

Invesco Mortgage Capital Inc.

Form S-11/A

April 23, 2010

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**As filed with the Securities and Exchange Commission on April 23, 2010**

**Registration Statement No. 333-166093**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Amendment No. 1  
to  
  
Form S-11  
FOR REGISTRATION  
UNDER  
THE SECURITIES ACT OF 1933  
OF CERTAIN REAL ESTATE COMPANIES**

**Invesco Mortgage Capital Inc.**  
*(Exact name of registrant as specified in its governing instruments)*

**1555 Peachtree Street, NE  
Atlanta, Georgia 30309  
(404) 892-0896**  
*(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)*

**Robert H. Rigsby, Esq.  
1555 Peachtree Street, NE  
Atlanta, Georgia 30309  
(404) 892-0896**  
*(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)*

*Copies to:*

**Mark C. Kanaly, Esq.**  
**Alston & Bird LLP**  
**1201 W. Peachtree Street**  
**Atlanta, Georgia 30309-3424**  
**Tel (404) 881-7975**  
**Fax (404) 253-8390**

**David J. Goldschmidt, Esq.**  
**Skadden, Arps, Slate, Meagher & Flom LLP**  
**Four Times Square**  
**New York, New York 10036-6522**  
**Tel (212) 735-3574**  
**Fax (917) 777-3574**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

**CALCULATION OF REGISTRATION FEE**

<b>Title of Securities to be Registered</b>	<b>Proposed Maximum Aggregate Offering Price(1)</b>	<b>Amount of Registration Fee(2)</b>
Common Stock, par value \$0.01 per share	\$200,000,000	\$14,260

(1) Estimated solely for the purpose of determining the registration fee in accordance with Rule 457(o) of the Securities Act of 1933, as amended.

(2) Calculated in accordance with Rule 457(o) under the Securities Act of 1933, as amended. Previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED APRIL 23, 2010**

**9,000,000 Shares**

**Invesco Mortgage Capital Inc.**

**Common Stock**

Invesco Mortgage Capital Inc. is a Maryland corporation focused on investing in, financing and managing residential and commercial mortgage-backed securities and mortgage loans. We invest in residential mortgage-backed securities for which a U.S. government agency or a federally chartered corporation guarantees payments of principal and interest on the securities. In addition, we invest in residential mortgage-backed securities that are not issued or guaranteed by a U.S. government agency, commercial mortgage-backed securities and mortgage loans. We generally finance our agency and non-agency residential mortgage-backed securities through repurchase agreement financing. We have financed our investments in commercial mortgage-backed securities with financings under the U.S. government's Term Asset-Backed Securities Loan Facility. We have also financed, and may do so again in the future, our investments in commercial mortgage-backed securities with private financing sources. We have also financed our investments in certain non-agency residential mortgage-backed securities, commercial mortgage-backed securities and residential and commercial mortgage loans by contributing capital to one or more of the legacy securities public-private investment funds that receive financing under the U.S. government's Public-Private Investment Program. We are externally managed and advised by Invesco Advisers, Inc. (formerly Invesco Institutional (N.A.), Inc.), a Delaware corporation and an indirect, wholly-owned subsidiary of Invesco Ltd., an independent global investment company listed on the New York Stock Exchange (NYSE: IVZ).

We are offering 9,000,000 shares of our common stock as described in this prospectus. Our common stock is traded on the New York Stock Exchange under the symbol **IVR**. The last reported sale price of our common stock on the NYSE was \$22.20 on April 22, 2010.

We intend to elect and qualify to be taxed as a real estate investment trust for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2009. To assist us in qualifying as a real estate investment trust, among other purposes, shareholders are generally restricted from owning more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock. Different ownership limits apply to Invesco Ltd. and its direct and indirect subsidiaries, including but not limited to Invesco Advisers, Inc. and Invesco Investments (Bermuda) Ltd. In addition, our charter contains various other restrictions on the ownership and transfer of our common stock. See **Description of Capital Stock** **Restrictions on Ownership and Transfer**.

**Investing in our common stock involves risks. See **Risk Factors** beginning on page 20 of this prospectus for a discussion of these risks.**

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to us, before expenses	\$	\$

The underwriters may also purchase up to an additional 1,350,000 shares of our common stock from us at the public offering price, less the underwriting discount, within 30 days after the date of this prospectus to cover over-allotments, if any.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The shares will be ready for delivery on or about , 2010.

**Credit Suisse  
Keefe, Bruyette & Woods**

**Stifel Nicolaus**

**Morgan Stanley  
JMP Securities**

The date of this prospectus is , 2010.

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**You should rely only on the information contained in this prospectus, any free writing prospectus prepared by us or information to which we have referred you. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any free writing prospectus prepared by us is accurate only as of their respective dates or on the date or dates which are specified in these documents. Our business, financial condition, results of operations and prospects may have changed since those dates.**

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**SUMMARY**

*This summary highlights some of the information in this prospectus. It does not contain all of the information that you should consider before investing in our common stock. You should read carefully the more detailed information set forth under **Risk Factors** and the other information included in this prospectus. Except where the context suggests otherwise, the terms **company**, **we**, **us**, and **our** refer to Invesco Mortgage Capital Inc., a Maryland corporation, together with its consolidated subsidiaries, including IAS Operating Partnership LP, a Delaware limited partnership, which we refer to as **our operating partnership**; **our Manager** refers to Invesco Advisers, Inc. (formerly Invesco Institutional (N.A.) Inc.), a Delaware corporation, our external manager; **Invesco** refers to Invesco Ltd., together with its consolidated subsidiaries (other than us), the indirect parent company of our Manager.*

**Our Company**

We are a Maryland corporation focused on investing in, financing and managing residential and commercial mortgage-backed securities and mortgage loans, which we collectively refer to as our target assets. Our objective is to provide attractive risk-adjusted returns to our investors, primarily through dividends and secondarily through capital appreciation. To achieve this objective, we selectively acquire assets to construct a diversified investment portfolio designed to produce attractive returns across a variety of market conditions and economic cycles.

Our target assets consist of residential mortgage-backed securities, or RMBS, for which a U.S. government agency such as the Government National Mortgage Association, or Ginnie Mae, or a federally chartered corporation such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac, guarantees payments of principal and interest on the securities. We refer to these securities as Agency RMBS. Our Agency RMBS investments include mortgage pass-through securities and may include collateralized mortgage obligations, or CMOs. We also invest in RMBS that are not issued or guaranteed by a U.S. government agency, or non-Agency RMBS, commercial mortgage-backed securities, or CMBS, and residential and commercial mortgage loans.

We generally finance our Agency RMBS investments and our non-Agency RMBS investments through traditional repurchase agreement financing. In addition, we have financed our investments in CMBS with financings under the U.S. government's Term Asset-Backed Securities Loan Facility, or TALF. We have also financed, and may do so again in the future, our investments in CMBS with private financing sources. We have also financed our investments in certain non-Agency RMBS, CMBS and residential and commercial mortgage loans by contributing capital to one or more of the legacy securities public-private investment funds, or PPIFs, that receive financing under the U.S. government's Public-Private Investment Program, or PPIP, established and managed by our Manager or one of its affiliates, or the Invesco PPIP Fund, which, in turn, invests in our target assets.

We were incorporated in Maryland on June 5, 2008, and commenced operations in July 2009. On July 1, 2009, we successfully completed our initial public offering, or IPO, generating net proceeds of \$164.8 million. Concurrent with our IPO, we completed a private placement in which we sold \$1.5 million of our common stock to our Manager and \$28.5 million of units of limited partnership interests in our operating partnership, or OP units, to Invesco Investments (Bermuda) Ltd. On July 27, 2009, the underwriters of our IPO exercised their over-allotment option for net proceeds of \$6.1 million. Collectively, we received net proceeds from our IPO and the related private placement of approximately \$200.9 million. On January 15, 2010, we completed a follow-on public offering of 7,000,000 shares of common stock, and an issuance of an additional 1,050,000 shares of common stock pursuant to the underwriters' full exercise of their over-allotment option, at \$21.25 per share. The net proceeds to us were \$162.7 million.

We have invested the net proceeds from our IPO, related private placement and follow-on offering, as well as monies that we borrowed under repurchase agreements and TALF, in accordance with our investment strategy. By mid-February 2010, we had substantially invested the equity proceeds of our follow-on offering. As of March 31, 2010, approximately 23% of our equity was invested in Agency RMBS, 57% in non-Agency RMBS, 12% in CMBS and 8% in the Invesco PPIP Fund.

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We intend to elect to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2009. Accordingly, we generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we distribute all of our net taxable income to our shareholders and maintain our qualification as a REIT. We operate our business in a manner that permits us to maintain our exclusion from the definition of investment company under the Investment Company Act of 1940, as amended, or the 1940 Act.

## **Recent Developments**

Based on our preliminary estimates, we currently expect our earnings per share for the quarter ended March 31, 2010 to be approximately \$0.77 and our book value as of March 31, 2010 to be approximately \$20.26 per share, as compared to earnings per share for the quarter ended December 31, 2009 of \$1.02 and a book value of \$20.39 as of December 31, 2009. The change in earnings per share is primarily attributed to fewer sales of securities within our portfolio in the first quarter of 2010 and the impact on net interest income related to deploying capital from our January 2010 follow-on public offering. The change in book value from December 31, 2009 to March 31, 2010 is principally attributable to modification of the mix of our portfolio of mortgage-backed securities, or MBS, changes in the valuation of our portfolio, net income, and the impact of the dividend declared in the first quarter of 2010. The preliminary estimated book value per share and earnings per share are subject to revision as we prepare our interim financial statements, including all disclosures required by accounting principles generally accepted in the United States, or U.S. GAAP, as of and for the quarter ended March 31, 2010 and as our auditors conduct their review of these interim financial statements. Factors that could cause the preliminary estimates to differ include, but are not limited to: (i) additional adjustments in the calculation of financial results for, or book value as of the quarter end date, or the application of accounting principles, (ii) discovery of new information that alters expectations about first quarter results or impacts valuation methodologies underlying these results, (iii) errors in the assessment of portfolio value, and (iv) accounting changes required by U.S. GAAP.

## **Our Manager**

We are externally managed and advised by our Manager, an SEC-registered investment adviser and indirect, wholly-owned subsidiary of Invesco Ltd. (NYSE: IVZ), a leading independent global investment management company. With over 25 years of experience, Invesco's teams of dedicated professionals have developed exceptional track records across multiple fixed income sectors and asset classes, including structured securities, such as RMBS, asset-backed securities, or ABS, CMBS, and leveraged loan portfolios.

Pursuant to the terms of the management agreement, our Manager provides us with our management team, including our officers, along with appropriate support personnel. Each of our officers is an employee of Invesco. We do not have any employees. With the exception of our Chief Financial Officer, our Manager does not dedicate any of its employees exclusively to us, nor is our Manager or its employees obligated to dedicate any specific portion of its or their time to our business. Our Manager is at all times subject to the supervision and oversight of our board of directors and has only such functions and authority as our board of directors delegates to it.

## **Our Strategies**

### ***Investments***

We invest in a diversified pool of mortgage assets that generate attractive risk adjusted returns. Our target assets include Agency RMBS, non-Agency RMBS, CMBS and residential and commercial mortgage loans. See Our Investments Our Target Assets below. In addition to direct purchases of our target assets, we have also invested in the

Invesco PPIP Fund, which, in turn, invests in our target assets. Our Manager's investment committee makes investment decisions for the Invesco PPIP Fund.

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***Leverage***

We use leverage on our target assets to achieve our return objectives. For our investments in Agency RMBS (including CMOs), we focus on securities we believe provide attractive returns when levered approximately 6 to 8 times. For our investments in non-Agency RMBS through December 31, 2009, we primarily focused on securities we believed would provide attractive unlevered returns. More recently, the unlevered returns attainable on investments in non-Agency RMBS have decreased. In the future we will employ leverage on our investments in non-Agency RMBS of approximately 1 to 2 times in order to achieve our risk-adjusted return target. We leverage our CMBS 3 to 5 times.

For the year ended December 31, 2009 and the first quarter ended March 31, 2010, the leverage we employed on our investments in non-Agency RMBS was within the level we previously established for this asset class (up to 1 times). For these same periods, the leverage we employed on our investments in our other targeted asset classes was consistent with the ranges of leverage we have established for these asset classes.

***Financing***

We finance our investments in Agency RMBS and non-Agency RMBS primarily through short-term borrowings structured as repurchase agreements. In addition, we have financed our investments in CMBS with financing under the TALF. We have also financed, and may do so again in the future, our investments in CMBS with private financing sources. We have financed our investments in certain non-Agency RMBS, CMBS and residential and commercial mortgage loans by investing in the Invesco PPIP Fund, which receives financing from the U.S. Treasury and from the Federal Deposit Insurance Corporation, or the FDIC.

As of December 31, 2009, we had entered into master repurchase agreements with eighteen counterparties and had borrowed \$546.0 million under five of those master repurchase agreements to finance our purchases of Agency RMBS. In addition, as of December 31, 2009, we had entered into three interest rate swap agreements, for a notional amount of \$375.0 million, designed to mitigate the effects of increases in interest rates under a portion of our repurchase agreements. At December 31, 2009, we had secured borrowings of \$80.4 million under the TALF. As of December 31, 2009, we had a commitment to invest up to \$25.0 million in the Invesco PPIP Fund, of which \$4.1 million has been called. The commitment to the Invesco PPIP Fund was increased to \$100.0 million in March 2010.

***Risk Management Strategy***

***Market Risk Management***

Risk management is an integral component of our strategy to deliver returns to our shareholders. Because we invest in MBS, investment losses from principal prepayments, interest rate volatility and other risks can meaningfully reduce or eliminate our distributions to shareholders. In addition, because we employ financial leverage in funding our investment portfolio, mismatches in the maturities of our assets and liabilities can create the need to continually renew or otherwise refinance our liabilities. Our net interest margins are dependent upon a positive spread between the returns on our asset portfolio and our overall cost of funding. To minimize the risks to our portfolio, we actively employ portfolio-wide and security-specific risk measurements and management processes in our daily operations. Our Manager's risk management tools include software and services licensed or purchased from third parties, in addition to proprietary software and analytical methods developed by Invesco. There is no guarantee that these tools will protect us from market risks.

***Interest Rate Hedging***

Subject to maintaining our qualification as a REIT, we may engage in a variety of interest rate management techniques that seek on one hand to mitigate the influence of interest rate changes on the costs of liabilities and on the other hand help us achieve our risk management objective. Specifically, we seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate

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hedges, we seek to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a favorable spread between the yield on our assets and the cost of our financing. We rely on our Manager's expertise to manage these risks on our behalf. We utilize derivative financial instruments, which may include puts and calls on securities or indices of securities, interest rate swaps, interest rate caps, interest rate swaptions, exchange-traded derivatives, U.S. Treasury securities and options on U.S. Treasury securities and interest rate floors to hedge all or a portion of the interest rate risk associated with the financing of our investment portfolio.

### *Credit Risk*

We believe our investment strategy generally keeps our credit losses and financing costs low. However, we retain the risk of potential credit losses on all of the residential and commercial mortgage loans, as well as the loans underlying the non-Agency RMBS and CMBS we hold. We seek to manage this risk through our pre-acquisition due diligence process and through the use of non-recourse financing, which limits our exposure to credit losses to the specific pool of mortgages that are subject to the non-recourse financing. In addition, with respect to any particular target asset, our Manager's investment team evaluates, among other things, relative valuation, supply and demand trends, shape of yield curves, prepayment rates, delinquency and default rates, recovery of various sectors and vintage of collateral.

## **Our Investments**

### *Our Target Assets*

Our target asset classes and the principal assets in which we invest are as follows:

#### **Asset Classes**

#### **Principal Assets**

#### **Agency RMBS**

*Mortgage Pass-Through Certificates.* Single-family residential mortgage pass-through certificates are securities representing interests in pools of mortgage loans secured by residential real property where payments of both interest and principal, plus pre-paid principal, on the securities are made monthly to holders of the securities, in effect passing through monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer/guarantor and servicers of the securities. These mortgage pass-through certificates are guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac.

*Collateralized Mortgage Obligations.* Collateralized mortgage obligations, or CMOs, are securities which are structured from U.S. government agency, or federally chartered corporation-backed mortgage pass-through certificates. CMOs receive monthly payments of principal and interest. CMOs divide the cash flows which come from the underlying mortgage pass-through certificates into different classes of securities. CMOs can have different maturities and different weighted average lives than the underlying mortgage pass-through certificates. CMOs can re-distribute the risk characteristics of mortgage pass-through certificates to better satisfy the demands of various investor types. These risk characteristics would include average life variability, prepayments, volatility, floating versus fixed interest rate and payment and interest rate risk.

**Non-Agency RMBS**

RMBS that are not issued or guaranteed by a U.S. government agency or federally chartered corporation, with an emphasis on securities that when originally issued were rated in the highest rating category by one or more of the nationally recognized statistical rating organizations.

**CMBS**

Fixed and floating rate commercial mortgage backed securities, with an emphasis on securities that when originally issued were rated in the highest rating category by one or more of the nationally recognized statistical rating organizations.

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### Asset Classes

### Principal Assets

#### Residential Mortgage Loans

*Prime and Jumbo Mortgage Loans.* Prime mortgage loans are mortgage loans that generally conform to U.S. government agency underwriting guidelines. Jumbo prime mortgage loans are mortgage loans that generally conform to U.S. government agency underwriting guidelines except that the mortgage balance exceeds the maximum amount permitted by the U.S. government agency underwriting guidelines.

*Alt-A Mortgage Loans.* Alt-A mortgage loans are mortgage loans made to borrowers whose qualifying mortgage characteristics do not conform to U.S. government agency underwriting guidelines, but whose borrower characteristics may. Generally, Alt-A mortgage loans allow homeowners to qualify for a mortgage loan with reduced or alternative forms of documentation. The credit quality of Alt-A borrowers generally exceeds the credit quality of subprime borrowers.

*Subprime Mortgage Loans.* Subprime mortgage loans are loans that do not conform to U.S. government agency underwriting guidelines.

#### Commercial Mortgage Loans

First or second lien loans on commercial real estate, subordinate interests in first mortgages on commercial real estate, or B-Notes on commercial real estate, bridge loans to be used in the acquisition, construction or redevelopment of a property and mezzanine financings.

#### Our Investment Activities

As of December 31, 2009, 19.1% of our equity was invested in Agency RMBS, 54.8% in non-Agency RMBS, 9.9% in CMBS, 2.0% in the Invesco PPIP Fund and 14.2% in other assets (including cash and restricted cash). We use leverage on our target assets to achieve our return objectives. For our investments in Agency RMBS, we focus on securities we believe provide attractive returns when levered approximately 6 to 8 times. For our investments in non-Agency RMBS through December 31, 2009, we primarily focused on securities we believed would provide attractive unlevered returns. More recently, the unlevered returns attainable on investments in non-Agency RMBS have decreased. In the future we will employ leverage on our investments in non-Agency RMBS of approximately 1 to 2 times in order to achieve our risk-adjusted return target. We leverage our CMBS 3 to 5 times. We have also financed our investments in certain non-Agency RMBS, CMBS and residential and commercial mortgage loans by investing in the Invesco PPIP Fund, which receives financing from the U.S. Treasury and the FDIC. As of March 31, 2010, the Invesco PPIP Fund no longer accepts investment subscriptions and the fund is now deemed closed.

As of December 31, 2009, we had approximately \$161.1 million in 30-year fixed rate securities that offered higher coupons and call protection based on the collateral attributes. We balanced this with approximately \$261.8 million in 15-year fixed rate securities, approximately \$123.5 million in hybrid adjustable-rate mortgages, or ARMs, and approximately \$10.0 million in ARMs we believe to have similar durations based on prepayment speeds. As of December 31, 2009, we had purchased approximately \$115.3 million non-Agency RMBS.

Our investments in CMBS were previously limited to securities for which we were able to obtain financing under the TALF. Our primary focus is on investing in AAA-rated securities issued prior to 2008. As of December 31, 2009, we had purchased approximately \$101.1 million in CMBS and financed such purchases with \$80.4 million in TALF loans. We have also financed, and may do so again in the future, our investments in CMBS with private financing

sources. In addition, as of December 31, 2009, we had purchased approximately \$29.7 million in CMOs.

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The following table summarizes certain characteristics of our investment portfolio as of December 31, 2009:

<b>\$ in thousands</b>	<b>Principal Balance</b>	<b>Unamortized Premium (Discount)</b>	<b>Amortized Cost</b>	<b>Unrealized Gain/ (Loss)</b>	<b>Fair Value</b>	<b>Net Weighted Average Coupon<sup>(1)</sup></b>	<b>Average Yield<sup>(2)</sup></b>
Agency RMBS:							
15 year fixed-rate	251,752	9,041	260,793	1,023	261,816	4.82%	3.80%
30 year fixed-rate	149,911	10,164	160,075	990	161,065	6.45%	5.02%
ARM	10,034	223	10,257	(281)	9,976	2.52%	1.99%
Hybrid ARM	117,163	5,767	122,930	597	123,527	5.14%	3.55%
Total Agency RMBS	528,860	25,195	554,055	2,329	556,384	5.31%	4.07%
MBS-CMO	27,819	978	28,797	936	29,733	6.34%	4.83%
Non-Agency RMBS	186,682	(79,341)	107,341	7,992	115,333	4.11%	17.10%
CMBS	104,512	(4,854)	99,658	1,484	101,142	4.93%	5.97%
Total	847,873	(58,022)	789,851	12,741	802,592	5.03%	6.10%

(1) Weighted average coupon is presented net of servicing and other fees.

(2) Average yield incorporates future prepayment assumptions.

The following table summarizes certain characteristics of our investment portfolio, at fair value, according to their estimated weighted average life classifications as of December 31, 2009:

**\$ in thousands**

Less than one year	
Greater than one year and less than five years	483,540
Greater than or equal to five years	319,052
Total	802,592

The following table presents certain information about the carrying value of our available for sale MBS as of December 31, 2009:

**\$ in thousands**

Principal balance	847,873
Unamortized premium	26,174
Unamortized discount	(84,196)
Gross unrealized gains	14,595
Gross unrealized losses	(1,854)
Carrying value/estimated fair value	802,592

*Financing and Other Liabilities.* Following the closing of our IPO, we entered into repurchase agreements to finance the majority of our Agency RMBS. These agreements are secured by our Agency RMBS and bear interest at rates that have historically moved in close relationship to the London Interbank Offer Rate, or LIBOR. As of December 31, 2009, we had entered into repurchase agreements totaling \$546.0 million. In addition, we funded our CMBS portfolio with borrowings of \$80.4 million under the TALF. The TALF loans are non-recourse and mature in July, August and December, 2014. As of December 31, 2009, we had a commitment to invest up to \$25.0 million in the Invesco PPIP Fund, of which \$4.1 million has been called. The commitment to the Invesco PPIP Fund was increased to \$100.0 million in March 2010.

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*Hedging Instruments.* We generally hedge as much of our interest rate risk as we deem prudent in light of market conditions. No assurance can be given that our hedging activities will have the desired beneficial impact on our results of operations or financial condition. Our investment policies do not contain specific requirements as to the percentages or amount of interest rate risk that we are required to hedge.

As of December 31, 2009, we had entered into three interest rate swap agreements designed to mitigate the effects of increases in interest rates under a portion of our repurchase agreements. These swap agreements provide for fixed interest rates indexed off of one-month LIBOR and effectively fix the floating interest rates on \$375.0 million of borrowings under our repurchase agreements. We intend to continue to add interest rate hedge positions according to our hedging strategy.

**Investment Guidelines**

Our board of directors has adopted the following investment guidelines:

no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;

no investment shall be made that would cause us to be regulated as an investment company under the 1940 Act;

our investments will be in our target assets; and

until appropriate investments can be identified, our Manager may pay off short-term debt or invest the proceeds of this and any future offerings in interest-bearing, short-term investments, including funds that are consistent with our intention to qualify as a REIT.