MFA FINANCIAL, INC.
Form 10-Q
August 04, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

(212) 207-6400
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

370,406,361 shares of the registrant's common stock, $0.01 par value, were outstanding as of July 30, 2015.

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MFA FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS

(In Thousands Except Per Share Amounts)	June 30, 2015 (Unaudited)	December 31, 2014
Assets:		
Mortgage-backed securities ("MBS") and credit risk transfer ("CRT") securities:		
Agency MBS, at fair value ($4,968,333 and $5,519,813 pledged as collateral, respectively)	$5,331,211	$5,904,207
Non-Agency MBS, at fair value ($5,144,186 and $2,377,343 pledged as collateral, respectively)	6,222,676	3,358,426
Non-Agency MBS transferred to consolidated variable interest entities ("VIEs"), at fair value (1)	659,477	1,397,006
CRT securities, at fair value ($116,690 and $94,610 pledged as collateral, respectively)	128,910	102,983
Securities obtained and pledged as collateral, at fair value	498,336	512,105
Residential whole loans, at carrying value ($66,279 and $67,536 pledged as collateral, respectively)	245,402	207,923
Residential whole loans, at fair value ($131,065 and $143,072 pledged as collateral, respectively)	183,861	143,472
Cash and cash equivalents	218,492	182,437
Restricted cash	68,057	67,255
Interest receivable	31,263	32,581
Derivative instruments:		
MBS linked transactions, net ("Linked Transactions"), at fair value	—	398,336
Interest rate swap agreements ("Swaps"), at fair value	849	3,136
Goodwill	7,189	7,189
Prepaid and other assets	59,160	37,688
Total Assets	$13,654,883	$12,354,744
Liabilities:		
Repurchase agreements	$9,635,036	$8,267,388
Securitized debt (2)	62,320	110,574
Obligation to return securities obtained as collateral, at fair value	498,336	512,105
8% Senior Notes due 2042 ("Senior Notes")	100,000	100,000
Accrued interest payable	13,759	13,095
Swaps, at fair value	65,420	62,198
Dividends and dividend equivalents payable	74,584	74,529
Accrued expenses and other liabilities	59,759	11,583
Total Liabilities	$10,509,214	$9,151,472
Commitments and contingencies (See Note 12)		
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
	3,702	3,701

Common stock, $.01 par value; 886,950 shares authorized; 370,196 and 370,084 shares issued and outstanding, respectively		
Additional paid-in capital, in excess of par	3,016,362	3,013,634
Accumulated deficit	(569,055)	(568,596)
Accumulated other comprehensive income	694,580	754,453
Total Stockholders' Equity	$3,145,669	$3,203,272
Total Liabilities and Stockholders' Equity	$13,654,883	$12,354,744

(1) Non-Agency MBS transferred to consolidated VIEs represent assets of the consolidated VIEs that can be used only to settle the obligations of each respective VIE.

(2) Securitized debt represents third-party liabilities of consolidated VIEs and excludes liabilities of the VIEs acquired by the Company that eliminate on consolidation. The third-party beneficial interest holders in the VIEs have no recourse to the general credit of the Company. (See Notes 12 and 17 for further discussion.)

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)	2015	2014	2015	2014
Interest Income:				
Agency MBS	$25,739	$37,609	$57,412	$76,938
Non-Agency MBS	80,916	43,473	162,164	86,628
Non-Agency MBS transferred to consolidated VIEs	11,595	37,543	23,638	76,207
CRT securities	1,524	—	2,884	—
Residential whole loans held at carrying value	4,193	—	7,784	—
Cash and cash equivalent investments	29	17	56	43
Interest Income	$123,996	$118,642	$253,938	$239,816
Interest Expense:				
Repurchase agreements	$40,223	$36,690	$81,405	$73,419
Securitized debt	618	1,871	1,368	4,056
Senior Notes	2,008	2,008	4,016	4,015
Interest Expense	$42,849	$40,569	$86,789	$81,490
Net Interest Income	$81,147	$78,073	$167,149	$158,326
Other-Than-Temporary Impairments:				
Total other-than-temporary impairment losses	$(130)	$—	$(525)	$—
Portion of loss reclassed from other comprehensive income	(168)	—	(180)	—
Net Impairment Losses Recognized in Earnings	$(298)	$—	$(705)	$—
Other Income, net:				
Unrealized net gains and net interest income from Linked Transactions	$—	$3,776	$—	$7,027
Net gain on residential whole loans held at fair value	3,163	—	5,197	—
Gain on sales of MBS	7,617	7,852	14,052	11,423
Other, net	(617)	708	(306)	292
Other Income, net	$10,163	$12,336	$18,943	$18,742
Operating and Other Expense:				
Compensation and benefits	$6,531	$5,901	$13,277	$12,408
Other general and administrative expense	4,678	4,081	8,135	7,630
Excise tax and interest	—	1,175	—	1,175
Loan servicing and other related operating expenses	1,732	526	3,731	941
Operating and Other Expense	$12,941	$11,683	$25,143	$22,154
Net Income	$78,071	$78,726	$160,244	$154,914
Less Preferred Stock Dividends	3,750	3,750	7,500	7,500
Net Income Available to Common Stock and Participating Securities	$74,321	$74,976	$152,744	$147,414

Earnings per Common Share - Basic and Diluted	$0.20	$0.20	$0.41	$0.40
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
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Net income	$78,071	$78,726	$160,244	$154,914
Other Comprehensive (Loss)/Income:				
Unrealized (loss)/gain on Agency MBS, net	(25,250)	43,094	(12,365)	60,937
Unrealized (loss)/gain on Non-Agency MBS, net	(57,695)	50,136	(31,402)	101,554
Reclassification adjustment for MBS sales included in net income	(7,863)	(6,748)	(14,429)	(9,699)
Reclassification adjustment for other-than-temporary impairments included in net income	(298)	—	(705)	—
Unrealized gain/(loss) on derivative hedging instruments, net	26,858	(27,634)	(5,509)	(39,901)
Reclassification of unrealized loss on de-designated derivative hedging instruments	—	—	—	447
Cumulative effect adjustment on adoption of revised accounting standard for repurchase agreement financing	—	—	4,537	—
Other Comprehensive (Loss)/Income	(64,248)	58,848	(59,873)	113,338
Comprehensive income before preferred stock dividends	$13,823	$137,574	$100,371	$268,252
Dividends declared on preferred stock	(3,750)	(3,750)	(7,500)	(7,500)
Comprehensive Income Available to Common Stock and Participating Securities	$10,073	$133,824	$92,871	$260,752

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

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

(In Thousands, Except Per Share Amounts)	Six Months Ended June 30, 2015 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, 2014	8,000	$80	370,084	$3,701	$3,013,634	$(568,596)	$754,453	$3,203,272
Cumulative effect adjustment on adoption of revised accounting standard for repurchase agreement financing	—	—	—	—	—	(4,537)	4,537	—
Net income	—	—	—	—	—	160,244	—	160,244
Issuance of common stock, net of expenses (1)	—	—	134	1	622	—	—	623
Repurchase of shares of common stock (1)	—	—	(22)	—	(238)	—	—	(238)
Equity based compensation expense	—	—	—	—	2,569	—	—	2,569
Accrued dividends attributable to stock-based awards	—	—	—	—	(225)	—	—	(225)
Dividends declared on common stock	—	—	—	—	—	(148,153)	—	(148,153)
Dividends declared on preferred stock	—	—	—	—	—	(7,500)	—	(7,500)
Dividends attributable to dividend equivalents	—	—	—	—	—	(513)	—	(513)
Change in unrealized gains on MBS, net	—	—	—	—	—	—	(58,901)	(58,901)
Change in unrealized losses on derivative hedging instruments, net	—	—	—	—	—	—	(5,509)	(5,509)
Balance at June 30, 2015	8,000	$80	370,196	$3,702	$3,016,362	$(569,055)	$694,580	$3,145,669

(In Thousands, Except Per Share Amounts)	Six Months Ended June 30, 2014 Preferred Stock	Common Stock	Additional Paid-in	Accumulated Deficit	Accumulated Other	Total

	7.50% Series B Cumulative Redeemable - Liquidation Preference $25.00 per Share				Capital		Comprehensive Income	
	Shares	Amount	Shares	Amount				
Balance at December 31, 2013	8,000	$ 80	365,125	$ 3,651	$ 2,972,369	$ (571,544)	$ 737,695	$ 3,142,251
Net income	—	—	—	—	—	154,914	—	154,914
Issuance of common stock, net of expenses (1)	—	—	2,414	24	16,822	—	—	16,846
Repurchase of shares of common stock (1)	—	—	(64)	—	(241)	—	—	(241)
Equity based compensation expense	—	—	—	—	3,086	—	—	3,086
Accrued dividends attributable to stock-based awards	—	—	—	—	(109)	—	—	(109)
Dividends declared on common stock	—	—	—	—	—	(146,907)	—	(146,907)
Dividends declared on preferred stock	—	—	—	—	—	(7,500)	—	(7,500)
Dividends attributable to dividend equivalents	—	—	—	—	—	(384)	—	(384)
Change in unrealized gains on MBS, net	—	—	—	—	—	—	152,792	152,792
Change in unrealized losses on derivative hedging instruments, net	—	—	—	—	—	—	(39,454)	(39,454)
Balance at June 30, 2014	8,000	$ 80	367,475	$ 3,675	$ 2,991,927	$ (571,421)	$ 851,033	$ 3,275,294

(1) For the six months ended June 30, 2015 and 2014, includes approximately $169,000 (22,148 shares) and $480,000 (64,012 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, 2015	2014
Cash Flows From Operating Activities:		
Net income	$160,244	$154,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of MBS	(14,052)	(11,423)
Other-than-temporary impairment charges	705	—
Accretion of purchase discounts on MBS and CRT securities and residential whole loans	(49,805)	(48,433)
Amortization of purchase premiums on MBS	21,108	17,678
Depreciation and amortization on real estate, fixed assets and other assets	332	657
Equity-based compensation expense	2,569	3,086
Unrealized gain on residential whole loans at fair value	(1,510)	—
Unrealized gains on derivative instruments	—	(4,094)
Decrease in interest receivable	1,258	1,144
Increase in prepaid and other assets	(20,962)	(15,935)
Decrease in accrued expenses and other liabilities, and excise tax and interest	(699)	(1,185)
Increase in accrued interest payable on financial instruments	23,577	18,553
Net cash provided by operating activities	$122,765	$114,962
Cash Flows From Investing Activities:		
Principal payments on MBS and CRT securities	$1,474,569	$935,415
Proceeds from sale of MBS	27,177	42,029
Purchases of MBS and CRT securities	(1,180,522)	(955,975)
Purchases of residential whole loans	(43,661)	—
Principal payments on residential whole loans	16,427	—
Additions to leasehold improvements, furniture and fixtures	(257)	(221)
Net cash provided by investing activities	$293,733	$21,248
Cash Flows From Financing Activities:		
Principal payments on repurchase agreements	$(52,143,570)	$(41,172,586)
Proceeds from borrowings under repurchase agreements	51,991,623	41,217,390
Principal payments on securitized debt	(48,107)	(151,296)
Cash disbursements on financial instruments underlying Linked Transactions	—	(1,139,692)
Cash received from financial instruments underlying Linked Transactions	—	1,065,107
Payments made for margin calls on repurchase agreements and Swaps	(148,700)	(87,700)
Proceeds from reverse margin calls on repurchase agreements and Swaps	123,800	48,400
Proceeds from issuances of common stock	623	16,846
Dividends paid on preferred stock	(7,500)	(7,500)
Dividends paid on common stock and dividend equivalents	(148,612)	(146,830)
Net cash used in financing activities	$(380,443)	$(357,861)
Net increase/(decrease) in cash and cash equivalents	$36,055	$(221,651)
Cash and cash equivalents at beginning of period	$182,437	$565,370
Cash and cash equivalents at end of period	$218,492	$343,719

Non-cash Investing and Financing Activities:		
MBS and CRT securities recorded upon adoption of revised accounting standard for repurchase agreement financing	$1,917,813	$—
Repurchase agreements recorded upon adoption of revised accounting standard for repurchase agreement financing	$1,519,593	$—
Net increase in securities obtained as collateral/obligation to return securities obtained as collateral	$22,930	$50,375
Transfer from residential whole loans to real estate owned	$7,002	$—
Dividends and dividend equivalents declared and unpaid	$74,584	$74,104

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

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 Notes 2(o) and 13)

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, 2014. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial condition of the Company at June 30, 2015 and results of operations for all periods presented have been made. The results of operations for the six months ended June 30, 2015 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 be worse than anticipated in 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 and CRT securities (See Note 3), valuation of MBS and CRT securities (See Notes 3 and 16), income recognition and valuation of residential whole loans (See Notes 4 and 16), derivative instruments (See Notes 6 and 16) and income recognition on certain Non-Agency MBS 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 consolidated financial statements of the Company include the accounts of all subsidiaries; significant intercompany accounts and transactions have been eliminated. In addition, the Company consolidates the special purpose entities created to facilitate the resecuritization transactions completed in prior years and the acquisition of residential whole loans. Certain prior period amounts have been reclassified to conform to the current period presentation.

(b) MBS (including Non-Agency MBS transferred to consolidated VIEs) 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 Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as Ginnie Mae (collectively, "Agency MBS"), and residential MBS that are not guaranteed by any U.S. Government agency 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 recently 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 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.

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 16)

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MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

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, Fair Isaac Corporation ("FICO") scores at loan origination, year of origination, loan-to-value ratios ("LTVs"), geographic concentrations, as well as reports by credit rating agencies, such as Moody's Investors Services, Inc. ("Moody's"), Standard & Poor's Corporation ("S&P"), or Fitch, Inc. (collectively, "Rating Agencies"), general market assessments, 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) 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 on the Company's consolidated balance sheets as an asset along with a liability representing the obligation to return the collateral obtained, at fair value. While beneficial ownership of securities obtained remains with the counterparty, the Company has the right to sell the collateral obtained or to pledge it as part of a subsequent collateralized financing transaction. (See Note 2(k) for Repurchase Agreements and Reverse Repurchase Agreements)

(d) Residential Whole Loans

Residential whole loans included in the Company's consolidated balance sheets are comprised of pools of fixed and adjustable rate residential mortgage loans acquired through interests in consolidated trusts in secondary market transactions 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 under "Residential Whole Loans at Carrying Value" is typically utilized by the Company for loans where the underlying borrower has a delinquency status of less than 60 days at the acquisition date. The accounting model described below under "Residential Whole Loans 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 the fair value of the loans 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.

Residential Whole Loans at Carrying Value

Notwithstanding that the majority of these loans are considered to be performing substantially in accordance with their current contractual terms and conditions, 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 the borrowers have previously experienced payment delinquencies and the amount owed on the mortgage loan may exceed the value of the property pledged as collateral. Consequently, the Company has assessed that these loans have a higher likelihood of default than newly originated mortgage loans with LTVs of 80% or less to credit worthy borrowers. The Company believes that amounts paid to acquire these loans represent fair market value at the date of acquisition. Such loans are initially recorded at fair value with no allowance for loan losses. Subsequent to acquisition, the recorded amount 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 this accounting model 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 represents the present value of cash flows expected at acquisition that are no longer expected to be received at the relevant measurement date. A significant increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of 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. (See Notes 4 and 17)

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. Given the significant uncertainty associated with estimating the timing of and amount of cash flows associated with these loans that will be collected, and that the cash flows ultimately collected may be dependent on the value of the property securing the loan, the Company considers that accounting for these loans at fair value

should result in a better reflection over time of the economic returns from 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. (See Notes 4 and 16)

(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 and/or Swap counterparties as a result of reverse margin calls (i.e., margin calls made by the Company). The Company did not hold any cash pledged by its counterparties at June 30, 2015 or December 31, 2014. 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 $188.3 million and $168.0 million at June 30, 2015 and December 31, 2014, respectively. (See Notes 9 and 16)

(f) Restricted Cash

Restricted cash represents the Company's cash held by its counterparties as collateral or otherwise in connection with the Company's Swaps and/or repurchase agreements. Restricted cash is not available to the Company for general corporate purposes, but may be applied against amounts due to counterparties to the Company's repurchase agreements and/or Swaps, or may be returned to the Company when the related collateral requirements are exceeded or at the maturity of the Swap or repurchase agreement. The Company had aggregate restricted cash held as collateral or otherwise in connection with its Swaps and repurchase agreements of $68.1 million and $67.3 million at June 30, 2015 and December 31, 2014, respectively. (See Notes 6, 8, 9 and 16)

(g) Goodwill

At June 30, 2015 and December 31, 2014, 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, 2015, the Company had not recognized any impairment against its goodwill.

(h) Real Estate Owned ("REO")

REO represents real estate acquired by the Company, including through foreclosure or deed in lieu of foreclosure, and is initially recorded at fair value less estimated selling costs. 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 Prepaid and other assets on the Company's consolidated balance sheets. Changes in fair value that result in an adjustment to the reported amount of a 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 7)

(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) Resecuritization and Senior Notes Related Costs

Resecuritization related costs are costs associated with the issuance of beneficial interests by consolidated VIEs and incurred by the Company in connection with various resecuritization transactions completed by the Company. Senior Notes related costs are costs incurred by the Company in connection with the issuance of its Senior Notes in April, 2012. 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 in Prepaid and other assets. These deferred charges are amortized as an adjustment to interest expense using the effective interest method, based upon the actual repayments of the associated beneficial interests issued to third parties and over the stated legal maturity of the Senior Notes. 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 and Reverse Repurchase Agreements

The Company finances the holdings of a significant portion of its MBS and CRT securities 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 8, 9 and 16)

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 as an asset 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 on the Company's consolidated balance sheets and disclosed as "Obligation to return securities obtained as collateral, at fair value." (See Note 2(c))

(l) Equity-Based Compensation

Compensation expense for equity-based awards is recognized ratably over the vesting period of such awards, based upon the fair value of such awards at the grant date. With respect to awards granted in 2009 and prior years, the Company applied a zero forfeiture rate for these awards, as they were granted to a limited number of employees, and historical forfeitures have been minimal. Forfeitures, or an indication that forfeitures are expected to occur, may result in a revised forfeiture rate and would be accounted for prospectively as a change in estimate.

During 2010, the Company granted certain restricted stock units ("RSUs") that vested after either two or four years of service and provided that certain criteria are met, which were based on a formula that included changes in the Company's closing stock price over a two- or four-year period and dividends declared on the Company's common stock during those periods. From 2011 through 2013, the Company granted certain RSUs that vested annually over a one or three-year period, provided that certain criteria are met, which are based on a formula tied to the Company's achievement of average total stockholder return during that three-year period. During 2014 and the first six months of 2015, the Company made grants of RSUs certain of which cliff vest after a three-year period and certain 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 in addition to estimates regarding the amount of RSUs expected to be forfeited during the associated service period, determined the amount of compensation expense recognized. The amount of compensation expense recognized was not dependent on whether the market condition was or will be achieved, while differences in actual forfeiture experience relative to estimated forfeitures results in adjustments to the timing and amount of compensation expense recognized.

The Company has awarded dividend equivalents that may be granted as a separate instrument or may be a right associated with the grant of another equity-based award. Compensation expense for separately awarded dividend equivalents is based on the grant date fair value of such awards and is recognized over the vesting period. Payments pursuant to these dividend equivalents are charged to Stockholders' Equity. Payments pursuant to dividend equivalents that are attached to equity based awards are 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 15)

(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 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 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 14)

(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 MBS, CRT 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 MBS, CRT securities and de-designated derivative hedging instruments 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. In order to maintain its status 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 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 25% of the value of a REIT's assets at the end of each calendar quarter may consist of stock or securities in TRS.

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, 2015, December 31, 2014, or June 30, 2014. The Company filed its 2013 tax return prior to September 15, 2014. The Company's tax returns for tax years 2009 through 2013 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. Prior to 2015, the Company's derivative financial instruments also included Linked Transactions, which were not designated as hedging instruments. New accounting guidance that was effective for the Company on January 1, 2015 prospectively eliminated the use of Linked Transaction accounting.

(See Note 6) During 2013, the Company also entered into forward contracts for the sale of Agency MBS securities on a generic pool, or to-be-announced basis (“TBA short positions”) which were not designated as hedging instruments.

Linked Transactions

Prior to 2015, it was presumed that the initial transfer of a financial asset (i.e., the purchase of an MBS by the Company) and contemporaneous repurchase financing of such security with the same counterparty were considered part of the same arrangement, or a "linked transaction," unless certain criteria were met. The two components of a linked transaction (security purchase and repurchase financing) were not reported separately but were evaluated on a combined basis and reported as a forward (derivative) contract and were presented as "Linked Transactions" on the Company's consolidated balance sheets. Changes in the fair value of the assets and liabilities underlying Linked Transactions and associated interest income and expense were reported as "Unrealized net gains/(losses) and net interest income from Linked Transactions" on the Company's consolidated statements of operations and were not included in OCI. However, if certain criteria were met, the initial transfer (i.e., the purchase of a security by the Company) and repurchase financing were not treated as a Linked Transaction and would have been evaluated and reported separately as an MBS purchase and MBS repurchase financing. When or if a transaction was no longer considered to be linked, the security and repurchase financing were reported on a gross basis. In this case, the fair value of the MBS at the time the transactions were no longer considered linked became the cost basis of the MBS, and the income recognition yield for such MBS was calculated prospectively using this new cost basis.

New accounting guidance that was effective for the Company on January 1, 2015 prospectively eliminated the use of Linked Transaction accounting as described above. This resulted in changes subsequent to January 1, 2015 to the presentation of assets and liabilities, and revenues and expenses of Non-Agency MBS and associated repurchase agreements that had been accounted for as Linked Transactions prior to that date. The changes include the presentation of Non-Agency MBS and associated repurchase agreements as separate assets and liabilities, rather than on a combined basis on the Company's consolidated balance sheets. In addition, starting in 2015, interest income related to the securities and interest expense related to the associated repurchase agreements are separately presented and included in the determination of the Company's net interest income on its consolidated statement of operations. Further, the previous treatment of Linked Transactions as forward (derivative) instruments recorded at fair value at the end of each period, with changes in fair value included in net income, was discontinued and effective January 1, 2015 MBS that were previously accounted for as components of Linked Transactions are accounted for on a consistent basis with other MBS held by the Company as AFS securities. (See Notes 2(t), 6 and 16)

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, as assets, if their fair value is positive, or as liabilities, if their fair value is negative. 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 the 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.

Although permitted under certain circumstances, the Company does not offset cash collateral receivables or payables against its net derivative positions. (See Notes 6, 9 and 16)

TBA Short Positions

During 2013, the Company entered into TBA short positions as a means of managing interest rate risk and MBS basis risk associated with its investment and financing activities. A TBA short position is a forward contract for the sale of Agency MBS at a predetermined price, face amount, issuer, coupon and maturity on an agreed-upon future date. The specific Agency MBS that could be delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association ("SIFMA"), are not known at the time of the transaction.

The Company accounts for TBA short positions as derivative instruments since it cannot assert that it is probable at inception, and throughout the term of the TBA contract, that it will physically deliver the Agency security upon settlement of the contract. The Company presents TBA short positions as either derivative assets or liabilities, at fair value, on its consolidated balance sheets. Gains and losses associated with TBA short positions are reported in Other Income, net on the Company's consolidated statements of operations. (See Note 6)

The Company did not have any TBA short positions at June 30, 2015 and December 31, 2014.

(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 at time of acquisition. Subsequent changes in the fair value of these loans are reported in Net gain on residential whole loans held at fair value 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 16)

(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 disproportionally 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 resecuritization transactions which result in the Company consolidating the VIEs that were created to facilitate the transactions and to which the underlying assets in connection with the resecuritizations were transferred. In determining the accounting treatment to be applied to these resecuritization 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 transfer of the underlying assets would qualify as a sale or should be accounted for as secured financings under GAAP.

Prior to the completion of its initial resecuritization transaction in October 2010, the Company had not transferred assets to VIEs or Qualifying Special Purpose Entities ("QSPEs") and other than acquiring MBS issued by such entities, had no other involvement with VIEs or QSPEs. (See Note 17)

The Company also includes in 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. (See Notes 13 and 14)

(t) New Accounting Standards and Interpretations

Accounting Standards Adopted in 2015

Receivables - Recognition of Residential Real Estate upon Foreclosure

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure ("ASU 2014-04"). This ASU applies to all creditors who obtain physical possession (resulting from an in substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable. The ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (i) the amount of foreclosed residential real estate property held by the creditor and (ii) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction.

ASU 2014-04 was effective for the Company for reporting periods beginning after December 15, 2014. The Company has elected to adopt the amendments in this ASU using a prospective transition method. The Company's adoption of ASU 2014-04 beginning on January 1, 2015, did not have a material impact on the Company's consolidated financial statements.

Transfers and Servicing

In June 2014, the FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures ("ASU 2014-11"). The amendments of ASU 2014-11 require two accounting changes. First, the amendments in this ASU change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. In addition, the amendments in ASU 2014-11 require disclosures for certain transactions comprising (i) a transfer of a financial asset accounted for as a sale and (ii) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred asset throughout the term of the transaction. ASU 2014-11 also requires disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings.

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ASU 2014-11 was effective for the Company for reporting periods beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Accordingly, on adoption of the new standard on January 1, 2015, the Company reclassified $1.913 billion of Non-Agency MBS and $4.6 million of CRT securities, that were previously reported on the Company's consolidated balance sheets as a component of Linked Transactions to Non-Agency MBS and CRT securities, respectively. In addition, liabilities of $1.520 billion that were previously presented on the Company's consolidated balance sheets as a component of Linked Transactions were reclassified to Repurchase agreements. Furthermore, an amount of $4.5 million representing net unrealized gains on securities previously reported as a component of Linked Transactions as of December 31, 2014 was reclassified from Accumulated deficit to AOCI. These reclassification adjustments had no net impact on the Company's overall Total Stockholders' Equity. While the Company's adoption of this new standard beginning on January 1, 2015, did not have a material impact on the Company's consolidated financial statements, it did result in changes, subsequent to adoption, to the presentation of assets and liabilities and revenues and expenses of Non-Agency MBS and CRT securities and associated repurchase agreements that had been accounted for as MBS Linked Transactions prior to that date. These changes include the presentation, as noted above, of Non-Agency MBS and CRT securities and associated repurchase agreements as separate assets and liabilities, rather than on a combined basis. In addition, subsequent to the date of adoption the interest income related to the securities and the interest expense related to the associated repurchase agreements are separately presented and included in the determination of the Company's Net Interest Income. Further, the prior accounting requirement for MBS Linked Transactions, which involved treating the combined transaction as a derivative that was recorded at fair value each period, with changes in fair value included in net income, was discontinued and effective January 1, 2015. MBS that were previously accounted for as components of Linked Transactions are accounted for in a manner consistent with other MBS held by the Company as AFS securities.

3. MBS and CRT Securities

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") and MBS backed by re-performing/non-performing loans ("RPL/NPL 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"); (iii) mortgages that have interest rates that reset more frequently (collectively, "ARM-MBS"); and (iv) 15 year and longer-term fixed rate mortgages. MBS do not have a single maturity date, and further, the mortgage loans underlying ARM-MBS do not all reset at the same time.

The Company pledges a significant portion of its MBS as collateral against its borrowings under repurchase agreements and Swaps. Non-Agency MBS that were accounted for as components of Linked Transactions prior to 2015 are not reflected in the tables for prior periods set forth in this note, as they were accounted for as derivatives. New accounting guidance that was effective for the Company on January 1, 2015 prospectively eliminated the use of Linked Transaction accounting. (See Notes 2(t), 6 and 9)

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 (including Non-Agency MBS transferred to consolidated VIEs): The Company's Non-Agency MBS are 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. While the coupon payments are paid by Fannie Mae or Freddie Mac on a monthly basis, the payment of principal is dependent on the performance of loans in a reference pool of MBS securitized by Fannie Mae or Freddie Mac. As principal on loans in the reference pool are paid, principal payments on the securities are made and the principal balances of the securities are reduced. Consequently, CRT securities mirror the payment and prepayment behavior of the mortgage loans in the reference pool. As an investor in a CRT security, the Company may incur a loss if certain defined credit events occur, including if the loans in the reference pool experience delinquencies exceeding specified thresholds. The Company assesses the credit risk associated with CRT securities by assessing the current and expected future performance of the associated reference pool. CRT securities that were accounted for as components of Linked Transactions prior to 2015 are not reflected in the tables for prior periods set forth in this note, as they were accounted for as derivatives. (See Notes 2(t), 6 and 9)

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The following tables present certain information about the Company's MBS and CRT securities at June 30, 2015 and December 31, 2014:

June 30, 2015

(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	$4,127,078	$156,323	$(65)	$—	$4,283,336	$4,354,077	$91,055	$(20,314)	$70,741
Freddie Mac	932,698	35,848	—	—	969,872	966,618	9,878	(13,132)	(3,254)
Ginnie Mae	10,078	176	—	—	10,254	10,516	262	—	262
Total Agency MBS	5,069,854	192,347	(65)	—	5,263,462	5,331,211	101,195	(33,446)	67,749
Non-Agency MBS:									
Expected to Recover Par (3)(4)	2,870,432	329	(30,932)	—	2,839,829	2,865,202	27,633	(2,260)	25,373
Expected to Recover Less than Par (3)	4,531,764	—	(332,014)	(847,017)	3,352,733	4,016,951	667,604	(3,386)	664,218
Total Non-Agency MBS (5)	7,402,196	329	(362,946)	(847,017)	6,192,562	6,882,153	695,237	(5,646)	689,591
Total MBS	12,472,050	192,676	(363,011)	(847,017)	11,456,024	12,213,364	796,432	(39,092)	757,340
CRT securities	131,000	—	(4,411)	—	126,589	128,910	2,815	(494)	2,321
Total MBS and CRT securities	$12,603,050	$192,676	$(367,422)	$(847,017)	$11,582,613	$12,342,274	$799,247	$(39,586)	$759,661

December 31, 2014

(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	$4,587,823	$174,245	$(71)	$—	$4,761,997	$4,843,084	$102,187	$(21,100)	$81,087
Freddie Mac	1,011,659	38,895	—	—	1,051,096	1,049,854	11,280	(12,522)	(1,242)
Ginnie Mae	10,811	189	—	—	11,000	11,269	269	—	269
Total Agency MBS	5,610,293	213,329	(71)	—	5,824,093	5,904,207	113,736	(33,622)	80,114

Non-Agency MBS:									
Expected to Recover Par (3)(4)	431,788	461	(29,501)	—	402,748	428,431	26,735	(1,052)	25,683
Expected to Recover Less than Par (3)	4,888,113	—	(370,063)	(900,557)	3,617,493	4,327,001	712,168	(2,660)	709,508
Total Non-Agency MBS (5)	5,319,901	461	(399,564)	(900,557)	4,020,241	4,755,432	738,903	(3,712)	735,191
Total MBS	10,930,194	213,790	(399,635)	(900,557)	9,844,334	10,659,639	852,639	(37,334)	815,305
CRT securities	109,500	—	(4,727)	—	104,773	102,983	324	(2,114)	(1,790)
Total MBS and CRT securities	$11,039,694	$213,790	$(404,362)	$(900,557)	$9,949,107	$10,762,622	$852,963	$(39,448)	$813,515

(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, 2015 reflect Credit Reserve of $824.8 million and OTTI of $22.2 million. Amounts disclosed at December 31, 2014 reflect Credit Reserve of $877.6 million and OTTI of $23.0 million.

(2) Includes principal payments receivable of $1.3 million and $542,000 at June 30, 2015 and December 31, 2014, 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) At June 30, 2015 RPL/NPL MBS had a $2.593 billion Principal/Current face, $2.590 billion amortized cost and $2.592 billion fair value. At December 31, 2014, RPL/NPL MBS had a $161.0 million Principal/Current face, $161.0 million amortized cost and $161.0 million fair value (excludes RPL/NPL MBS with $1.850 billion Principal/Current face, $1.847 billion amortized cost and $1.847 billion fair value that were presented as a component of Linked Transactions at December 31, 2014).

(5) At June 30, 2015 and December 31, 2014, the Company expected to recover approximately 89% and 83%, respectively, of the then-current face amount of Non-Agency MBS.

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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, 2015:

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	$488,886	$ 4,232	57	$891,047	$ 16,082	108	$1,379,933	$ 20,314
Freddie Mac	304,443	4,749	40	343,992	8,383	64	648,435	13,132
Total Agency MBS	793,329	8,981	97	1,235,039	24,465	172	2,028,368	33,446
Non-Agency MBS:								
Expected to Recover Par (1)	703,830	1,473	14	16,734	787	8	720,564	2,260
Expected to Recover Less than Par (1)	186,923	2,491	23	29,530	895	7	216,453	3,386
Total Non-Agency MBS	890,753	3,964	37	46,264	1,682	15	937,017	5,646
Total MBS	1,684,082	12,945	134	1,281,303	26,147	187	2,965,385	39,092
CRT securities	30,677	145	5	4,650	349	1	35,327	494
Total MBS and CRT securities	$1,714,759	$ 13,090	139	$1,285,953	$ 26,496	188	$3,000,712	$ 39,586

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

At June 30, 2015, 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. With respect to Non-Agency MBS held by consolidated VIEs, the ability of any entity to cause the sale to a third-party by the VIE prior to the maturity of these Non-Agency MBS is either specifically precluded or is limited to specified events of default, none of which has occurred to date.

Gross unrealized losses on the Company’s Agency MBS were $33.4 million at June 30, 2015. Agency MBS are issued by Government Sponsored Entities (“GSEs”) that 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. In addition, the GSEs are currently profitable on a stand-alone basis with such profits being remitted to the U.S. Treasury. 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, 2015 any unrealized losses on its Agency MBS were temporary.

Unrealized losses on the Company's Non-Agency MBS (including Non-Agency MBS transferred to consolidated VIEs) were $5.6 million at June 30, 2015. 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 market place 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 recognized credit-related OTTI losses through earnings related to its Non-Agency MBS of $298,000 and $705,000 during the three and six months ended June 30, 2015, respectively. The Company did not recognize any credit-related OTTI losses through earnings related to its MBS during the three and six months ended June 30, 2014.

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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 its 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, FICO scores at loan origination, 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 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, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Total OTTI losses	$(130)	$—	$(525)	$—
OTTI reclassified from OCI	(168)	—	(180)	—
OTTI recognized in earnings	$(298)	$—	$(705)	$—

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.

(In Thousands)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Credit loss component of OTTI at beginning of period	$36,522	$36,115
Additions for credit related OTTI not previously recognized	66	461
Subsequent additional credit related OTTI recorded	232	244
Credit loss component of OTTI at end of period	$36,820	$36,820

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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, 2015 and 2014:

(In Thousands)	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
	Discount Designated as Credit Reserve and OTTI	Accretable Discount (1)	Discount Designated as Credit Reserve and OTTI (2)	Accretable Discount (1)(2)
Balance at beginning of period	$(873,533)	$(388,708)	$(1,041,933)	$(442,156)
Accretion of discount	—	24,095	—	25,766
Realized credit losses	21,226	—	23,359	—
Purchases	(711)	(715)	(3,018)	1,636
Sales	848	7,833	10,269	3,124
Net impairment losses recognized in earnings	(298)	—	—	—
Transfers/release of credit reserve	5,451	(5,451)	24,481	(24,481)
Balance at end of period	$(847,017)	$(362,946)	$(986,842)	$(436,111)

(In Thousands)	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Discount Designated as Credit Reserve and OTTI	Accretable Discount (1)	Discount Designated as Credit Reserve and OTTI (3)	Accretable Discount (1)(3)
Balance at beginning of period	$(900,557)	$(399,564)	$(1,043,037)	$(460,039)
Cumulative effect adjustment on adoption of revised accounting standard for repurchase agreement financing	(15,543)	1,832	—	—
Accretion of discount	—	48,895	—	53,197
Realized credit losses	40,850	—	48,396	—
Purchases	(745)	(4,125)	(66,335)	25,042
Sales	1,897	17,802	13,756	6,067
Net impairment losses recognized in earnings	(705)	—	—	—
Transfers/release of credit reserve	27,786	(27,786)	60,378	(60,378)
Balance at end of period	$(847,017)	$(362,946)	$(986,842)	$(436,111)

(1) Together with coupon interest, accretable purchase discount is recognized as interest income over the life of the security.
(2) The Company did not reallocate any purchase discount designated as Credit Reserve to accretable purchase discount on Non-Agency MBS underlying Linked Transactions during the three months ended June 30, 2014.
(3) The Company reallocated $115,000 of purchase discount designated as Credit Reserve to accretable purchase discount on Non-Agency MBS underlying Linked Transactions during the six months ended June 30, 2014.

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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, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
AOCI from AFS securities:				
Unrealized gain on AFS securities at beginning of period	$850,257	$819,222	$813,515	$752,912
Unrealized (loss)/gain on Agency MBS, net	(25,250)	43,094	(12,365)	60,937
Unrealized (loss)/gain on Non-Agency MBS, net	(57,695)	50,136	(31,402)	101,554
Cumulative effect adjustment on adoption of revised accounting standard for repurchase agreement financing	—	—	4,537	—
Reclassification adjustment for MBS sales included in net income	(7,863)	(6,748)	(14,429)	(9,699)
Reclassification adjustment for OTTI included in net income	(298)	—	(705)	—
Change in AOCI from AFS securities	(91,106)	86,482	(54,364)	152,792
Balance at end of period	$759,151	$905,704	$759,151	$905,704

Sales of MBS

During the three and six months ended June 30, 2015, the Company sold certain Non-Agency MBS for $16.3 million and $27.2 million, realizing gross gains of $7.6 million and $14.1 million, respectively. During the three and six months ended June 30, 2014, the Company sold certain Non-Agency MBS for $26.5 million and $42.0 million, realizing gross gains of $7.9 million and $11.4 million, respectively. The Company has no continuing involvement with any of the sold MBS.

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Interest Income on MBS and CRT Securities

The following table presents the components of interest income on the Company's MBS and CRT securities for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Agency MBS				
Coupon interest	$37,646	$49,836	$78,388	$99,335
Effective yield adjustment (1)	(11,907)	(12,227)	(20,976)	(22,397)
Interest income	$25,739	$37,609	$57,412	$76,938
Legacy Non-Agency MBS				
Coupon interest	$46,974	$55,289	$96,330	$109,678
Effective yield adjustment (2)	23,454	25,694	47,860	53,083
Interest income	$70,428	$80,983	$144,190	$162,761
RPL/NPL MBS				
Coupon interest	$21,518	$33	$40,703	$74
Effective yield adjustment (2)	565	—	909	—
Interest income	$22,083	$33	$41,612	$74
CRT securities				
Coupon interest	$1,366	$—	$2,568	$—
Effective yield adjustment (2)	158	—	316	—
Interest income	$1,524	$—	$2,884	$—

(1) Includes amortization of premium paid net of accretion of purchase discount. For Agency MBS, interest income is recorded at an effective yield, which reflects net premium amortization 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, 2015 and December 31, 2014, are approximately $429.3 million and $351.4 million, respectively, of residential whole loans arising from the Company's 100% equity interest in certificates issued by certain trusts established to acquire the loans. Based on its evaluation of these interests and other factors, the Company has determined that the trusts are required to be consolidated for financial reporting purposes.

Residential Whole Loans at Carrying Value

Residential whole loans at carrying value totaled approximately $245.4 million and $207.9 million at June 30, 2015 and December 31, 2014, respectively. The carrying value reflects the original investment amount, plus accretion of interest income, less principal and interest cash flows received. The carrying value is reduced by any allowance for loan losses established subsequent to acquisition.

The Company recorded an allowance for loan losses of approximately $587,000 on its residential whole loan pools held at carrying value as of June 30, 2015. For the three and six months ended June 30, 2015 a net provision for loan losses of approximately $123,000 and $450,000, respectively, was recorded, which is included in Operating and Other expense on the Company’s consolidated statements of operations.

The following table presents the activity in the Company's allowance for loan losses on its residential whole loan pools at carrying value for the three and six months ended June 30, 2015.

(In Thousands)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Balance at the beginning of period	$464	$137
Provisions for loan losses	123	450
Balance at the end of the period	$587	$587

The following table presents information regarding estimates of the contractually required payments, the cash flows expected to be collected, and the estimated fair value of the residential whole loans held at carrying value acquired by the Company for the three and six months ended June 30, 2015:

(In Thousands)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Contractually required principal and interest	$14,505	$93,304
Contractual cash flows not expected to be collected (non-accretable yield)	(3,795)	(17,152)
Expected cash flows to be collected	10,710	76,152
Interest component of expected cash flows (accretable yield)	(4,440)	(31,280)
Fair value at the date of acquisition	$6,270	$44,872

The following table presents accretable yield activity for the Company's residential whole loans held at carrying value for the three and six months ended June 30, 2015:

(In Thousands)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Balance at beginning of period	$154,951	$133,012
Additions	4,440	31,280
Accretion	(3,965)	(7,433)
Reclassifications to/(from) non-accretable difference, net	148	(1,285)
Balance at end of period	$155,574	$155,574

Accretable yield for 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 represents 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, 2015 is not necessarily indicative of future results.

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 at fair value at June 30, 2015 and December 31, 2014:

(Dollars in Thousands)	June 30, 2015	December 31, 2014
Outstanding principal balance	$247,310	$182,613
Aggregate fair value	$183,861	$143,472
Number of loans	1,042	885

During the three and six months ended June 30, 2015, the Company recorded net gains on residential whole loans at fair value of $3.2 million and $5.2 million, respectively. The Company did not have any residential whole loans held at fair value during the three and six months ended June 30, 2014.

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, 2015:

(In Thousands)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Coupon payments received	$1,511	$2,832
Net unrealized gains	1,165	1,510
Net gain on payoff/liquidation of loans	487	855
Total	$3,163	$5,197

5. Interest Receivable

The following table presents the Company's interest receivable by investment category at June 30, 2015 and December 31, 2014:

(In Thousands)	June 30, 2015	December 31, 2014
MBS interest receivable:		
Fannie Mae	$10,014	$11,761
Freddie Mac	2,384	2,598
Ginnie Mae	15	17
Non-Agency MBS	16,916	16,794
Total MBS interest receivable	29,329	31,170
Residential whole loans	1,821	1,324
CRT securities	92	66
Money market and other investments	21	21
Total interest receivable	$31,263	$32,581

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6. 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. Prior to 2015, the Company had also entered into Linked Transactions, which were not designated as hedging instruments. (See Notes 2(p), 2(t) and below) The following table presents the fair value of the Company's derivative instruments and their balance sheet location at June 30, 2015 and December 31, 2014:

Derivative Instrument	Designation	Balance Sheet Location	June 30, 2015 Notional Amount	June 30, 2015 Fair Value	December 31, 2014
(In Thousands)					
Linked Transactions	Non-Hedging	Assets	N/A	N/A	$398,336
Non-cleared legacy Swaps (1)	Hedging	Assets	$400,000	$849	$3,136
Non-cleared legacy Swaps (1)	Hedging	Liabilities	$100,000	$(582)	$(4,263)
Cleared Swaps (2)	Hedging	Liabilities	$2,550,000	$(64,838)	$(57,935)

(1) Non-cleared legacy Swaps include Swaps executed and settled bilaterally with counterparties without the use of an organized exchange or central clearing house.
(2) Cleared Swaps include 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.

Linked Transactions

Prior to January 1, 2015, the Company's Linked Transactions had been evaluated on a combined basis, reported as forward (derivative) instruments and presented as assets on the Company's consolidated balance sheets at fair value. The fair value of Linked Transactions reflected the value of the underlying Non-Agency MBS, linked repurchase agreement borrowings and accrued interest receivable/payable on such instruments. The Company's Linked Transactions were not designated as hedging instruments and, as a result, the change in the fair value and net interest income from Linked Transactions had been reported in Other Income, net on the Company's consolidated statements of operations.

New accounting guidance that was effective for the Company on January 1, 2015 prospectively eliminated the use of Linked Transaction accounting. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Accordingly, on adoption of the new standard on January 1, 2015, the Company reclassified $1.913 billion of Non-Agency MBS and $4.6 million of CRT securities that were previously reported as a component of Linked Transactions to Non-Agency MBS and CRT securities, respectively on the consolidated balance sheet. In addition, liabilities of $1.520 billion that were previously presented as a component of Linked Transactions were reclassified to Repurchase agreements on the consolidated balance sheet. Furthermore, an amount of $4.5 million representing net unrealized gains on securities previously reported as a component of Linked Transactions as of December 31, 2014 was reclassified from Accumulated deficit to AOCI. These reclassification adjustments had no net impact on the Company's overall Total Stockholders' Equity.

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The following tables present certain information about the Legacy Non-Agency MBS, RPL/NPL MBS, CRT securities and repurchase agreements underlying the Company's Linked Transactions at December 31, 2014:

Linked Transactions at December 31, 2014

Linked Repurchase Agreements			Linked MBS/CRT Securities				
Maturity or Repricing	Balance	Weighted Average Interest Rate		Fair Value	Amortized Cost	Par/Current Face	Weighted Average Coupon Rate
(Dollars in Thousands)			(Dollars in Thousands)				
Within 30 days	$1,514,393	1.47 %	Legacy Non-Agency MBS	$66,382	$61,658	$72,513	4.20 %
>30 days to 90 days	5,200	1.35	RPL/NPL MBS	1,846,807	1,847,118	1,849,974	3.49
Total	$1,519,593	1.47 %	CRT securities	4,624	4,500	4,500	4.56
			Total	$1,917,813	$1,913,276	$1,926,987	3.52 %

At December 31, 2014, Linked Transactions also included approximately $1.3 million of associated accrued interest receivable and $1.1 million of accrued interest payable.

The following table presents certain information about the components of the unrealized net gains and net interest income from Linked Transactions included in the Company's consolidated statements of operations for the three and six months ended June 30, 2014:

(In Thousands)	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Interest income attributable to MBS underlying Linked Transactions	$2,925	$4,966
Interest expense attributable to linked repurchase agreement borrowings underlying Linked Transactions	(921)	(1,472)
Change in fair value of Linked Transactions included in earnings	1,772	3,533
Unrealized net gains and net interest income from Linked Transactions	$3,776	$7,027

Swaps

Consistent with market practice, the Company has agreements with its Swap counterparties that provide for the posting of collateral based on the fair values of its derivative contracts. Through this margining process, either the Company or its derivative counterparty may be required to pledge cash or securities as collateral. In addition, Swaps novated to and cleared by a central clearing house are subject to initial margin requirements. Certain derivative contracts provide for cross collateralization with repurchase agreements with the same counterparty.

A number of the Company's Swap contracts include financial covenants, which, if breached, could cause an event of default or early termination event to occur under such agreements. Such financial covenants include minimum net worth requirements and maximum debt-to-equity ratios. If the Company were to cause an event of default or trigger an early termination event pursuant to one of its Swap contracts, the counterparty to such agreement may have the option to terminate all of its outstanding Swap contracts with the Company and, if applicable, any close-out amount

due to the counterparty upon termination of the Swap contracts would be immediately payable by the Company. The Company was in compliance with all of its financial covenants through June 30, 2015. At June 30, 2015, the aggregate fair value of assets needed to immediately settle Swap contracts that were in a liability position to the Company, if so required, was approximately $67.0 million, including accrued interest payable of approximately $1.6 million.

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The following table presents the assets pledged as collateral against the Company's Swap contracts at June 30, 2015 and December 31, 2014:

(In Thousands)	June 30, 2015	December 31, 2014
Agency MBS, at fair value	$44,621	$57,247
Restricted cash	67,333	66,486
Total assets pledged against Swaps	$111,954	$123,733

The use of derivative hedging instruments exposes the Company to counterparty credit risk. In the event of a default by a derivative counterparty, the Company may not receive payments to which it is entitled under its derivative agreements, and may have difficulty recovering its assets pledged as collateral against such agreements. If, during the term of a derivative contract, a counterparty should file for bankruptcy, the Company may experience difficulty recovering its assets pledged as collateral which could result in the Company having an unsecured claim against such counterparty's assets for the difference between the fair value of the derivative and the fair value of the collateral pledged to such counterparty.

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, 2015, all of the Company's derivatives were deemed effective for hedging purposes and no derivatives were terminated during the three and six months ended June 30, 2015 and 2014.

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, 2015 and 2014.

At June 30, 2015, the Company had Swaps designated in hedging relationships with an aggregate notional amount of $3.050 billion, which had net unrealized losses of $64.6 million, and extended 51 months on average with a maximum term of approximately 98 months.

The following table presents certain information with respect to the Company's Swap activity during the three and six months ended June 30, 2015:

(Dollars in Thousands)	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
New Swaps:				
Aggregate notional amount	$—		$—	
Weighted average fixed-pay rate	—	%	—	%
Initial maturity date	N/A		N/A	
Number of new Swaps	—		—	
Swaps amortized/expired:				
Aggregate notional amount	$300,000		$710,170	

Weighted average fixed-pay rate	2.06 %	1.96 %

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The following table presents information about the Company's Swaps at June 30, 2015 and December 31, 2014:

	June 30, 2015			December 31, 2014		
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	$—	— %	— %	$22,290	3.63 %	0.23 %
Over 30 days to 3 months	—	—	—	387,880	1.80	0.16
Over 3 months to 6 months	—	—	—	300,000	2.06	0.17
Over 6 months to 12 months	50,000	2.13	0.19	—	—	—
Over 12 months to 24 months	450,000	0.56	0.18	150,000	1.03	0.16
Over 24 months to 36 months	50,000	1.45	0.19	350,000	0.58	0.16
Over 36 months to 48 months	700,000	1.56	0.19	550,000	1.49	0.16
Over 48 months to 60 months	200,000	2.05	0.19	200,000	1.71	0.17
Over 60 months to 72 months	1,500,000	2.24	0.19	1,500,000	2.22	0.16
Over 72 months to 84 months	—	—	—	200,000	2.20	0.17
Over 84 months (3)	100,000	2.75	0.19	100,000	2.75	0.16
Total Swaps	$3,050,000	1.82 %	0.19 %	$3,760,170	1.85 %	0.16 %

(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, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	2015	2014	2015	2014
Interest expense attributable to Swaps	$13,174	$18,075	$28,555	$35,638
Weighted average Swap rate paid	1.83 %	1.92 %	1.84 %	1.92 %
Weighted average Swap rate received	0.18 %	0.15 %	0.18 %	0.16 %

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, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014

AOCI from derivative hedging instruments:				
Balance at beginning of period	$(91,429)	$(27,037)	$(59,062)	$(15,217)
Unrealized gain/(loss) on Swaps, net	26,858	(27,634)	(5,509)	(39,901)
Reclassification of unrealized loss on de-designated Swaps	—	—	—	447
Balance at end of period	$(64,571)	$(54,671)	$(64,571)	$(54,671)

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Counterparty Credit Risk from Use of Swaps

By using Swaps, the Company is exposed to counterparty credit risk if counterparties to the derivative contracts do not perform as expected. If a counterparty fails to perform, the Company's counterparty credit risk is equal to the amount reported as a derivative asset on its consolidated balance sheets to the extent that amount exceeds collateral obtained from the counterparty or, if in a net liability position, the extent to which collateral posted exceeds the liability to the counterparty. The amounts reported as a derivative asset/(liability) are derivative contracts in a gain/(loss) position, and to the extent subject to master netting arrangements, net of derivatives in a loss/(gain) position with the same counterparty and collateral received/(pledged). The Company attempts to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, executing master netting arrangements and obtaining collateral, where appropriate. Counterparty credit risk related to the Company's Swaps is considered in determining the fair value of such derivatives and in its assessment of hedge effectiveness.

7. Real Estate Owned

At June 30, 2015, the Company had 75 REO properties with an aggregate carrying value of $8.9 million. At December 31, 2014, the Company had 46 REO properties with an aggregate carrying value of $5.5 million. During the three and six months ended June 30, 2015, the Company did not acquire any residential properties in connection with the acquisition of residential whole loans.

During the three and six months ended June 30, 2015, the Company reclassified 23 and 48 mortgage loans to REO at an aggregate estimated fair value of $3.6 million and $7.0 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.

At June 30, 2015, $7.6 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 $13.8 million of residential whole loans at carrying value and $108.1 million of residential whole loans at fair value at June 30, 2015.

During the three and six months ended June 30, 2015, the Company sold 14 and 19 REO properties for consideration of $1.4 million and $2.0 million, realizing net losses of approximately $204,000 and $231,000, respectively, which 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 quarter of 2015, an adjustment of approximately $1.4 million was recorded to reflect certain REO properties at the lower of cost or estimated fair value.

The following table presents the activity in the Company's REO for the three and six months ended June 30, 2015. The Company did not have REO during the three and six months ended June 30, 2014.

(In Thousands)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Balance at beginning of period	$8,333	$5,492
Adjustments to record at lower of cost or fair value	(1,379)	(1,379)
Transfer from residential whole loans (1)	3,554	7,002
Disposals	(1,651)	(2,258)

Balance at end of period	$8,857	$8,857

(1) Includes net gain recorded on transfer of approximately $309,000 and $594,000, respectively, for the three and six months ended June 30, 2015.

Real estate owned is included in Prepaid and other assets in the Company’s consolidated balance sheets.

8. Repurchase Agreements

The Company's repurchase agreements are accounted for as secured borrowings and are collateralized by the Company's MBS, U.S. Treasury securities (obtained as part of a reverse repurchase agreement), CRT securities, residential whole loans and cash, and bear interest that is generally LIBOR-based. (See Notes 2(k) and 9) At June 30, 2015, the Company's borrowings under repurchase agreements had a weighted average remaining term-to-interest rate reset of 23 days and an effective repricing period of 16 months, including the impact of related Swaps. At December 31, 2014, the Company's borrowings under repurchase agreements had a weighted average remaining term-to-interest rate reset of 25 days and an effective repricing period of 21 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, 2015 and December 31, 2014:

(Dollars in Thousands)	June 30, 2015		December 31, 2014	
Repurchase agreement borrowings secured by Agency MBS	$4,672,707		$5,177,835	
Fair value of Agency MBS pledged as collateral under repurchase agreements	$4,923,712		$5,462,566	
Weighted average haircut on Agency MBS (1)	4.65	%	4.79	%
Repurchase agreement borrowings secured by Legacy Non-Agency MBS (2)	$2,201,596		$2,233,236	
Fair value of Legacy Non-Agency MBS pledged as collateral under repurchase agreements (2)(3)	$3,139,828		$3,491,312	
Weighted average haircut on Legacy Non-Agency MBS (1)	25.57	%	28.88	%
Repurchase agreement borrowings secured by RPL/NPL MBS (2)	$2,044,697		$130,919	
Fair value of RPL/NPL MBS pledged as collateral under repurchase agreements (2)	$2,591,503		$160,688	
Weighted average haircut on RPL/NPL MBS (1)	21.81	%	20.00	%
Repurchase agreements secured by U.S. Treasuries	$491,215		$507,114	
Fair value of U.S. Treasuries pledged as collateral under repurchase agreements	$498,336		$512,105	
Weighted average haircut on U.S. Treasuries (1)	1.65	%	1.62	%
Repurchase agreements secured by CRT securities (2)	$92,921		$75,960	
Fair value of CRT securities pledged as collateral under repurchase agreements (2)	$116,690		$94,610	
Weighted average haircut on CRT securities (1)	25.18	%	25.00	%
Repurchase agreements secured by residential whole loans	$131,900		$142,324	
Fair value of residential whole loans pledged as collateral under repurchase agreements	$201,062		$212,986	
Weighted average haircut on residential whole loans (1)	33.74	%	33.43	%

(1) Haircut represents the percentage amount by which the collateral value is contractually required to exceed the loan amount.

(2) Does not reflect Legacy Non-Agency MBS, RPL/NPL MBS, CRT securities and repurchase agreement borrowings that were components of Linked Transactions at December 31, 2014. As previously discussed, new accounting guidance effective January 1, 2015 prospectively eliminated the use of Linked Transaction accounting. (See Note 6)

(3) Includes $587.1 million and $1.275 billion of Legacy Non-Agency MBS acquired from consolidated VIEs at June 30, 2015, and December 31, 2014, respectively, that are eliminated from the Company's consolidated balance

sheets.

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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, 2015 and December 31, 2014:

	June 30, 2015			December 31, 2014		
Time Until Interest Rate Reset	Balance	Weighted Average Interest Rate		Balance (1)	Weighted Average Interest Rate	
(Dollars in Thousands)						
Within 30 days	$8,843,258	0.95	%	$7,144,737	0.72	%
Over 30 days to 3 months	536,979	1.67		1,000,313	1.12	
Over 3 months to 12 months	254,799	2.06		122,338	1.98	
Total	$9,635,036	1.02	%	$8,267,388	0.79	%

(1) At December 31, 2014, the Company had repurchase agreements of $1.520 billion that were linked to securities purchased and accounted for as Linked Transactions and, as such, the linked repurchase agreements are not included in the above table. As previously discussed, new accounting guidance effective January 1, 2015 prospectively eliminated the use of Linked Transaction accounting. (See Note 6)

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, 2015 and does not reflect the impact of derivative contracts that hedge such repurchase agreements:

	June 30, 2015								
Contractual Maturity	Agency MBS	Legacy Non-Agency MBS	RPL/NPL MBS	U.S. Treasuries	CRT Securities	Residential Whole Loans	Total	Weighted Average Interest Rate	
(Dollars in Thousands)									
Overnight	$—	$—	$—	$—	$—	$—	$—	—	%
Within 30 days	4,648,368	991,051	1,589,543	491,215	72,905	—	7,793,082	0.82	
Over 30 days to 3 months	24,339	485,477	146,955	—	20,016	—	676,787	1.70	
Over 3 months to 12 months	—	725,068	308,199	—	—	131,900	1,165,167	1.96	
Total	$4,672,707	$2,201,596	$2,044,697	$491,215	$92,921	$131,900	$9,635,036	1.02	%

Gross amount of recognized liabilities for repurchase agreements in Note 10	$9,635,036
Amounts related to repurchase agreements not included in offsetting disclosure in Note 10	$—

The Company had repurchase agreements with 26 and 25 counterparties June 30, 2015 and December 31, 2014, respectively. 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, 2015:

	June 30, 2015				
Counterparty	Counterparty Rating (1)	Amount at Risk (2)	Weighted Average Months to Maturity for Repurchase Agreements	Percent of Stockholders' Equity	
(Dollars in Thousands)					
Credit Suisse	BBB+/Aa2/A	$391,709	1	12.5	%
Wells Fargo (3)	AA-/Aa2/AA	370,409	6	11.8	
RBC (4)	AA-/Aa3/AA-	350,755	3	11.2	
UBS (5)	A/A2/A	214,069	7	6.8	

(1) As rated at June 30, 2015 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 $303.0 million at risk with Wells Fargo Bank, NA and $67.4 million at risk with Wells Fargo Securities LLC.

(4) Includes $188.4 million at risk with RBC Barbados, $153.0 million at risk with Royal Bank of Canada and $9.4 million at risk with RBC Capital Markets LLC. Counterparty ratings are not published for RBC Barbados and RBC Capital Markets LLC.

(5) Includes Non-Agency MBS pledged as collateral with contemporaneous repurchase and reverse repurchase agreements.

9. Collateral Positions

The Company pledges securities or cash as collateral to its counterparties pursuant to its borrowings under repurchase agreements and its derivative contracts that are in an unrealized loss position, and it receives securities or cash as collateral pursuant to financing provided under reverse repurchase agreements and certain of its derivative contracts in an unrealized gain position. The Company exchanges collateral with its counterparties based on changes in the fair value, notional amount and term of the associated repurchase and reverse repurchase agreements and derivative contracts, as applicable. Through this margining process, either the Company or its counterparty may be required to pledge cash or securities as collateral. In addition, Swaps novated to and cleared by a central clearing house are subject to initial margin requirements. 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.

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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, 2015 and December 31, 2014:

	June 30, 2015		December 31, 2014	
(In Thousands)	Assets Pledged	Collateral Held	Assets Pledged	Collateral Held
Derivative Hedging Instruments:				
Agency MBS	$44,621	$—	$57,247	$—
Cash (1)	67,333	—	66,486	—
	111,954	—	123,733	—
Repurchase Agreement Borrowings:				
Agency MBS	4,923,712	—	5,462,566	—
Legacy Non-Agency MBS (2)(3)	3,139,828	—	3,491,312	—
RPL/NPL MBS	2,591,503	—	160,688	—
U.S. Treasury securities	498,336	—	512,105	—
CRT securities	116,690	—	94,610	—
Residential whole loans	201,062	—	212,986	—
Cash (1)	724	—	769	—
	11,471,855	—	9,935,036	—
Reverse Repurchase Agreements:				
U.S. Treasury securities	—	498,336	—	512,105
	—	498,336	—	512,105
Total	$11,583,809	$498,336	$10,058,769	$512,105

(1) Cash pledged as collateral is reported as "Restricted cash" on the Company's consolidated balance sheets.
(2) Includes $587.1 million and $1.275 billion of Legacy Non-Agency MBS acquired in connection with resecuritization transactions from consolidated VIEs at June 30, 2015 and December 31, 2014, respectively, that are eliminated from the Company's consolidated balance sheets.
(3) In addition, at June 30, 2015 and December 31, 2014, $723.6 million and $731.0 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, 2015:

	June 30, 2015						
	Assets Pledged Under Repurchase Agreements			Assets Pledged Against Derivative Hedging Instruments			Total Fair Value of Assets Pledged and Accrued Interest
(In Thousands)	Fair Value	Amortized Cost	Accrued Interest on Pledged Assets	Fair Value/ Carrying Value	Amortized Cost	Accrued Interest on Pledged Assets	
Agency MBS	$4,923,712	$4,862,558	$11,501	$44,621	$45,509	$92	$4,979,926
Legacy Non-Agency MBS (1)(2)	3,139,828	2,530,267	11,558	—	—	—	3,151,386
RPL/NPL MBS	2,591,503	2,590,170	1,190	—	—	—	2,592,693
U.S. Treasuries	498,336	498,336	—	—	—	—	498,336
CRT securities	116,690	115,276	80	—	—	—	116,770

Residential whole loans	201,062	196,195	476	—	—	—	201,538
Cash (3)	724	724	—	67,333	67,333	—	68,057
Total	$11,471,855	$10,793,526	$24,805	$111,954	$112,842	$92	$11,608,706

(1) Includes $587.1 million of Legacy Non-Agency MBS acquired in connection with resecuritization transactions from consolidated VIEs at June 30, 2015, that are eliminated from the Company's consolidated balance sheets.

(2) In addition, at June 30, 2015, $723.6 million of Legacy Non-Agency MBS are pledged as collateral in connection with contemporaneous repurchase and reverse repurchase agreements entered into with a single counterparty.

(3) Cash pledged as collateral is reported as "Restricted cash" on the Company's consolidated balance sheets.

10. Offsetting Assets and Liabilities

The following tables present information about certain assets and liabilities that are subject to master netting arrangements (or similar agreements) and may potentially be offset on the Company's consolidated balance sheets at June 30, 2015 and December 31, 2014:

Offsetting of Financial Assets and Derivative Assets

(In Thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	
June 30, 2015						
Swaps, at fair value	$849	$—	$ 849	$ (849)	$—	$—
Total	$849	$—	$ 849	$ (849)	$—	$—
December 31, 2014						
Swaps, at fair value	$3,136	$—	$ 3,136	$ (3,136)	$—	$—
Total	$3,136	$—	$ 3,136	$ (3,136)	$—	$—

Offsetting of Financial Liabilities and Derivative Liabilities

(In Thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments (1)	Cash Collateral Pledged (1)	
June 30, 2015						
Swaps, at fair value (2)	$65,420	$—	$ 65,420	$—	$ (65,420)	$—
Repurchase agreements (3)	9,635,036	—	9,635,036	(9,634,312)	(724)	—
Total	$9,700,456	$—	$ 9,700,456	$ (9,634,312)	$ (66,144)	$—
December 31, 2014						
Swaps, at fair value (2)	$62,198	$—	$ 62,198	$—	$ (62,198)	$—
Repurchase agreements (3)	8,267,388	—	8,267,388	(8,266,619)	(769)	—
Total	$8,329,586	$—	$ 8,329,586	$ (8,266,619)	$ (62,967)	$—

(1) Amounts disclosed in the Financial Instruments column of the table above represent collateral pledged that is available to be offset against liability balances associated with repurchase agreement and derivative transactions. Amounts disclosed in the Cash Collateral Pledged column of the table above represent amounts pledged as collateral against derivative transactions and repurchase agreements, and exclude excess collateral of $1.9 million and $4.3 million at June 30, 2015 and December 31, 2014, respectively.

(2) The fair value of securities pledged against the Company's Swaps was $44.6 million and $57.2 million at June 30, 2015 and December 31, 2014, respectively.
(3) The fair value of securities pledged against the Company's repurchase agreements was $11.471 billion and $9.934 billion at June 30, 2015 and December 31, 2014, respectively.

Nature of Setoff Rights

In the Company's consolidated balance sheets, all balances associated with the repurchase agreement and derivative transactions are presented on a gross basis.

Certain of the Company's repurchase agreement and derivative transactions are governed by underlying agreements that generally provide for a right of setoff in the event of default or in the event of a bankruptcy of either party to the transaction. For one repurchase agreement counterparty, the underlying agreements provide for an unconditional right of setoff.

11. Senior Notes

On April 11, 2012 the Company issued $100.0 million in aggregate principal amount of its Senior Notes in an underwritten public offering. The total net proceeds to the Company from the offering of the Senior Notes were approximately $96.6 million, after deducting offering expenses and the underwriting discount. The Senior Notes bear interest at a fixed rate of 8.00% per year, paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year and will mature on April 15, 2042. The Company may redeem the Senior Notes, in whole or in part, at any time on or after April 15, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not excluding, the redemption date.

The Senior Notes are the Company's senior unsecured obligations and are subordinate to all of the Company's secured indebtedness, which includes the Company's repurchase agreements, obligation to return securities obtained as collateral, and other financing arrangements, to the extent of the value of the collateral securing such indebtedness.

12. Commitments and Contingencies

(a) Lease Commitments

The Company pays monthly rent pursuant to two operating leases. The lease term for the Company's headquarters in New York, New York extends through May 31, 2020. The lease provides for aggregate cash payments ranging over time from approximately $2.4 million to $2.5 million per year, paid on a monthly basis, exclusive of escalation charges. In addition, as part of this lease agreement, the Company has provided the landlord a $785,000 irrevocable standby letter of credit fully collateralized by cash. The letter of credit may be drawn upon by the landlord in the event that the Company defaults under certain terms of the lease. In addition, the Company has a lease through December 31, 2016 for its off-site back-up facility located in Rockville Centre, New York, which provides for, among other things, cash payments ranging over time from $29,000 to $30,000 per year, paid on a monthly basis.

(b) Representations and Warranties in Connection with Resecuritization Transactions

In connection with the resecuritization transactions engaged in by the Company (See Note 17 for further discussion), the Company has the obligation under certain circumstances to repurchase assets from its VIEs upon breach of certain representations and warranties.

(c) Residential Whole Loan Purchase Commitments

At June 30, 2015, the Company has agreed in principle, subject to completion of due diligence, to purchase residential whole loans at an aggregate estimated purchase price of $46.5 million. The expected settlement amount is included in the Company's consolidated balance sheets in Residential whole loans at fair value, with a corresponding liability included in Accrued expenses and other liabilities.

13. Stockholders' Equity

(a) Preferred Stock

Redemption of 8.50% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock")

On May 16, 2013 (the “Redemption Date”), the Company redeemed all 3,840,000 outstanding shares of its Series A Preferred Stock at an aggregate redemption price of approximately $97.0 million, or $25.27153 per share, including all accrued and unpaid dividends to the Redemption Date. The redemption value of the Series A Preferred Stock exceeded its carrying value by $3.9 million, which represents the original offering costs for the Series A Preferred Stock. This amount was included in the determination of net income available to common stock and participating securities from the Redemption Date through the year ended December 31, 2013. In addition, as part of the redemption price on its Series A Preferred Stock, the Company paid a dividend of $0.27153 per share, which reflected accrued and unpaid dividends for the period from April 1, 2013 through and including the Redemption Date.

Issuance of 7.50% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock")
On April 15, 2013, the Company filed of articles supplementary amending its charter to reclassify 8,050,000 shares of the Company's authorized but unissued common stock as shares of the Company's Series B Preferred Stock. On the same date, the Company completed the issuance of 8.0 million shares of its Series B Preferred Stock with a par value of $0.01 per share, and a liquidation preference $25.00 per share plus accrued and unpaid dividends, in an underwritten public offering. The aggregate net proceeds to the Company from the offering of the Series B Preferred Stock were approximately $193.3 million, after deducting the underwriting discount and related offering expenses. The Company used a portion of the net proceeds to redeem all of its outstanding Series A Preferred Stock (as discussed above), and used the remaining net proceeds of the offering for general corporate purposes, including, without limitation, to acquire additional MBS consistent with its investment policy, and for working capital, which included, among other things, the repayment of its repurchase agreements.
The Company's Series B Preferred Stock is entitled to receive a dividend at a rate of 7.50% per year on the $25.00 liquidation preference before the Company's common stock is paid any dividends and is senior to the Company's common stock with respect to distributions upon liquidation, dissolution or winding up. Dividends on the Series B Preferred Stock are payable quarterly in arrears on or about March 31, June 30, September 30 and December 31 of each year. The Series B Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not authorized or declared) exclusively at the Company's option commencing on April 15, 2018 (subject to the Company's right, under limited circumstances, to redeem the Series B Preferred Stock prior to that date in order to preserve its qualification as a REIT and upon certain specified change in control transactions in which the Company's common stock and the acquiring or surviving entity common securities would not be listed on the New York Stock Exchange (the "NYSE"), the NYSE MKT or NASDAQ, or any successor exchanges), is entitled to receive a dividend at a rate of 7.50% per year on the $25.00 liquidation preference before the Company's common stock is paid any dividends and is senior to the Company's common stock with respect to distributions upon liquidation, dissolution or winding up.
The Series B Preferred Stock generally does not have any voting rights, subject to an exception in the event the Company fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series B Preferred Stock will be entitled to vote to elect two additional directors to the Company's Board of Directors (the "Board"), until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series B Preferred Stock cannot be made without the affirmative vote of holders of at least 66 2/3% of the outstanding shares of Series B Preferred Stock.
The following table presents cash dividends declared by the Company on its Series B Preferred Stock from January 1, 2015 through June 30, 2015:

Declaration Date	Record Date	Payment Date	Dividend Per Share
May 18, 2015	June 2, 2015	June 30, 2015	$ 0.46875
February 13, 2015	February 27, 2015	March 31, 2015	0.46875

(b) Dividends on Common Stock

The following table presents cash dividends declared by the Company on its common stock from January 1, 2015 through June 30, 2015:

Declaration Date (1)	Record Date	Payment Date	Dividend Per Share	
June 15, 2015	June 29, 2015	July 31, 2015	$ 0.20	(1)
March 13, 2015	March 27, 2015	April 30, 2015	$ 0.20	

(1) At June 30, 2015, the Company had accrued dividends and dividend equivalents payable of $74.6 million related to the common stock dividend declared on June 15, 2015.

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(c) Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan ("DRSPP")

On August 8, 2013, the Company filed a shelf registration statement on Form S-3 with the SEC under the Securities Act of 1933, as amended (the "1933 Act"), for the purpose of registering additional common stock for sale through its DRSPP. Pursuant to Rule 462(e) of the 1933 Act, this shelf registration statement became effective automatically upon filing with the SEC and, when combined with the unused portion of the Company's previous DRSPP shelf registration statements, registered an aggregate of 15 million shares of common stock. The Company's DRSPP is designed to provide existing stockholders and new investors with a convenient and economical way to purchase shares of common stock through the automatic reinvestment of dividends and/or optional cash investments. At June 30, 2015, 6.9 million shares of common stock remained available for issuance pursuant to the DRSPP shelf registration statement.

During the three and six months ended June 30, 2015, the Company issued 39,875 and 79,659 shares of common stock through the DRSPP, raising net proceeds of approximately $310,000 and $623,000, respectively. From the inception of the DRSPP in September 2003 through June 30, 2015, the Company issued 27,173,208 shares pursuant to the DRSPP, raising net proceeds of $229.7 million.

(d) Stock Repurchase Program

As previously disclosed, in August 2005, the Company's Board authorized a stock repurchase program (the "Repurchase Program") to repurchase up to 4.0 million shares of its outstanding common stock. The Board reaffirmed such authorization in May 2010. In December 2013, the Board increased the number of shares authorized under the Repurchase Program to an aggregate of 10.0 million. Such authorization does not have an expiration date and, at present, there is no intention to modify or otherwise rescind such authorization. Subject to applicable securities laws, repurchases of common stock under the Repurchase Program are made at times and in amounts as the Company deems appropriate, (including, in our discretion, through the use of one or more plans adopted under Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act")) using available cash resources. Shares of common stock repurchased by the Company under the Repurchase Program are cancelled and, until reissued by the Company, are deemed to be authorized but unissued shares of the Company's common stock. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice. The Company did not repurchase any shares of its common stock during the six months ended June 30, 2015. At June 30, 2015, 6,616,355 shares remained authorized for repurchase under the Repurchase Program.

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(e) Accumulated Other Comprehensive Income/(Loss)

The following table presents changes in the balances of each component of the Company's AOCI for the three and six months ended June 30, 2015:

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
(In Thousands)	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Gain/(Loss) on Swaps	Total AOCI	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Gain/(Loss) on Swaps	Total AOCI
Balance at beginning of period	$850,257	$(91,429)	$758,828	$813,515	$(59,062)	$754,453
OCI before reclassifications	(82,945)	26,858	(56,087)	(43,767)	(5,509)	(49,276)
Amounts reclassified from AOCI (1)	(8,161)	—	(8,161)	(15,134)	—	(15,134)
Cumulative effect adjustment on adoption of revised accounting standard for repurchase agreement financing	—	—	—	4,537	—	4,537
Net OCI during the period (2)	(91,106)	26,858	(64,248)	(54,364)	(5,509)	(59,873)
Balance at end of period	$759,151	$(64,571)	$694,580	$759,151	$(64,571)	$694,580

The following table presents changes in the balances of each component of the Company's AOCI for the three and six months ended June 30, 2014:

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
(In Thousands)	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Gain/(Loss) on Swaps	Total AOCI	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Gain/(Loss) on Swaps	Total AOCI
Balance at beginning of period	$819,222	$(27,037)	$792,185	$752,912	$(15,217)	$737,695
OCI before reclassifications	93,230	(27,634)	65,596	162,491	(39,901)	122,590
Amounts reclassified from AOCI (1)	(6,748)	—	(6,748)	(9,699)	447	(9,252)
Net OCI during the period (2)	86,482	(27,634)	58,848	152,792	(39,454)	113,338
Balance at end of period	$905,704	$(54,671)	$851,033	$905,704	$(54,671)	$851,033

(1) See separate table below for details about these reclassifications.
(2) For further information regarding changes in OCI, see the Company's consolidated statements of comprehensive income/(loss).

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The following table presents information about the significant amounts reclassified out of the Company's AOCI for the three and six months ended June 30, 2015:

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015	
Details about AOCI Components	Amounts Reclassified from AOCI		Affected Line Item in the Statement Where Net Income Is Presented
(In Thousands)			
AFS Securities:			
Realized gain on sale of securities	$(7,863)	$(14,429)	Gain on sales of MBS
OTTI recognized in earnings	(298)	(705)	Net impairment losses recognized in earnings
Total AFS Securities	$(8,161)	$(15,134)	
Total reclassifications for period	$(8,161)	$(15,134)	

The following table presents information about the significant amounts reclassified out of the Company's AOCI for the three and six months ended June 30, 2014:

Details about AOCI Components	Three Months Ended June 30, 2014 Amounts Reclassified from AOCI	Six Months Ended June 30, 2014 Amounts Reclassified from AOCI	Affected Line Item in the Statement Where Net Income Is Presented
(In Thousands)			
AFS Securities:			
Realized gain on sale of securities	$(6,748)	$(9,699)	Gain on sales of MBS
Swaps designated as cash flow hedges:			
De-designated Swaps	$—	$447	Other, net
Total reclassifications for period	$(6,748)	$(9,252)	

At June 30, 2015 and December 31, 2014, the Company had unrealized losses recorded in AOCI of $554,000 and $629,000, respectively on securities for which OTTI had been recognized in earnings in prior periods.

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14. EPS Calculation

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, Except Per Share Amounts)	2015	2014	2015	2014
Numerator:				
Net income	$78,071	$78,726	$160,244	$154,914
Dividends declared on preferred stock	(3,750)	(3,750)	(7,500)	(7,500)
Dividends, dividend equivalents and undistributed earnings allocated to participating securities	(391)	(287)	(786)	(561)
Net income to common stockholders - basic and diluted	$73,930	$74,689	$151,958	$146,853
Denominator:				
Weighted average common shares for basic and diluted earnings per share (1)	370,164	368,445	371,992	367,792
Basic and diluted earnings per share	$0.20	$0.20	$0.41	$0.40

(1) At June 30, 2015, the Company had an aggregate of 2.1 million equity instruments outstanding that were not included in the calculation of diluted EPS for the three and six months ended June 30, 2015, as their inclusion would have been anti-dilutive. These equity instruments were comprised of approximately 203,000 shares of restricted common stock with a weighted average grant date fair value of $7.49 and approximately 1.9 million RSUs with a weighted average grant date fair value of $6.89. These equity instruments may have a dilutive impact on future EPS.

15. Equity Compensation, Employment Agreements and Other Benefit Plans

(a) Equity Compensation Plan

In accordance with the terms of the Company’s Equity Compensation Plan (the “Equity Plan”), which was adopted by the Company’s stockholders on May 21, 2015 (and which amended and restated the Company’s 2010 Equity Compensation Plan, directors, officers and employees of the Company and any of its subsidiaries and other persons expected to provide significant services for the Company and any of its subsidiaries are eligible to receive grants of stock options (“Options”), restricted stock, RSUs, dividend equivalent rights and other stock-based awards under the Equity Plan.

Subject to certain exceptions, stock-based awards relating to a maximum of 12.0 million shares of common stock may be granted under the Equity Plan; forfeitures and/or awards that expire unexercised do not count towards this limit. At June 30, 2015, approximately 9.9 million shares of common stock remained available for grant in connection with stock-based awards under the Equity Plan. A participant may generally not receive stock-based awards in excess of 1,500,000 shares of common stock in any one year and no award may be granted to any person who, assuming

exercise of all Options and payment of all awards held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company's common stock. Unless previously terminated by the Board, awards may be granted under the Equity Plan until May 20, 2025.

Dividend Equivalents

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 Equity Plan, and they are paid in cash or other consideration at such times and in accordance with such rules, as the Compensation Committee of the Board (the "Compensation Committee") shall determine in its discretion. Payments made on the Company's existing dividend equivalents are charged to Stockholders' Equity when common stock dividends are declared to the extent that such equivalents are expected to vest. The Company made dividend equivalent payments of approximately $5,000 and $10,000 during the three months ended June 30, 2015 and 2014, respectively and approximately $10,000 and $54,000 during the six months ended June 30, 2015 and 2014, respectively. At June 30, 2015, there were 24,402 dividend equivalent rights outstanding, which had been awarded separately from, but in connection with, grants of

RSUs made in prior years. A 0% forfeiture rate was assumed with respect to such dividend equivalent rights outstanding at June 30, 2015. At June 30, 2015, the Company had unrecognized compensation expense of approximately $85,000 related to such dividend equivalent rights, which are scheduled to elapse over a weighted average period of 1.0 year.

Options

Pursuant to Section 422(b) of the Code, in order for Options granted under the Equity Plan and vesting in any one calendar year to qualify as an incentive stock option ("ISO") for tax purposes, the market value of the common stock to be received upon exercise of such Options as determined on the date of grant shall not exceed $100,000 during such calendar year. The exercise price of an ISO may not be lower than 100% (or 110% in the case of an ISO granted to a 10% stockholder) of the fair market value of the Company's common stock on the date of grant. The exercise price for any other type of Option issued under the Equity Plan may not be less than the fair market value on the date of grant. Each Option is exercisable after the period or periods specified in the award agreement, which will generally not exceed ten years from the date of grant.

The Company did not grant any stock options during the six months ended June 30, 2015 and 2014. At June 30, 2015, the Company had no stock options outstanding.

Restricted Stock

The Company awarded 12,611 and 63,060 shares of restricted common stock during each of the three and six month periods ended June 30, 2015 and 2014, respectively. At June 30, 2015 and December 31, 2014, the Company had unrecognized compensation expense of $1.3 million and $1.8 million, respectively, related to unvested shares of restricted common stock. The Company had accrued dividends payable of approximately $268,000 and $354,000 on unvested shares of restricted stock at June 30, 2015 and December 31, 2014, respectively. The unrecognized compensation expense at June 30, 2015 is expected to be recognized over a weighted average period of 1.8 years.

Restricted Stock Units

Under the terms of the Equity Plan, RSUs are instruments that provide the holder with the right to receive, subject to the satisfaction of conditions set by the Compensation Committee at the time of grant, a payment of a specified value, which may be a share of the Company's common stock, the fair market value of a share of the Company's common stock, or such fair market value to the extent in excess of an established base value, on the applicable settlement date. Although the Equity Plan permits the Company to issue RSUs that can settle in cash, all of the Company's outstanding RSUs as of June 30, 2015 are designated to be settled in shares of the Company's common stock. The Company granted 81,355 and 671,335 RSUs during the three and six months ended June 30, 2015, respectively, and granted 16,860 and 627,481 RSUs during the three and six months ended June 30, 2014, respectively. There were 7,500 RSU forfeited during the three and six months ended June 30, 2015. During the six months ended June 30, 2014, an aggregate of 97,164 previously awarded RSUs were forfeited by the holders' thereof in connection with the negotiation of such holders' respective new employment agreements. All RSUs outstanding at June 30, 2015 may be entitled to receive dividend equivalent payments depending on the terms and conditions of the award either in cash at the time dividends are paid by the Company, or for certain performance-based RSU awards, as a grant of stock at the time such awards are settled. At June 30, 2015 and December 31, 2014, the Company had unrecognized compensation expense of $5.4 million and $2.7 million, respectively, related to RSUs. The unrecognized compensation expense at June 30, 2015 is expected to be recognized over a weighted average period of 2.1 years. A 0% forfeiture rate was assumed

with respect to unvested RSUs at June 30, 2015.

Expense Recognized for Equity-Based Compensation Instruments

The following table presents the Company's expenses related to its equity-based compensation instruments for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,		
(In Thousands)	2015	2014	2015	2014	
Restricted shares of common stock	$348	$882	$594	$1,249	
RSUs	1,288	683	1,934	1,763	(1)
Dividend equivalent rights	21	37	41	74	
Total	$1,657	$1,602	$2,569	$3,086	

(1) RSU expense for the six months ended June 30, 2014 includes approximately $500,000 for a one-time grant to the Company's chief executive officer.

(b) Employment Agreements

At June 30, 2015, the Company had employment agreements with four of its officers, with varying terms that provide for, among other things, base salary, bonus and change-in-control payments upon the occurrence of certain triggering events.

(c) Deferred Compensation Plans

The Company administers deferred compensation plans for its senior officers and non-employee directors (collectively, the "Deferred Plans"), pursuant to which participants may elect to defer up to 100% of certain cash compensation. The Deferred Plans are designed to align participants' interests with those of the Company's stockholders.

Amounts deferred under the Deferred Plans are considered to be converted into "stock units" of the Company. Stock units do not represent stock of the Company, but rather are a liability of the Company that changes in value as would equivalent shares of the Company's common stock. Deferred compensation liabilities are settled in cash at the termination of the deferral period, based on the value of the stock units at that time. The Deferred Plans are non-qualified plans under the Employee Retirement Income Security Act of 1974 and, as such, are not funded. Prior to the time that the deferred accounts are settled, participants are unsecured creditors of the Company.

The Company's liability for stock units in the Deferred Plans is based on the market price of the Company's common stock at the measurement date. The following table presents the Company's expenses related to its Deferred Plans for its non-employee directors and senior officers for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Non-employee directors	$(8)	$27	$(16)	$63
Total	$(8)	$27	$(16)	$63

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The following table presents the aggregate amount of income deferred by participants of the Deferred Plans through June 30, 2015 and December 31, 2014 that had not been distributed and the Company's associated liability for such deferrals at June 30, 2015 and December 31, 2014:

(In Thousands)	June 30, 2015 Undistributed Income Deferred (1)	Liability Under Deferred Plans	December 31, 2014 Undistributed Income Deferred (1)	Liability Under Deferred Plans