452)
Fair value	16,074,077	16,065,935

The following table summarizes the Company's MBS and GSE CRT portfolio according to estimated weighted average life classifications as of September 30, 2016 and December 31, 2015.

\$ in thousands	September 30, 2016	December 31, 2015
Less than one year	238,817	427,678
Greater than one year and less than five years	10,957,834	6,237,547
Greater than or equal to five years	4,877,426	9,400,710
Total	16,074,077	16,065,935

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The following tables present the estimated fair value and gross unrealized losses of the Company's MBS and GSE CRTs by length of time that such securities have been in a continuous unrealized loss position at September 30, 2016 and December 31, 2015.

September 30, 2016

\$ in thousands	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Agency RMBS:									
15 year fixed-rate	785,124	(2,384)	) 36	69,916	(680)	) 14	855,040	(3,064)	) 50
30 year fixed-rate	36,352	(27)	) 5	891,280	(5,546)	) 37	927,632	(5,573)	) 42
ARM	—	—	—	1,360	(36)	) 1	1,360	(36)	) 1
Hybrid ARM	89,303	(217)	) 7	254	(4)	) 2	89,557	(221)	) 9
Total Agency pass-through	910,779	(2,628)	) 48	962,810	(6,266)	) 54	1,873,589	(8,894)	) 102
Agency-CMO ⁽¹⁾	24,918	(1,255)	) 15	26,085	(759)	) 4	51,003	(2,014)	) 19
Non-Agency RMBS	582,750	(7,881)	) 63	265,241	(3,824)	) 27	847,991	(11,705)	) 90
GSE CRT ⁽²⁾	—	—	—	36,080	(947)	) 3	36,080	(947)	) 3
CMBS ⁽³⁾	68,209	(318)	) 10	61,382	(1,037)	) 6	129,591	(1,355)	) 16
Total	1,586,656	(12,082)	) 136	1,351,598	(12,833)	) 94	2,938,254	(24,915)	) 230

(1) Fair value includes unrealized losses on Agency IO of \$1.7 million and unrealized losses on CMO of \$346,000.

(2) Fair value includes unrealized losses on both the debt host contract and the embedded derivative.

(3) Amounts disclosed includes CMBS with a fair value of \$10.7 million for which the fair value option has been elected. Such securities have unrealized losses of \$36,000.

December 31, 2015

\$ in thousands	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Agency RMBS:									
15 year fixed-rate	600,480	(8,081)	) 33	77,506	(1,482)	) 6	677,986	(9,563)	) 39
30 year fixed-rate	776,065	(14,827)	) 32	1,120,391	(39,497)	) 47	1,896,456	(54,324)	) 79
ARM	200,863	(501)	) 11	—	—	—	200,863	(501)	) 11
Hybrid ARM	1,913,872	(17,082)	) 111	—	—	—	1,913,872	(17,082)	) 111
Total Agency pass-through	3,491,280	(40,491)	) 187	1,197,897	(40,979)	) 53	4,689,177	(81,470)	) 240
Agency-CMO ⁽¹⁾	166,754	(3,296)	) 14	9,118	(6,934)	) 9	175,872	(10,230)	) 23
Non-Agency RMBS	872,575	(7,286)	) 66	316,010	(10,699)	) 20	1,188,585	(17,985)	) 86
GSE CRT ⁽²⁾	340,116	(10,050)	) 16	120,877	(13,605)	) 7	460,993	(23,655)	) 23
CMBS	1,224,985	(17,328)	) 85	31,533	(784)	) 2	1,256,518	(18,112)	) 87
Total	6,095,710	(78,451)	) 368	1,675,435	(73,001)	) 91	7,771,145	(151,452)	) 459

(1) Fair value includes unrealized losses on Agency IO of \$8.3 million and unrealized losses on CMO of \$1.9 million.

Fair value includes unrealized losses on both the debt host contract and the embedded derivative. Amounts

(2) disclosed includes GSE CRT with a fair value of \$12.4 million for which the fair value option has been elected.

Such securities have unrealized losses of \$56,000.

Gross unrealized losses on the Company's Agency RMBS and CMO were \$8.9 million and \$346,000, respectively, at September 30, 2016. Due to the inherent credit quality of Agency RMBS and CMO, the Company determined that at September 30, 2016, any unrealized losses on its Agency RMBS and CMO portfolio are not other than temporary.

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Gross unrealized losses on the Company's Agency IO, non-Agency RMBS, GSE CRT and CMBS were \$15.7 million at September 30, 2016. The Company does not consider these unrealized losses to be credit related, but rather due to non-credit related factors such as interest rate spreads, prepayment speeds, and market fluctuations. These investment securities are included in the Company's assessment for other-than-temporary impairment on a quarterly basis.

The Company assesses its investment securities for other-than-temporary impairment on a quarterly basis. When the fair value of an investment is less than its amortized cost at the balance sheet date of the reporting period for which impairment is assessed, the impairment is designated as either "temporary" or "other-than-temporary." This analysis includes a determination of estimated future cash flows through an evaluation of the characteristics of the underlying loans and the structural features of the investment. Underlying loan characteristics reviewed include, but are not limited to, delinquency status, loan-to-value ratios, borrower credit scores, occupancy status and geographic concentration.

The Company recorded \$1.2 million and \$8.4 million in other-than-temporary impairments ("OTTI") on RMBS interest-only and non-Agency RMBS securities during the three and nine months ended September 30, 2016, respectively. As the Company had previously elected the fair value option for RMBS interest-only securities, the OTTI was recorded as a reclassification from an unrealized to a realized loss within gain (loss) on investments, net on the consolidated statement of operations. The Company did not record any OTTI for the three and nine months ended September 30, 2015. As of September 30, 2016, the Company did not intend to sell the securities and determined that it was not more likely than not that the Company will be required to sell the securities.

The following table presents the changes in OTTI included in earnings for the three and nine months ended September 30, 2016 and 2015.

\$ in thousands	Three Months ended September 30, 2016	Three Months ended September 30, 2015	Nine Months ended September 30, 2016	Nine Months ended September 30, 2015
Cumulative credit loss at beginning of period	7,208	—	—	—
Additions:	—	—	—	—
Other-than-temporary impairments not previously recognized	1,038	—	8,364	—
Increases related to other-than-temporary impairments on securities with previously recognized other-than-temporary impairments	118	—	—	—
Cumulative credit loss at end of period	8,364	—	8,364	—

The following table summarizes the changes in accumulated other comprehensive income (loss) related to the Company's GSE CRT debt host contracts and available-for-sale MBS for the three and nine months ended September 30, 2016 and 2015. The Company reclassifies unrealized gains and losses from other comprehensive income to gain (loss) on investments, net when it sells investments.

The table excludes MBS and GSE CRT that are accounted for under the fair value option.

\$ in thousands	Three Months ended September 30, 2016	Three Months ended September 30, 2015	Nine Months ended September 30, 2016	Nine Months ended September 30, 2015
Accumulated other comprehensive income (loss) from MBS and GSE CRT securities:				
Unrealized gain (loss) on MBS and GSE CRT at beginning of period	404,794	298,251	177,799	376,336
Unrealized gain (loss) on MBS and GSE CRT	32,015	42,933	270,591	(30,611)
Reclassification of unrealized (gain) loss on sale of MBS and GSE CRT to gain (loss) on investments, net	—	389	(11,581)	(4,152)

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Balance at the end of period	436,809	341,573	436,809	341,573
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The following table summarizes the components of the Company's total gain (loss) on investments, net for the three and nine months ended September 30, 2016 and 2015.

\$ in thousands	Three Months ended September 30, 2016	Three Months ended September 30, 2015	Nine Months ended September 30, 2016	Nine Months ended September 30, 2015
Gross realized gain on sale of investments	144	991	14,196	5,498
Gross realized loss on sale of investments	(1,449)	(1,404)	(3,920)	(1,370)
Other-than-temporary impairment losses	(1,156)	—	(8,364)	—
Net unrealized gains and losses on MBS accounted for under the fair value option	(5,412)	(1,554)	2,530	6,891
Net unrealized gains and losses on GSE CRT accounted for under the fair value option	1,181	—	1,418	—
Net unrealized gains and losses on U.S. Treasury securities accounted for as trading securities	(463)	—	—	—
Total gain (loss) on investments, net	(7,155)	(1,967)	5,860	11,019

The following table presents components of interest income recognized on the Company's MBS and GSE CRT portfolio for the three and nine months ended September 30, 2016 and 2015. GSE CRT interest income excludes coupon interest associated with embedded derivatives not accounted for under the fair value option recorded as realized and unrealized credit derivative income (loss), net.

For the three months ended September 30, 2016

\$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency	88,615	(31,773)	56,842
Non-Agency	22,775	3,509	26,284
GSE CRT	2,268	(765)	1,503
CMBS	29,872	(2,788)	27,084
Other	795	(41)	754
Total	144,325	(31,858)	112,467

For the three months ended September 30, 2015

\$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency	93,366	(32,153)	61,213
Non-Agency	26,761	4,452	31,213
GSE CRT	1,663	(782)	881
CMBS	38,350	(3,342)	35,008
Other	(10)	—	(10)
Total	160,130	(31,825)	128,305

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For the nine months ended September 30, 2016

\$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency	258,826	(84,235)	174,591
Non-Agency	72,751	9,645	82,396
GSE CRT	6,601	(2,307)	4,294
CMBS	93,612	(8,567)	85,045
Other	1,305	(58)	1,247
Total	433,095	(85,522)	347,573

For the nine months ended September 30, 2015

\$ in thousands	Coupon Interest	Net (Premium Amortization)/Discount Accretion	Interest Income
Agency	282,132	(93,840)	188,292
Non-Agency	85,854	13,445	99,299
GSE CRT	4,849	(2,312)	2,537
CMBS	113,862	(8,193)	105,669
Other	47	—	47
Total	486,744	(90,900)	395,844

Note 5 – Commercial Loans Held-for-Investment

The following table summarizes commercial loans held-for-investment as of September 30, 2016 and December 31, 2015 that were purchased or originated by the Company.

September 30, 2016

\$ in thousands	Number of loans	Principal Balance	Unamortized (fees)/costs, net	Carrying value	Weighted Average Coupon	Weighted Average Years to Maturity ⁽¹⁾
Mezzanine loans	10	273,686	(395)	273,291	8.07 %	1.86
Total	10	273,686	(395)	273,291	8.07 %	1.86

December 31, 2015

\$ in thousands	Number of loans	Principal Balance	Unamortized (fees)/costs, net	Carrying value	Weighted Average Coupon	Weighted Average Years to Maturity ⁽¹⁾
Mezzanine loans	6	210,769	(1,707)	209,062	7.97 %	1.75
Total	6	210,769	(1,707)	209,062	7.97 %	1.75

Weighted average years to maturity is based on the contractual maturity date. Certain loans may contain either an (1) option to prepay or an option to extend beyond their contractual maturity dates as specified in the respective loan agreements.

These loans were not impaired, and no allowance for loan loss has been recorded as of September 30, 2016 and December 31, 2015.

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Note 6 – Other Assets

The following table summarizes the Company's other assets as of September 30, 2016 and December 31, 2015.

\$ in thousands	September December	
	30, 2016	31, 2015
Reverse repurchase agreement	75,000	—
FHLBI stock	74,250	75,375
Investments in unconsolidated ventures	32,763	38,413
Prepaid expenses	1,501	1,284
Total	183,514	115,072

The Company entered in a short-term reverse repurchase agreement in September 2016 with a fixed rate of 0.90% and received U.S. Treasury securities as collateral under the agreement. The reverse repurchase agreement is treated as a collateralized financing transaction and carried at its contractual amount, including accrued interest. The Company did not sell or repledge the collateral received.

IAS Services LLC, the Company's wholly-owned subsidiary, is required to purchase and hold FHLBI stock as a condition of membership in the Federal Home Loan Bank of Indianapolis ("FHLBI"). The stock is recorded at cost. The Company has invested in unconsolidated ventures that are managed by an affiliate of the Company's Manager. The unconsolidated ventures invest in the Company's target assets. Refer to Note 15 - "Commitments and Contingencies" for additional details regarding the Company's commitments to these unconsolidated ventures.

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Note 7 – Borrowings

The Company has financed the majority of its investment portfolio through repurchase agreements, secured loans and exchangeable senior notes. The following table summarizes certain characteristics of the Company's borrowings at September 30, 2016 and December 31, 2015.

September 30, 2016

\$ in thousands	Amount	Interest	Weighted		MBS and GSE CRTs Pledged as Collateral (1)
			Average	Remaining	
	Outstanding	Rate		Maturity	
				(days)	
Repurchase Agreements:					
Agency RMBS	9,002,003	0.70	%	15	9,495,729
Non-Agency RMBS	1,626,907	1.91	%	34	2,017,629
GSE CRT	434,128	2.11	%	26	588,017
CMBS	997,464	1.70	%	18	1,242,964