MFA FINANCIAL, INC.
Form 10-Q
August 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

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

For the transition period from to

Commission File Number: 1-13991

MFA FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Maryland	13-3974868
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
350 Park Avenue, 20th Floor, New York, New York	10022
(Address of principal executive offices)	(Zip Code)

(212) 207-6400
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last period)

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 x No o

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

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.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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. o

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

398,532,534 shares of the registrant’s common stock, $0.01 par value, were outstanding as of July 30, 2018.

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MFA FINANCIAL, INC.

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MFA FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS

(In Thousands Except Per Share Amounts)	June 30, 2018 (Unaudited)	December 31, 2017
Assets:		
Mortgage-backed securities ("MBS") and credit risk transfer ("CRT") securities:		
Agency MBS, at fair value ($2,286,409 and $2,727,510 pledged as collateral, respectively)	$2,362,897	$2,824,681
Non-Agency MBS, at fair value ($2,447,432 and $2,379,523 pledged as collateral, respectively)	3,242,967	3,533,966
CRT securities, at fair value ($516,486 and $595,900 pledged as collateral, respectively)	571,955	664,403
Mortgage servicing rights ("MSR") related assets ($381,390 and $482,158 pledged as collateral, respectively)	381,390	492,080
Residential whole loans, at carrying value ($396,856 and $448,689 pledged as collateral, respectively) (1)	1,906,242	908,516
Residential whole loans, at fair value ($952,335 and $996,226 pledged as collateral, respectively) (1)	1,502,986	1,325,115
Cash and cash equivalents	54,880	449,757
Restricted cash	3,298	13,307
Other assets	618,148	742,909
Total Assets	$10,644,763	$10,954,734
Liabilities:		
Repurchase agreements	$5,892,228	$6,614,701
Payable for unsettled MBS and residential whole loans purchases	567,915	—
Other liabilities	978,007	1,078,397
Total Liabilities	$7,438,150	$7,693,098
Commitments and contingencies (See Note 10)		
Stockholders' Equity:		
Preferred stock, $.01 par value; 7.50% Series B cumulative redeemable; 8,050 shares authorized; 8,000 shares issued and outstanding ($200,000 aggregate liquidation preference)	$80	$80
Common stock, $.01 par value; 886,950 shares authorized; 398,533 and 397,831 shares issued and outstanding, respectively	3,985	3,978
Additional paid-in capital, in excess of par	3,230,055	3,227,304
Accumulated deficit	(592,218)	(578,950)
Accumulated other comprehensive income	564,711	609,224
Total Stockholders' Equity	$3,206,613	$3,261,636
Total Liabilities and Stockholders' Equity	$10,644,763	$10,954,734

(1) Includes approximately $199.8 million and $183.2 million of Residential whole loans, at carrying value and $476.2 million and $289.3 million of Residential whole loans, at fair value transferred to consolidated variable interest entities ("VIEs") at June 30, 2018 and December 31, 2017, respectively. Such assets can be used only to settle the obligations of the VIEs.

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

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MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, Except Per Share Amounts)	2018	2017	2018	2017
Interest Income:				
Agency MBS	$13,170	$16,587	$28,463	$34,481
Non-Agency MBS	55,043	70,269	111,145	149,477
CRT securities	8,695	7,846	18,191	14,222
MSR related assets	6,219	5,905	13,842	10,639
Residential whole loans held at carrying value	17,935	8,503	32,264	17,193
Cash and cash equivalent investments	685	1,047	1,594	1,402
Interest Income	$101,747	$110,157	$205,499	$227,414
Interest Expense:				
Repurchase agreements and other advances	$46,234	$46,802	$91,951	$95,141
Other interest expense	5,576	2,220	10,413	4,230
Interest Expense	$51,810	$49,022	$102,364	$99,371
Net Interest Income	$49,937	$61,135	$103,135	$128,043
Other-Than-Temporary Impairments:				
Total other-than-temporary impairment losses	$—	$—	$—	$(63)
Portion of loss reclassed from other comprehensive income	—	(618)	—	(969)
Net Impairment Losses Recognized in Earnings	$—	$(618)	$—	$(1,032)
Other Income, net:				
Net gain on residential whole loans held at fair value	$32,443	$16,208	$70,941	$29,981
Net gain on sales of investment securities	7,429	5,889	16,246	15,597
Other, net	1,134	14,847	1,479	19,359
Other Income, net	$41,006	$36,944	$88,666	$64,937
Operating and Other Expense:				
Compensation and benefits	$7,038	$7,573	$13,786	$15,366
Other general and administrative expense	5,582	5,754	9,414	9,979
Loan servicing and other related operating expenses	7,928	4,199	14,811	8,608
Operating and Other Expense	$20,548	$17,526	$38,011	$33,953
Net Income	$70,395	$79,935	$153,790	$157,995
Less Preferred Stock Dividends	3,750	3,750	7,500	7,500
Net Income Available to Common Stock and Participating Securities	$66,645	$76,185	$146,290	$150,495
Earnings per Common Share - Basic and Diluted	$0.17	$0.20	$0.36	$0.39
Dividends Declared per Share of Common Stock	$0.20	$0.20	$0.40	$0.40

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

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MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Net income	$70,395	$79,935	$153,790	$157,995
Other Comprehensive Income/(Loss):				
Unrealized loss on Agency MBS, net	(9,641)	(11,157)	(18,331)	(19,209)
Unrealized (loss)/gain on Non-Agency MBS, net	(11,115)	56,167	(38,308)	83,663
Reclassification adjustment for MBS sales included in net income	(5,178)	(5,656)	(15,458)	(15,602)
Reclassification adjustment for other-than-temporary impairments included in net income	—	(618)	—	(1,032)
Derivative hedging instrument fair value changes, net	7,915	(1,017)	27,584	10,880
Other Comprehensive (Loss)/Income	(18,019)	37,719	(44,513)	58,700
Comprehensive income before preferred stock dividends	$52,376	$117,654	$109,277	$216,695
Dividends declared on preferred stock	(3,750)	(3,750)	(7,500)	(7,500)
Comprehensive Income Available to Common Stock and Participating Securities	$48,626	$113,904	$101,777	$209,195

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

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MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

(In Thousands, Except Per Share Amounts)	Six Months Ended June 30, 2018 Preferred Stock 7.50% Series B Cumulative Redeemable - Liquidation Preference $25.00 per Share		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2017	8,000	$ 80	397,831	$ 3,978	$ 3,227,304	$ (578,950)	$ 609,224	$ 3,261,636
Cumulative effect adjustment on adoption of new accounting standard for revenue recognition	—	—	—	—	—	295	—	295
Net income	—	—	—	—	—	153,790	—	153,790
Issuance of common stock, net of expenses (1)	—	—	953	7	1,704	—	—	1,711
Repurchase of shares of common stock (1)	—	—	(251)	—	(1,957)	—	—	(1,957)
Equity based compensation expense	—	—	—	—	2,804	—	—	2,804
Accrued dividends attributable to stock-based awards	—	—	—	—	200	—	—	200
Dividends declared on common stock	—	—	—	—	—	(159,392)	—	(159,392)
Dividends declared on preferred stock	—	—	—	—	—	(7,500)	—	(7,500)
Dividends attributable to dividend equivalents	—	—	—	—	—	(461)	—	(461)
Change in unrealized gains on MBS, net	—	—	—	—	—	—	(72,097)	(72,097)
Derivative hedging instrument fair value changes, net	—	—	—	—	—	—	27,584	27,584
Balance at June 30, 2018	8,000	$ 80	398,533	$ 3,985	$ 3,230,055	$ (592,218)	$ 564,711	$ 3,206,613

(In Thousands, Except Per Share Amounts)	Six Months Ended June 30, 2017 Preferred Stock 7.50% Series B Cumulative	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total

	Redeemable - Liquidation Preference $25.00 per Share							
	Shares	Amount	Shares	Amount				
Balance at December 31, 2016	8,000	$ 80	371,854	$ 3,719	$ 3,029,062	$ (572,641)	$ 573,682	$ 3,033,902
Net income	—	—	—	—	—	157,995	—	157,995
Issuance of common stock, net of expenses (1)	—	—	24,953	244	186,006	—	—	186,250
Repurchase of shares of common stock (1)	—	—	(496)	—	(3,892)	—	—	(3,892)
Equity based compensation expense	—	—	—	—	3,300	—	—	3,300
Accrued dividends attributable to stock-based awards	—	—	—	—	225	—	—	225
Dividends declared on common stock	—	—	—	—	—	(153,855)	—	(153,855)
Dividends declared on preferred stock	—	—	—	—	—	(7,500)	—	(7,500)
Dividends attributable to dividend equivalents	—	—	—	—	—	(481)	—	(481)
Change in unrealized gains on MBS, net	—	—	—	—	—	—	47,820	47,820
Derivative hedging instruments fair value changes, net	—	—	—	—	—	—	10,880	10,880
Balance at June 30, 2017	8,000	$ 80	396,311	$ 3,963	$ 3,214,701	$ (576,482)	$ 632,382	$ 3,274,644

(1) For the six months ended June 30, 2018 and 2017, includes approximately $2.0 million (250,946 shares) and $3.9 million (496,325 shares), respectively surrendered for tax purposes related to equity-based compensation awards.

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MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In Thousands)	Six Months Ended June 30, 2018	2017
Cash Flows From Operating Activities:		
Net income	$153,790	$157,995
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of MBS, CRT securities and U.S. Treasury securities	(16,246)	(15,597)
Gain on sales of real estate owned	(4,673)	(2,039)
Gain on liquidation of residential whole loans	(12,742)	(2,059)
Other-than-temporary impairment charges	—	1,032
Accretion of purchase discounts on MBS and CRT securities, residential whole loans and MSR related assets	(40,948)	(46,179)
Amortization of purchase premiums on MBS and CRT securities	12,508	16,002
Depreciation and amortization on real estate, fixed assets and other assets	805	439
Equity-based compensation expense	2,809	3,459
Unrealized gain on residential whole loans at fair value	(18,346)	(7,209)
(Increase)/decrease in other assets and other	(23,061)	3,101
Decrease in other liabilities	(10,091)	(10,660)
Net cash provided by operating activities	$43,805	$98,285
Cash Flows From Investing Activities:		
Principal payments on MBS, CRT securities and MSR related assets	$1,107,871	$2,461,731
Proceeds from sales of MBS, CRT securities and U.S. Treasury securities	198,392	177,625
Purchases of MBS, CRT securities, MSR related assets and U.S. Treasury securities	(323,309)	(888,736)
Purchases of residential whole loans and capitalized advances	(943,433)	(9,408)
Principal payments on residential whole loans	174,713	69,615
Proceeds from sales of real estate owned	58,230	30,459
Purchases of real estate owned and capital improvements	(5,282)	(1,882)
Redemption of Federal Home Loan Bank stock	—	10,422
Additions to leasehold improvements, furniture and fixtures	(551)	(333)
Net cash provided by investing activities	$266,631	$1,849,493
Cash Flows From Financing Activities:		
Principal payments on repurchase agreements and other advances	$(32,054,576)	$(39,588,099)
Proceeds from borrowings under repurchase agreements	31,331,949	37,941,405
Proceeds from issuance of securitized debt	183,970	147,847
Principal payments on securitized debt	(28,639)	(2,652)
Payments made for securitization related costs	(956)	(1,008)
Payments made for settlements on interest rate swap agreements (“Swaps”)	(33,316)	(35,840)
Proceeds from settlements on Swaps	51,711	—
Proceeds from issuances of common stock	1,711	186,250
Dividends paid on preferred stock	(7,500)	(7,500)
Dividends paid on common stock and dividend equivalents	(159,676)	(149,433)
Net cash used in financing activities	$(715,322)	$(1,509,030)
Net (decrease)/increase in cash, cash equivalents and restricted cash	$(404,886)	$438,748
Cash, cash equivalents and restricted cash at beginning of period	$463,064	$318,575

Cash, cash equivalents and restricted cash at end of period	$58,178	$757,323
Non-cash Investing and Financing Activities:		
Net decrease in securities obtained as collateral/obligation to return securities obtained as collateral	$(248,550)	$(2,782)
Transfer from residential whole loans to real estate owned	$103,521	$58,444
Dividends and dividend equivalents declared and unpaid	$79,948	$79,559

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

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MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

1. Organization

MFA Financial, Inc. (the “Company”) was incorporated in Maryland on July 24, 1997 and began operations on April 10, 1998. The Company has elected to be treated as a real estate investment trust (“REIT”) for U.S. federal income tax purposes. In order to maintain its qualification as a REIT, the Company must comply with a number of requirements under federal tax law, including that it must distribute at least 90% of its annual REIT taxable income to its stockholders. The Company has elected to treat certain of its subsidiaries as a taxable REIT subsidiary (“TRS”). In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate related business. (See Note 2(o))

2. Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The interim unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted according to these SEC rules and regulations. Management believes that the disclosures included in these interim unaudited consolidated financial statements are adequate to make the information presented not misleading. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial condition of the Company at June 30, 2018 and results of operations for all periods presented have been made. The results of operations for the three and six months ended June 30, 2018 should not be construed as indicative of the results to be expected for the full year.

The accompanying consolidated financial statements of the Company have been prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company’s estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could differ from those estimates, which could materially impact the Company’s results of operations and its financial condition. Management has made significant estimates in several areas, including other-than-temporary impairment (“OTTI”) on MBS (See Note 3), valuation of MBS, CRT securities and MSR related assets (See Notes 3 and 14), income recognition and valuation of residential whole loans (See Notes 4 and 14), valuation of derivative instruments (See Notes 5(c) and 14) and income recognition on certain Non-Agency MBS (defined below) purchased at a discount. (See Note 3) In addition, estimates are used in the determination of taxable income used in the assessment of REIT compliance and contingent liabilities for related taxes, penalties and interest. (See Note 2(o)) Actual results could differ from those estimates.

The Company has one reportable segment as it manages its business and analyzes and reports its results of operations on the basis of one operating segment; investing, on a leveraged basis, in residential mortgage assets.

The consolidated financial statements of the Company include the accounts of all subsidiaries; all intercompany accounts and transactions have been eliminated. In addition, the Company consolidates entities established to facilitate transactions related to the acquisition and securitization of residential whole loans as well as MBS resecuritization transactions completed in prior years. Certain prior period amounts have been reclassified to conform to the current period presentation.

(b) MBS and CRT Securities

The Company has investments in residential MBS that are issued or guaranteed as to principal and/or interest by a federally chartered corporation, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or an agency of the U.S. Government, such as the Government National Mortgage Association ("Ginnie Mae") (collectively, "Agency MBS"), and residential MBS that are not guaranteed by any agency of the U.S. Government or any federally chartered corporation ("Non-Agency MBS"). In addition, the Company has investments in CRT securities that are issued by Fannie Mae and Freddie Mac. The coupon payments on CRT securities are paid by Fannie Mae and Freddie Mac and the principal payments received are based on the performance of loans in a reference pool of previously securitized MBS. As the loans in the underlying reference pool are paid, the principal balance of the CRT securities is paid. As an investor in a CRT security, the Company may incur a loss if certain defined credit events occur, including, for certain CRT securities, if the loans in the reference pool experience delinquencies exceeding specified thresholds.

Designation

The Company generally intends to hold its MBS until maturity; however, from time to time, it may sell any of its securities as part of the overall management of its business. As a result, all of the Company's MBS are designated as "available-for-sale" ("AFS") and, accordingly, are carried at their fair value with unrealized gains and losses excluded from earnings (except when an OTTI is recognized, as discussed below) and reported in Accumulated other comprehensive income/(loss) ("AOCI"), a component of Stockholders' Equity.

Upon the sale of an AFS security, any unrealized gain or loss is reclassified out of AOCI to earnings as a realized gain or loss using the specific identification method.

The Company has elected the fair value option for certain of its CRT securities as it considers this method of accounting to more appropriately reflect the risk sharing structure of these securities. Such securities are carried at their fair value with changes in fair value included in earnings for the period and reported in Other Income, net on the Company's consolidated statements of operations.

Revenue Recognition, Premium Amortization and Discount Accretion

Interest income on securities is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with Agency MBS and Non-Agency MBS assessed as high credit quality at the time of purchase are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Interest income on the Non-Agency MBS that were purchased at a discount to par value and/or are considered to be of less than high credit quality is recognized based on the security's effective interest rate which is the security's internal rate of return ("IRR"). The IRR is determined using management's estimate of the projected cash flows for each security, which are based on the Company's observation of current information and events and include assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the IRR/ interest income recognized on these securities or in the recognition of OTTIs. (See Note 3)

Based on the projected cash flows from the Company's Non-Agency MBS purchased at a discount to par value, a portion of the purchase discount may be designated as non-accretable purchase discount ("Credit Reserve"), which effectively mitigates the Company's risk of loss on the mortgages collateralizing such MBS and is not expected to be accreted into interest income. The amount designated as Credit Reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a Credit Reserve is more favorable than forecasted, a portion of the amount designated as Credit Reserve may be reallocated to accretable discount and recognized into interest income over time. Conversely, if the performance of a security with a Credit Reserve is less favorable than forecasted, the amount designated as Credit Reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could result.

Determination of Fair Value for MBS and CRT Securities

In determining the fair value of the Company's MBS and CRT securities, management considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management's observations of market activity. (See Note 14)

Impairments/OTTI

When the fair value of an AFS security is less than its amortized cost at the balance sheet date, the security is considered impaired. The Company assesses its impaired securities on at least a quarterly basis and designates such impairments as either "temporary" or "other-than-temporary." If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then the Company must recognize an OTTI through charges to earnings equal to the entire difference between the investment's amortized cost and its fair value at the balance sheet date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the OTTI related to credit losses is recognized through charges to earnings with the remainder recognized through AOCI on the consolidated balance sheets. Impairments recognized through other comprehensive income/(loss) ("OCI") do not impact earnings. Following the recognition of an OTTI through earnings, a new cost basis is established for the security and may not be adjusted for subsequent recoveries in fair value through earnings. However, OTTIs recognized through charges to earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an OTTI exists and, if so, the amount of credit impairment recognized in earnings is subjective, as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of the future performance and cash flow projections. As a result, the timing and amount of OTTIs constitute material estimates that are susceptible to significant change. (See Note 3)

Non-Agency MBS that are assessed to be of less than high credit quality and on which impairments are recognized have experienced, or are expected to experience, credit-related adverse cash flow changes. The Company's estimate of cash flows for its Non-Agency MBS is based on its review of the underlying mortgage loans securing the MBS. The Company considers information available about the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, year of origination, loan-to-value ratios ("LTVs"), geographic concentrations and dialogue with market participants. As a result, significant judgment is used in the Company's analysis to determine the expected cash flows for its Non-Agency MBS. In determining the OTTI related to credit losses for securities that were purchased at significant discounts to par and/or are considered to be of less than high credit quality, the Company compares the present value of the remaining cash flows expected to be collected at the purchase date (or last date previously revised) against the present value of the cash flows expected to be collected at the current financial reporting date. The discount rate used to calculate the present value of expected future cash flows is the current yield used for income recognition purposes. Impairment assessment for Non-Agency MBS and CRT securities that were purchased at prices close to par and/or are otherwise considered to be of high credit quality involves comparing the present value of the remaining cash flows expected to be collected against the amortized cost of the security at the assessment date. The discount rate used to calculate the present value of the expected future cash flows is based on the instrument's IRR.

Balance Sheet Presentation

The Company’s MBS and CRT Securities pledged as collateral against repurchase agreements and Swaps are included on the consolidated balance sheets with the fair value of the securities pledged disclosed parenthetically. Purchases and sales of securities are recorded on the trade date.

(c) MSR Related Assets

The Company has investments in financial instruments whose cash flows are considered to be largely dependent on underlying MSRs that either directly or indirectly act as collateral for the investment. These financial instruments, which are referred to as MSR related assets, are discussed in more detail below. The Company’s MSR related assets pledged as collateral against repurchase agreements are included in the consolidated balance sheets with the amounts pledged disclosed parenthetically. Purchases and sales of MSR related assets are recorded on the trade date. (See Notes 3, 6, 7 and 14)

Term Notes Backed by MSR Related Collateral

The Company has invested in term notes that are issued by special purpose vehicles ("SPV") that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. The Company considers payment of principal and interest on these term notes to be largely dependent on the cash flows generated by the underlying MSRs as this impacts the cash flows available to the SPV that issued the term notes. Credit risk borne by the holders of the term notes is also mitigated by structural credit support in the form of over-collateralization. Credit support is also provided by a corporate guarantee from the ultimate parent or sponsor of the SPV that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the underlying MSRs be insufficient.

The Company's term notes backed by MSR related collateral are reported at fair value on the Company's consolidated balance sheets with unrealized gains and losses excluded from earnings and reported in AOCI. Interest income is recognized on an accrual basis on the Company's consolidated statements of operations. The Company's valuation process for such notes considers a number of factors, including a comparable bond analysis performed by a third-party pricing service which involves determining a pricing spread at issuance of the term note. The pricing spread is used at each subsequent valuation date to determine an implied yield to maturity of the term note, which is then used to derive an indicative market value for the security. This indicative market value is further reviewed by the Company and may be adjusted to ensure it reflects a realistic exit price at the valuation date given the structural features of these securities. Other factors taken into consideration include indicative values provided by repurchase agreement counterparties, estimated changes in fair value of the related underlying MSR collateral and the financial performance of the ultimate parent or sponsoring entity of the issuer, which has provided a guarantee that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the related underlying MSR collateral be insufficient.

Corporate Loan

In December 2016, the Company entered into a loan agreement with an entity that originates loans and owns the related MSRs. Under the terms of the loan agreement, the Company committed to lend $130.0 million of which approximately $124.2 million was drawn at March 31, 2018, and which was paid in full as of June 30, 2018. The loan was secured by certain U.S. Government, Agency and private-label MSRs, as well as other unencumbered assets owned by the borrower. The term loan was recorded on the Company's consolidated balance sheets at the drawn amount, on which interest income was recognized on an accrual basis on the Company's consolidated statements of operations. Commitment fees received on the undrawn amount were deferred and recognized as interest income over the remaining loan term at the time of draw. Upon repayment of the loan during the three months ended June 30, 2018, the remaining deferred commitment fees were recorded as Other Income on the Company's consolidated statements of operations.

(d) Residential Whole Loans (including Residential Whole Loans transferred to consolidated VIEs)

Residential whole loans included in the Company's consolidated balance sheets are primarily comprised of pools of fixed and adjustable rate residential mortgage loans acquired through consolidated trusts in secondary market transactions, with the majority at discounted purchase prices. The accounting model utilized by the Company is determined at the time each loan package is initially acquired and is generally based on the delinquency status of the majority of the underlying borrowers in the package at acquisition. The accounting model described below for purchased credit impaired loans that are held at carrying value is typically utilized by the Company for purchased credit impaired loans where the underlying borrower has a delinquency status of less than 60 days at the acquisition date. The Company may also purchase newly or recently originated loans that are performing as of the purchase date. Such loans are typically held at carrying value, but the accounting methods for income recognition and determination and measurement of any required loan loss reserves differ to those used for purchased credit impaired loans held at carrying value. The accounting model described below for residential whole loans held at fair value is typically utilized by the Company for loans where the underlying borrower has a delinquency status of 60 days or more at the acquisition date. The accounting model initially applied is not subsequently changed.

The Company's residential whole loans pledged as collateral against repurchase agreements are included in the consolidated balance sheets with amounts pledged disclosed parenthetically. Purchases and sales of residential whole loans are recorded on the trade date, with amounts recorded reflecting management's current estimate of assets that will be acquired or disposed at the closing of the transaction. This estimate is subject to revision at the closing of the transaction, pending the outcome of due diligence performed prior to closing. Recorded amounts of residential whole loans for which the closing of the purchase transaction is yet

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to occur are not eligible to be pledged as collateral against any repurchase agreement financing until the closing of the purchase transaction. (See Notes 4, 6, 7, 14 and 15)

Residential Whole Loans at Carrying Value

Purchased Credit Impaired Loans

The Company has elected to account for these loans as credit impaired as they were acquired at discounted prices that reflect, in part, the impaired credit history of the borrower. Substantially all of these loans have previously experienced payment delinquencies and the amount owed may exceed the value of the property pledged as collateral. Consequently, these loans generally have a higher likelihood of default than newly originated mortgage loans with LTVs of 80% or less to creditworthy borrowers. The Company believes that amounts paid to acquire these loans represent fair market value at the date of acquisition. Loans considered credit impaired are initially recorded at the purchase price with no allowance for loan losses. Subsequent to acquisition, the recorded amount for these loans reflects the original investment amount, plus accretion of interest income, less principal and interest cash flows received. These loans are presented on the Company’s consolidated balance sheets at carrying value, which reflects the recorded amount reduced by any allowance for loan losses established subsequent to acquisition.

Under the application of the accounting model for purchased credit impaired loans, the Company may aggregate into pools loans acquired in the same fiscal quarter that are assessed as having similar risk characteristics. For each pool established, or on an individual loans basis for loans not aggregated into pools, the Company estimates at acquisition, and periodically on at least a quarterly basis, the principal and interest cash flows expected to be collected. The difference between the cash flows expected to be collected and the carrying amount of the loans is referred to as the “accretable yield.” This amount is accreted as interest income over the life of the loans using an effective interest rate (level yield) methodology. Interest income recorded each period reflects the amount of accretable yield recognized and not the coupon interest payments received on the underlying loans. The difference between contractually required principal and interest payments and the cash flows expected to be collected is referred to as the “non-accretable difference,” and includes estimates of both the effect of prepayments and expected credit losses over the life of the underlying loans.

A decrease in expected cash flows in subsequent periods may indicate impairment at the pool and/or individual loan level, thus requiring the establishment of an allowance for loan losses by a charge to the provision for loan losses. The allowance for loan losses generally represents the present value of cash flows expected at acquisition, adjusted for any increases due to changes in estimated cash flows, that are subsequently no longer expected to be received at the relevant measurement date. Under the accounting model applied to credit impaired loans, a significant increase in expected cash flows in subsequent periods first reduces any previously recognized allowance for loan losses and then will result in a recalculation in the amount of accretable yield. The adjustment of accretable yield due to a significant increase in expected cash flows is accounted for prospectively as a change in estimate and results in reclassification from nonaccretable difference to accretable yield.

Other Loans at Carrying Value

The Company also has investments in loans that are not considered to be credit impaired at purchase. To date such loans have included newly or previously originated performing loans that are primarily comprised of: (i) loans to finance (or refinance) one-to-four family residential properties and are not considered to meet the definition of a “Qualified Mortgage” in accordance with guidelines adopted by the Consumer Financial Protection Bureau (“Non-QM loans”), (ii) short-term business purpose loans collateralized by residential properties made to non-occupant borrowers who intend to rehabilitate and sell the property for a profit (“Rehabilitation loans” or “Fix and Flip loans”), (iii) loans to finance (or refinance) non-owner occupied one-to-four family residential properties that are rented to one or more tenants (“Single-family rental loans”), and (iv) previously originated loans secured by residential real estate that is generally owner occupied (“Seasoned performing loans”), (collectively “Other Loans at Carrying Value”). The Company’s Other Loans at Carrying Value are initially recorded at their purchase price. Interest income on Other Loans at Carrying Value purchased at par is accrued based on each loan’s current interest bearing balance and current interest rate, net of related servicing costs. Interest income on such loans purchased at a premium/discount to par is recorded each period based on the contractual coupon net of any premium or discount and related servicing costs, and adjusted for actual prepayment activity.

An allowance for loan losses is recorded when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms of the loan agreement. Any required loan loss allowance would typically be measured based on fair value of the collateral securing the loan and would reduce the carrying value of the loan with a corresponding charge to earnings. Significant judgments are required in determining any allowance for loan loss, including assumptions regarding the loan cash flows expected to be collected, the value of the underlying collateral and the ability of the Company to collect on any other forms of security, such as a personal guaranty provided either by the borrower or an affiliate of the borrower. Income recognition is suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or it is legally discharged.

Residential Whole Loans at Fair Value

Certain of the Company's residential whole loans are presented at fair value on its consolidated balance sheets as a result of a fair value election made at time of acquisition. For the majority of these loans, there is significant uncertainty associated with estimating the timing of and amount of cash flows that will be collected. Further, the cash flows ultimately collected may be dependent on the value of the property securing the loan. Consequently, the Company considers that accounting for these loans at fair value should result in a better reflection over time of the economic returns for the majority of these loans. The Company determines the fair value of its residential whole loans held at fair value after considering portfolio valuations obtained from a third-party who specializes in providing valuations of residential mortgage loans and trading activity observed in the market place. Subsequent changes in fair value are reported in current period earnings and presented in Net gain on residential whole loans held at fair value on the Company's consolidated statements of operations.

Cash received reflecting coupon payments on residential whole loans held at fair value is not included in Interest Income, but rather is presented in Net gain on residential whole loans held at fair value on the Company's consolidated statements of operations. Cash outflows associated with loan-related advances made by the Company on behalf of the borrower are included in the basis of the loan and are reflected in Net gain on residential whole loans held at fair value.

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with financial institutions and investments in money market funds, all of which have original maturities of three months or less. Cash and cash equivalents may also include cash pledged as collateral to the Company by its repurchase agreement counterparties as a result of reverse margin calls (i.e., margin calls made by the Company). At June 30, 2018 and December 31, 2017, the Company had cash and cash equivalents of $54.9 million and $449.8 million, respectively. The Company's investments in overnight money market funds, which are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency, were $33.7 million and $354.0 million at June 30, 2018 and December 31, 2017, respectively. (See Notes 7 and 14)

(f) Restricted Cash

Restricted cash represents the Company's cash held by its counterparties in connection with certain of the Company's repurchase agreements that is not available to the Company for general corporate purposes. Restricted cash may be applied against amounts due to repurchase agreement counterparties, or may be returned to the Company when the related collateral requirements are exceeded or at the maturity of the repurchase agreement. The Company had aggregate restricted cash held as collateral or otherwise in connection with its repurchase agreements of $3.3 million and $13.3 million at June 30, 2018 and December 31, 2017, respectively. (See Notes 5(c), 6, 7 and 14)

(g) Goodwill

At June 30, 2018 and December 31, 2017, the Company had goodwill of $7.2 million, which represents the unamortized portion of the excess of the fair value of its common stock issued over the fair value of net assets acquired in connection with its formation in 1998. Goodwill is tested for impairment at least annually, or more frequently under certain circumstances, at the entity level. Through June 30, 2018, the Company had not recognized any impairment against its goodwill. Goodwill is included in Other assets on the Company’s consolidated balance sheets.

(h) Real Estate Owned ("REO")

REO represents real estate acquired by the Company, including through foreclosure, deed in lieu of foreclosure, or purchased in connection with the acquisition of residential whole loans. REO acquired through foreclosure or deed in lieu of foreclosure is initially recorded at fair value less estimated selling costs. REO acquired in connection with the acquisition of residential whole loans is initially recorded at its purchase price. Subsequent to acquisition, REO is reported, at each reporting date, at the lower of the current carrying amount or fair value less estimated selling costs and for presentation purposes is included in Other assets on the Company's consolidated balance sheets. Changes in fair value that result in an adjustment to the reported amount of an REO property that has a fair value at or below its carrying amount are reported in Other Income, net on the Company's consolidated statements of operations. (See Note 5(b))

(i) Depreciation

Leasehold Improvements and Other Depreciable Assets

Depreciation is computed on the straight-line method over the estimated useful life of the related assets or, in the case of leasehold improvements, over the shorter of the useful life or the lease term. Furniture, fixtures, computers and related hardware have estimated useful lives ranging from five to eight years at the time of purchase.

(j) Loan Securitization and Other Debt Issuance Costs

Loan securitization related costs are costs associated with the issuance of beneficial interests by consolidated VIEs and incurred by the Company in connection with various financing transactions completed by the Company. Other debt issuance and related costs include costs incurred by the Company in connection with issuing 8% Senior Notes due 2042 ("Senior Notes") and certain other repurchase agreement financings. These costs may include underwriting, rating agency, legal, accounting and other fees. Such costs, which reflect deferred charges, are included on the Company's consolidated balance sheets as a direct deduction from the corresponding debt liability. These deferred charges are amortized as an adjustment to interest expense using the effective interest method. For Senior Notes and other repurchase agreement financings, such costs are amortized over the shorter of the period to the expected or stated legal maturity of the debt instruments. The Company periodically reviews the recoverability of these deferred costs and in the event an impairment charge is required, such amount will be included in Operating and Other Expense on the Company's consolidated statements of operations.

(k) Repurchase Agreements

The Company finances the holdings of a significant portion of its residential mortgage assets with repurchase agreements. Under repurchase agreements, the Company sells securities to a lender and agrees to repurchase the same securities in the future for a price that is higher than the original sale price. The difference between the sale price that the Company receives and the repurchase price that the Company pays represents interest paid to the lender. Although legally structured as sale and repurchase transactions, the Company accounts for repurchase agreements as secured borrowings. Under its repurchase agreements, the Company pledges its securities as collateral to secure the borrowing, which is equal in value to a specified percentage of the fair value of the pledged collateral, while the Company retains beneficial ownership of the pledged collateral. At the maturity of a repurchase financing, unless the repurchase financing is renewed with the same counterparty, the Company is required to repay the loan including any accrued interest and concurrently receives back its pledged collateral from the lender. With the consent of the lender, the Company may renew a repurchase financing at the then prevailing financing terms. Margin calls, whereby a lender requires that the Company pledge additional securities or cash as collateral to secure borrowings under its repurchase financing with such lender, are routinely experienced by the Company when the value of the MBS pledged as collateral declines as a result of principal amortization and prepayments or due to changes in market interest rates, spreads or other market conditions. The Company also may make margin calls on counterparties when collateral values increase.

The Company's repurchase financings typically have terms ranging from one month to six months at inception, but may also have longer or shorter terms. Should a counterparty decide not to renew a repurchase financing at maturity, the Company must either refinance elsewhere or be in a position to satisfy the obligation. If, during the term of a repurchase financing, a lender should default on its obligation, 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 by the Company to such lender, including accrued interest receivable or such collateral. (See Notes 6, 7 and 14)

In addition to the repurchase agreement financing arrangements discussed above, as part of its financing strategy for Non-Agency MBS, the Company has entered into contemporaneous repurchase and reverse repurchase agreements with a single counterparty. Under a typical reverse repurchase agreement, the Company buys securities from a borrower for cash and agrees to sell the same securities in the future for a price that is higher than the original purchase price. The difference between the purchase price the Company originally paid and the sale price represents interest received from the borrower. In contrast, the contemporaneous repurchase and reverse repurchase transactions effectively resulted in the Company pledging Non-Agency MBS as collateral to the counterparty in connection with the repurchase agreement financing and obtaining U.S. Treasury securities as collateral from the same counterparty in connection with the reverse repurchase agreement. No net cash was exchanged between the Company and counterparty at the inception of the transactions. Securities obtained and pledged as collateral are recorded in Other assets on the Company's consolidated balance sheets. Interest income is recorded on the reverse repurchase agreement and interest expense is recorded on the repurchase agreement on an accrual basis. Both the Company and the counterparty have the right to make daily margin calls based on changes in the value of the collateral obtained and/or pledged. The Company's liability to the counterparty in connection with this financing arrangement is recorded in Other liabilities on the Company's consolidated balance sheets and disclosed as "Obligation to return securities obtained as collateral, at fair value." (See Note 5(a))

(l) Equity-Based Compensation

Compensation expense for equity-based awards that are subject to vesting conditions, is recognized ratably over the vesting period of such awards, based upon the fair value of such awards at the grant date. For certain awards granted prior to January 1, 2017, compensation expense recognized included the impact of estimated forfeitures, with any changes in estimated forfeiture rates accounted for as a change in estimate. Upon adoption of new accounting guidance that was effective for the Company on January 1, 2017, the Company made a policy election to account for forfeitures as they occur.

From 2011 through 2013, the Company granted certain restricted stock units ("RSUs") that vested annually over a one or three-year period, provided that certain criteria were met, which were based on a formula tied to the Company's achievement of average total stockholder return during that three-year period. Starting in 2014, the Company has made annual grants of RSUs certain of which cliff vest after a three-year period and others of which cliff vest after a three-year period, subject to the achievement of certain performance criteria based on a formula tied to the Company's achievement of average total stockholder return during that three-year period. The features in these awards related to the attainment of total stockholder return over a specified period constitute a "market condition" which impacts the amount of compensation expense recognized for these awards. Specifically, the uncertainty regarding the achievement of the market condition was reflected in the grant date fair valuation of the RSUs, which is recognized as compensation expense over the relevant vesting period. The amount of compensation expense recognized is not dependent on whether the market condition was or will be achieved.

The Company makes dividend equivalent payments in connection with certain of its equity-based awards. A dividend equivalent is a right to receive a distribution equal to the dividend distributions that would be paid on a share of the Company's common stock. Dividend equivalents may be granted as a separate instrument or may be a right associated with the grant of another award (e.g., an RSU) under the Company's Equity Compensation Plan (the "Equity Plan"), and they are paid in cash or other consideration at such times and in accordance with such rules, terms and conditions, as the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") may determine in its discretion. Payments pursuant to dividend equivalents are generally charged to Stockholders' Equity to the extent that the attached equity awards are expected to vest. Compensation expense is recognized for payments made for dividend equivalents to the extent that the attached equity awards do not or are not expected to vest and grantees are not required to return payments of dividends or dividend equivalents to the Company. (See Notes 2(m) and 13)

(m) Earnings per Common Share ("EPS")

Basic EPS is computed using the two-class method, which includes the weighted-average number of shares of common stock outstanding during the period and an estimate of other securities that participate in dividends, such as the Company's unvested restricted stock and RSUs that have non-forfeitable rights to dividends and dividend equivalents attached to/associated with RSUs and vested stock options to arrive at total common equivalent shares. In applying the two-class method, earnings are allocated to both shares of common stock and estimated securities that participate in dividends based on their respective weighted-average shares outstanding for the period. For the diluted EPS calculation, common equivalent shares are further adjusted for the effect of dilutive unexercised stock options and RSUs outstanding that are unvested and have dividends that are subject to forfeiture using the treasury stock method. Under the treasury stock method, common equivalent shares are calculated assuming that all dilutive common stock equivalents are exercised and the proceeds, along with future compensation expenses associated with such instruments, are used to repurchase shares of the Company’s outstanding common stock at the average market price during the reported period. (See Note 12)

(n) Comprehensive Income/(Loss)

The Company’s comprehensive income/(loss) available to common stock and participating securities includes net income, the change in net unrealized gains/(losses) on its AFS securities and derivative hedging instruments, (to the extent that such changes are not recorded in earnings), adjusted by realized net gains/(losses) reclassified out of AOCI for sold AFS securities and is reduced by dividends declared on the Company’s preferred stock and issuance costs of redeemed preferred stock.

(o) U.S. Federal Income Taxes

The Company has elected to be taxed as a REIT under the provisions of the Internal Revenue Code of 1986, as amended, (the “Code”) and the corresponding provisions of state law. The Company expects to operate in a manner that will enable it to satisfy the various requirements to maintain its status as a REIT for federal income tax purposes. In order to maintain its status as a REIT, the Company must, among other things, distribute at least 90% of its REIT taxable income (excluding net long-term capital gains) to stockholders in the timeframe permitted by the Code. As long as the Company maintains its status as a REIT, the Company will not be subject to regular federal income tax to the extent that it distributes 100% of its REIT taxable income (including net long-term capital gains) to its stockholders within the permitted timeframe. Should this not occur, the Company would be subject to federal taxes at prevailing corporate tax rates on the difference between its REIT taxable income and the amounts deemed to be distributed for that tax year. As the Company’s objective is to distribute 100% of its REIT taxable income to its stockholders within the permitted timeframe, no provision for current or deferred income taxes has been made in the accompanying consolidated financial statements. Should the Company incur a liability for corporate income tax, such amounts would be recorded as REIT income tax expense on the Company’s consolidated statements of operations. Furthermore, if the Company fails to distribute during each calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of (i) 85% its REIT ordinary income for such year, (ii) 95% of its REIT capital gain income for such year, and (iii) any undistributed taxable income from prior periods, the Company would be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amounts actually distributed. To the extent that the Company incurs interest, penalties or related excise taxes in connection with its tax obligations, including as a result of its assessment of uncertain tax positions, such amounts will be included in Operating and Other Expense on the Company’s consolidated statements of operations.

In addition, the Company has elected to treat certain of its subsidiaries as a TRS. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. Generally, a domestic TRS is subject to U.S. federal, state and local corporate income taxes. Since a portion of the Company’s business may be conducted through one or more TRS, its income earned by TRS may be subject to corporate income taxation. To maintain the Company’s REIT election, no more than 20% of the value of a REIT’s assets at the end of each calendar quarter may consist of stock or securities in TRS. For purposes of the determination of U.S. federal and state income taxes, the Company’s subsidiaries that elected to be treated as a TRS record current or deferred income taxes based on differences (both permanent and timing) between the determination of their taxable income and net income under GAAP. No deferred tax benefit was recorded by the Company for the six months ended June 30, 2018 and 2017, as a valuation allowance for the full amount of the associated deferred tax asset was recognized as its recovery is not considered more likely than not.

Based on its analysis of any potential uncertain tax positions, the Company concluded that it does not have any material uncertain tax positions that meet the relevant recognition or measurement criteria as of June 30, 2018, December 31, 2017, or June 30, 2017. The Company filed its 2016 tax return prior to October 16, 2017. The Company's tax returns for tax years 2014 through 2016 are open to examination.

(p) Derivative Financial Instruments

The Company may use a variety of derivative instruments to economically hedge a portion of its exposure to market risks, including interest rate risk and prepayment risk. The objective of the Company's risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, the Company attempts to mitigate the risk of the cost of its variable rate liabilities increasing during a period of rising interest rates. The Company's derivative instruments are currently comprised of Swaps, which are designated as cash flow hedges against the interest rate risk associated with its borrowings.

Swaps

The Company documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities and the relationship between the hedging instrument and the hedged liability for all Swaps designated as hedging transactions. The Company assesses, both at inception of a hedge and on a quarterly basis thereafter, whether or not the hedge is "highly effective."

Swaps are carried on the Company's consolidated balance sheets at fair value, in Other assets, if their fair value is positive, or in Other liabilities, if their fair value is negative. Beginning in January 2017, variation margin payments on the Company's Swaps that have been novated to a clearing house are treated as a legal settlement of the exposure under the Swap contract. Previously such payments were treated as collateral pledged against the exposure under the Swap contract. The effect of this change is to reduce what would have otherwise been reported as fair value of the Swap. All of the Company's Swaps have been novated to a central clearing house. Changes in the fair value of the Company's Swaps designated in hedging transactions are recorded in OCI provided that the hedge remains effective. Changes in fair value for any ineffective amount of a Swap are recognized in earnings. The Company has not recognized any change in the value of its existing Swaps designated as hedges through earnings as a result of hedge ineffectiveness.

The Company discontinues hedge accounting on a prospective basis and recognizes changes in fair value through earnings when: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a hedge is no longer appropriate. (See Notes 5(c), 7 and 14)

Changes in the fair value of the Company's Swaps not designated in hedging transactions (if any) are recorded in Other income, net on the Company's consolidated statement of operations.

(q) Fair Value Measurements and the Fair Value Option for Financial Assets and Financial Liabilities

The Company's presentation of fair value for its financial assets and liabilities is determined within a framework that stipulates that the fair value of a financial asset or liability is an exchange price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. This definition of fair value focuses on exit price and prioritizes the use of market-based inputs over entity-specific inputs when determining fair value. In addition, the framework for measuring fair value establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of an asset or liability as of the measurement date.

In addition to the financial instruments that it is required to report at fair value, the Company has elected the fair value option for certain of its residential whole loans and CRT securities at time of acquisition. Subsequent changes in the fair value of these loans and CRT securities are reported in Net gain on residential whole loans held at fair value and Other income, net respectively on the Company's consolidated statements of operations. A decision to elect the fair value option for an eligible financial instrument, which may be made on an instrument by instrument basis, is irrevocable. (See Notes 2(d), 4 and 14)

(r) Variable Interest Entities

An entity is referred to as a VIE if it meets at least one of the following criteria: (i) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support of other parties; or (ii) as a group, the holders of the equity investment at risk lack (a) the power to direct the activities of an entity that most significantly impact the entity’s economic performance; (b) the obligation to absorb the expected losses; or (c) the right to receive the expected residual returns; or (iii) have disproportional voting rights and the entity’s activities are conducted on behalf of the investor that has disproportionately few voting rights.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE.

The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

The Company has entered into several financing transactions which resulted in the Company consolidating the VIEs that were created to facilitate these transactions. In determining the accounting treatment to be applied to these transactions, the Company concluded that the entities used to facilitate these transactions were VIEs and that they should be consolidated. If the Company had determined that consolidation was not required, it would have then assessed whether the transfers of the underlying assets would qualify as sale or should be accounted for as secured financings under GAAP. (See Note 15)

The Company also includes on its consolidated balance sheets certain financial assets and liabilities that are acquired/issued by trusts and/or other special purpose entities that have been evaluated as being required to be consolidated by the Company under the applicable accounting guidance.

(s) Offering Costs Related to Issuance and Redemption of Preferred Stock

Offering costs related to issuance of preferred stock are recorded as a reduction in Additional paid-in capital, a component of Stockholders' Equity, at the time such preferred stock is issued. On redemption of preferred stock, any excess of the fair value of the consideration transferred to the holders of the preferred stock over the carrying amount of the preferred stock in the Company's consolidated balance sheets is included in the determination of Net Income Available to Common Stock and Participating Securities in the calculation of EPS.

(t) New Accounting Standards and Interpretations

Accounting Standards Adopted in 2018

Compensation - Stock Compensation - Scope of Modification Accounting

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09, Scope of Modification Accounting ("ASU 2017-09"). The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Pursuant to this ASU, an entity should account for the effects of a modification unless all of the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award date is modified. The Company adopted ASU 2017-09 on January 1, 2018 and its adoption did not have an impact on its financial position or financial statement disclosures.

Statement of Cash Flows - Restricted Cash

In November 2016, the FASB issued ASU 2016-18, Restricted Cash ("ASU 2016-18"). ASU 2016-18 clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows with the objective of reducing the existing diversity in practice. The amendments in ASU 2016-18 require restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of period total amounts shown on the statement of cash flows. The Company adopted ASU 2016-18 on January 1, 2018 and its adoption did not have a significant impact on its financial position or financial statement disclosures.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). The amendments in ASU 2016-15 provide guidance for eight specific cash flow classification issues, certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice. The Company adopted ASU 2016-15 on January 1, 2018 and its adoption did not have a significant impact on its financial position or financial statement disclosures.

Financial Instruments - Overall - Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). The amendments in this ASU affect all entities that hold financial assets or owe financial liabilities, and address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The classification and measurement guidance of investments in debt securities and loans are not affected by the amendments in this ASU. ASU 2016-01 was effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company’s adoption of this ASU on January 1, 2018 did not have a significant impact on the Company’s financial position or financial statement disclosures as the classification and measurement of its investments in debt securities and loans were not affected by the amendments in this ASU.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). The ASU requires an entity to recognize revenue in an amount that reflects the consideration to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 replaced most existing revenue recognition guidance in GAAP when it became effective. The Company adopted this ASU on January 1, 2018 and its adoption did not have a material impact on the Company’s financial position or financial statement disclosures as the majority of the Company’s revenues are generated by financial instruments that are explicitly scoped out of this ASU. On adoption of the new standard on January 1, 2018, the Company recorded a transition adjustment, under the modified retrospective approach, of approximately $295,000 to the opening balance of retained earnings in order to reflect the recognition of a gain on sale of REO that was previously deferred under the prior accounting guidance.

3. MBS, CRT Securities and MSR Related Assets

Agency and Non-Agency MBS

The Company's MBS are comprised of Agency MBS and Non-Agency MBS which include MBS issued prior to 2008 ("Legacy Non-Agency MBS"). These MBS are secured by: (i) hybrid mortgages ("Hybrids"), which have interest rates that are fixed for a specified period of time and, thereafter, generally adjust annually to an increment over a specified interest rate index; (ii) adjustable-rate mortgages ("ARMs"), which have interest rates that reset annually or more frequently (collectively, "ARM-MBS"); and (iii) 15 and 30 year fixed-rate mortgages for Agency MBS and, for Non-Agency MBS, 30-year and longer-term fixed rate mortgages. In addition, the Company's MBS are also comprised of MBS backed by securitized re-performing/non-performing loans ("RPL/NPL MBS"), where the cash flows of the bond may not reflect the contractual cash flows of the underlying collateral. The Company's RPL/NPL MBS are generally structured with a contractual coupon step-up feature where the coupon increases up to 300 basis points at 36 months from issuance or sooner. The Company pledges a significant portion of its MBS as collateral against its borrowings under repurchase agreements and Swaps. (See Note 7)

Agency MBS: Agency MBS are guaranteed as to principal and/or interest by a federally chartered corporation, such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as Ginnie Mae. The payment of principal and/or interest on Ginnie Mae MBS is explicitly backed by the full faith and credit of the U.S. Government. Since the third quarter of 2008, Fannie Mae and Freddie Mac have been under the conservatorship of the Federal Housing Finance Agency, which significantly strengthened the backing for these government-sponsored entities.

Non-Agency MBS: The Company's Non-Agency MBS are primarily secured by pools of residential mortgages, which are not guaranteed by an agency of the U.S. Government or any federally chartered corporation. Credit risk associated with Non-Agency MBS is regularly assessed as new information regarding the underlying collateral becomes available and based on updated estimates of cash flows generated by the underlying collateral.

CRT Securities

CRT securities are debt obligations issued by Fannie Mae and Freddie Mac. The payments of principal and interest on the CRT securities are paid by Fannie Mae or Freddie Mac, as the case may be, on a monthly basis, and are dependent on the performance of loans in a reference pool of Agency MBS securitized by the issuing entity. As an investor in a CRT security, the Company may incur a loss if losses on the mortgage loans in the reference pool exceed the credit enhancement on the underlying CRT security owned by the Company. The Company assesses the credit risk associated with CRT securities by assessing the current and expected future performance of the associated reference pool. The Company pledges a portion of its CRT securities as collateral against its borrowings under repurchase agreements. (See Note 7)

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The following tables present certain information about the Company's MBS and CRT securities at June 30, 2018 and December 31, 2017:

June 30, 2018

(In Thousands)	Principal/ Current Face	Purchase Premiums	Accretable Purchase Discounts	Discount Designated as Credit Reserve and OTTI (1)	Amortized Cost (2)	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Agency MBS:									
Fannie Mae	$1,874,754	$71,870	$(34)	$—	$1,946,590	$1,928,719	$17,695	$(35,566)	$(17,871)
Freddie Mac	428,102	17,080	—	—	446,360	428,465	1,100	(18,995)	(17,895)
Ginnie Mae	5,557	101	—	—	5,658	5,713	56	(1)	55
Total Agency MBS	2,308,413	89,051	(34)	—	2,398,608	2,362,897	18,851	(54,562)	(35,711)
Non-Agency MBS:									
Expected to Recover Par (3)(4)	1,122,973	43	(27,359)	—	1,095,657	1,123,299	28,736	(1,094)	27,642
Expected to Recover Less than Par (3)	2,298,626	—	(174,889)	(553,596)	1,570,141	2,119,668	549,719	(192)	549,527
Total Non-Agency MBS (5)	3,421,599	43	(202,248)	(553,596)	2,665,798	3,242,967	578,455	(1,286)	577,169
Total MBS	5,730,012	89,094	(202,282)	(553,596)	5,064,406	5,605,864	597,306	(55,848)	541,458
CRT securities (6)	520,688	9,825	(1,830)	—	528,683	571,955	43,365	(93)	43,272
Total MBS and CRT securities	$6,250,700	$98,919	$(204,112)	$(553,596)	$5,593,089	$6,177,819	$640,671	$(55,941)	$584,730

December 31, 2017

(In Thousands)	Principal/ Current Face	Purchase Premiums	Accretable Purchase Discounts	Discount Designated as Credit Reserve and OTTI (1)	Amortized Cost (2)	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Agency MBS:									
Fannie Mae	$2,170,974	$82,271	$(40)	$—	$2,253,205	$2,246,600	$21,736	$(28,341)	$(6,605)
Freddie Mac	561,346	21,683	—	—	584,920	571,748	1,624	(14,796)	(13,172)
Ginnie Mae	6,142	112	—	—	6,254	6,333	79	—	79
Total Agency MBS	2,738,462	104,066	(40)	—	2,844,379	2,824,681	23,439	(43,137)	(19,698)

Non-Agency MBS:									
Expected to Recover Par (3)(4)	1,128,808	50	(22,737)	—	1,106,121	1,132,205	26,518	(434)	26,084
Expected to Recover Less than Par (3)	2,589,935	—	(192,588)	(593,227)	1,804,120	2,401,761	597,660	(19)	597,641
Total Non-Agency MBS (5)	3,718,743	50	(215,325)	(593,227)	2,910,241	3,533,966	624,178	(453)	623,725
Total MBS	6,457,205	104,116	(215,365)	(593,227)	5,754,620	6,358,647	647,617	(43,590)	604,027
CRT securities (6)	602,799	8,887	(3,550)	—	608,136	664,403	56,290	(23)	56,267
Total MBS and CRT securities	$7,060,004	$113,003	$(218,915)	$(593,227)	$6,362,756	$7,023,050	$703,907	$(43,613)	$660,294

(1) Discount designated as Credit Reserve and amounts related to OTTI are generally not expected to be accreted into interest income. Amounts disclosed at June 30, 2018 reflect Credit Reserve of $540.7 million and OTTI of $12.9 million. Amounts disclosed at December 31, 2017 reflect Credit Reserve of $579.0 million and OTTI of $14.2 million.

(2) Includes principal payments receivable of $1.2 million and $1.9 million at June 30, 2018 and December 31, 2017, respectively, which are not included in the Principal/Current Face.

(3) Based on management's current estimates of future principal cash flows expected to be received.

(4) Includes RPL/NPL MBS, which at June 30, 2018 had a $909.3 million Principal/Current face, $907.5 million amortized cost and $907.9 million fair value. At December 31, 2017, RPL/NPL MBS had a $922.0 million Principal/Current face, $920.1 million amortized cost and $923.1 million fair value.

(5) At both June 30, 2018 and December 31, 2017, the Company expected to recover approximately 84% of the then-current face amount of Non-Agency MBS, respectively.

(6) Amounts disclosed at June 30, 2018 includes CRT securities with a fair value of $522.1 million for which the fair value option has been elected. Such securities had gross unrealized gains of approximately $37.3 million and gross unrealized losses of approximately $92,500 at June 30, 2018. Amounts disclosed at December 31, 2017 includes CRT securities with a fair value of $528.9 million for which the fair value option has been elected. Such securities had gross unrealized gains of approximately $40.5 million and gross unrealized losses of approximately $23,000 at December 31, 2017.

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Sales of MBS and CRT Securities

During the three and six months ended June 30, 2018, the Company sold certain Agency MBS for $75.3 million realizing gross losses of $3.8 million. The Company also sold certain CRT securities during the three and six months ended June 30, 2018 for $104.0 million, realizing gross gains of $11.2 million. In addition, during the six months ended June 30, 2018, the Company sold certain Non-Agency MBS for $19.4 million, realizing gross gains of $8.8 million. During the three and six months ended June 30, 2017, the Company sold certain Non-Agency MBS for $16.9 million and $38.5 million, realizing gross gains of $5.9 million and $15.6 million, respectively. The Company has no continuing involvement with any of the sold MBS.

Unrealized Losses on MBS and CRT Securities

The following table presents information about the Company's MBS and CRT securities that were in an unrealized loss position at June 30, 2018:

Unrealized Loss Position For:

	Less than 12 Months			12 Months or more			Total	
(Dollars in Thousands)	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Agency MBS:								
Fannie Mae	$304,882	$ 3,195	97	$888,232	$ 32,371	237	$1,193,114	$ 35,566
Freddie Mac	88,740	1,232	40	300,183	17,763	96	388,923	18,995
Ginnie Mae	672	1	3	—	—	—	672	1
Total Agency MBS	394,294	4,428	140	1,188,415	50,134	333	1,582,709	54,562
Non-Agency MBS:								
Expected to Recover Par (1)	278,307	971	14	8,174	123	8	286,481	1,094
Expected to Recover Less than Par (1)	15,728	192	4	—	—	—	15,728	192
Total Non-Agency MBS	294,035	1,163	18	8,174	123	8	302,209	1,286
Total MBS	688,329	5,591	158	1,196,589	50,257	341	1,884,918	55,848
CRT securities (2)	18,064	93	5	—	—	—	18,064	93
Total MBS and CRT securities	$706,393	$ 5,684	163	$1,196,589	$ 50,257	341	$1,902,982	$ 55,941

(1) Based on management's current estimates of future principal cash flows expected to be received.
(2) Amounts disclosed at June 30, 2018 represent CRT securities on which the fair value option has been elected.

At June 30, 2018, the Company did not intend to sell any of its investments that were in an unrealized loss position, and it is "more likely than not" that the Company will not be required to sell these securities before recovery of their amortized cost basis, which may be at their maturity.

Gross unrealized losses on the Company's Agency MBS were $54.6 million at June 30, 2018. Agency MBS are issued by Government Sponsored Entities ("GSEs") and enjoy either the implicit or explicit backing of the full faith and credit of the U.S. Government. While the Company's Agency MBS are not rated by any rating agency, they are currently perceived by market participants to be of high credit quality, with risk of default limited to the unlikely event that the U.S. Government would not continue to support the GSEs. Given the credit quality inherent in Agency MBS, the

Company does not consider any of the current impairments on its Agency MBS to be credit related. In assessing whether it is more likely than not that it will be required to sell any impaired security before its anticipated recovery, which may be at its maturity, the Company considers for each impaired security, the significance of each investment, the amount of impairment, the projected future performance of such impaired securities, as well as the Company's current and anticipated leverage capacity and liquidity position. Based on these analyses, the Company determined that at June 30, 2018 any unrealized losses on its Agency MBS were temporary.

Gross unrealized losses on the Company's Non-Agency MBS were $1.3 million at June 30, 2018. Based upon the most recent evaluation, the Company does not consider these unrealized losses to be indicative of OTTI and does not believe that these unrealized losses are credit related, but are rather a reflection of current market yields and/or marketplace bid-ask spreads. The Company has reviewed its Non-Agency MBS that are in an unrealized loss position to identify those securities with losses that are other-than-temporary based on an assessment of changes in expected cash flows for such securities, which considers recent bond performance and, where possible, expected future performance of the underlying collateral.

The Company did not recognize any credit-related OTTI losses through earnings related to its Non-Agency MBS during the three and six months ended June 30, 2018. The Company recognized credit-related OTTI losses through earnings related to its Non-Agency MBS of $618,000 and $1.0 million during the three and six months ended June 30, 2017.

Non-Agency MBS on which OTTI is recognized have experienced, or are expected to experience, credit-related adverse cash flow changes. The Company's estimate of cash flows for these Non-Agency MBS is based on its review of the underlying mortgage loans securing these MBS. The Company considers information available about the structure of the securitization, including structural credit enhancement, if any, and the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, year of origination, LTVs, geographic concentrations, as well as Rating Agency reports, general market assessments, and dialogue with market participants. Changes in the Company's evaluation of each of these factors impacts the cash flows expected to be collected at the OTTI assessment date. For Non-Agency MBS purchased at a discount to par that were assessed for and had no OTTI recorded this period, such cash flow estimates indicated that the amount of expected losses decreased compared to the previous OTTI assessment date. These positive cash flow changes are primarily driven by recent improvements in LTVs due to loan amortization and home price appreciation, which, in turn, positively impacts the Company's estimates of default rates and loss severities for the underlying collateral. In addition, voluntary prepayments (i.e., loans that prepay in full with no loss) have generally trended higher relative to the Company's assumptions for these MBS which also positively impacts the Company's estimate of expected loss. Overall, the combination of higher voluntary prepayments and lower LTVs supports the Company's assessment that such MBS are not other-than-temporarily impaired.

The following table presents the composition of OTTI charges recorded by the Company for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Total OTTI losses	$—	$—	$—	$(63)
OTTI reclassified from OCI	—	(618)	—	(969)
OTTI recognized in earnings	$—	$(618)	$—	$(1,032)

The following table presents a roll-forward of the credit loss component of OTTI on the Company's Non-Agency MBS for which a non-credit component of OTTI was previously recognized in OCI. Changes in the credit loss component of OTTI are presented based upon whether the current period is the first time OTTI was recorded on a security or a subsequent OTTI charge was recorded.

	Three Months Ended	Six Months Ended

(In Thousands)	June 30, 2018	June 30, 2018
Credit loss component of OTTI at beginning of period	$38,337	$38,337
Additions for credit related OTTI not previously recognized	—	—
Subsequent additional credit related OTTI recorded	—	—
Credit loss component of OTTI at end of period	$38,337	$38,337

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Purchase Discounts on Non-Agency MBS

The following tables present the changes in the components of the Company's purchase discount on its Non-Agency MBS between purchase discount designated as Credit Reserve and OTTI and accretable purchase discount for the three and six months ended June 30, 2018 and 2017:

(In Thousands)	Three Months Ended June 30, 2018 Discount Designated as Credit Reserve and OTTI	Three Months Ended June 30, 2018 Accretable Discount (1)	Three Months Ended June 30, 2017 Discount Designated as Credit Reserve and OTTI	Three Months Ended June 30, 2017 Accretable Discount (1)
Balance at beginning of period	$(572,580)	$(199,659)	$(653,337)	$(269,724)
Impact of RMBS Issuer Settlement (2)	—	(12,089)	—	—
Accretion of discount	—	17,530	—	20,223
Realized credit losses	10,954	—	13,139	—
Purchases	—	—	(484)	(1,520)
Sales	—	—	5,037	2,819
Net impairment losses recognized in earnings	—	—	(618)	—
Transfers/release of credit reserve	8,030	(8,030)	9,765	(9,765)
Balance at end of period	$(553,596)	$(202,248)	$(626,498)	$(257,967)

(In Thousands)	Six Months Ended June 30, 2018 Discount Designated as Credit Reserve and OTTI	Six Months Ended June 30, 2018 Accretable Discount (1)	Six Months Ended June 30, 2017 Discount Designated as Credit Reserve and OTTI	Six Months Ended June 30, 2017 Accretable Discount (1)
Balance at beginning of period	$(593,227)	$(215,325)	$(694,241)	$(278,191)
Impact of RMBS Issuer Settlement (2)	—	(12,089)	—	—
Accretion of discount	—	34,746	—	41,840
Realized credit losses	19,401	—	25,463	—
Purchases	(535)	488	(484)	(1,520)
Sales	5,592	5,105	24,778	(1,078)
Net impairment losses recognized in earnings	—	—	(1,032)	—
Transfers/release of credit reserve	15,173	(15,173)	19,018	(19,018)
Balance at end of period	$(553,596)	$(202,248)	$(626,498)	$(257,967)

(1) Together with coupon interest, accretable purchase discount is recognized as interest income over the life of the security.
(2) Includes the impact of approximately $12.1 million of cash proceeds (a one-time payment) received by the Company during the three months ended June 30, 2018 in connection with the settlement of litigation related to

certain residential mortgage backed securitization trusts that were sponsored by JP Morgan Chase & Co. and affiliated entities.

MSR Related Assets

(a) Term Notes Backed by MSR Related Collateral

At June 30, 2018 and December 31, 2017, the Company had $381.4 million and $381.8 million, respectively, of term notes issued by SPVs that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. Payment of principal and interest on these term notes is considered to be largely dependent on cash flows generated by the underlying MSRs, as this impacts the cash flows available to the SPV that issued the term notes.

At June 30, 2018, these term notes had an amortized cost of $380.4 million, gross unrealized gains of $1.0 million, a weighted average yield of 5.56% and a weighted average term to maturity of 4.1 years. At December 31, 2017, the term notes had an amortized cost of $381.0 million, gross unrealized gains of $804,000, a weighted average yield of 5.80% and a weighted average term to maturity of 3.4 years.

(b) Corporate Loan

In December 2016, the Company entered into a loan agreement with an entity that originates loans and owns the related MSRs. The loan was secured by certain U.S. Government, Agency and private-label MSRs, as well as other unencumbered assets owned by the borrower. Under the terms of the loan agreement, the Company committed to lend $130.0 million of which approximately $124.2 million was drawn at March 31, 2018, and which was paid in full as of June 30, 2018. For the three and six months ended June 30, 2018, the Company recognized interest income of $1.2 million and $3.7 million including discount accretion and commitment fee income of $1.1 million and $1.2 million, respectively. In addition, the Company recorded $136,000 of Other Income consisting of deferred commitment fees recognized upon repayment of the loan during the three months ended June 30, 2018. For the three and six months ended June 30, 2017, the Company recognized interest income of approximately $2.0 million and $3.7 million including discount accretion and commitment fee income of approximately $73,000 and $135,000, respectively.

Impact of AFS Securities on AOCI

The following table presents the impact of the Company’s AFS securities on its AOCI for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
AOCI from AFS securities:				
Unrealized gain on AFS securities at beginning of period	$574,485	$629,487	$620,648	$620,403
Unrealized loss on Agency MBS, net	(9,641)	(11,157)	(18,331)	(19,209)
Unrealized (loss)/gain on Non-Agency MBS, net	(11,115)	56,167	(38,308)	83,663
Reclassification adjustment for MBS sales included in net income	(5,178)	(5,656)	(15,458)	(15,602)
Reclassification adjustment for OTTI included in net income	—	(618)	—	(1,032)
Change in AOCI from AFS securities	(25,934)	38,736	(72,097)	47,820
Balance at end of period	$548,551	$668,223	$548,551	$668,223

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Interest Income on MBS, CRT Securities and MSR Related Assets

The following table presents the components of interest income on the Company's MBS, CRT securities and MSR related assets for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2018	2017	2018	2017
Agency MBS				
Coupon interest	$20,040	$24,904	$40,997	$51,117
Effective yield adjustment (1)	(6,870)	(8,317)	(12,534)	(16,636)
Interest income	$13,170	$16,587	$28,463	$34,481
Legacy Non-Agency MBS				
Coupon interest	$27,931	$32,444	$56,765	$67,108
Effective yield adjustment (2)	17,462	19,586	34,664	41,028
Interest income	$45,393	$52,030	$91,429	$108,136
RPL/NPL MBS				
Coupon interest	$9,588	$17,601	$19,641	$40,529
Effective yield adjustment (1)	62	638	75	812
Interest income	$9,650	$18,239	$19,716	$41,341
CRT securities				
Coupon interest	$7,854	$6,586	$16,227	$11,843
Effective yield adjustment (2)	841	1,260	1,964	2,379
Interest income	$8,695	$7,846	$18,191	$14,222
MSR related assets				
Coupon interest	$5,081	$5,832	$12,598	$10,505
Effective yield adjustment (1)	1,138	73	1,244	134
Interest income	$6,219	$5,905	$13,842	$10,639

(1) Includes amortization of premium paid net of accretion of purchase discount. For Agency MBS, RPL/NPL MBS and the corporate loan secured by MSRs, interest income is recorded at an effective yield, which reflects net premium amortization/accretion based on actual prepayment activity.
(2) The effective yield adjustment is the difference between the net income calculated using the net yield, which is based on management's estimates of the amount and timing of future cash flows, less the current coupon yield.

4. Residential Whole Loans

Included on the Company's consolidated balance sheets at June 30, 2018 and December 31, 2017 are approximately \$3.4 billion and \$2.2 billion, respectively, of residential whole loans arising from the Company's interests in certain trusts established to acquire the loans and certain entities established in connection with its loan securitization transactions. The Company has assessed that these entities are required to be consolidated for financial reporting purposes.

Residential Whole Loans, at Carrying Value

The following table presents the components of the Company's Residential whole loans, at carrying value at June 30, 2018 and December 31, 2017:

(Dollars In Thousands)	June 30, 2018	December 31, 2017
Purchased credit impaired loans	$804,848	$790,879
Other loans at carrying value:		
Non-QM loans	626,927	55,612
Rehabilitation loans	162,741	56,706
Single-family rental loans	55,571	5,319
Seasoned performing loans	256,155	—
Total other loans at carrying value	$1,101,394	$117,637
Total Residential whole loans, at carrying value	$1,906,242	$908,516
Number of loans	8,300	4,800

Purchased Credit Impaired Loans

As of June 30, 2018, the Company had established an allowance for loan losses of approximately \$297,000 on its purchased credit impaired loans held at carrying value. For the three and six months ended June 30, 2018, a net reversal of provision for loan losses of approximately \$83,000 and \$33,000 was recorded, respectively, which is included in Operating and Other expense on the Company's consolidated statements of operations. For the three and six months ended June 30, 2017, a net reversal of provision for loan losses of approximately \$394,000 and \$615,000 was recorded, respectively.

The following table presents the activity in the Company's allowance for loan losses on its purchased credit impaired loans held at carrying value for the three and six months ended June 30, 2018 and 2017:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance at the beginning of period	$380	$769	$330	$990
Reversal of provisions for loan losses	(83)	(394)	(33)	(615)
Balance at the end of period	$297	$375	$297	$375

Information regarding estimates of the contractually required payments, the cash flows expected to be collected, and the estimated fair value of the $57.6 million and $101.4 million of purchased credit impaired loans held at carrying value acquired by the Company during the three and six months ended June 30, 2018 and 2017 is not presented as the closing of the purchase transactions had not occurred as of June 30, 2018 and 2017, respectively.

The following table presents accretable yield activity for the Company's purchased credit impaired loans held at carrying value for the three and six months ended June 30, 2018 and 2017:

(In Thousands)	Three Months Ended June 30, (1)		Six Months Ended June 30, (1)	
	2018	2017	2018	2017
Balance at beginning of period	$413,404	$325,551	$421,872	$334,379
Accretion	(10,910)	(8,503)	(21,941)	(17,193)
Liquidations and other	(12,840)	—	(15,010)	—
Reclassifications (to)/from non-accretable difference, net	11,421	1,077	16,154	939
Balance at end of period	$401,075	$318,125	$401,075	$318,125

(1) Excluded from the table above are approximately $57.6 million and $101.4 million of purchased credit impaired loans held at carrying value for which the closing of the purchase transaction had not occurred as of June 30, 2018 and 2017, respectively.

Accretable yield for purchased credit impaired residential whole loans is the excess of loan cash flows expected to be collected over the purchase price. The cash flows expected to be collected represent the Company's estimate of the amount and timing of undiscounted principal and interest cash flows. Additions include accretable yield estimates for purchases made during the period and reclassification to accretable yield from non-accretable yield. Accretable yield is reduced by accretion during the period. The reclassifications between accretable and non-accretable yield and the accretion of interest income are based on changes in estimates regarding loan performance and the value of the underlying real estate securing the loans. In future periods, as the Company updates estimates of cash flows expected to be collected from the loans and the underlying collateral, the accretable yield may change. Therefore, the amount of accretable income recorded during the three and six months ended June 30, 2018 is not necessarily indicative of future results.

Other Loans at Carrying Value

As of June 30, 2018, there were six loans held at carrying value, that have been placed on non-accrual status as they are more than 90 days delinquent and had not yet become current with respect to the contractually required payments under the loan. Such loans have an unpaid balance of approximately $2.1 million. These non-performing loans represent approximately 0.2% of the total outstanding principal balance of all of the Company's Other Loans at Carrying Value. Management have assessed the recoverability of these loans and based on estimates of the value of the underlying collateral, no allowance for loan loss reserves has been recorded as of June 30, 2018.

In connection with purchased Rehabilitation loans, the Company has unfunded commitments of $29.7 million.

Residential Whole Loans, at Fair Value

Certain of the Company's residential whole loans are presented at fair value on its consolidated balance sheets as a result of a fair value election made at time of acquisition. Subsequent changes in fair value are reported in current period earnings and presented in Net gain on residential whole loans held at fair value on the Company's consolidated statements of operations.

The following table presents information regarding the Company's residential whole loans held at fair value at June 30, 2018 and December 31, 2017:

(Dollars in Thousands)	June 30, 2018 (1)	December 31, 2017
Less than 60 Days Past Due:		
Outstanding principal balance	$563,446	$488,600
Aggregate fair value	$522,687	$446,616
Number of loans	2,718	2,323
60 Days to 89 Days Past Due:		
Outstanding principal balance	$71,880	$45,955
Aggregate fair value	$61,112	$37,927
Number of loans	292	207
90 Days or More Past Due:		
Outstanding principal balance	$1,025,432	$1,027,818
Aggregate fair value	$884,741	$840,572
Number of loans	3,615	3,984
Total Residential whole loans, at fair value	$1,468,540	$1,325,115

(1) Excluded from the table above are approximately $34.4 million of residential whole loans held at fair value for which the closing of the purchase transaction had not occurred as of June 30, 2018.

The following table presents the components of Net gain on residential whole loans held at fair value for the three and six months ended June 30, 2018 and 2017:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Coupon payments and other income received	$19,002	$9,974	$34,400	$18,148
Net unrealized gains	4,599	4,262	18,346	7,209
Net gain on payoff/liquidation of loans	4,044	752	6,952	1,619
Net gain on transfers to REO	4,798	1,220	11,243	3,005
Total	$32,443	$16,208	$70,941	$29,981

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5. Other Assets

The following table presents the components of the Company's Other assets at June 30, 2018 and December 31, 2017:

(In Thousands)	June 30, 2018	December 31, 2017
Securities obtained and pledged as collateral, at fair value	$253,721	$ 504,062
REO	192,162	152,356
Interest receivable	31,139	27,415
Swaps, at fair value	11,183	679
Goodwill	7,189	7,189
Prepaid and other assets	122,754	51,208
Total Other Assets	$618,148	$ 742,909

(a) Securities Obtained and Pledged as Collateral/Obligation to Return Securities Obtained as Collateral

The Company has obtained securities as collateral under collateralized financing arrangements in connection with its financing strategy for Non-Agency MBS. Securities obtained as collateral in connection with these transactions are recorded at fair value, with a liability, representing the obligation to return the collateral obtained, recorded in Other liabilities. While beneficial ownership of securities obtained remains with the counterparty, the Company has the right to transfer the collateral obtained or to pledge it as part of a subsequent collateralized financing transaction.

(b) Real Estate Owned

At June 30, 2018, the Company had 884 REO properties with an aggregate carrying value of $192.2 million. At December 31, 2017, the Company had 709 REO properties with an aggregate carrying value of $152.4 million.

During the three and six months ended June 30, 2018, the Company reclassified 251 and 555 mortgage loans to REO at an aggregate estimated fair value less estimated selling costs of $48.7 million and $103.5 million, respectively, at the time of transfer. During the three and six months ended June 30, 2017, the Company reclassified 168 and 347 mortgage loans to REO at an aggregate estimated fair value less estimated selling cost of $27.3 million and $58.4 million, respectively, at the time of transfer. Such transfers occur when the Company takes possession of the property by foreclosing on the borrower or completes a "deed-in-lieu of foreclosure" transaction. From time to time, the Company also acquires REO in connection with transactions to acquire residential whole loans.

At June 30, 2018, $183.8 million of residential real estate property was held by the Company that was acquired either through a completed foreclosure proceeding or from completion of a deed-in-lieu of foreclosure or similar legal agreement. In addition, formal foreclosure proceedings were in process with respect to $46.4 million of residential whole loans held at carrying value and $780.6 million of residential whole loans held at fair value at June 30, 2018.

During the three and six months ended June 30, 2018, the Company sold 212 and 380 REO properties for consideration of $40.6 million and $66.1 million, realizing net gains of approximately $2.7 million and $4.7 million, respectively. During the three and six months ended June 30, 2017, the Company sold 145 and 229 REO properties for consideration of $21.8 million and $34.5 million, realizing net gain of approximately $1.2 million and $2.0 million, respectively. These amounts are included in Other, net on the Company’s consolidated statements of operations. In addition, following an updated assessment of liquidation amounts expected to be realized that was performed on all REO held at the end of the second quarters of 2018 and 2017, downward adjustments of approximately $4.1 million and $2.4 million were recorded to reflect certain REO properties at the lower of cost or estimated fair value as of June 30, 2018 and 2017, respectively.

The following table presents the activity in the Company's REO for the three and six months ended June 30, 2018 and 2017:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	$182,940	$98,708	$152,356	$80,503
Adjustments to record at lower of cost or fair value	(4,121)	(2,354)	(7,536)	(4,177)
Transfer from residential whole loans (1)	48,699	27,345	103,521	58,444
Purchases and capital improvements	2,604	1,109	5,282	1,882
Disposals	(37,960)	(20,365)	(61,461)	(32,209)
Balance at end of period	$192,162	$104,443	$192,162	$104,443

(1) Includes net gain recorded on transfer of approximately $5.3 million and $1.1 million, for the three months ended June 30, 2018 and 2017, respectively; and approximately $11.7 million and $2.5 million for the six months ended June 30, 2018 and 2017, respectively.

(c) Derivative Instruments

The Company's derivative instruments are currently comprised of Swaps, which are designated as cash flow hedges against the interest rate risk associated with its borrowings. The following table presents the fair value of the Company's derivative instruments and their balance sheet location at June 30, 2018 and December 31, 2017:

			June 30, 2018		December 31, 2017	
Derivative Instrument	Designation	Balance Sheet Location	Notional Amount	Fair Value	Notional Amount	Fair Value
(In Thousands)						
Cleared Swaps (1)	Hedging	Assets	$2,500,000	$11,183	$750,000	$ 679
Cleared Swaps (1)	Hedging	Liabilities	$100,000	$—	$1,800,000	$ —

(1) Cleared Swaps represent Swaps executed bilaterally with a counterparty in the over-the-counter market but then novated to a central clearing house, whereby the central clearing house becomes the counterparty to both of the original counterparties.

Swaps

The following table presents the assets pledged as collateral against the Company's Swap contracts at June 30, 2018 and December 31, 2017:

(In Thousands)	June 30, 2018	December 31, 2017
Agency MBS, at fair value	$3,097	$ 21,756
Restricted cash	—	6,405
Total assets pledged against Swaps	$3,097	$ 28,161

The Company’s derivative hedging instruments, or a portion thereof, could become ineffective in the future if the associated repurchase agreements that such derivatives hedge fail to exist or fail to have terms that match those of the derivatives that hedge such borrowings. At June 30, 2018, all of the Company’s derivatives were deemed effective for hedging purposes.

The Company’s Swaps designated as hedging transactions have the effect of modifying the repricing characteristics of the Company’s repurchase agreements and cash flows for such liabilities. To date, no cost has been incurred at the inception of a Swap (except for certain transaction fees related to entering into Swaps cleared though a central clearing house), pursuant to which the Company agrees to pay a fixed rate of interest and receive a variable interest rate, generally based on one-month or three-month London Interbank Offered Rate (“LIBOR”), on the notional amount of the Swap. The Company did not recognize any change in the value of its existing Swaps designated as hedges through earnings as a result of hedge ineffectiveness during the three and six months ended June 30, 2018 and 2017.

At June 30, 2018, the Company had Swaps (all of which were designated in hedging relationships) with an aggregate notional amount of $2.6 billion and extended 22 months on average with a maximum term of approximately 62 months.

The following table presents information about the Company's Swaps at June 30, 2018 and December 31, 2017:

	June 30, 2018			December 31, 2017		
Maturity (1)	Notional Amount	Weighted Average Fixed-Pay Interest Rate	Weighted Average Variable Interest Rate (2)	Notional Amount	Weighted Average Fixed-Pay Interest Rate	Weighted Average Variable Interest Rate (2)
(Dollars in Thousands)						
Within 30 days	$500,000	1.50 %	2.06 %	$—	— %	— %
Over 30 days to 3 months	—	—	—	—	—	—
Over 3 months to 6 months	—	—	—	50,000	1.45	1.56
Over 6 months to 12 months	200,000	1.71	2.09	500,000	1.50	1.46
Over 12 months to 24 months	200,000	2.05	2.10	200,000	1.71	1.54
Over 24 months to 36 months	1,600,000	2.25	2.09	1,500,000	2.22	1.51
Over 36 months to 48 months	—	—	—	200,000	2.20	1.53
Over 48 months to 60 months	—	—	—	—	—	—
Over 60 months to 72 months (3)	100,000	2.75	2.09	100,000	2.75	1.50
Total Swaps	$2,600,000	2.07 %	2.08 %	$2,550,000	2.04 %	1.50 %

(1) Each maturity category reflects contractual amortization and/or maturity of notional amounts.
(2) Reflects the benchmark variable rate due from the counterparty at the date presented, which rate adjusts monthly or quarterly based on one-month or three-month LIBOR, respectively.
(3) Reflects one Swap with a maturity date of July 2023.

The following table presents the net impact of the Company's derivative hedging instruments on its interest expense and the weighted average interest rate paid and received for such Swaps for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	2018	2017	2018	2017
Interest expense attributable to Swaps	$808	$6,488	$3,640	$14,297
Weighted average Swap rate paid	2.05 %	1.98 %	2.04 %	1.93 %
Weighted average Swap rate received	1.92 %	1.01 %	1.76 %	0.90 %

Impact of Derivative Hedging Instruments on AOCI

The following table presents the impact of the Company's derivative hedging instruments on its AOCI for the three and six months ended June 30, 2018 and 2017:

(In Thousands)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
AOCI from derivative hedging instruments:				
Balance at beginning of period	$8,245	$(34,824)	$(11,424)	$(46,721)
Net gain/(loss) on Swaps	7,915	(1,017)	27,584	10,880
Balance at end of period	$16,160	$(35,841)	$16,160	$(35,841)

6. Repurchase Agreements

The Company's repurchase agreements are accounted for as secured borrowings and bear interest that is generally LIBOR-based. (See Notes 2(k) and 7) At June 30, 2018, the Company's borrowings under repurchase agreements had a weighted average remaining term-to-interest rate reset of 14 days and an effective repricing period of 9 months, including the impact of related Swaps. At December 31, 2017, the Company's borrowings under repurchase agreements had a weighted average remaining term-to-interest rate reset of 16 days and an effective repricing period of 11 months, including the impact of related Swaps.

The following table presents information with respect to the Company's borrowings under repurchase agreements and associated assets pledged as collateral at June 30, 2018 and December 31, 2017:

(Dollars in Thousands)	June 30, 2018	December 31, 2017
Repurchase agreement borrowings secured by Agency MBS	$2,111,547	$2,501,340
Fair value of Agency MBS pledged as collateral under repurchase agreements	$2,283,312	$2,705,754
Weighted average haircut on Agency MBS (1)	4.52 %	4.65 %
Repurchase agreement borrowings secured by Legacy Non-Agency MBS	$1,364,458	$1,256,033
Fair value of Legacy Non-Agency MBS pledged as collateral under repurchase agreements	$1,813,359	$1,652,983
Weighted average haircut on Legacy Non-Agency MBS (1)	21.24 %	21.87 %
Repurchase agreement borrowings secured by RPL/NPL MBS	$499,294	$567,140
Fair value of RPL/NPL MBS pledged as collateral under repurchase agreements	$634,073	$726,540
Weighted average haircut on RPL/NPL MBS (1)	22.01 %	22.05 %
Repurchase agreements secured by U.S. Treasuries	$220,931	$470,334
Fair value of U.S. Treasuries pledged as collateral under repurchase agreements	$220,731	$472,095
Weighted average haircut on U.S. Treasuries (1)	1.00 %	1.47 %
Repurchase agreements secured by CRT securities	$410,157	$459,058
Fair value of CRT securities pledged as collateral under repurchase agreements	$516,486	$595,900
Weighted average haircut on CRT securities (1)	20.43 %	22.16 %
Repurchase agreements secured by MSR related assets	$297,063	$317,255
Fair value of MSR related assets pledged as collateral under repurchase agreements	$381,390	$482,158
Weighted average haircut on MSR related assets (1)	21.70 %	33.19 %
Repurchase agreements secured by residential whole loans (2)	$988,831	$1,043,747
Fair value of residential whole loans pledged as collateral under repurchase agreements	$1,382,068	$1,474,704
Weighted average haircut on residential whole loans (1)	25.55 %	26.10 %

(1) Haircut represents the percentage amount by which the collateral value is contractually required to exceed the loan amount.
(2) Excludes $53,000 and $206,000 of unamortized debt issuance costs at June 30, 2018 and December 31, 2017, respectively.

The following table presents repricing information about the Company's borrowings under repurchase agreements, which does not reflect the impact of associated derivative hedging instruments, at June 30, 2018 and December 31, 2017:

	June 30, 2018			December 31, 2017		
Time Until Interest Rate Reset	Balance	Weighted Average Interest Rate		Balance	Weighted Average Interest Rate	
(Dollars in Thousands)						
Within 30 days	$5,682,864	2.92	%	$6,161,008	2.39	%
Over 30 days to 3 months	209,417	3.24		453,899	2.76	
Total repurchase agreements	5,892,281	2.93	%	6,614,907	2.42	%
Less debt issuance costs	53			206		
Total repurchase agreements less debt issuance costs	$5,892,228			$6,614,701		

The following table presents contractual maturity information about the Company's borrowings under repurchase agreements, all of which are accounted for as secured borrowings, at June 30, 2018, and does not reflect the impact of derivative contracts that hedge such repurchase agreements:

	June 30, 2018											
Contractual Maturity	Overnight		Within 30 Days		Over 30 Days to 3 Months		Over 3 Months to 12 Months		Over 12 months		Total	
(Dollars in Thousands)												
Agency MBS	$—		$2,111,547		$—		$—		$ —		$2,111,547	
Legacy Non-Agency MBS	—		1,268,585		95,873		—		—		1,364,458	
RPL/NPL MBS	—		439,865		59,429		—		—		499,294	
U.S. Treasuries	—		220,931		—		—		—		220,931	
CRT securities	—		404,042		6,115		—		—		410,157	
MSR related assets	—		249,063		48,000		—		—		297,063	
Residential whole loans	—		—		234,665		754,166		—		988,831	
Total (1)	$—		$4,694,033		$444,082		$754,166		$ —		$5,892,281	
Weighted Average Interest Rate	—	%	2.65	%	3.65	%	4.28	%	—	%	2.93	%

Gross amount of recognized liabilities for repurchase agreements in Note 8	$5,892,281
Amounts related to repurchase agreements not included in offsetting disclosure in Note 8	$—

(1) Excludes $53,000 of unamortized debt issuance costs at June 30, 2018.

The Company had repurchase agreement borrowings with 26 and 31 counterparties at June 30, 2018 and December 31, 2017. The following table presents information with respect to each counterparty under repurchase agreements for which the Company had greater than 5% of stockholders' equity at risk in the aggregate at June 30, 2018:

	June 30, 2018				
Counterparty	Counterparty Rating (1)	Amount at Risk (2)	Weighted Average Months to Maturity for Repurchase Agreements	Percent of Stockholders' Equity	
(Dollars in Thousands)					
Goldman Sachs (3)	BBB+/A3/A	$228,240	1	7.1	%
Wells Fargo (4)	A+/Aa2/AA-	215,022	5	6.7	

(1) As rated at June 30, 2018 by S&P, Moody's and Fitch, Inc., respectively. The counterparty rating presented is the lowest published for these entities.

(2) The amount at risk reflects the difference between (a) the amount loaned to the Company through repurchase agreements, including interest payable, and (b) the cash and the fair value of the securities pledged by the Company as collateral, including accrued interest receivable on such securities.

(3) Includes $110.1 million at risk with Goldman Sachs Lending Partners and $118.2 million at risk with Goldman Sachs Bank USA.

(4) Includes $207.8 million at risk with Wells Fargo Bank, NA and $7.2 million at risk with Wells Fargo Securities LLC.

7. Collateral Positions

The Company pledges securities or cash as collateral to its counterparties pursuant to its borrowings under repurchase agreements and for initial margin payments on centrally cleared Swaps. In addition, the Company receives securities or cash as collateral pursuant to financing provided under reverse repurchase agreements. The Company exchanges collateral with its counterparties based on changes in the fair value, notional amount and term of the associated repurchase agreements and Swap contracts, as applicable. In connection with these margining practices, either the Company or its counterparty may be required to pledge cash or securities as collateral. When the Company's pledged collateral exceeds the required margin, the Company may initiate a reverse margin call, at which time the counterparty may either return the excess collateral or provide collateral to the Company in the form of cash or equivalent securities.

The following table summarizes the fair value of the Company's collateral positions, which includes collateral pledged and collateral held, with respect to its borrowings under repurchase agreements, reverse repurchase agreements and derivative hedging instruments at June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
(In Thousands)	Assets Pledged	Collateral Held	Assets Pledged	Collateral Held
Derivative Hedging Instruments:				
Agency MBS	$3,097	$ —	$21,756	$ —
Cash (1)	—	—	6,405	—
	3,097	—	28,161	—
Repurchase Agreement Borrowings:				
Agency MBS	2,283,312	—	2,705,754	—
Legacy Non-Agency MBS (2)	1,813,359	—	1,652,983	—
RPL/NPL MBS	634,073	—	726,540	—
U.S. Treasury securities	220,731	—	472,095	—
CRT securities	516,486	—	595,900	—
MSR related assets	381,390	—	482,158	—
Residential whole loans	1,382,068	—	1,474,704	—
Cash (1)	3,298	—	6,902	—
	7,234,717	—	8,117,036	—
Reverse Repurchase Agreements:				
U.S. Treasury securities	—	253,721	—	504,062
	—	253,721	—	504,062
Total	$7,237,814	$ 253,721	$8,145,197	$ 504,062

(1) Cash pledged as collateral is reported as "Restricted cash" on the Company's consolidated balance sheets.
(2) In addition, at June 30, 2018 and December 31, 2017, $320.3 million and $688.1 million of Legacy Non-Agency MBS, respectively, are pledged as collateral in connection with contemporaneous repurchase and reverse repurchase agreements entered into with a single counterparty.

The following table presents detailed information about the Company's assets pledged as collateral pursuant to its borrowings under repurchase agreements and derivative hedging instruments at June 30, 2018:

	June 30, 2018						
	Assets Pledged Under Repurchase Agreements			Assets Pledged Against Derivative Hedging Instruments			
(In Thousands)	Fair Value	Amortized Cost	Accrued Interest on Pledged Assets	Fair Value/ Carrying Value	Amortized Cost	Accrued Interest on Pledged Assets	Total Fair Value of Assets Pledged and Accrued Interest
Agency MBS							