Cherry Hill Mortgage Investment Corp
Form 10-Q
May 10, 2016

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 March 31, 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 001-36099

CHERRY HILL MORTGAGE INVESTMENT CORPORATION
(Exact name of registrant as specified in its charter)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	46-1315605 (I.R.S. Employer Identification No.)
301 Harper Drive, Suite 110 Moorestown, New Jersey (Address of Principal Executive Offices)	08057 (Zip Code)

(877) 870 – 7005
(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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filed, 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 May 9, 2016, there were 7,519,038 outstanding shares of common stock, $0.01 par value per share, of Cherry Hill Mortgage Investment Corporation.

CHERRY HILL MORTGAGE INVESTMENT CORPORATION
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FORWARD-LOOKING INFORMATION

Cherry Hill Mortgage Investment Corporation (together with its consolidated subsidiaries, the "Company", "we", "our" or "us") makes forward-looking statements in this Quarterly Report on Form 10-Q within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For these statements, the Company claims the protections of the safe harbor for forward-looking statements contained in such Sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the Company's control. These forward-looking statements include information about possible or assumed future results of the Company's business, financial condition, liquidity, results of operations, plans and objectives. When the Company uses the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "could," "would," "may," "potential" or the negative or other comparable terminology, the Company intends to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- the Company's investment objectives and business strategy;
- the Company's ability to raise capital through the sale of its equity and debt securities;
- the Company's ability to obtain future financing arrangements and refinance existing financing arrangements as they mature;
- the Company's expected leverage;
- the Company's expected investments;
- the Company's ability to execute its prime mortgage loan strategy and its ability to finance this asset class;
- the Company's ability to acquire Servicing Related Assets;
- estimates or statements relating to, and the Company's ability to make, future distributions;
- the Company's ability to compete in the marketplace;
- market, industry and economic trends;
- recent market developments and actions taken and to be taken by the U.S. Government, the U.S. Treasury and the Board of Governors of the Federal Reserve System, Fannie Mae, Freddie Mac, Ginnie Mae and the U.S. Securities and Exchange Commission ("SEC");
- mortgage loan modification programs and future legislative actions;
- the Company's ability to maintain its qualification as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code");
- the Company's ability to maintain its exclusion from registration as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act");
- projected capital and operating expenditures;
- availability of investment opportunities in mortgage-related, real estate-related and other securities;

- availability of qualified personnel;
- prepayment rates; and
- projected default rates.

The Company's beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to it or are within its control. If any such change occurs, the Company's business, financial condition, liquidity and results of operations may vary materially from those expressed in, or implied by, the Company's forward-looking statements. These risks, along with, among others, the following factors, could cause actual results to vary from the Company's forward-looking statements:

- the factors discussed under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q and "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015;

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- general volatility of the capital markets;
- changes in the Company’s investment objectives and business strategy;
- availability, terms and deployment of capital;
- availability of suitable investment opportunities;
- the Company’s dependence on its external manager, Cherry Hill Mortgage Management, LLC (“the Manager”), and the Company’s ability to find a suitable replacement if the Company or the Manager were to terminate the management agreement the Company has entered into with the Manager;
- changes in the Company’s assets, interest rates or the general economy;
- increased rates of default and/or decreased recovery rates on the Company’s investments;
- changes in interest rates, interest rate spreads, the yield curve, prepayment rates or recapture rates;
- limitations on the Company’s business due to compliance with requirements for maintaining its qualification as a REIT under the Code and its exclusion from registration as an investment company under the Investment Company Act; and
- the degree and nature of the Company’s competition, including competition for its targeted assets.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements apply only as of the date of this Quarterly Report on Form 10-Q. The Company is not obligated, and does not intend, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Balance Sheets
March 31, 2016 (Unaudited) and December 31, 2015
(in thousands — except share data)

	March 31, 2016	December 31, 2015
Assets		
RMBS, available-for-sale	$508,159	$508,242
Investments in Servicing Related Assets at fair value	92,604	97,803
Cash and cash equivalents	10,649	10,603
Restricted cash	12,906	9,942
Derivative assets	73	422
Receivables and other assets	10,801	9,328
Total Assets	$635,192	$636,340
Liabilities and Stockholders' Equity		
Liabilities		
Repurchase agreements	$398,374	$385,560
Federal Home Loan Bank advances	47,250	62,250
Derivative liabilities	9,447	4,595
Notes payable	23,836	24,313
Dividends payable	3,684	3,684
Due to affiliates	1,049	998
Accrued expenses and other liabilities	2,595	2,603
Total Liabilities	$486,235	$484,003
Stockholders' Equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized, none issued and outstanding as of March 31, 2016 and December 31, 2015	$-	$-
Common stock, $0.01 par value, 500,000,000 shares authorized, 7,519,038 shares issued and outstanding as of March 31, 2016 and December 31, 2015	75	75
Additional paid-in capital	148,370	148,332
Retained earnings (deficit)	(7,614)	3,133
Accumulated other comprehensive income (loss)	7,135	(197)
Total CHMI Stockholders' Equity	$147,966	$151,343
Non-controlling interests in operating partnership	991	994
Total Stockholders' Equity	$148,957	$152,337
Total Liabilities and Stockholders' Equity	$635,192	$636,340

See accompanying notes to consolidated financial statements.

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Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Income (Loss)
(Unaudited)
(in thousands — except per share data)

	Three Months Ended March 31, 2016	2015
Income		
Interest income	$5,188	$5,827
Interest expense	1,657	1,235
Net interest income	3,531	4,592
Servicing fee income	1,495	-
Servicing costs	402	-
Net servicing income (loss)	1,093	-
Other income (loss)		
Realized gain (loss) on RMBS, net	320	307
Realized gain (loss) on derivatives, net	(1,461)	(1,242)
Unrealized gain (loss) on derivatives, net	(5,198)	(2,542)
Unrealized gain (loss) on investments in Excess MSRs	(2,307)	(2,117)
Unrealized gain (loss) on investments in MSRs	(2,232)	-
Total Income (Loss)	(6,254)	(1,002)
Expenses		
General and administrative expense	808	742
Management fee to affiliate	690	690
Total Expenses	1,498	1,432
Income (Loss) Before Income Taxes	(7,752)	(2,434)
Provision for corporate business taxes	(590)	-
Net Income (Loss)	(7,162)	(2,434)
Net (Income) loss allocated to noncontrolling interests	99	22
Net Income (Loss) Applicable to Common Stockholders	$(7,063)	$(2,412)
Net income (Loss) Per Share of Common Stock		
Basic	$(0.94)	$(0.32)
Diluted	$(0.94)	$(0.32)
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	7,509,543	7,509,543
Diluted	7,519,038	7,509,543

See accompanying notes to consolidated financial statements.

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Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2016	2015
Net income (loss)	$(7,162)	$(2,434)
Other comprehensive income (loss):		
Net unrealized gain (loss) on RMBS	7,652	2,791
Reclassification of net realized (gain) loss on RMBS in earnings	(320)	(307)
Other comprehensive income (loss)	7,332	2,484
Comprehensive income (loss)	$170	$50
Comprehensive income (loss) attributable to noncontrolling interests	2	0 (A)
Comprehensive income (loss) attributable to common stockholders	$168	$50

(A) de minimis ($458.00 rounds to $0.00).

See accompanying notes to consolidated financial statements.

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Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the three month periods ended March 31, 2016 and 2015
(Unaudited)
(in thousands — except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Non-Controlling Interest in Operating Partnership	Total Stockholders' Equity
Balance, December 31, 2014	7,509,543	$ 75	$ 148,258	$ 6,641	$ 4,799	$ 545	$ 160,318
Issuance of common stock	-	-	-	-	-	-	-
Net Income (Loss)	-	-	-	-	(2,412)	(22)	(2,434)
Other Comprehensive Income	-	-	-	2,484	-	-	2,484
LTIP-OP Unit awards	-	-	-	-	-	102	102
Distribution paid on LTIP-OP Units, $0.51 per share	-	-	-	-	-	(35)	(35)
Common dividends declared	-	-	-	-	(3,830)	-	(3,830)
Balance, March 31, 2015	7,509,543	$ 75	$ 148,258	$ 9,125	$ (1,443)	$ 590	$ 156,605
Balance, December 31, 2015	7,519,038	$ 75	$ 148,332	$ (197)	$ 3,133	$ 994	$ 152,337
Issuance of common stock	-	-	38	-	-	-	38
Net Income (Loss)	-	-	-	-	(7,063)	(99)	(7,162)
Other Comprehensive Income	-	-	-	7,332	-	-	7,332
LTIP-OP Unit awards	-	-	-	-	-	147	147
Distribution paid on LTIP-OP Units	-	-	-	-	-	(51)	(51)
Common dividends declared, $0.49 per share	-	-	-	-	(3,684)	-	(3,684)
Balance, March 31, 2016	7,519,038	$ 75	$ 148,370	$ 7,135	$ (7,614)	$ 991	$ 148,957

See accompanying notes to consolidated financial statements.

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Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Three Months Ended March 31, 2016	2015
Cash Flows From Operating Activities		
Net income (loss)	$(7,162)	$(2,434)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Realized (gain) loss on RMBS, net	(320)	(307)
Accretion of premium and other amortization	853	677
Change in fair value of investments in Servicing Related Assets	4,539	2,117
Unrealized (gain) loss on derivatives, net	5,198	2,542
Realized (gain) loss on derivatives, net	1,461	1,242
LTIP-OP Unit awards	147	102
Changes in:		
Receivables from unsettled trades	-	309
Receivables and other assets	(1,474)	21
Due to affiliate	51	(20)
Accrued expenses and other liabilities	(8)	(195)
Net cash provided by (used in) operating activities	$3,285	$4,054
Cash Flows From Investing Activities		
Purchase of RMBS	(27,340)	(72,544)
Principal paydown of RMBS	10,755	8,906
Proceeds from sale of RMBS	23,467	52,142
Acquisition of Excess MSRs	-	-
Principal paydown of Excess MSRs	4,912	4,644
Acquisition of MSRs	(4,252)	-
Purchase of derivatives	(1,458)	(528)
Net cash provided by (used in) investing activities	$6,084	$(7,380)
Cash Flows From Financing Activities		
Changes in restricted cash	(2,964)	(3,326)
Borrowings under repurchase agreements	436,447	356,317
Repayments of repurchase agreements	(423,633)	(344,575)
Proceeds from Federal Home Loan Bank advances	7,000	-
Repayments of Federal Home Loan Bank advances	(22,000)	-
Principal paydown of bank loans	(476)	-
Dividends paid	(3,684)	(3,830)
LTIP-OP Units distributions paid	(51)	(35)
Issuance of common stock, net of offering costs	38	-
Net cash provided by (used in) financing activities	$(9,323)	$4,551
Net Increase (Decrease) in Cash and Cash Equivalents	$46	$1,225
Cash and Cash Equivalents, Beginning of Period	10,603	12,447
Cash and Cash Equivalents, End of Period	$10,649	$13,672
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest expense	$1,494	$517
Dividends declared but not paid	$3,684	$3,830

See accompanying notes to consolidated financial statements.

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Cherry Hill Mortgage Investment Corporation and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2016

(Unaudited)

Note 1 — Organization and Operations

Cherry Hill Mortgage Investment Corporation (together with its consolidated subsidiaries, the “Company”) was organized in the state of Maryland on October 31, 2012 to invest in residential mortgage assets in the United States.

The accompanying interim consolidated financial statements include the accounts of the Company’s subsidiaries, Cherry Hill Operating Partnership LP, Cherry Hill QRS I, LLC, Cherry Hill QRS II, Cherry Hill QRS III, LLC, CHMI Insurance Company, LLC (“CHMI Insurance”), CHMI Solutions, Inc. (“CHMI Solutions”) and Aurora Financial Group, Inc. (“Aurora”).

On October 9, 2013, the Company completed an initial public offering (the “IPO”) and a concurrent private placement of its common stock. The Company did not conduct any activity prior to the IPO and the concurrent private placement. Substantially all of the net proceeds from the IPO and the concurrent private placement were used to invest in excess mortgage servicing rights on residential mortgage loans (“Excess MSRs”) and residential mortgage-backed securities (“RMBS” or “securities”), the payment of principal and interest on which is guaranteed by a U.S. government agency or a U.S. government sponsored enterprise (“Agency RMBS”).

The Company is party to a management agreement (the “Management Agreement”) with Cherry Hill Mortgage Management, LLC (the “Manager”), a Delaware limited liability company and an affiliate of Freedom Mortgage Corporation (“Freedom Mortgage”). The Manager and Freedom Mortgage are controlled by Mr. Middleman. For a further discussion of the Management Agreement, see Note 7.

The Company has elected to be taxed as a REIT, as defined under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its short taxable year ended December 31, 2013. As long as the Company continues to comply with a number of requirements under federal tax law and maintains its qualification as a REIT, the Company generally will not be subject to U.S. federal income taxes to the extent that the Company distributes its taxable income to its stockholders on an annual basis and does not engage in prohibited transactions. However, certain activities that the Company may perform may cause it to earn income that will not be qualifying income for REIT purposes.

Note 2 — Basis of Presentation and Significant Accounting Policies

Basis of Accounting

The accompanying interim consolidated financial statements 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 interim consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. All significant intercompany transactions and balances have been eliminated. The Company consolidates those entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity. The interim consolidated financial statements reflect all necessary and recurring adjustments for fair presentation of the results for the interim periods presented herein.

Emerging Growth Company Status

On April 5, 2012, the Jumpstart Our Business Startups Act (the “JOBS Act”) was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. Because the Company qualifies as an “emerging growth company,” it may, under Section 7(a)(2)(B) of the Securities Act of 1933, delay adoption of new or revised accounting standards applicable to public companies until such standards would otherwise apply to private companies. The Company has elected to take advantage of this extended transition period until the first to occur of the date that it (i) is no longer an “emerging growth company” or (ii) affirmatively and irrevocably opts out of this extended transition period. As a result, the consolidated financial statements may not be comparable to those of other public companies that comply with such new or revised accounting standards. Until the date that the Company is no longer an “emerging growth company” or affirmatively and irrevocably opts out of the extended transition period, upon issuance of a new or revised accounting standard that applies to the consolidated financial statements and that has a different effective date for public and private companies, the Company will disclose the date on which adoption is required for non-emerging growth companies and the date on which it will adopt the recently issued accounting standard.

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Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make a number of significant estimates and assumptions. These include estimates of fair value of Excess MSRs and MSRs (collectively, "Servicing Related Assets"), RMBS, derivatives and credit losses including the period of time during which the Company anticipates an increase in the fair values of securities sufficient to recover unrealized losses on those securities, and other estimates that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities as of the date of the interim consolidated financial statements and the reported amounts of certain revenues and expenses during the reporting period. It is likely that changes in these estimates (e.g., valuation changes due to supply and demand, credit performance, prepayments, interest rates, or other reasons) will occur in the near term. The Company's estimates are inherently subjective in nature. Actual results could differ from the Company's estimates and differences may be material.

Risks and Uncertainties

In the normal course of business, the Company encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on the Company's investments in RMBS, Servicing Related Assets and derivatives that results from a borrower's or derivative counterparty's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of investments in RMBS, Servicing Related Assets and derivatives due to changes in interest rates, spreads or other market factors. The Company is subject to the risks involved with real estate and real estate-related debt instruments. These include, among others, the risks normally associated with changes in the general economic climate, changes in the mortgage market, changes in tax laws, interest rate levels, and the availability of financing.

The Company also is subject to significant tax risks. If the Company were to fail to qualify as a REIT in any taxable year, the Company would be subject to U.S. federal income tax (including any applicable alternative minimum tax), which could be material. Unless entitled to relief under certain statutory provisions, the Company would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost.

Investments in RMBS

Classification – The Company classifies its investments in RMBS as securities available for sale. Although the Company generally intends to hold most of its securities until maturity, it may, from time to time, sell any of its securities as part of its overall management of its portfolio. Securities available for sale are carried at fair value with the net unrealized gains or losses reported as a separate component of accumulated other comprehensive income, to the extent impairment losses, if any, are considered temporary. Unrealized losses on securities are charged to earnings if they reflect a decline in value that is other-than-temporary, as described below.

Fair value is determined under the guidance of ASC 820, Fair Value Measurements and Disclosures. The Company determines fair value of its RMBS investments based upon prices obtained from third-party pricing providers. The third-party pricing providers use pricing models that generally incorporate such factors as coupons, primary and secondary mortgage rates, rate reset period, issuer, prepayment speeds, credit enhancements and expected life of the security. In determining the fair value of RMBS, management's judgment is used to arrive at fair value that considers prices obtained from third-party pricing providers and other applicable market data. The Company's application of ASC 820 guidance is discussed in further detail in Note 9.

Investment securities transactions are recorded on the trade date. At disposition, the net realized gain or loss is determined on the basis of the cost of the specific investment and is included in earnings. All RMBS sold in the three month periods ended March 31, 2016 and in the year ended December 31, 2015, were settled prior to their respective period ends.

Revenue Recognition – Interest income from coupon payments is accrued based on the outstanding principal amount of the RMBS and their contractual terms. Premiums and discounts associated with the purchase of the RMBS are accreted into interest income over the projected lives of the securities using the interest method. The Company's policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, consensus on prepayment speeds, and current market conditions. Adjustments are made for actual prepayment activity. Approximately $1.5 million and $1.5 million in interest income was receivable at March 31, 2016 and December 31, 2015, respectively, and has been classified within "Receivables and other assets" on the consolidated balance sheets.

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Impairment – The Company evaluates its RMBS, on a quarterly basis, to assess whether a decline in the fair value below the amortized cost basis is an other-than-temporary impairment (“OTTI”). The presence of OTTI is based upon a fair value decline below a security’s amortized cost basis and a corresponding adverse change in expected cash flows due to credit related factors as well as non-credit factors, such as changes in interest rates and market spreads. Impairment is considered other-than-temporary if an entity (i) intends to sell the security, (ii) will more likely than not be required to sell the security before it recovers in value, or (iii) does not expect to recover the security’s amortized cost basis, even if the entity does not intend to sell the security. Under these scenarios, the impairment is other-than-temporary and the full amount of impairment should be recognized currently in earnings and the cost basis of the security is adjusted. However, if an entity does not intend to sell the impaired security and it is more likely than not that it will not be required to sell before recovery, the OTTI should be separated into (i) the estimated amount relating to credit loss, or the credit component, and (ii) the amount relating to all other factors, or the non-credit component. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss recognized in other comprehensive income. The difference between the new amortized cost basis and the cash flows expected to be collected is accreted into interest income in accordance with the effective interest method.

Investments in Excess MSRs

Classification – The Company has elected the fair value option to record its investments in Excess MSRs in order to provide users of the consolidated financial statements with better information regarding the effects of prepayment risk and other market factors on the Excess MSRs. Under this election, the Company records a valuation adjustment on its investments in Excess MSRs on a quarterly basis to recognize the changes in fair value in net income as described below. In determining the valuation of Excess MSRs, management uses internally developed models that are primarily based on observable market-based inputs but which also include unobservable market data inputs (see Note 9).

Revenue Recognition – Excess MSRs are aggregated into pools as applicable. Each pool of Excess MSRs is accounted for in the aggregate. Interest income for each pool of Excess MSRs is accreted into interest income on an effective yield or “interest” method, based upon the expected excess mortgage servicing amount over the expected life of the underlying mortgages. A change to expected cash flows results in a cumulative retrospective adjustment, which is recorded in the period in which the change in occurs. Under the retrospective method, the interest income recognized for a reporting period is measured as the difference between the amortized cost basis at the end of the period and the amortized cost basis at the beginning of the period, plus any cash received during the period. The amortized cost basis is calculated as the present value of estimated future cash flows using an effective yield, which is the yield that equates all past actual and current estimated future cash flows to the initial investment. The difference between the fair value of Excess MSRs and their amortized cost basis is recorded on the income statement as “Unrealized gain (loss) on investments in Excess MSRs.” Fair value is generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the Excess MSRs and, therefore, may differ from their effective yields. Approximately \$2.1 million and \$2.2 million in Excess MSR cashflow was receivable at March 31, 2016 and December 31, 2015, respectively, and has been classified within “Receivables and other assets” on the consolidated balance sheets.

Investments in MSRs

Classification – The Company has elected the fair value option to record its investments in MSRs in order to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors on the MSRs. Under this election, the Company records a valuation adjustment on its investments in MSRs on a quarterly basis to recognize the changes in fair value in net income as described below. The Company’s MSRs represent the right to service mortgage loans. As an owner and manager of MSRs, the Company may be obligated to fund advances of principal and interest payments due to third-party owners of the loans, but not yet received from the individual borrowers. These advances are reported as servicing advances within the “Receivables and other assets” line item on the consolidated balance sheets. MSRs are reported at fair value on the consolidated balance sheets. Although transactions in MSRs are observable in the marketplace, the valuation includes unobservable market data inputs (prepayment speeds, delinquency levels, costs to service and discount rates). Changes in the fair value of MSRs as well as servicing fee income and servicing costs are reported on the consolidated statements of income. In determining the valuation of MSRs, management uses internally developed models that are primarily based on observable market-based inputs but which also include unobservable market data inputs (see Note 9).

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Revenue Recognition – Mortgage servicing fee income represents revenue earned for servicing mortgage loans. The servicing fees are based on a contractual percentage of the outstanding principal balance and recognized as revenue as the related mortgage payments are collected. Corresponding costs to service are charged to expense as incurred. Approximately $612,000 in reimbursable servicing advances was receivable at March 31, 2016, and has been classified within “Receivables and other assets” on the consolidated balance sheets. For further discussion on Receivables and other assets, see Note 14.

Servicing fee income received and servicing costs incurred are reported on the consolidated statements of comprehensive income. The difference between the fair value of MSRs and their amortized cost basis is recorded on the income statement as “Unrealized gain (loss) on investments in MSRs.” Fair value is generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the MSRs and, therefore, may differ from their effective yields.

Derivatives and Hedging Activities

Derivative transactions include swaps, swaptions, Treasury futures and “to-be-announced” securities (“TBAs”). Swaps and swaptions are entered into by the Company solely for interest rate risk management purposes. TBAs and treasury futures are used for duration risk and basis risk management purposes. The decision of whether or not a given transaction/position (or portion thereof) is economically hedged is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including restrictions imposed by the Code on REITs. In determining whether to economically hedge a risk, the Company may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as economic hedges are entered into with a view towards minimizing the potential for economic losses that could be incurred by the Company. Generally, derivatives entered into are not intended to qualify as hedges under GAAP, unless specifically stated otherwise.

The Company’s derivative financial instruments contain credit risk to the extent that its bank counterparties may be unable to meet the terms of the agreements. The Company reduces such risk by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. Finally, the Company’s interest rate swaps are required to be cleared on an exchange, which further mitigates, but does not eliminate, credit risk. Management does not expect any material losses as a result of default by other parties.

Classification – All derivatives are recognized as either assets or liabilities on the consolidated balance sheets and measured at fair value. Due to the nature of these instruments, they may be in a receivable/asset position or a payable/liability position at the end of an accounting period. Derivative amounts payable to, and receivable from, the same party under a contract may be offset as long as the following conditions are met: (i) each of the two parties owes the other determinable amounts; (ii) the reporting party has the right to offset the amount owed with the amount owed by the other party; (iii) the reporting party intends to offset; and (iv) the right to offset is enforceable by law. The Company reports the fair value of derivative instruments gross of cash paid or received pursuant to credit support agreements, and fair value may be reflected on a net counterparty basis when the Company believes a legal right of offset exists under an enforceable master netting agreement. For further discussion on offsetting assets and liabilities, see Note 8.

Revenue Recognition – With respect to derivatives that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such derivatives have been recognized currently in “Realized and unrealized gains (losses) on derivatives, net” in the consolidated statements of income. These derivatives may, to some extent, be economically effective as hedges.

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid short-term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits. Restricted cash represents the Company's cash held by counterparties as collateral against the Company's derivatives (approximately $9.7 million and $4.6 million at March 31, 2016 and December 31, 2015, respectively), borrowings under its repurchase agreements (approximately $2.1 million and $4.2 million at March 31, 2016 and December 31, 2015, respectively) as well as cash held that relates to the $23.8 million and $ 24.3 million of borrowings on a term loan ("Term Loan") (approximately $1.1 million at March 31, 2016 and December 31, 2015, respectively). For further information on the restricted cash as it relates to the Term Loan, see Note 13.

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Due to Affiliate

This represents amounts due to the Manager pursuant to the Management Agreement. For further information on the Management Agreement, see Note 7.

Income Taxes

The Company has elected to be taxed as a REIT under the Code commencing with its short taxable year ended December 31, 2013. As long as the Company qualifies as a REIT, the Company generally will not be subject to U.S. federal income taxes on its taxable income to the extent it annually distributes at least 90% of its REIT taxable income to stockholders and does not engage in prohibited transactions. The Company's taxable REIT subsidiaries ("TRSs"), Solutions and Aurora, are subject to U.S. federal income taxes on their taxable income.

The Company accounts for income taxes in accordance with ASC 740, Income Taxes. ASC 740 requires the recording of deferred income taxes that reflect the net tax effect of temporary differences between the carrying amounts of the Company's assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, including operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date. The Company assesses its tax positions for all open tax years and determines if it has any material unrecognized liabilities in accordance with ASC 740. The Company records these liabilities to the extent it deems them more-likely-than-not to be incurred. The Company records interest and penalties related to income taxes within the provision for income taxes in the consolidated statements of income (loss). The Company has not incurred any interest or penalties.

Realized Gain (Loss) on RMBS and Derivatives, Net

The following table presents gains and losses on sales of RMBS and derivatives for the periods indicated (dollars in thousands):

	Three Months Ended March 31,	
	2016	2015
Realized gain (loss) on RMBS, net		
Gain on RMBS	$320	$307
Loss on RMBS	-	-
Net realized gain (loss) on RMBS	320	307
Realized gain (loss) on derivatives, net	(1,461)	(1,242)
Unrealized gain (loss) on derivatives, net	(5,198)	(2,542)
Total	$(6,339)	$(3,477)

The gain and loss on RMBS presented above represent the amounts reclassified from other comprehensive income (loss) in earnings.

Repurchase Agreements and Interest Expense

The Company finances its investments in RMBS with short-term borrowings under uncommitted master repurchase agreements. The repurchase agreements are generally short-term debt, which expire within one year. Borrowings under repurchase agreements generally bear interest rates of a specified margin over one-month LIBOR. The repurchase agreements are treated as collateralized financing transactions and are carried at their contractual amounts, as specified in the respective agreements. Interest is recorded at the contractual amount on an accrual basis.

Federal Home Loan Bank of Indianapolis Advances

Advances from the Federal Home Loan Bank of Indianapolis (“FHLBI”) are secured by the pledge of Agency RMBS, have varying amortization structures and maturities and bear interest at rates set by FHLBI based on market conditions and a number of criteria, including the size of the transaction and the FHLBI’s cost of funds. Advances are treated as collateralized financing transactions and are carried at their contractual amounts. Interest is recorded at the contractual amount on an accrual basis.

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Dividends Payable

Because the Company is organized and operated so as to qualify as a REIT under the Code, it is required by law to distribute annually at least 90% of its REIT taxable income, which it does in the form of quarterly dividend payments. The Company accrues the dividend payable on the accounting date, which causes an offsetting reduction in retained earnings.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period resulting from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. For the Company’s purposes, comprehensive income represents net income, as presented in the consolidated statements of income, adjusted for unrealized gains or losses on RMBS, which are designated as available for sale.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. Under the acquisition method the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the consolidated statement of income (loss) from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred. We applied this guidance to the Aurora acquisition.

Recent Accounting Pronouncements

Business Combinations – In September 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which amends ASC 805, Business Combinations. ASU 2015-16 requires that an acquirer recognize adjustments to previously identified provisional amounts in the reporting period in which the adjustment amounts are determined. ASU 2015-16 requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Adoption of ASU 2015-16 did not have a material impact on the consolidated statement of income (loss) or earnings per share.

Revenue Recognition – In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in ASC 606, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years and interim periods beginning after December 15, 2017. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in ASU 2014-09. Management is currently evaluating the impact ASU 2014-09 may have on its consolidated financial statements.

Transfers and Servicing – In June 2014, the FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, which amends ASC 860, Transfers and Servicing. ASU 2014-11, which affects all entities that enter into repurchase-to-maturity transactions or repurchase financings, requires two accounting changes. First, ASU 2014-11 changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, ASU 2014-11 requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. ASU 2014-11 also requires disclosures for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For those transactions outstanding at the reporting date, the transferor is required to disclose additional information by type of transaction. ASU 2014-11 also requires certain disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The accounting changes in ASU 2014-11 are effective for public business entities for the first interim or annual period beginning after December 15, 2014. For public business entities, the disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015, with early adoption prohibited. Adoption of ASU 2014-11 did not have a material impact on the consolidated balance sheet, statement of income (loss), or earnings per share.

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Stock Compensation – In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved After the Requisite Service Period, which amends ASC 718, Compensation – Stock Compensation. ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. Adoption of ASU 2014-12 did not have a material impact on the consolidated balance sheet, statement of income (loss), or earnings per share.

Going Concern – In August 2014, the FASB issued ASU 2014-15, Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern, which amends ASC Subtopic 205-40, Presentation of Financial Statements – Going Concern. ASU 2014-15 provides guidance in GAAP about management's responsibility to evaluate whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures of the relevant facts and circumstances. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter, with early adoption permitted. Management does not expect the adoption of ASU 2014-15 to have an impact on its consolidated financial statements.

Changes in Presentation

Certain prior period amounts have been reclassified to conform to current period presentation.

Note 3 — Segment Reporting

The Company conducts its business through the following segments: (i) investments in RMBS; (ii) investments in Servicing Related Assets; and (iii) "All Other" which consists primarily of general and administrative expenses, including fees to the directors and management fees pursuant to the Management Agreement (See Note 7). For segment reporting purposes, the Company does not allocate interest income on short-term investments or general and administrative expenses.

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Summary financial data on the Company's segments is given below, together with a reconciliation to the same data for the Company as a whole (dollars in thousands):

	Servicing Related Assets	RMBS	All Other	Total
Three Months Ended March 31, 2016				
Interest income	$ 1,444	$3,744	$ -	$5,188
Interest expense	340	1,317	-	1,657
Net interest income	1,104	2,427	-	3,531
Servicing fee income	1,495	-	-	1,495
Servicing costs	402	-	-	402
Net servicing income	1,093	-	-	1,093
Other income	(4,539)	(6,339)	-	(10,878)
Other operating expenses	-	-	1,498	1,498
Provision for corporate business taxes	-	-	(590)	(590)
Net income (loss)	$ (2,342)	$(3,912)	$ (908)	$(7,162)
Three Months Ended March 31, 2015				
Interest income	$ 2,575	$3,252	$ -	$5,827
Interest expense	-	1,235	-	1,235
Net interest income	2,575	2,017	-	4,592
Servicing fee income	-	-	-	-
Servicing costs	-	-	-	-
Net servicing income	-	-	-	-
Other income	(2,117)	(3,477)	-	(5,594)
Other operating expenses	-	-	1,432	1,432
Provision for corporate business taxes	-	-	-	-
Net income (loss)	$ 458	$(1,460)	$ (1,432)	$(2,434)
Balance Sheet				
March 31, 2016				
Investments	$ 92,604	$508,159	$ -	$600,763
Other assets	3,665	17,718	13,046	34,429
Total assets	96,269	525,877	13,046	635,192
Debt	23,836	445,624	-	469,460
Other liabilities	2,007	9,734	5,034	16,775
Total liabilities	25,843	455,358	5,034	486,235
GAAP book value	$ 70,426	$70,519	$ 8,012	$148,957
December 31, 2015				
Investments	$ 97,803	$508,242	$ -	$606,045
Other assets	3,562	13,984	12,749	30,295
Total assets	101,365	522,226	12,749	636,340
Debt	24,313	447,810	-	472,123
Other liabilities	1,883	4,903	5,094	11,880
Total liabilities	26,196	452,713	5,094	484,003
GAAP book value	$ 75,169	$69,513	$ 7,655	$152,337

Note 4 — Investments in RMBS

All of the Company's RMBS are classified as available for sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income except for securities that are OTTI. There were no OTTI securities as of March 31, 2016 and December 31, 2015 (dollars in thousands):

Summary of RMBS Assets

As of March 31, 2016

Asset Type	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Weighted Average Rating	Weighted Average Coupon	Weighted Average Yield(C)	Maturity (Years)(D)
RMBS										
Fannie Mae	$342,288	$315,200	$4,888	$(64)	$320,024	46	(B)	3.77 %	3.59 %	23
Freddie Mac	190,523	178,119	2,620	-	180,739	23	(B)	3.62 %	3.35 %	25
CMOs	17,896	7,706	6	(316)	7,396	5	Unrated	4.35 %	6.96 %	10
Total/Weighted Average	$550,707	$501,025	$7,514	$(380)	$508,159	74		3.72 %	3.56 %	24

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As of December 31, 2015

Asset Type	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Weighted Average Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)(D)
RMBS										
Fannie Mae	$329,767	$308,367	$1,961	$(1,556)	$308,772	44	(B)	3.77 %	3.59 %	24
Freddie Mac	208,154	193,567	821	(977)	193,411	24	(B)	3.61 %	3.48 %	24
CMOs	16,646	6,493	-	(434)	6,059	4	Unrated	4.55 %	7.39 %	10
Total/Weighted Average	$554,567	$508,427	$2,782	$(2,967)	$508,242	72		3.72 %	3.60 %	23

(A) See Note 9 regarding the estimation of fair value, which approximates carrying value for all securities.

(B) The Company used an implied AAA rating for the Fannie Mae and Freddie Mac securities.

(C) The weighted average yield is based on the most recent annualized monthly interest income, divided by the Book Value. Prior period amounts have been reclassified to conform to current period presentation.

(D) The weighted average stated maturity.

Summary of RMBS Assets by Maturity

As of March 31, 2016

Asset Type	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Weighted Average Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)(D)
Less than 1 Year	$-	$-	$-	$-	$-	-		-	-	-
1-5 Years	-	-	-	-	-	-		-	-	-
5-10 Years	5,500	5,553	-	(159)	5,394	3	(B)	4.77 %	4.57 %	9
Over 10 Years	545,207	495,472	7,514	(221)	502,765	71	(B)	3.71 %	3.55 %	24
Total/Weighted Average	$550,707	$501,025	$7,514	$(380)	$508,159	74		3.72 %	3.56 %	24

As of December 31, 2015

Asset Type	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Weighted Average Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)(D)
Less than 1 Year	$-	$-	$-	$-	$-	-		-	-	-
1-5 Years	-	-	-	-	-	-		-	-	-
5-10 Years	5,500	5,553	-	(216)	5,337	3	(B)	4.76 %	4.96 %	9
Over 10 Years	549,067	502,874	2,782	(2,751)	502,905	69	(B)	3.71 %	3.59 %	24
Total/Weighted Average	$554,567	$508,427	$2,782	$(2,967)	$508,242	72		3.72 %	3.60 %	23

(A) See Note 9 regarding the estimation of fair value, which approximates carrying value for all securities.
(B) The Company used an implied AAA rating for the Fannie Mae and Freddie Mac securities.
(C) The weighted average yield is based on the most recent annualized monthly interest income, divided by the Book Value. Prior period amounts have been reclassified to conform to current period presentation.
(D) The weighted average stated maturity.

At March 31, 2016 and December 31, 2015, the Company pledged Agency RMBS investments with a carrying value of approximately $416.1 million and $399.8 million, respectively, as collateral for repurchase agreements. At March 31, 2016, and December 31, 2015, the Company pledged Agency RMBS investments with a carrying value of approximately $51.8 million and $83.2 million, respectively, as collateral for FHLBI advances. At March 31, 2016 and December 31, 2015, the Company did not have any securities purchased from and financed with the same counterparty that did not meet the conditions of ASC 860, Transfers and Servicing, to be considered linked transactions and, therefore, classified as derivatives.

Unrealized losses that are considered other-than-temporary are recognized currently in earnings. During the three month periods ended March 31, 2016 and 2015, the Company did not record any OTTI charges. Based on management's analysis of these securities, the performance of the underlying loans and changes in market factors, management determined that unrealized losses as of the balance sheet date on the Company's securities were primarily the result of changes in market factors, rather than issuer-specific credit impairment. The Company performed analyses in relation to such securities, using management's best estimate of their cash flows, which support its belief that the carrying values of such securities were fully recoverable over their expected holding period. Such market factors include changes in market interest rates and credit spreads, or certain macroeconomic events, which did not directly impact the Company's ability to collect amounts contractually due. Management continually evaluates the credit status of each of the Company's securities and the collateral supporting those securities. This evaluation includes a review of the credit of the issuer of the security (if applicable), the credit rating of the security (if applicable), the key terms of the security (including credit support), debt service coverage and loan to value ratios, the performance of the pool of underlying loans and the estimated value of the collateral supporting such loans, including the effect of local, industry and broader economic trends and factors. In connection with the above, the Company weighs the fact that all of its investments in Agency RMBS are guaranteed by U.S. government agencies or U.S. government sponsored entities.

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These factors include underlying loan default expectations and loss severities, which are analyzed in connection with a particular security's credit support, as well as prepayment rates. The result of this evaluation is considered when determining management's estimate of cash flows and in relation to the amount of the unrealized loss and the period elapsed since it was incurred. Significant judgment is required in this analysis. The following tables summarize the Company's securities in an unrealized loss position as of the dates indicated (dollars in thousands):

RMBS Unrealized Loss Positions

As of March 31, 2016

Asset Type	**Original** Face Value	Book Value	Gross Unrealized Losses	Carrying Value(A)	**Number** of Securities	Weighted Average Rating	Coupon	Yield(C)	Maturity (Years)(D)
Less than Twelve Months	$33,101	$34,495	$ (187)	$34,308	7	(B)	3.94 %	3.72 %	20
Twelve or More Months	28,577	17,577	(193)	17,384	4	(B)	3.15 %	4.15 %	15
Total/Weighted Average	$61,678	$52,072	$ (380)	$51,692	11		3.68 %	3.86 %	19

As of December 31, 2015

Asset Type	Original Face Value	Book Value	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Weighted Average Rating	Coupon	Yield(C)	Maturity (Years)(D)
Less than Twelve Months	$271,585	$274,996	$ (2,749)	$272,247	39	(B)	3.65 %	3.48 %	24
Twelve or More Months	11,146	940	(218)	722	1	(B)	3.00 %	25.37 %	17
Total/Weighted Average	$282,731	$275,936	$ (2,967)	$272,969	40		3.65 %	3.55 %	24

(A) See Note 9 regarding the estimation of fair value, which is equal to carrying value for all securities.

(B) The Company used an implied AAA rating for the Fannie Mae and Freddie Mac securities, other than CMOs, which are unrated.

(C) The weighted average yield is based on the most recent annualized monthly interest income, divided by the Book Value. Prior period amounts have been reclassified to conform to current period presentation.

(D) The weighted average stated maturity. The Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases which may be maturity.

Note 5 — Investments in Servicing Related Assets

Excess MSRs

In October 2013, the Company entered into an agreement ("MSR Agreement 1") with Freedom Mortgage Corporation ("Freedom Mortgage") to invest in Excess MSRs with Freedom Mortgage. Freedom Mortgage originated the mortgage servicing rights on the related pool of residential fixed rate Ginnie Mae-eligible FHA and VA mortgage loans with an aggregate unpaid principal balance ("UPB") of approximately $10.0 billion ("MSR Pool 1"). Freedom Mortgage is entitled to receive an initial weighted average total mortgage servicing amount of approximately 28 basis points ("bps") on the performing UPB, as well as any ancillary income from MSR Pool 1. Pursuant to MSR Agreement 1, Freedom Mortgage performs all servicing functions and advancing functions related to MSR Pool 1 for a basic fee (the amount representing reasonable compensation for performing the servicing duties) of 8 bps. The remainder, or "excess mortgage servicing amount," is initially equal to a weighted average of 20 bps.

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The Company acquired the right to receive 85% of the excess mortgage servicing amount on MSR Pool 1 and, subject to certain limitations and pursuant to a recapture agreement (the “MSR Pool 1—Recapture Agreement”), 85% of the Excess MSRs on future mortgage loans originated by Freedom Mortgage that represent refinancings of loans in MSR Pool l (which loans then become part of MSR Pool 1) for approximately $60.6 million. Freedom Mortgage has co-invested, pari passu with the Company, in 15% of the Excess MSRs. Freedom Mortgage, as servicer, also retains the ancillary income and the servicing obligations and liabilities. If Freedom Mortgage is terminated as the servicer, the Company’s right to receive its portion of the excess mortgage servicing amount is also terminated. To the extent that Freedom Mortgage is terminated as the servicer and receives a termination payment, the Company is entitled to a pro rata share, or 85%, of such termination payment.

The value, and absolute amount, of recapture activity tends to vary inversely with the direction of interest rates. When interest rates are falling, recapture rates tend to be higher due to increased opportunities for borrowers to refinance. As interest rates increase, however, there is likely to be less recapture activity.

In October 2013, the Company entered into an agreement (“MSR Agreement 2”) with Freedom Mortgage to invest with Freedom Mortgage in another pool of Excess MSRs. Freedom Mortgage acquired the mortgage servicing rights from a third-party seller on a pool of residential Ginnie Mae-eligible VA hybrid adjustable rate mortgage loans with an outstanding principal balance of approximately $10.7 billion (“MSR Pool 2”). Freedom Mortgage is entitled to receive an initial weighted average total mortgage servicing amount of 44 bps on the performing UPB, as well as any ancillary income from MSR Pool 2. Pursuant to MSR Agreement 2, Freedom Mortgage performs all servicing functions and advancing functions related to MSR Pool 2 for a basic fee (the amount representing reasonable compensation for performing the servicing duties) of 10 bps. Therefore, the remainder, or “excess mortgage servicing amount” is initially equal to a weighted average of 34 bps.

The Company acquired the right to receive 50% of the excess mortgage servicing amount on MSR Pool 2 and, subject to certain limitations and pursuant to a recapture agreement (the “MSR Pool 2—Recapture Agreement”), 50% of the Excess MSRs on future mortgage loans originated by Freedom Mortgage that represent refinancings of loans in MSR Pool 2 (which loans then become part of MSR Pool 2) for approximately $38.4 million. Freedom Mortgage has co-invested, pari passu with the Company, in 50% of the Excess MSRs. Freedom Mortgage, as servicer, also retains the ancillary income and the servicing obligations and liabilities. If Freedom Mortgage is terminated as the servicer, the Company’s right to receive its portion of the excess mortgage servicing amount is also terminated. To the extent that Freedom Mortgage is terminated as the servicer and receives a termination payment, the Company is entitled to a pro rata share, or 50%, of such termination payment.

Upon completion of the IPO and the concurrent private placement, the Company also entered into a flow and bulk Excess MSR purchase agreement related to future purchases of Excess MSRs from Freedom Mortgage. On February 28, 2014, pursuant to the flow and bulk Excess MSR purchase agreement, the Company purchased from Freedom Mortgage Excess MSRs on mortgage loans originated by Freedom Mortgage during the first quarter of 2014 with an UPB of approximately $76.8 million. The Company acquired an approximate 85% interest in the Excess MSRs for approximately $567,000. The terms of the purchase include recapture provisions that are the same as those in the Excess MSR acquisition agreements the Company entered into with Freedom Mortgage in October 2013.

On March 31, 2014, pursuant to the flow and bulk Excess MSR purchase agreement, the Company purchased from Freedom Mortgage Excess MSRs on mortgage loans originated by a third party originator with an aggregate UPB of approximately $159.8 million. Freedom Mortgage purchased the MSRs on these mortgage loans from a third party on January 31, 2014. The Company acquired an approximate 71% interest in the Excess MSRs for approximately $946,000. The terms of the purchase include recapture provisions that are the same as those in the Excess MSR acquisition agreements the Company entered into with Freedom Mortgage in October 2013.

On June 30, 2014, pursuant to the flow and bulk Excess MSR purchase agreement, the Company purchased from Freedom Mortgage Excess MSRs on mortgage loans originated by Freedom Mortgage during the second quarter of 2014 with an aggregate UPB of approximately $98.1 million. The Company acquired an approximate 85% interest in the Excess MSRs for approximately $661,000. The terms of the purchase include recapture provisions that are the same as those in the Excess MSR acquisition agreements the Company entered into with Freedom Mortgage in October 2013.

The mortgage loans underlying the Excess MSRs purchased in 2014 are collectively referred to as “Pool 2014,” and the recapture provisions, which are identical, are collectively referred to as the “Pool 2014—Recapture Agreement.”

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MSRs

On May 29, 2015, in conjunction with the acquisition of Aurora, we acquired MSRs on conventional mortgage loans with an aggregate UPB of approximately $718.4 million. We have not entered into a recapture agreement covering the MSRs as of March 31, 2016.

On June 10, 2015, the Company agreed to transfer the direct servicing of the MSR portfolio to Freedom Mortgage pursuant to a subservicing agreement with Freedom Mortgage. The transfer occurred in September 2015. Pending the transfer, the former servicing employees of Aurora, now employees of Freedom Mortgage, directly serviced the portfolio for Aurora. The servicing, which was provided at cost pursuant to the Management Agreement with the Manager and the Services Agreement between the Manager and Freedom Mortgage. The cost for such services during the third quarter of 2015 is included in servicing costs on the consolidated statements of income (loss).

On October 30, 2015, Aurora acquired a portfolio of MSRs on loans owned or securitized by Fannie Mae or Freddie Mac with an aggregate unpaid principal balance of approximately $1.4 billion.

On January 29, 2016, Aurora acquired a portfolio of MSRs on mortgage loans owned or securitized by Fannie Mae with an aggregate unpaid principal balance of approximately $463 million.

The following is a summary of the Company's Servicing Related Assets (dollars in thousands):

Servicing Related Assets Summary

As of March 31, 2016

	Unpaid Principal Balance	Amortized Cost Basis(A)	Carrying Value(B)	Weighted Average Coupon	Weighted Average Maturity (Years)(C)	Changes in Fair Value Recorded in Other Income (Loss)(D)
Pool 1	$7,142,753	$ 36,623	$37,528	3.51 %	25.8	$ (2,449)
Pool 1 - Recapture Agreement	-	2,025	1,566			1,105
Pool 2	6,999,638	21,533	29,467	2.82 %	26.8	(1,288)
Pool 2 - Recapture Agreement	-	1,632	945			377
Pool 2014	254,898	1,548	1,317	3.65 %	27.2	(52)
Pool 2014 - Recapture Agreement	-	-	-			-
MSRs (E)	2,405,863	24,013	21,781	3.78 %	22.6	(2,232)
Total	$16,803,152	$ 87,374	$92,604	3.26 %	25.8	$ (4,539)

As of December 31, 2015

	Unpaid Principal Balance	Amortized Cost Basis(A)	Carrying Value(B)	Weighted Average Coupon	Weighted Average Maturity (Years)(C)	Changes in Fair Value

							Recorded in Other Income (Loss)(D)
Pool 1	$7,416,465	$ 39,483	$42,837	3.51	%	26.0	$ (2,822)
Pool 1 - Recapture Agreement	-	2,209	645	-		-	331
Pool 2	7,279,706	23,116	32,338	2.78	%	27.1	2,626
Pool 2 - Recapture Agreement	-	1,780	716	-		-	(324)
Pool 2014	265,890	1,685	1,506	3.65	%	27.4	170
Pool 2014 - Recapture Agreement	-	-	-	-		-	-
MSRs (E)	2,016,351	20,884	19,761	3.76	%	22.7	(1,123)
Total	$16,978,412	$ 89,157	$97,803	3.23	%	26.1	$ (1,142)

(A) The amortized cost basis of the recapture agreements is determined based on the relative fair values of the recapture agreements and related Excess MSRs at the time they were acquired.

(B) Carrying value represents the fair value of the pools or recapture agreements, as applicable (see Note 9).

(C) The weighted average maturity represents the weighted average expected timing of the receipt of cash flows of each investment.

(D) The portion of the change in fair value of the recapture agreement relating to loans recaptured as of March 31, 2016 and December 31, 2015 is reflected in the respective pool.

(E) MSR cost basis consists of the carrying value of the prior period, adjusted for any acquisitions made during the current period.

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The tables below summarize the geographic distribution for the states representing 5% or greater of the underlying residential mortgage loans of the Servicing Related Assets:

Geographic Concentration of Servicing Related Assets

As of March 31, 2016

	Percentage of Total Outstanding Unpaid Principal Balance	
California	12.0	%
Texas	9.2	%
Florida	6.5	%
Virginia		