BIMINI CAPITAL MANAGEMENT, INC.
Form 10-Q
August 08, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended June 30, 2017

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: 001-32171

Bimini Capital Management, Inc.
(Exact name of registrant as specified in its charter)

Maryland	72-1571637
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3305 Flamingo Drive, Vero Beach, Florida 32963
(Address of principal executive offices) (Zip Code)

(772) 231-1400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer,"

"accelerated filer", "smaller reporting company", and "emerging growth 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
	Emerging growth company

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

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

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

Title of each Class	Latest Practicable Date	Shares Outstanding
Class A Common Stock, $0.001 par value	August 8, 2017	12,631,627
Class B Common Stock, $0.001 par value	August 8, 2017	31,938
Class C Common Stock, $0.001 par value	August 8, 2017	31,938

BIMINI CAPITAL MANAGEMENT, INC.

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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED FINANCIAL STATEMENTS

BIMINI CAPITAL MANAGEMENT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2017	December 31, 2016
ASSETS:		
Mortgage-backed securities, at fair value		
Pledged to counterparties	$141,900,146	$129,582,386
Unpledged	582,829	719,603
Total mortgage-backed securities	142,482,975	130,301,989
Cash and cash equivalents	6,398,651	4,429,459
Restricted cash	588,620	1,221,978
Orchid Island Capital, Inc. common stock, at fair value	14,987,555	15,108,240
Retained interests in securitizations	644,128	1,113,736
Accrued interest receivable	541,201	512,760
Property and equipment, net	3,378,086	3,407,040
Deferred tax assets, net	63,596,315	63,833,063
Other assets	2,861,511	2,942,139
Total Assets	$235,479,042	$222,870,404
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Repurchase agreements	$134,632,521	$121,827,586
Junior subordinated notes due to Bimini Capital Trust II	26,804,440	26,804,440
Accrued interest payable	120,968	114,199
Other liabilities	1,324,713	1,977,281
Total Liabilities	162,882,642	150,723,506
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; 100,000 shares designated Series A Junior Preferred Stock, 9,900,000 shares undesignated; no shares issued and outstanding as of June 30, 2017 and December 31, 2016	-	-
Class A Common stock, $0.001 par value; 98,000,000 shares designated: 12,631,627 shares issued and outstanding as of June 30, 2017 and December 31, 2016	12,632	12,632
Class B Common stock, $0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of June 30, 2017 and December 31, 2016	32	32
Class C Common stock, $0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of June 30, 2017 and December 31, 2016	32	32
Additional paid-in capital	334,865,181	334,850,838
Accumulated deficit	(262,281,477)	(262,716,636)
Stockholders' equity	72,596,400	72,146,898
Total Liabilities and Stockholders' Equity	$235,479,042	$222,870,404

See Notes to Consolidated Financial Statements

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BIMINI CAPITAL MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
For the Six and Three Months Ended June 30, 2017 and 2016

	Six Months Ended June 30,		Three Months Ended June 30,	
	2017	2016	2017	2016
Interest income	$2,561,649	$1,842,540	$1,268,974	$1,025,076
Interest expense	(606,755)	(301,973)	(323,561)	(174,069)
Net interest income, before interest on junior subordinated notes	1,954,894	1,540,567	945,413	851,007
Interest expense on junior subordinated notes	(597,879)	(539,972)	(305,695)	(276,361)
Net interest income	1,357,015	1,000,595	639,718	574,646
Unrealized (losses) gains on mortgage-backed securities	(464,037)	(39,157)	(26,924)	249,087
Realized (losses) gains on mortgage-backed securities	(689)	250,973	-	19,126
Losses on derivative instruments	(810,013)	(2,057,475)	(831,513)	(757,613)
Net portfolio income (loss)	82,276	(845,064)	(218,719)	85,246
Other income:				
Advisory services	3,458,044	2,542,536	1,788,043	1,273,517
Gains on retained interests in securitizations	304,117	1,079,867	498,059	533,847
Unrealized (losses) gains on Orchid Island Capital, Inc. common stock	(1,324,920)	502,213	(197,605)	(111,603)
Orchid Island Capital, Inc. dividends	1,241,830	1,171,830	638,415	585,915
Other income	857	460	402	230
Total other income	3,679,928	5,296,906	2,727,314	2,281,906
Expenses:				
Compensation and related benefits	1,814,948	1,551,017	879,037	755,307
Directors' fees and liability insurance	333,100	311,075	165,925	155,538
Audit, legal and other professional fees	226,580	295,150	89,456	138,078
Administrative and other expenses	658,317	566,556	298,987	304,930
Total expenses	3,032,945	2,723,798	1,433,405	1,353,853
Net income before income tax provision	729,259	1,728,044	1,075,190	1,013,299
Income tax provision	294,100	680,355	425,816	411,601
Net income	$435,159	$1,047,689	$649,374	$601,698
Basic and Diluted Net Income Per Share of:				
CLASS A COMMON STOCK				
Basic and Diluted	$0.03	$0.08	$0.05	$0.05
CLASS B COMMON STOCK				
Basic and Diluted	$0.03	$0.08	$0.05	$0.05
Weighted Average Shares Outstanding:				
CLASS A COMMON STOCK				
Basic and Diluted	12,701,627	12,687,836	12,701,627	12,709,127

CLASS B COMMON STOCK				
Basic and Diluted	31,938	31,938	31,938	31,938

See Notes to Consolidated Financial Statements

BIMINI CAPITAL MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
For the Six Months Ended June 30, 2017

	Stockholders' Equity			
	Common	Additional Paid-in	Accumulated	
	Stock	Capital	Deficit	Total
Balances, January 1, 2017	$ 12,696	$ 334,850,838	$ (262,716,636)	$ 72,146,898
Net income	-	-	435,159	435,159
Amortization of stock based compensation	-	14,343	-	14,343
Balances, June 30, 2017	$ 12,696	$ 334,865,181	$ (262,281,477)	$ 72,596,400

See Notes to Consolidated Financial Statements

BIMINI CAPITAL MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Six Months Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$435,159	$1,047,689
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock based compensation	14,343	209,536
Depreciation	39,253	43,988
Deferred income tax provision	236,748	531,878
Losses (gains) on mortgage-backed securities, net	464,726	(211,816)
Gains on retained interests in securitizations	(304,117)	(1,079,867)
Unrealized losses (gains) on Orchid Island Capital, Inc. common stock	1,324,920	(502,213)
Changes in operating assets and liabilities:		
Accrued interest receivable	(28,441)	(74,956)
Other assets	80,628	(220,035)
Accrued interest payable	6,769	35,022
Other liabilities	(652,568)	(887,770)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,617,420	(1,108,544)
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(19,219,818)	(74,459,950)
Sales	1,654,834	41,767,104
Principal repayments	4,919,272	6,055,058
Payments received on retained interests in securitizations	773,725	844,870
Purchases of property and equipment	(10,299)	-
Purchases of Orchid Island Capital, Inc. common stock	(1,204,235)	(1,859,277)
NET CASH USED IN INVESTING ACTIVITIES	(13,086,521)	(27,652,195)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	488,295,370	424,489,350
Principal repayments on repurchase agreements	(475,490,435)	(397,998,869)
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,804,935	26,490,481
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	1,335,834	(2,270,258)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of the period	5,651,437	6,712,483
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of the period	$6,987,271	$4,442,225
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$1,197,865	$806,923
Income taxes	$209,916	$515,433

See Notes to Consolidated Financial Statements

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BIMINI CAPITAL MANAGEMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
June 30, 2017

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

Bimini Capital Management, Inc., a Maryland corporation ("Bimini Capital" or the "Company"), was formed in September 2003 for the purpose of creating and managing a leveraged investment portfolio consisting of residential mortgage-backed securities ("MBS"). In addition, the Company manages an MBS portfolio for Orchid Island Capital, Inc. ("Orchid") and receives fees for providing these services.

Consolidation

The accompanying consolidated financial statements include the accounts of Bimini Capital, its wholly-owned subsidiaries, Bimini Advisors Holdings, LLC (formerly known as Bimini Advisors, Inc.) and Royal Palm Capital, LLC (formerly known as MortCo TRS, LLC). Bimini Advisors Holdings, LLC and its wholly-owned subsidiary, Bimini Advisors, LLC are collectively referred to as "Bimini Advisors." Royal Palm Capital, LLC and its wholly-owned subsidiaries are collectively referred to as "Royal Palm." All inter-company accounts and transactions have been eliminated from the consolidated financial statements.

Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") Topic 810, Consolidation, requires the consolidation of a variable interest entity ("VIE") by an enterprise if it is deemed the primary beneficiary of the VIE. Bimini Capital has a common share investment in a trust used in connection with the issuance of Bimini Capital's junior subordinated notes. See Note 8 for a description of the accounting used for this VIE.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six and three month periods ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The consolidated balance sheet at December 31, 2016 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete consolidated financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates affecting the accompanying consolidated financial statements include the fair values of MBS, investment in Orchid common shares, derivatives, retained interests, asset valuation allowances and deferred tax asset allowances recorded for each accounting period.

Statement of Comprehensive Income

In accordance with ASC Topic 220, Comprehensive Income, a statement of comprehensive income has not been included as the Company has no items of other comprehensive income (loss). Comprehensive income is the same as net income for all periods presented.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments with original maturities of three months or less at the time of purchase. Restricted cash includes cash pledged as collateral for repurchase agreements and derivative instruments.

(in thousands)

	June 30, 2017	December 31, 2016
Cash and cash equivalents	$6,398,651	$4,429,459
Restricted cash	588,620	1,221,978
Total cash, cash equivalents and restricted cash	$6,987,271	$5,651,437

The Company maintains cash balances at several banks, and at times, these balances may exceed federally insured limits. The Company has not experienced any losses related to these balances. The Federal Deposit Insurance Corporation insures eligible accounts up to $250,000 per depositor at each financial institution. At June 30, 2017, the Company's cash deposits exceeded federally insured limits by approximately $4.6 million. Restricted cash balances are uninsured, but are held in separate customer accounts that are segregated from the general funds of the counterparty. The Company limits uninsured balances to only large, well-known banks and derivative counterparties and believes that it is not exposed to significant credit risk on cash and cash equivalents or restricted cash balances.

Mortgage-Backed Securities

The Company invests primarily in mortgage pass-through ("PT") certificates, collateralized mortgage obligations, and interest-only ("IO") securities and inverse interest-only ("IIO") securities representing interest in or obligations backed by pools of mortgage-backed loans. The Company has elected to account for its investment in MBS under the fair value option. Electing the fair value option requires the Company to record changes in fair value in the consolidated statement of operations, which, in management's view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

The Company records MBS transactions on the trade date. Security purchases that have not settled as of the balance sheet date are included in the MBS balance with an offsetting liability recorded, whereas securities sold that have not settled as of the balance sheet date are removed from the MBS balance with an offsetting receivable recorded.

The fair value of the Company's investment in MBS is governed by ASC Topic 820, Fair Value Measurement. The definition of fair value in ASC Topic 820 focuses on the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market for the asset or liability, or in the absence of a principal market, occurs in the most advantageous market for the asset or liability. Estimated fair values for MBS are based on independent pricing sources and/or third-party broker quotes, when available.

Income on PT MBS is based on the stated interest rate of the security. Premiums or discounts present at the date of purchase are not amortized. Premium lost and discount accretion resulting from monthly principal repayments are reflected in unrealized gains on MBS in the consolidated statements of operations. For IO securities, the income is accrued based on the carrying value and the effective yield. The difference between income accrued and the interest received on the security is characterized as a return of investment and serves to reduce the asset's carrying value. At each reporting date, the effective yield is adjusted prospectively from the reporting period based on the new estimate of prepayments and the contractual terms of the security. For IIO securities, effective yield and income recognition calculations also take into account the index value applicable to the security. Changes in fair value of MBS during each reporting period are recorded in earnings and reported as unrealized gains or losses on mortgage-backed securities in the accompanying consolidated statements of operations. The amount reported as unrealized gains or losses on mortgage backed securities thus captures the net effect of changes in the fair market value of securities caused by market developments and any premium or discount lost as a result of principal repayments during the period.

Orchid Island Capital, Inc. Common Stock

The Company has elected the fair value option for its investment in Orchid common shares. The change in the fair value of this investment and dividends received on this investment are reflected in other income in the consolidated statements of operations. We estimate the fair value of our investment in Orchid on a market approach using "Level 1" inputs based on the quoted market price of Orchid's common stock on a national stock exchange. Electing the fair value option requires the Company to record changes in fair value in the consolidated statements of operations, which, in management's view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with how the investment is managed.

Advisory Services

Orchid is externally managed and advised by Bimini Advisors pursuant to the terms of a management agreement. Under the terms of the management agreement, Orchid is obligated to pay Bimini Advisors a monthly management fee and a pro rata portion of certain overhead costs and to reimburse the Company for any direct expenses incurred on its behalf.

Retained Interests in Securitizations

Retained interests in the subordinated tranches of securities created in securitization transactions were initially recorded at their fair value when issued by Royal Palm. Subsequent adjustments to fair value are reflected in earnings. Quoted market prices for these assets are generally not available, so the Company estimates fair value based on the present value of expected future cash flows using management's best estimates of key assumptions, which include expected credit losses, prepayment speeds, weighted-average life, and discount rates commensurate with the inherent risks of the asset.

Derivative Financial Instruments

The Company uses derivative instruments to manage interest rate risk, facilitate asset/liability strategies and manage other exposures, and it may continue to do so in the future. The principal instruments that the Company has used to date are Treasury Note ("T-Note") and Eurodollar futures contracts, but the Company may enter into other transactions in the future.

The Company has elected not to treat any of its derivative financial instruments as hedges in order to align the accounting treatment of its derivative instruments with the treatment of its portfolio assets under the fair value option. FASB ASC Topic 815, Derivatives and Hedging, requires that all derivative instruments be carried at fair value. Changes in fair value are recorded in earnings for each period.

Holding derivatives creates exposure to credit risk related to the potential for failure on the part of counterparties to honor their commitments. In addition, the Company may be required to post collateral based on any declines in the market value of the derivatives. In the event of default by a counterparty, the Company may have difficulty recovering its collateral and may not receive payments provided for under the terms of the agreement. To mitigate this risk, the Company uses only well-established commercial banks as counterparties.

Financial Instruments

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value, either in the body of the financial statements or in the accompanying notes. MBS, Orchid common stock, Eurodollar futures contracts, interest rate swaptions and retained interests in securitization transactions are accounted for at fair value in the consolidated balance sheets. The methods and assumptions used to estimate fair value for these instruments are presented in Note 14 of the consolidated financial statements.

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, other assets, repurchase agreements, accrued interest payable and other liabilities generally approximates their carrying value as of June 30, 2017 and December 31, 2016, due to the short-term nature of these financial instruments.

It is impractical to estimate the fair value of the Company's junior subordinated notes. Currently, there is a limited market for these types of instruments and the Company is unable to ascertain what interest rates would be available to the Company for similar financial instruments. Information regarding carrying amount and effective interest rate for these instruments is presented in Note 8 to the consolidated financial statements.

Property and Equipment, net

Property and equipment, net, consists of computer equipment with a depreciable life of 3 years, office furniture and equipment with depreciable lives of 8 to 20 years, land which has no depreciable life, and buildings and improvements with depreciable lives of 30 years. Property and equipment is recorded at acquisition cost and depreciated using the straight-line method over the estimated useful lives of the assets.

Repurchase Agreements

The Company finances the acquisition of the majority of its PT MBS through the use of repurchase agreements under master repurchase agreements. Pursuant to ASC Topic 860, Transfers and Servicing, the Company accounts for repurchase transactions as collateralized financing transactions, which are carried at their contractual amounts, including accrued interest, as specified in the respective agreements.

Share-Based Compensation

The Company follows the provisions of ASC Topic 718, Compensation – Stock Compensation, to account for stock and stock-based awards. For stock and stock-based awards issued to employees, a compensation charge is recorded against earnings over the vesting period based on the fair value of the award. The Company applies a zero forfeiture rate for its equity based awards, as such awards have been granted to a limited number of employees and historical forfeitures have been minimal. A significant forfeiture, or an indication that significant forfeitures may occur, would result in a revised forfeiture rate which would be accounted for prospectively as a change in an estimate. For transactions with non-employees in which services are performed in exchange for the Company's common stock or other equity instruments, the transactions are recorded on the basis of the fair value of the service received or the fair value of the equity instruments issued, whichever is more readily measurable at the date of issuance.

Earnings Per Share

The Company follows the provisions of ASC Topic 260, Earnings Per Share, which requires companies with complex capital structures, common stock equivalents or two (or more) classes of securities that participate in dividend distributions to present both basic and diluted earnings per share ("EPS") on the face of the consolidated statement of operations. Basic EPS is calculated as income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated using the treasury stock or two-class method, as applicable for common stock equivalents. However, the common stock equivalents are not included in computing diluted EPS if the result is anti-dilutive.

Outstanding shares of Class B Common Stock, participating and convertible into Class A Common Stock, are entitled to receive dividends in an amount equal to the dividends declared on each share of Class A Common Stock if, as and when authorized and declared by the Board of Directors. Accordingly, shares of the Class B Common Stock are included in the computation of basic EPS using the two-class method and, consequently, are presented separately from Class A Common Stock.

The shares of Class C Common Stock are not included in the basic EPS computation as these shares do not have participation rights. The outstanding shares of Class B and Class C Common Stock are not included in the computation of diluted EPS for the Class A Common Stock as the conditions for conversion into shares of Class A Common Stock were not met.

Income Taxes

For the calendar year ended December 31, 2015, Bimini Capital, Bimini Advisors, Inc. and Royal Palm were separate taxpaying entities for income tax purposes and filed separate Federal income tax returns. Bimini Advisors, Inc. remained a separate tax paying entity through January 31, 2016; on that date, Bimini Advisors, Inc. was reorganized (as Bimini Advisors Holdings, LLC) to be an LLC wholly-owned by Bimini Capital. Beginning with the tax period starting on February 1, 2016, Bimini Capital and Bimini Advisors are combined as a single tax paying entity. Royal Palm continues to be treated as a separate tax paying entity.

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities represent the differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates. The measurement of net deferred tax assets is adjusted by a valuation allowance if, based on the Company's evaluation, it is more likely than not that they will not be realized.

The Company's U.S. federal income tax returns for years ended on or after December 31, 2013 remain open for examination. Although management believes its calculations for tax returns are correct and the positions taken thereon are reasonable, the final outcome of tax audits could be materially different from the tax returns filed by the Company, and those differences could result in significant costs or benefits to the Company.

The Company measures, recognizes and presents its uncertain tax positions in accordance with ASC Topic 740, Income Taxes. Under that guidance, the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of uncertain tax positions is adjusted when new information is available, or when an event occurs that requires a change. The Company recognizes tax positions in the financial statements only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. The difference between the benefit recognized and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit and is recorded as a liability in the consolidated balance sheets. The Company records income tax-related interest and penalties, if applicable, within the income tax provision.

Recent Accounting Pronouncements

In November 2016, the FASB issued Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows – (Topic 230): Restricted Cash. ASU 2016-18 requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. Early application is permitted. The Company adopted the ASU beginning with the first quarter of 2017. The prior period consolidated statement of cash flows has been retrospectively adjusted to conform to this presentation.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows – (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. Early application is permitted. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). ASU 2016-13 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2019. Early application is permitted for fiscal periods beginning after December 15, 2018. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 provides guidance for the recognition, measurement, presentation and disclosure of financial assets and financial liabilities. ASU 2016-01 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017 and, for most provisions, is effective using the cumulative-effect transition approach. Early application is permitted for certain provisions. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company's MBS portfolio as of June 30, 2017 and December 31, 2016:

(in thousands)

	June 30, 2017	December 31, 2016
Pass-Through MBS:		
Fixed-rate Mortgages	$139,010	$124,299
Total Pass-Through MBS	139,010	124,299
Structured MBS:		
Interest-Only Securities	2,061	2,654
Inverse Interest-Only Securities	1,412	3,349
Total Structured MBS	3,473	6,003
Total	$142,483	$130,302

The following table summarizes the Company's MBS portfolio as of June 30, 2017 and December 31, 2016, according to the contractual maturities of the securities in the portfolio. Actual maturities of MBS investments are generally shorter than stated contractual maturities and are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.

(in thousands)

	June 30, 2017	December 31, 2016
Greater than or equal to ten years	$142,483	$130,302
Total	$142,483	$130,302

NOTE 3. RETAINED INTERESTS IN SECURITIZATIONS

The following table summarizes the estimated fair value of the Company's retained interests in asset backed securities as of June 30, 2017 and December 31, 2016:

(in thousands)

Series	Issue Date	June 30, 2017	December 31, 2016
HMAC 2004-2	May 10, 2004	$17	$ 143
HMAC 2004-3	June 30, 2004	158	364
HMAC 2004-4	August 16, 2004	381	463
HMAC 2004-5	September 28, 2004	88	144
Total		$644	$ 1,114

NOTE 4. REPURCHASE AGREEMENTS

As of June 30, 2017, the Company had outstanding repurchase agreement obligations of approximately $134.6 million with a net weighted average borrowing rate of 1.32%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately $142.4 million. As of December 31, 2016, the Company had outstanding repurchase agreement obligations of approximately $121.8 million with a net weighted average borrowing rate of 0.99%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately $130.1 million.

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As of June 30, 2017 and December 31, 2016, the Company's repurchase agreements had remaining maturities as summarized below:

($ in thousands)

	OVERNIGHT (1 DAY OR LESS)	BETWEEN 2 AND 30 DAYS	BETWEEN 31 AND 90 DAYS	GREATER THAN 90 DAYS	TOTAL
June 30, 2017					
Fair value of securities pledged, including accrued interest receivable	$ -	$ 80,613	$ 50,367	$ 11,441	$142,421
Repurchase agreement liabilities associated with these securities	$ -	$ 76,479	$ 47,283	$ 10,871	$134,633
Net weighted average borrowing rate	-	1.34 %	1.29 %	1.34 %	1.32 %
December 31, 2016					
Fair value of securities pledged, including accrued interest receivable	$ -	$ 71,565	$ 41,334	$ 17,172	$130,071
Repurchase agreement liabilities associated with these securities	$ -	$ 66,919	$ 38,733	$ 16,176	$121,828
Net weighted average borrowing rate	-	1.01 %	0.96 %	0.98 %	0.99 %

If, during the term of a repurchase agreement, a lender files for bankruptcy, the Company might experience difficulty recovering its pledged assets, which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender, including the accrued interest receivable, and cash posted by the Company as collateral, if any. At June 30, 2017 and December 31, 2016, the Company had an aggregate amount at risk (the difference between the amount loaned to the Company, including interest payable, and the fair value of securities and cash pledged (if any), including accrued interest on such securities) with all counterparties of approximately $7.7 million and $8.4 million, respectively. The Company did not have an amount at risk with any individual counterparty greater than 10% of the Company's equity at June 30, 2017 or December 31, 2016.

NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with its interest rate risk management strategy, the Company economically hedges a portion of the cost of its repurchase agreement funding and junior subordinated notes by entering into derivatives and other hedging contracts. To date the Company has entered into Eurodollar and T-Note futures contracts, but may enter into other contracts in the future. The Company has not elected hedging treatment under GAAP, and as such all gains or losses (realized and unrealized) on these instruments are reflected in earnings for all periods presented.

As of June 30, 2017 and December 31, 2016, such instruments were comprised entirely of Eurodollar futures contracts. Eurodollar futures are cash settled futures contracts on an interest rate, with gains or losses credited or charged to the Company's account on a daily basis and reflected in earnings as they occur. A minimum balance, or "margin", is required to be maintained in the account on a daily basis. The Company is exposed to the changes in value of the futures by the amount of margin held by the broker. This margin represents the collateral the Company has posted for its open positions and is recorded on the consolidated balance sheets as part of restricted cash.

The tables below present information related to the Company's Eurodollar futures positions at June 30, 2017 and December 31, 2016.

($ in thousands)
As of June 30, 2017

	Repurchase Agreement Funding Hedges			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity(1)
2017	$60,000	1.49 %	1.42 %	$ (23)
2018	60,000	1.90 %	1.68 %	(134)
2019	60,000	2.32 %	1.95 %	(226)
2020	60,000	2.60 %	2.17 %	(261)
2021	60,000	2.80 %	2.37 %	(259)
Total / Weighted Average	$60,000	2.30 %	1.97 %	$ (903)

($ in thousands)
As of June 30, 2017

	Junior Subordinated Debt Funding Hedges			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity(1)
2017	$26,000	2.08 %	1.42 %	$ (86)
2018	26,000	1.84 %	1.68 %	$ (43)
2019	26,000	1.63 %	1.95 %	$ 82
2020	26,000	1.95 %	2.17 %	$ 57
2021	26,000	2.22 %	2.37 %	$ 38
Total / Weighted Average	$26,000	1.93 %	1.97 %	$ 48

($ in thousands)
As of December 31, 2016

	Repurchase Agreement Funding Hedges			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity(1)
2017	$60,000	1.32 %	1.28 %	$ (26)
2018	60,000	1.90 %	1.82 %	$ (49)
2019	60,000	2.32 %	2.21 %	$ (69)
2020	60,000	2.60 %	2.45 %	$ (88)
2021	60,000	2.80 %	2.64 %	$ (93)
Total / Weighted Average	$60,000	2.19 %	2.08 %	$ (325)

($ in thousands)
As of December 31, 2016

	Junior Subordinated Debt Funding Hedges			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity[1]
2017	$26,000	1.93 %	1.28 %	$ (169)
2018	26,000	1.84 %	1.82 %	$ (6)
2019	26,000	1.63 %	2.21 %	$ 150
2020	26,000	1.95 %	2.45 %	$ 132
2021	26,000			