CHIMERA INVESTMENT CORP
Form 10-Q
November 10, 2014

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: SEPTEMBER 30, 2014

OR

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

FOR THE TRANSITION PERIOD FROM _______________ TO _________________

COMMISSION FILE NUMBER: 1-33796

CHIMERA INVESTMENT CORPORATION
(Exact name of Registrant as specified in its Charter)

MARYLAND	26-0630461
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1211 AVENUE OF THE AMERICAS, SUITE 2902
NEW YORK, NEW YORK
(Address of principal executive offices)

10036
(Zip Code)

(646) 454-3759
(Registrant’s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all documents and 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 þ 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ 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 þ

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the last practicable date:

Class	Outstanding at November 10, 2014
Common Stock, $.01 par value	1,027,558,123

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CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share and per share data)

	September 30, 2014 (Unaudited)	December 31, 2013 (1)
Assets:		
Cash and cash equivalents	$241,643	$77,629
Non-Agency RMBS, at fair value		
Senior	239,934	89,687
Senior interest-only	207,840	229,065
Subordinated	439,967	457,569
Subordinated interest-only	7,340	16,571
Agency RMBS, at fair value		
Pass-through	7,955,805	1,954,796
Interest-only	114,169	42,782
Receivable for investments sold	-	253,541
Accrued interest receivable	32,640	15,821
Other assets	99,038	1,763
Derivatives, at fair value, net	7,800	8,095
Subtotal	9,346,176	3,147,319
Assets of Consolidated VIEs:		
Non-Agency RMBS transferred to consolidated variable interest entities ("VIEs"), at fair value	2,528,335	2,981,571
Securitized loans held for investment, net of allowance for loan losses of $7 million and $9 million, respectively	678,866	783,484
Securitized loans held for investment, at fair value	4,816,551	-
Accrued interest receivable	40,587	17,173
Other Assets	80,454	6,534
Subtotal	8,144,793	3,788,762
Total assets	$17,490,969	$6,936,081
Liabilities:		
Repurchase agreements, RMBS ($8.5 billion and $1.7 billion pledged as collateral, respectively)	$7,838,163	$1,658,561
Accrued interest payable	25,941	1,397
Dividends payable	92,461	297,904
Payable for investments purchased	848,131	-
Accounts payable and other liabilities	664	1,861
Investment management fees and expenses payable to affiliate	8,540	5,658
Derivatives, at fair value, net	16,222	30,199
Subtotal	8,830,122	1,995,580
Non-Recourse Liabilities of Consolidated VIEs		
Securitized debt, collateralized by Non-Agency RMBS ($2.5 billion and $3.0 billion pledged as collateral, respectively)	742,894	933,732
Securitized debt, collateralized by loans held for investment ($673 million and $763 million pledged as collateral, respectively)	572,742	669,981

Securitized debt at fair value, collateralized by loans held for investment ($4.8 billion pledged as collateral)	3,737,602	-
Accrued interest payable	16,383	5,278
Subtotal	5,069,621	1,608,991
Total liabilities	$13,899,743	$3,604,571
Commitments and Contingencies (See Note 16)		
Stockholders' Equity:		
Preferred Stock: par value $0.01 per share; 100,000,000 shares authorized, 0 shares issued and outstanding, respectively	$-	$-
Common stock: par value $0.01 per share; 1,500,000,000 shares authorized, 1,027,508,880 and 1,027,626,237 shares issued and outstanding, respectively	10,273	10,272
Additional paid-in-capital	3,605,406	3,605,241
Accumulated other comprehensive income (loss)	945,006	990,803
Retained earnings (accumulated deficit)	(969,459)	(1,274,806)
Total stockholders' equity	$3,591,226	$3,331,510
Total liabilities and stockholders' equity	$17,490,969	$6,936,081

(1) Derived from the audited consolidated financial statements.

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(dollars in thousands, except share and per share data)
(unaudited)

	For the Quarter Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net interest income:				
Interest income	$86,613	$38,818	$171,125	$101,514
Interest expense	(9,902)	(1,580)	(15,132)	(5,042)
Interest income, Assets of consolidated VIEs	103,742	91,543	274,215	282,207
Interest expense, Non-recourse liabilities of consolidated VIEs	(28,984)	(23,494)	(66,859)	(75,472)
Net interest income (expense)	151,469	105,287	363,349	303,207
Other-than-temporary impairments:				
Total other-than-temporary impairment losses	(726)	(2,209)	(4,939)	(2,209)
Portion of loss recognized in other comprehensive income (loss)	(1,264)	(14,246)	(3,932)	(20,409)
Net other-than-temporary credit impairment losses	(1,990)	(16,455)	(8,871)	(22,618)
			-	
Other gains (losses):				
Net unrealized gains (losses) on derivatives	12,975	27	(11,720)	18,607
Net realized gains (losses) on derivatives	(23,152)	(3,391)	(48,692)	(14,312)
Net gains (losses) on derivatives	(10,177)	(3,364)	(60,412)	4,295
Net unrealized gains (losses) on financial instruments at fair value	162,921	(27,874)	183,722	(41,861)
Net realized gains (losses) on sales of investments	64,107	18,816	68,145	72,939
Gain on deconsolidation	-	-	47,846	-
Loss on Extinguishment of Debt	-	-	(2,184)	-
Total other gains (losses)	216,851	(12,422)	237,117	35,373
Net investment income (loss)	366,330	76,410	591,595	315,962
			-	
Other (income) and expenses:				
Management fees	9,381	6,570	21,873	19,517
Expense recoveries from Manager	(1,975)	(1,082)	(4,820)	(6,252)
Net management fees	7,406	5,488	17,053	13,265
(Income)/expense for change in loan loss provision	(645)	(69)	(112)	(1,348)
General and administrative expenses	5,772	3,624	15,718	13,668
Other (income) expense	(23,783)	-	(23,783)	-
Total other income and expenses	(11,250)	9,043	8,876	25,585
Income (loss) before income taxes	377,580	67,367	582,719	290,377
Income taxes	-	-	2	2

Net income (loss)	$377,580	$67,367	$582,717	$290,375
Net income (loss) per share available to common shareholders:				
Basic	$0.37	$0.07	$0.57	$0.28
Diluted	$0.37	$0.07	$0.57	$0.28
Weighted average number of common shares outstanding:				
Basic	1,027,183,380	1,027,121,439	1,027,218,024	1,027,075,627
Diluted	1,027,508,880	1,027,559,189	1,027,543,738	1,027,582,582
Dividends declared per share of common stock	$0.09	$0.09	$0.27	$0.27
Comprehensive income (loss):				
Net income (loss)	$377,580	$67,367	582,717	290,375
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities, net	(74,155)	(33,176)	63,995	61,836
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	1,990	16,455	8,871	22,618
Reclassification adjustment for net realized losses (gains) included in net income (loss)	(62,477)	(18,816)	(70,817)	(72,939)
Reclassification adjustment for gain on deconsolidation included in net income	-	-	(47,846)	-
Other comprehensive income (loss)	(134,642)	(35,537)	(45,797)	11,515
Comprehensive income (loss)	$242,938	$31,830	$536,920	$301,890

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(dollars in thousands, except per share data)
(unaudited)

	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
Balance, December 31, 2012	$10,268	$3,604,554	$ 989,936	$ (1,062,279)	$3,542,479
Net income	-	-	-	290,375	290,375
Unrealized gains (losses) on available-for-sale securities, net	-	-	61,836	-	61,836
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	-	-	22,618	-	22,618
Reclassification adjustment for net realized losses (gains) included in net income (loss)	-	-	(72,939)	-	(72,939)
Proceeds from restricted stock grants	3	236	-	-	239
Common dividends declared, $0.27 per share	-	-	-	(277,309)	(277,309)
Balance, September 30, 2013	$10,271	$3,604,790	$ 1,001,451	$ (1,049,213)	$3,567,299
Balance, December 31, 2013	$10,272	$3,605,241	$ 990,803	$ (1,274,806)	$3,331,510
Net income	-	-	-	582,717	582,717
Unrealized gains (losses) on available-for-sale securities, net	-	-	63,995	-	63,995
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	-	-	8,871	-	8,871
Reclassification adjustment for net realized losses (gains) included in net income (loss)	-	-	(70,817)	-	(70,817)
Reclassification adjustment for gain on deconsolidation included in net income	-	-	(47,846)	-	(47,846)
Proceeds from restricted stock grants	1	165	-	-	166
Common dividends declared, $0.27 per share	-	-	-	(277,370)	(277,370)
Balance, September 30, 2014	$10,273	$3,605,406	$ 945,006	$ (969,459)	$3,591,226

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the Nine Months Ended	
	September 30, 2014	September 30, 2013
Cash Flows From Operating Activities:		
Net income (loss)	$ 582,717	$ 290,375
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Accretion) amortization of investment discounts/premiums, net	(51,284)	(56,211)
Amortization of deferred financing costs	1,673	5,215
Accretion (amortization) of securitized debt discounts/premiums, net	7,782	8,964
Net unrealized losses (gains) on derivatives	11,720	(18,607)
Net realized losses (gains) on option contracts settled	1,246	-
Proceeds (payments) for derivative sales and settlements	(1,076)	-
Margin (paid) received on derivatives	(111,904)	-
Net unrealized losses (gains) on financial instruments at fair value	(183,722)	41,861
Net realized losses (gains) on sales of investments	(68,145)	(72,939)
Gain on deconsolidation	(47,846)	-
Net other-than-temporary credit impairment losses	8,871	22,618
Loss on extinguishment of securitized debt	2,184	-
Provision for loan losses, net	(112)	(1,348)
Equity-based compensation expense	169	239
Changes in operating assets:		
Decrease (increase) in accrued interest receivable, net	(39,698)	2,144
Decrease (increase) in other assets	(9,921)	(617)
Decrease (increase) in other assets of consolidated VIEs	15,393	-
Changes in operating liabilities:		
Increase (decrease) in accounts payable and other liabilities	(1,197)	2,079
Increase (decrease) in investment management fees and expenses payable to affiliate	2,882	(818)
Increase (decrease) in accrued interest payable, net	35,649	(3,699)
Net cash provided by (used in) operating activities	$ 155,381	219,256
Cash Flows From Investing Activities:		
Agency RMBS portfolio:		
Purchases	(7,456,073)	(1,377,380)
Sales	1,910,389	437,440
Principal payments	267,809	424,420
Non-Agency RMBS portfolio:		
Purchases	(316,728)	(219,798)
Sales	299,804	189,925
Principal payments	31,605	6,418
Non-Agency RMBS transferred to consolidated VIEs:		
Sales	211,164	-
Principal payments	214,634	372,504
Securitized loans held for investment:		
Principal payments	139,809	462,920

Acquisition of securities in consolidated VIEs	(774,350)	-
Net cash provided by (used in) investing activities	$ (5,471,937)	296,449
Cash Flows From Financing Activities:		
Proceeds from repurchase agreements	$ 17,795,611	5,589,715
Payments on repurchase agreements	(11,616,008)	(5,528,415)
Proceeds from securitized debt borrowings, collateralized by loans held for investment	128,173	-
Payments on securitized debt borrowings, collateralized by loans held for investment	(144,183)	(456,233)
Payments on securitized debt borrowings, collateralized by Non-Agency RMBS	(144,138)	(339,134)
Repurchase of securitized debt borrowings, collateralized by Non-Agency RMBS	(56,072)	-
Common dividends paid	(482,813)	(277,300)
Net cash provided by (used in) financing activities	$ 5,480,570	(1,011,367)
Net increase (decrease) in cash and cash equivalents	164,014	(495,662)
Cash and cash equivalents at beginning of period	77,629	621,153
Cash and cash equivalents at end of period	$ 241,643	$ 125,491
Supplemental disclosure of cash flow information:		
Interest received	$ 353,825	$ 329,654
Interest paid	$ 36,887	$ 70,035
Management fees and expenses paid to affiliate	$ 18,991	$ 20,335
Non-cash investing activities:		
Receivable for investments sold	$ -	$ 197,554
Payable for investments purchased	$ 848,131	$ 4,810
Net change in unrealized gain (loss) on available-for sale securities	$ (45,797)	$ 11,515
Transfer out of Non-Agency RMBS Transferred to consolidated VIEs	$ (54,916)	$ -
Transfer into Non-Agency RMBS	$ 54,916	$ -
Acquisition of securities in consolidated VIEs		
Securitized loans held for investment, at fair value	$ 4,722,825	$ -
Other assets of consolidated VIEs	$ 84,830	$ -
Securitized debt at fair value	$ 4,033,304	$ -
Non-cash financing activities:		
Common dividends declared, not yet paid	$ 92,461	$ 92,440

See accompanying notes to consolidated financial statements.

1. Organization

Chimera Investment Corporation (the “Company”) was organized in Maryland on June 1, 2007. The Company commenced operations on November 21, 2007 when it completed its initial public offering. The Company elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder (the “Code”). The Company formed the following wholly-owned qualified REIT subsidiaries: Chimera Securities Holdings, LLC in July 2008; Chimera Asset Holding LLC and Chimera Holding LLC in June 2009; and Chimera Special Holding LLC in January 2010 which is a wholly-owned subsidiary of Chimera Asset Holding LLC. In July 2010, the Company formed CIM Trading Company LLC, a wholly-owned taxable REIT subsidiary (“TRS”). In October 2013, the Company formed Chimera Funding TRS LLC, which is a wholly-owned TRS.

Annaly Capital Management, Inc. (“Annaly”) owns approximately 4.4% of the Company’s common shares as of September 30, 2014. The Company is managed by Fixed Income Discount Advisory Company (“FIDAC”), an investment advisor registered with the Securities and Exchange Commission (“SEC”). FIDAC is a wholly-owned subsidiary of Annaly.

2. Summary of the Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2013. Certain prior year amounts have been reclassified to conform to the current year’s presentation.

The consolidated financial statements include, on a consolidated basis, the Company’s accounts, the accounts of its wholly-owned subsidiaries, and variable interest entities (“VIEs”) in which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

The Company uses securitization trusts considered to be VIEs in its securitization and re-securitization transactions. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary, and is generally the entity with (i) the power to direct the activities that most significantly impact the VIEs’ economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. For VIEs that do not have substantial on-going activities, the power to direct the activities that most significantly impact the VIEs’ economic performance may be determined by an entity’s involvement with the design and structure of the VIE.

The trusts are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The assets held by the securitization entities are restricted in that they can only be used to fulfill the obligations of the securitization entity. The Company's risks associated with its involvement with these VIEs are limited to its risks and rights as a certificate holder of the bonds it has retained. There have been no recent changes to the nature of risks associated with the Company's involvement with VIEs.

Determining the primary beneficiary of a VIE requires significant judgment. The Company determined that for the securitizations it consolidates, its ownership of substantially all subordinate interests provided the Company with the obligation to absorb losses and/or the right to receive benefits from the VIE that could be significant to the VIE. In addition, the Company is considered to have the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance ("power") or the Company was determined to have power in connection with its involvement with the purpose and design of the VIE.

The Company's interest in the assets held by these securitization vehicles, which are consolidated on the Company's Statements of Financial Condition, is restricted by the structural provisions of these entities, and a recovery of the Company's investment in the vehicles will be limited by each entity's distribution provisions. The liabilities of the securitization vehicles, which are also consolidated on the Company's Statements of Financial Condition, are non-recourse to the Company, and can generally only be satisfied from each securitization vehicle's respective asset pool.

The securitization entities are comprised of senior classes of residential mortgage backed securities ("RMBS") and residential mortgage loans. See Notes 3, 4 and 8 for further discussion of the characteristics of the securities and loans in the Company's portfolio.

(b) Statements of Financial Condition Presentation

The Company's Consolidated Statements of Financial Condition separately present: (i) the Company's direct assets and liabilities, and (ii) the assets and liabilities of consolidated securitization vehicles. Assets of each consolidated VIE can only be used to satisfy the obligations of that VIE, and the liabilities of consolidated VIEs are non-recourse to the Company. The Company is not obligated to provide, nor does it intend to provide, any financial support to these consolidated securitization vehicles.

The Company has aggregated all the assets and liabilities of the consolidated securitization vehicles due to the determination that these entities are substantively similar and therefore a further disaggregated presentation would not be more meaningful. The notes to the consolidated financial statements describe the Company's direct assets and liabilities and the assets and liabilities of consolidated securitization vehicles. See Note 8 for additional information related to the Company's investments in consolidated securitization vehicles.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash deposited overnight in money market funds, which are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation. There were no restrictions on cash and cash equivalents at September 30, 2014 and December 31, 2013.

(d) Agency and Non-Agency Residential Mortgage-Backed Securities

The Company invests in RMBS representing interests in obligations backed by pools of mortgage loans. The Company delineates between Agency RMBS and Non-Agency RMBS as follows: Agency RMBS are mortgage pass-through certificates, collateralized mortgage obligations ("CMOs"), and other RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by agencies of the U.S. Government, such as Ginnie Mae, or federally chartered corporations such as Freddie Mac or Fannie Mae where principal and interest repayments are guaranteed by the respective agency of the U.S. Government or federally chartered corporation. Non-Agency RMBS are not issued or guaranteed by a U.S. Government Agency or other institution and are subject to credit risk. Repayment of principal and interest on Non-Agency RMBS is subject to the performance of the mortgage loans or RMBS collateralizing the obligation.

The Company classifies its RMBS as available-for-sale, records investments at estimated fair value as described in Note 5 of these consolidated financial statements, and includes unrealized gains and losses considered to be temporary on all RMBS, excluding interest-only (“IO”) strips, in Other comprehensive income (loss) in the Consolidated Statements of Operations and Comprehensive Income (Loss). IO strips are recorded at estimated fair value and all unrealized gains and losses are included in earnings in the Consolidated Statements of Operations and Comprehensive Income (Loss). From time to time, as part of the overall management of its portfolio, the Company may sell any of its RMBS investments and recognize a realized gain or loss as a component of earnings in the Consolidated Statements of Operations and Comprehensive Income (Loss) utilizing the average cost method.

The Company's accounting policy for interest income and impairment related to its RMBS is as follows:

Interest Income Recognition

The recognition of interest income on RMBS securities varies depending on the characteristics of the security as follows:

Agency RMBS and Non-Agency RMBS of High Credit Quality

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310-20, Nonrefundable Fees and Other Costs ("ASC 310-20") is applied to the recognition of interest income for the following securities:

Agency RMBS

Non-Agency RMBS that meet all of the following conditions at the acquisition date (referred to hereafter as "Non-Agency RMBS of High Credit Quality"):

1. Rated AA or higher by a nationally recognized credit rating agency. The Company uses the lowest rating available.
2. The Company expects to collect all of the security's contractual cash flows.
3. The security cannot be contractually prepaid such that the Company would not recover substantially all of its recorded investment.

Under ASC 310-20, interest income, including premiums and discounts associated with the acquisition of these securities, is recognized over the life of such securities using the interest method based on the contractual cash flows of the security. In applying the interest method, the Company considers estimates of future principal prepayments in the calculation of the constant effective yield. Differences that arise between previously anticipated prepayments and actual prepayments received, as well as changes in future prepayment assumptions, result in a recalculation of the effective yield on the security on a quarterly basis. This recalculation results in the recognition of an adjustment to the carrying amount of the security based on the revised prepayment assumptions and a corresponding increase or decrease in reported interest income.

Non-Agency RMBS Not of High Credit Quality

Non-Agency RMBS that are purchased at a discount and that are not of high credit quality at the time of purchase are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30") or ASC 325-40, Beneficial Interests in Securitized Financial Assets ("ASC 325-40") (referred to hereafter as "Non-Agency RMBS Not of High Credit Quality").

Non-Agency RMBS are accounted for under ASC 310-30 if the following conditions are met as of the acquisition date:

1. There is evidence of deterioration in credit quality of the security from its inception.
2. It is probable that the Company will be unable to collect all contractual cash flows of the security.

Non-Agency RMBS that are not within the scope of ASC 310-30 are accounted for under ASC 325-40 if at the acquisition date:

1. The security is not of high credit quality (defined as rated below AA or is unrated), or

2. The security can contractually be prepaid or otherwise settled in such a way that the Company would not recover substantially all of its recorded investment.

Interest income on Non-Agency RMBS Not of High Credit Quality is recognized using the interest method based on management's estimates of cash flows expected to be collected. The effective interest rate on these securities is based on management's estimate for each security of the projected cash flows, which are estimated based on observation of current market information and include assumptions related to fluctuations in prepayment speeds and the timing and amount of credit losses. Quarterly, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on inputs and analyses received from external sources, internal models, and the Company's judgments about prepayment rates, the timing and amount of credit losses, and other factors. Changes in the amount and/or timing of cash flows from those originally projected, or from those estimated at the last evaluation date, are considered to be either positive changes or adverse changes. For securities accounted for under ASC 325-40, any positive or adverse change in cash flows that does not result in the recognition of an other-than-temporary impairment ("OTTI") results in a prospective increase or decrease in the effective interest rate used to recognize interest income. For securities accounted for under ASC 310-30, only significant positive changes are reflected prospectively in the effective interest rate used to recognize interest income. Adverse changes in cash flows expected to be collected are generally treated consistently for RMBS accounted for under ASC 325-40 and ASC 310-30, and generally result in recognition of an OTTI with no change in the effective interest rate used to recognize interest income.

Impairment

Considerations Applicable to all RMBS

When the fair value of an available-for-sale RMBS is less than its amortized cost the security is considered impaired. On at least a quarterly basis the Company evaluates its securities for OTTI. If the Company intends to sell an impaired security, or it is more-likely-than-not that the Company will be required to sell an impaired security before its anticipated recovery, then the Company must recognize an OTTI through a charge to earnings equal to the entire difference between the investment's amortized cost and its fair value at the measurement date. If the Company does not intend to sell an impaired security and it is not more-likely-than-not that it would be required to sell an impaired security before recovery, the Company must further evaluate the security for impairment due to credit losses. The credit component of OTTI is recognized in earnings and the remaining or non-credit component is recorded as a component of Other comprehensive income (loss) ("OCI"). Following the recognition of an OTTI through earnings, a new amortized cost basis is established for the security and subsequent recoveries in fair value may not be adjusted through earnings.

When evaluating whether the Company intends to sell an impaired security or will more-likely-than-not be required to sell an impaired security before recovery, the Company makes judgments that consider among other things, its liquidity, leverage, contractual obligations, and targeted investment strategy to determine its intent and ability to hold the investments that are deemed impaired. The determination as to whether an OTTI exists is subjective as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of future conditions. As a result, the determination of OTTI and its timing and amount is based on estimates that may change materially over time.

The Company's estimate of the amount and timing of cash flows for its RMBS is based on its review of the underlying securities or mortgage loans securing the RMBS. The Company considers historical information available and expected future performance of the underlying securities or mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, extent of credit support available, Fair Isaac Corporation ("FICO") scores at loan origination, year of origination, loan-to-value ratios, geographic concentrations, as well as reports by credit rating agencies, such as Moody's Investors Service, Inc., Standard & Poor's Rating Services or Fitch Ratings, Inc., general market assessments and dialogue with market participants. As a result, substantial judgment is used in the Company's analysis to determine the expected cash flows for its RMBS.

Considerations Applicable to Non-Agency RMBS of High Credit Quality

The impairment assessment for Non-Agency RMBS of High Credit Quality involves comparing the present value of the remaining cash flows expected to be collected to 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 security's effective interest rate as calculated under ASC 310-20 (i.e., the discount rate implicit in the security as of the last measurement date).   If the present value of the remaining cash flows expected to be collected is less than the amortized cost basis, an OTTI is recognized in earnings for the difference. This amount is considered to be the credit loss component; the remaining difference between amortized cost and the fair value of the security is considered to be the portion of loss recognized in other comprehensive income (loss).

Considerations Applicable to Non-Agency RMBS Not of High Credit Quality

Non-Agency RMBS within the scope of ASC 325-40 or ASC 310-30 are considered other-than-temporarily impaired when the following two conditions exist: (1) the fair value is less than the amortized cost basis, and (2) there has been an adverse change in cash flows expected to be collected from the last measurement date (i.e., adverse changes in either the amount or timing of cash flows from those previously expected).

The OTTI is separated into a credit loss component that is recognized in earnings and the portion of loss recognized in other comprehensive income (loss). The credit component is comprised of the impact of the fair value decline due to changes in assumptions related to default (collection) risk and prepayments. The portion of loss recognized in other comprehensive income (loss) comprises the change in fair value of the security due to all other factors, including changes in benchmark interest rates and market liquidity. In determining the OTTI related to credit losses for securities, the Company compares the present value of the remaining cash flows adjusted for prepayments expected to be collected at the current financial reporting date to the present value of the remaining cash flows expected to be collected at the original purchase date (or the last date those estimates were revised for accounting purposes). The discount rate used to calculate the present value of expected future cash flows is the effective interest rate used for income recognition purposes as determined under ASC 325-40 or ASC 310-30.

Following the recognition of an OTTI through earnings for the credit component, a new amortized cost basis is established for the security and subsequent recoveries in fair value may not be adjusted through earnings. However, to the extent that there are subsequent increases in cash flows expected to be collected, the OTTI previously recorded through earnings may be accreted into interest income following the guidance in ASC 325-40 or ASC 310-30.

The determination of whether an OTTI exists and, if so, the extent of the credit component is subject to significant judgment and management’s estimates of both historical information available at the time of assessment, the current market environment, as well as the Company’s estimates of the future performance and projected amount and timing of cash flows expected to be collected on the security. As a result, the timing and amount of OTTI constitutes an accounting estimate that may change materially over time.

(e) Interest-Only RMBS

The Company invests in IO Agency and Non-Agency RMBS strips (“IO RMBS strips”). IO RMBS strips represent the Company’s right to receive a specified proportion of the contractual interest flows of the collateral. The Company has accounted for IO RMBS strips at fair value with changes in fair value recognized in the Company’s Consolidated Statements of Operations and Comprehensive Income (Loss). The Company has elected the fair value option to account for IO RMBS strips to simplify the reporting of changes in fair value. The IO RMBS strips are included in RMBS, at fair value, on the accompanying Consolidated Statements of Financial Condition. Interest income on IO RMBS strips is accrued based on the outstanding notional balance and the security’s contractual terms, and amortization of any premium is calculated in accordance with ASC 325-40. Changes in fair value are presented in Net unrealized gains (losses) on financial instruments at fair value on the Consolidated Statement of Operations and Comprehensive Income (Loss). Included in Non-Agency RMBS transferred to VIEs, at fair value on the Consolidated Statements of Financial Condition are IO RMBS strips carried at fair value with changes in fair value reflected in earnings of $6 million and $12 million as of September 30, 2014 and December 31, 2013. Interest income reported on IO securities was $9 million and $13 million for the quarters ended September 30, 2014 and 2013, respectively. Interest income reported on IO securities was $27 million and $23 million for the nine months ended September 30, 2014 and 2013, respectively.

(f) Securitized Loans Held for Investment, at cost, and Related Allowance for Loan Losses

A portion of the securitized loan portfolio which is carried at amortized cost is comprised primarily of non-conforming, single family, owner occupied, jumbo, prime loans that are not guaranteed as to repayment of principal or interest. These securitized loans are serviced and may be modified, in the event of a default, by a third-party servicer. The Company generally has the ability to approve certain loan modifications and determine the course of action to be taken as it relates to certain loans in default, including whether or not to proceed with foreclosure. These mortgage loans are designated as held for investment, and are carried at their principal balance outstanding, plus any premiums, less discounts and allowances for loan losses. Interest income on loans held for investment is recognized over the expected life of the loans using the interest method. Nonrefundable fees and costs related to acquiring the Company's securitized residential mortgage loans are recognized as expenses over the life of the associated debt using the interest method of amortization. Income recognition is suspended for loans when, based on information from the servicer, a full recovery of interest or principal becomes doubtful.

The Company's general reserve is based on historical loss rates for pools of loans with similar credit characteristics, adjusted for current trends and market conditions, including current trends in delinquencies and severities. The Company has established a specific reserve that reflects consideration of loans more than 60 days delinquent, loans in foreclosure and borrowers that have declared bankruptcy. The loan loss provision related to these loans is measured as the difference between the unpaid principal balance and the estimated fair value of the property securing the mortgage, less estimated costs to sell. The specific reserve also reflects consideration of concessions granted to borrowers by the servicer in the form of modifications (i.e., reductions). Loan loss provisions related to these modifications are based on the contractual principal and interest payments, post-modification, discounted at the loan's original effective interest rate. Loans with specific reserves are individually evaluated for impairment. Loan modifications made by the servicer are evaluated to determine if they constitute troubled debt restructurings ("TDRs"). A restructuring of a loan constitutes a TDR if the servicer, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Impairment of modified loans considered to be TDRs is measured based on the present value of expected cash flows discounted at the loan's effective interest rate at inception. If the present value of expected cash flows is less than the recorded investment in the loan, an allowance for loan losses is recognized with a corresponding charge to the provision for loan losses. Impairment of all other loans individually evaluated is measured as the difference between the unpaid principal balance and the estimated fair value of the collateral, less estimated costs to sell. The Company charges off the corresponding loan allowance and related principal balance when the servicer reports a realized loss. A complete discussion of securitized loans held for investment is included in Note 4 to these consolidated financial statements.

The Company estimates the fair value of securitized loans as described in Note 5 of these consolidated financial statements.

(g) Securitized Loans Held for Investment, at fair value

A portion of the securitized loan portfolio which is carried at fair value is comprised primarily of seasoned sub-prime residential mortgage loans with a weighted average FICO score of 629 and are not guaranteed as to repayment of principal or interest. These securitized loans are serviced and may be modified, in the event of default, by a third-party servicer. The Company generally has the ability to approve certain loan modifications and determine the course of action to be taken as it relates to certain loans in default, including whether or not to proceed with foreclosure. The Company has elected the fair value option at acquisition for these seasoned sub-prime residential mortgage loans; therefore, they are carried at fair value with changes in fair value recorded as Net unrealized gains (losses) on financial instruments at fair value on the Consolidated Statements of Operations and Comprehensive Income. The Company has also elected fair value option for the related financing for these seasoned sub-prime residential mortgage loans. The Company elected fair value option as it may resecuritize these loans in the future. Additionally, the fair value option allows both the loans and related financing to be consistently reported and to achieve operational simplifications. The Company recognizes interest income on these loans held for investment over the expected life of the loans using the interest method. Interest is accrued on the securitized loans when due. Interest which is not received at the due date is written off when it becomes delinquent.

The Company estimates the fair value of securitized loans as described in Note 5 of these consolidated financial statements.

Real estate owned ("REO") represents properties which the Company has received the legal title of the property to satisfy the outstanding loan. REO is re-categorized from loan to REO when the Company takes legal title of the property. REO assets are measured and reported at the estimated fair value less the estimated cost to sell at the end of each reporting period. At the time the asset is re-categorized, any difference between the previously recorded loan balance, less any loan loss reserves, and the carrying value of the REO at the time the Company takes legal title of the property, is recognized as a loss. All REO assets of the Company are held-for-sale and it is the Company's intention to sell the property in the shortest time possible to maximize their return and recovery on the previously recorded loan. Total REO assets at September 30, 2014 and December 31, 2013 is $6 million and $1 million, respectively and is recorded in other assets of consolidated VIEs on the Company's consolidated statements of financial condition.

(h) Repurchase Agreements

The Company finances the acquisition of a significant portion of its mortgage-backed securities with repurchase agreements. The Company has evaluated each agreement and has determined that each of the repurchase agreements be accounted for as secured borrowings. None of the Company's repurchase agreements are accounted for as components of linked transactions. As a result, the Company separately accounts for the financial assets posted as collateral and related repurchase agreements in the accompanying consolidated financial statements.

(i) Securitized Debt, collateralized by Non-Agency RMBS Transferred to Consolidated VIEs, Securitized Debt, collateralized by loans held for investment, and Securitized debt at fair value, collateralized by loans held at fair value

The Company has issued securitized debt collateralized by "Non-Agency RMBS" and securitized debt collateralized by loans held for investment. The loans held for investment include "jumbo, prime residential mortgage loans" and a "seasoned sub-prime portfolio of residential mortgage loans" acquired during the third quarter of 2014. The jumbo, prime residential mortgage loans and the related securitized debt are carried at amortized cost. The seasoned sub-prime portfolio of residential mortgage loans acquired during the third quarter of 2014 and the related securitized debt are carried at fair value with changes in fair value reflected in earnings. Each of these three groups of securitized debt are discussed in further detail below as well as Note 7 to these consolidated financial statements.

Certain transactions involving residential mortgage loans are accounted for as secured borrowings, and are recorded as Securitized loans held for investment and the corresponding debt as Securitized debt, collateralized by loans held for investment in the Consolidated Statements of Financial Condition. These securitizations are collateralized by residential adjustable or fixed rate mortgage loans that have been placed in a trust and pay interest and principal to the debt holders of that securitization.

Certain re-securitization transactions classified as Securitized debt, collateralized by Non-Agency RMBS reflect the transfer to a trust of fixed or adjustable rate RMBS which are classified as Non-Agency RMBS transferred to consolidated VIEs that pay interest and principal to the debt holders of that re-securitization. Re-securitization transactions completed by the Company that did not qualify as sales are accounted for as secured borrowings. The associated securitized debt is carried at amortized cost.

The Company has elected the fair value option for certain of the Company's securitized debt used to finance the seasoned sub-prime portfolio of residential mortgage loans. The Company has elected fair value option for these financing obligations as it expects to refinance this debt in the future. Additionally, the fair value option allows both the loans and related financing to be consistently reported and to achieve operational simplifications. Debt for which the Company did not elect the fair value option is carried at amortized cost. Changes in fair value for securitized debt carried at fair value is recorded as Net unrealized gains (losses) on financial instruments at fair value on the Consolidated Statements of Operations and Comprehensive Income. Interest expense on all securitized debt is recorded in earnings with premiums and discounts amortized using the interest method. Fees associated with the debt held at amortized cost are also amortized using the interest method.

The Company estimates the fair value of its securitized debt as described in Note 5 to these consolidated financial statements.

(j) Fair Value Disclosure

A complete discussion of the methodology utilized by the Company to estimate the fair value of its financial instruments is included in Note 5 to these consolidated financial statements.

(k) Derivative Financial Instruments

The Company's investment policies permit it to enter into derivative contracts, including interest rate swaps, interest rate caps, options, and futures as a means of managing its interest rate risk as well as to enhance investment returns. The Company's derivatives are recorded as either assets or liabilities in the Consolidated Statements of Financial Condition and measured at fair value. These derivative financial instrument contracts are not designated as hedges for GAAP; therefore, all changes in fair value are recognized in earnings. The Company estimates the fair value of its derivative instruments as described in Note 5 of these consolidated financial statements. Net payments on derivative instruments are included in the Consolidated Statements of Cash Flows as a component of net income (loss). Unrealized gains (losses) on derivatives are removed from net income (loss) to arrive at cash flows from operating activities.

The Company elects to net by counterparty the fair value of its derivative contracts when appropriate. These contracts contain legally enforceable provisions that allow for netting or setting off of all individual swaps receivables and payables with each counterparty and, therefore, the fair value of those swap contracts are reported net by counterparty. The credit support annex provisions of the Company's interest rate swap contracts allow the parties to mitigate their credit risk by requiring the party which is in a net payable position to post collateral. As the Company elects to net by counterparty the fair value of interest rate swap contracts, it also nets by counterparty any cash collateral exchanged as part of the interest rate swap contracts.

(l) Sales, Securitizations, and Re-Securitizations

The Company periodically enters into transactions in which it sells financial assets, such as RMBS, and mortgage loans. Gains and losses on sales of assets are calculated using the average cost method whereby the Company records a gain or loss on the difference between the average amortized cost of the asset and the proceeds from the sale. In addition, the Company from time to time securitizes or re-securitizes assets and sells tranches in the newly securitized assets. These transactions may be recorded as either sales and the assets contributed to the securitization are removed from the Consolidated Statements of Financial Condition and a gain or loss is recognized, or as secured borrowings whereby the assets contributed to the securitization are not derecognized but rather the debt issued by the securitization entity are recorded to reflect the term financing of the assets. In these securitizations and re-securitizations, the Company may retain senior or subordinated interests in the securitized and/or re-securitized assets.

(m) Income Taxes

The Company has elected to be taxed as a REIT and intends to comply with the provision of the Code, with respect thereto. Accordingly, the Company will not be subject to federal, state or local income tax to the extent that qualifying distributions are made to stockholders and as long as certain asset, income, distribution and stock ownership tests are met. If the Company failed to qualify as a REIT and did not qualify for certain statutory relief provisions, the Company would be subject to federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which the REIT qualification was lost. The Company, CIM Trading and CIM Funding TRS made joint elections to treat CIM Trading and CIM Funding TRS as TRS's. As such, CIM Trading and CIM Funding TRS are taxable as domestic C corporations and subject to federal, state, and local income taxes based upon their respective taxable income.

A tax position is recognized only when, based on management's judgment regarding the application of income tax laws, it is more likely than not that the tax position will be sustained upon examination. The Company does not have any unrecognized tax benefits that would affect its financial position or require disclosure. No accruals for penalties and interest were necessary as of September 30, 2014 or December 31, 2013.

(n) Net Income per Share

The Company calculates basic net income per share by dividing net income for the period by the basic weighted-average shares of its common stock outstanding for that period. Diluted net income per share takes into account the effect of dilutive instruments such as unvested restricted stock.

(o) Stock-Based Compensation

The Company accounts for stock-based compensation awards granted to the employees of FIDAC and FIDAC’s affiliates at the fair value of the stock-based compensation provided. The Company measures the fair value of the equity instrument using the stock prices and other measurement assumptions as of the earlier of either the date at which a performance commitment by the recipient is reached or the date at which the recipient’s performance is complete. Stock compensation expense related to the grants of stock is recognized over the vesting period of such grants based on the fair value of the stock on each quarterly vesting date, at which the recipient’s performance is complete.

Compensation expense for equity based awards granted to the Company’s independent directors is recognized pro-rata over the vesting period of such awards, based upon the fair value of such awards at the grant date.

(p) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 materially different than anticipated in those estimates, which could have a material adverse impact on the Company’s results of operations and its financial condition. Management has made significant estimates in accounting for income recognition and OTTI on Agency and Non-Agency RMBS and IO RMBS (Note 3), valuation of Agency and Non-Agency RMBS (Notes 3 and 5), residential mortgage loans (Note 4), securitized debt (Note 7) and derivative instruments (Notes 5 and 9). Actual results could differ materially from those estimates.

(q) Recent Accounting Pronouncements

Broad Transactions

Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40)

In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. This update clarifies when the Company is considered to have obtained physical possession, from an in-substance possession or foreclosure, of a residential real estate property collateralizing a mortgage loan. Current guidance indicates that the Company should reclassify a collateralized mortgage loan such that the loan should be derecognized and the collateral asset recognized when it determines that there has been an in-substance repossession or foreclosure by the Company. This update defines the term in substance repossession or foreclosure to reduce diversity in interpretation of when such an event occurs. The guidance in this update is effective for the Company beginning January 1, 2015. The Company is evaluating the impact of this update.

Transfers and Servicing (Subtopic 860)

In June 2014, the FASB issued ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. This update makes limited amendments to the guidance in ASC 860 on accounting for certain repurchase agreements. The ASU requires entities to account for repurchase-to-maturity transactions as secured borrowings, rather than as sales with forward repurchase agreements. The ASU defines a repurchase-to-maturity transaction as a repo that (1) settles at the maturity of the transferred financial asset and (2) does not require the transferor to reacquire the transferred financial asset. In addition, the ASU eliminates accounting guidance on linked repurchase financing transactions. The ASU also expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers accounted for as secured borrowings. The guidance in this update will be effective for the Company beginning January 1, 2015, except for the disclosure requirements for transactions accounted for as secured borrowings, which are required to be presented by the Company in the second quarter of 2015. As of September 30, 2014 and December 31, 2013, the Company does not have any repurchase-to-maturity transactions or any linked repurchase financing transactions, therefore, the Company expects that this standard will impact disclosures only and will not have a significant impact on the consolidated financial statements of the Company.

Consolidations (Subtopic 810)

In August 2014, the FASB issued ASU No. 2014-13, Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. This update provides a measurement alternative for consolidated qualifying collateralized financing entities (CFEs). The update defines a CFE as a variable interest entity that holds financial assets, issues beneficial interests in those assets and has no more than nominal equity. The beneficial interests have contractual recourse only to the related assets of the CFE and are classified as financial liabilities. Under the alternative, the Company may elect to measure both the CFE’s financial assets and financial liabilities using the fair value of either the CFE’s financial assets or financial liabilities, whichever is more observable. The guidance is aimed at eliminating the measurement difference that sometimes arises when a CFE’s financial assets and financial liabilities are independently measured at fair value, as required by ASC 820. This update is effective for the Company beginning January 1, 2016. Early adoption is permitted at the beginning of 2015. The guidance provides an exception for reporting entities whose consolidated CFEs don’t meet the scope requirements because the entities didn’t elect the fair value option when they initially consolidated the CFEs. The guidance allows them to elect, only at the date of adoption, to apply the measurement alternative to the CFEs’ financial assets and financial liabilities or continue applying other US GAAP. The Company is evaluating the impact of this update.

Presentation of Financial Statements—Going Concern (Subtopic 205-40)

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. This update provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires the Company to perform interim and annual assessments of its ability to continue as a going concern within one year of the date the financial statements are issued. The Company must provide certain disclosures if conditions or events raise substantial doubt about its ability to continue as a going concern. The ASU applies to all entities and is effective for the Company beginning January 1, 2017. Early adoption is permitted. The Company does not expect this update to have any impact as we do not expect to have the conditions or events which would raise substantial doubt about the Company’s ability to continue as a going concern.

3. Residential Mortgage-Backed Securities

The Company classifies its Non-Agency RMBS as senior, senior IO, subordinated, subordinated IO, and Non-Agency RMBS transferred to consolidated VIEs. The Company also invests in Agency RMBS. Senior interests in Non-Agency RMBS are considered to be entitled to the first principal repayments in their pro-rata ownership interests at the reporting date. The total fair value of the Non-Agency RMBS that are held by consolidated re-securitization trusts was $2.5 billion and $3.0 billion at September 30, 2014 and December 31, 2013, respectively. See Note 8 of these consolidated financial statements for further discussion of consolidated VIEs.

The following tables present the principal or notional value, total premium, total discount, amortized cost, fair value, gross unrealized gains, gross unrealized losses, and net unrealized gain (loss) related to the Company’s available-for-sale RMBS portfolio as of September 30, 2014 and December 31, 2013, by asset class.

September 30, 2014
(dollars in thousands)

	Principal or Notional Value	Total Premium	Total Discount	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Non-Agency RMBS								
Senior	$312,619	-	(98,669)	$213,950	$239,934	26,534	(550)	$25,984
Senior, interest-only	5,383,454	239,047	-	239,047	207,840	13,905	(45,112)	(31,207)
Subordinated	689,332	-	(352,856)	336,476	439,967	103,988	(497)	103,491
Subordinated, interest-only	218,527	9,857	-	9,857	7,340	207	(2,724)	(2,517)
RMBS transferred to consolidated VIEs	3,226,298	3,676	(1,447,744)	1,737,810	2,528,335	790,525	-	790,525
Agency RMBS								
Pass-through	7,553,614	374,456	(21)	7,928,049	7,955,805	59,685	(31,929)	27,756
Interest-only	2,016,717	117,111	-	117,111	114,169	639	(3,581)	(2,942)
Total	$19,400,561	$744,147	$(1,899,290)	$10,582,300	$11,493,390	$995,483	$(84,393)	$911,090

December 31, 2013
(dollars in thousands)

	Principal or Notional Value	Total Premium	Total Discount	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealize Gain/(Los
Non-Agency RMBS								
Senior	$128,217	$-	$(39,395)	$88,822	$89,687	$974	$(109)	$865
Senior, interest-only	5,742,781	283,271	-	283,271	229,065	11,802	(66,008)	(54,206
Subordinated	830,632	-	(490,400)	340,232	457,569	119,233	(1,896)	117,337
Subordinated, interest-only	274,462	14,666	-	14,666	16,571	2,483	(578)	1,905
RMBS transferred to consolidated VIEs	3,912,376	7,490	(1,763,401)	2,075,628	2,981,571	905,943	-	905,943
Agency RMBS								
Pass-through	1,898,131	90,843	(5,004)	1,983,970	1,954,796	22,320	(51,494)	(29,174
Interest-only	247,344	43,766	-	43,766	42,782	332	(1,316)	(984
Total	$13,033,943	$440,036	$(2,298,200)	$4,830,355	$5,772,041	$1,063,087	$(121,401)	$941,686

The table below presents changes in Accretable Yield, or the excess of the security's cash flows expected to be collected over the Company's investment, solely as it pertains to the Company's Non-Agency RMBS portfolio accounted for according to the provisions of ASC 310-30.

	For the Quarter Ended	For the Nine Months Ended

	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(dollars in thousands)		(dollars in thousands)	
Balance at beginning of period	$ 1,630,153	$ 1,921,687	$ 1,794,576	$ 2,107,387
Purchases	66,249	-	105,814	-
Accretion	(72,665)	(80,501)	(223,114)	(249,431)
Reclassification (to) from non-accretable difference	4,948	(18,496)	44,324	(6,831)
Sales and deconsolidation	(106,801)	-	(199,716)	(28,435)
Balance at end of period	$ 1,521,884	$ 1,822,690	$ 1,521,884	$ 1,822,690

The table below presents the outstanding principal balance and related amortized cost at September 30, 2014 and December 31, 2013 as it pertains to the Company's Non-Agency RMBS portfolio accounted for according to the provisions of ASC 310-30.

	For the Quarter Ended September 30, 2014	For the Year Ended December 31, 2013
	(dollars in thousands)	
Outstanding principal balance:		
Beginning of period	$ 3,664,543	$ 4,508,475
End of period	$ 3,401,226	$ 3,949,674
Amortized cost:		
Beginning of period	$ 1,891,872	$ 2,268,751
End of period	$ 1,809,403	$ 2,027,738

The following tables present the gross unrealized losses and estimated fair value of the Company's RMBS by length of time that such securities have been in a continuous unrealized loss position at September 30, 2014 and December 31, 2013. All securities in an unrealized loss position have been evaluated by the Company for OTTI as discussed in Note 2(d).

September 30, 2014
(dollars in thousands)

	Unrealized Loss Position for Less than 12 Months			Unrealized Loss Position for 12 Months or More			Total		
	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities
Non-Agency RMBS									
Senior	$31,469	$(550)	4	$-	$-	-	$31,469	$(550)	4
Senior, interest-only	28,629	(3,735)	27	102,293	(41,377)	56	130,922	(45,112)	83
Subordinated	-	-	-	11,485	(497)	3	11,485	(497)	3
Subordinated, interest-only	4,845	(2,404)	2	1,084	(320)	2	5,929	(2,724)	4
RMBS transferred to consolidated VIEs	-	-	-	-	-	-	-	-	-
Agency RMBS									
Pass-through	1,999,279	(5,654)	38	710,935	(26,275)	12	2,710,214	(31,929)	50
Interest-only	80,886	(2,582)	9	11,296	(999)	3	92,182	(3,581)	12
Total	$2,145,108	$(14,925)	80	$837,093	$(69,468)	76	$2,982,201	$(84,393)	156

December 31, 2013
(dollars in thousands)

	Unrealized Loss Position for Less than 12 Months			Unrealized Loss Position for 12 Months or More			Total		
	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities
Non-Agency RMBS									
Senior	$28,163	$(109)	3	$-	$-	-	$28,163	$(109)	3
Senior interest-only	119,913	(35,252)	54	45,167	(30,756)	28	165,080	(66,008)	82
Subordinated	-	-	-	17,661	(1,896)	2	17,661	(1,896)	2
Subordinated interest-only	1,062	(578)	2	-	-	-	1,062	(578)	2
RMBS transferred to consolidated VIEs	-	-	-	-	-	-	-	-	-
Agency RMBS									
Pass-through	1,126,881	(51,494)	30	-	-	-	1,126,881	(51,494)	30

Interest-only	22,246	(1,018)	4	491	(298)	3	22,737	(1,316)	7
Total	$1,298,265	$(88,451)	93	$63,319	$(32,950)	33	$1,361,584	$(121,401)	126

At September 30, 2014, the Company did not intend to sell any of its RMBS that were in an unrealized loss position, and it was not more likely than not that the Company would be required to sell these RMBS before recovery of their amortized cost basis, which may be at their maturity. With respect to RMBS held by consolidated VIEs, the ability of any entity to cause the sale by the VIE prior to the maturity of these RMBS is either expressly prohibited, not probable, or is limited to specified events of default, none of which have occurred as of September 30, 2014.

Gross unrealized losses on the Company’s Agency pass-through RMBS were $32 million and $51 million at September 30, 2014 and December 31, 2013, respectively. Given the credit quality inherent in Agency RMBS, the Company does not consider any of the current impairments on its Agency pass-through RMBS to be credit related. In evaluating 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 their maturity, the Company considers 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 September 30, 2014 and December 31, 2013, unrealized losses on its Agency RMBS were temporary.

Gross unrealized losses on the Company’s Non-Agency RMBS (excluding Non-Agency RMBS IO strips which are accounted for under the fair value option with changes in fair value recorded in earnings) were $1 million and $2 million at September 30, 2014 and December 31, 2013, respectively. 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 rather are due to other factors. The Company has reviewed its Non-Agency RMBS 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 cash flows expected to be collected for such RMBS, which considers recent bond performance and expected future performance of the underlying collateral.

A summary of the OTTI included in earnings for the quarters and nine months ended September 30, 2014 and 2013 is presented below.

	For the Quarter Ended	
	September 30, 2014	September 30, 2013
	(dollars in thousands)	
Total other-than-temporary impairment losses	$ (726)	$ (2,209)
Portion of loss recognized in other comprehensive income (loss)	(1,264)	(14,246)
Net other-than-temporary credit impairment losses	$ (1,990)	$ (16,455)

	For the Nine Months Ended	
	September 30, 2014	September 30, 2013
	(dollars in thousands)	
Total other-than-temporary impairment losses	$ (4,939)	$ (2,209)
Portion of loss recognized in other comprehensive income (loss)	(3,932)	(20,409)
Net other-than-temporary credit impairment losses	$ (8,871)	$ (22,618)

The following table presents a roll forward of the credit loss component of OTTI on the Company's Non-Agency RMBS for which a portion of loss was previously recognized in OCI. The table delineates between those securities that are recognizing OTTI for the first time as opposed to those that have previously recognized OTTI.

	For the Quarter Ended	
	September 30, 2014	September 30, 2013
	(dollars in thousands)	
Cumulative credit loss beginning balance	$ 512,583	$ 498,252
Additions:		
Other-than-temporary impairments not previously recognized	1,322	15,837
Reductions for securities sold or deconsolidated during the period	(48,970)	(2,919)
Increases related to other-than-temporary impairments on securities with previously recognized other-than-temporary impairments	668	618
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(688)	(4,536)
Cumulative credit loss ending balance	$ 464,915	$ 507,252

	For the Nine Months Ended	
	September 30, 2014	September 30, 2013
	(dollars in thousands)	
Cumulative credit loss beginning balance	$ 524,432	$ 510,089
Additions:		
Other-than-temporary impairments not previously recognized	8,203	16,549
Reductions for securities sold or deconsolidated during the period	(61,854)	(14,038)
Increases related to other-than-temporary impairments on securities with previously recognized other-than-temporary	668	6,069

impairments				
Reductions for increases in cash flows expected to be collected over the remaining life of the securities		(6,534)		(11,417)
Cumulative credit impairment loss ending balance	$	464,915	$	507,252

Cash flows generated to determine net other-than-temporary credit impairment losses recognized in earnings are estimated using significant unobservable inputs. The significant inputs used to measure the component of OTTI recognized in earnings for the Company’s Non-Agency RMBS are summarized as follows:

	For the Nine Months Ended	
	September 30, 2014	September 30, 2013
Loss Severity		
Weighted Average	72%	55%
Range	35% - 91%	41% - 75%
60+ days delinquent		
Weighted Average	33%	23%
Range	8% - 47%	0% - 37%
Credit Enhancement (1)		
Weighted Average	10%	5%
Range	0% - 35%	0% - 48%
3 Month CPR		
Weighted Average	8%	18%
Range	2% - 25%	0% - 42%
12 Month CPR		
Weighted Average	10%	18%
Range	5% - 22%	9% - 35%

(1) Calculated as the combined credit enhancement to the Re-REMIC and underlying from each of their respective capital structures.

The following tables present a summary of unrealized gains and losses at September 30, 2014 and December 31, 2013. IO RMBS included in the tables below represent the right to receive a specified proportion of the contractual interest cash flows of the underlying principal balance of specific securities. At September 30, 2014, IO RMBS had a net unrealized loss of $34 million and had an amortized cost of $370 million. At December 31, 2013, IO RMBS had a net unrealized loss of $49 million and had an amortized cost of $349 million. The fair value of IOs at September 30, 2014 and December 31, 2013 was $336 million, and $300 million, respectively. All changes in fair value of IOs are reflected in Net income (loss).

September 30, 2014
(dollars in thousands)

	Gross Unrealized Gain Included in Accumulated	Gross Unrealized Gain Included in	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated	Gross Unrealized Loss Included in Accumulated	Total Gross Unrealized Loss

	Other Comprehensive Income	Accumulated Deficit		Other Comprehensive Income	Deficit	
Non-Agency RMBS						
Senior	$ 26,534	$ -	$ 26,534	$ (550)	$ -	$ (550)
Senior, interest-only	-	13,905	13,905	-	(45,112)	(45,112)
Subordinated	103,988	-	103,988	(497)	-	(497)
Subordinated, interest-only	-	207	207	-	(2,724)	(2,724)
RMBS transferred to consolidated VIEs	787,775	2,750	790,525	-	-	-
Agency RMBS						
Pass-through	59,685	-	59,685	(31,929)	-	(31,929)
Interest-only	-	639	639	-	(3,581)	(3,581)
Total	$ 977,982	$ 17,501	$ 995,483	$ (32,976)	$ (51,417)	$ (84,393)

December 31, 2013
(dollars in thousands)

	Gross Unrealized Gain Included in Accumulated Other Comprehensive Income	Gross Unrealized Gain Included in Accumulated Deficit	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated Other Comprehensive Income	Gross Unrealized Loss Included in Accumulated Deficit	Total Gross Unrealized Loss
Non-Agency RMBS						
Senior	$ 974	$ -	$ 974	$ (109)	$ -	$ (109)
Senior, interest only	-	11,802	11,802	-	(66,008)	(66,008)
Subordinated	119,233	-	119,233	(1,896)	-	(1,896)
Subordinated, interest only	-	2,483	2,483	-	(578)	(578)
RMBS transferred to consolidated VIEs	901,773	4,170	905,943	-	-	-
Agency RMBS						
Pass-through	22,320	-	22,320	(51,494)	-	(51,494)
Interest-only	2	330	332	-	(1,316)	(1,316)
Total	$ 1,044,302	$ 18,785	$ 1,063,087	$ (53,499)	$ (67,902)	$ (121,401)

Changes in prepayments, actual cash flows, and cash flows expected to be collected, among other items, are affected by the collateral characteristics of each asset class. The portfolio is most heavily weighted to contain Non-Agency RMBS with credit risk. The Company chooses assets for the portfolio after carefully evaluating each investment's risk profile.

The following tables provide a summary of the Company's RMBS portfolio at September 30, 2014 and December 31, 2013.

	September 30, 2014				
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)
Non-Agency Mortgage-Backed Securities					
Senior	$ 312,619	$ 68.46	$ 76.76	2.4 %	5.5 %
Senior, interest-only	$ 5,383,454	$ 4.44	$ 3.86	1.6 %	15.2 %
Subordinated	$ 689,332	$ 48.81	$ 63.83	3.3 %	10.5 %
Subordinated, interest-only	$ 218,527	$ 4.51	$ 3.36	0.9 %	8.4 %
RMBS transferred to consolidated VIEs	$ 3,226,298	$ 54.62	$ 79.46	4.6 %	17.1 %
Agency Mortgage-Backed Securities					
Pass-through	$ 7,553,614	$ 104.96	$ 105.32	4.0 %	3.1 %
Interest-only	$ 2,016,717	$ 5.81	$ 5.66	1.1 %	3.7 %

(1) Bond Equivalent Yield at period end.

	December 31, 2013				
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)
Non-Agency Mortgage-Backed Securities					
Senior	$ 128,217	$ 69.27	$ 69.95	1.4 %	5.9 %
Senior, interest only	$ 5,742,781	$ 4.93	$ 3.99	1.4 %	17.2 %
Subordinated	$ 830,632	$ 40.96	$ 55.09	2.9 %	13.5 %
Subordinated, interest only	$ 274,462	$ 5.34	$ 6.04	1.7 %	9.0 %
RMBS transferred to consolidated VIEs	$ 3,912,376	$ 54.17	$ 77.82	4.7 %	15.8 %
Agency Mortgage-Backed Securities					
Pass-through	$ 1,898,131	$ 104.52	$ 105.24	3.6 %	3.3 %
Interest only	$ 247,344	$ 17.69	$ 17.30	3.2 %	5.3 %

(1) Bond Equivalent Yield at period end.

The following table presents the weighted average credit rating, based on the lowest rating available, of the Company's Non-Agency RMBS portfolio at September 30, 2014 and December 31, 2013.

	September 30, 2014		December 31, 2013	
AAA	0.9	%	0.0	%
AA	0.5	%	0.7	%
A	0.0	%	0.0	%
BBB	0.4	%	0.0	%
BB	1.9	%	1.4	%
B	5.6	%	4.3	%
Below B or not rated	90.7	%	93.6	%
Total	100.0	%	100.0	%

Actual maturities of RMBS are generally shorter than the stated contractual maturities. Actual maturities of the Company's RMBS are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal. The following tables provide a summary of the fair value and amortized cost of the Company's RMBS at September 30, 2014 and December 31, 2013 according to their estimated weighted-average life classifications. The weighted-average lives of the RMBS in the tables below are based on lifetime expected prepayment rates using an industry prepayment model for the Agency RMBS portfolio and the Company's prepayment assumptions for the Non-Agency RMBS. The prepayment model considers current yield, forward yield, steepness of the interest rate curve, current mortgage rates, mortgage rates of the outstanding loan, loan age, margin, and volatility.

September 30, 2014
(dollars in thousands)

		Weighted Average Life			
	Less than one year	Greater than one year and less than five years	Greater than five years and less than ten years	Greater than ten years	Total
Fair value					
Non-Agency RMBS					
Senior	$ 2,591	$ 60,512	$ 170,527	$ 6,304	$ 239,934
Senior interest-only	641	61,272	111,808	34,119	207,840
Subordinated	-	49,171	234,248	156,548	439,967
Subordinated interest-only	-	-	5,929	1,411	7,340
RMBS transferred to consolidated VIEs	-	199,600	1,606,828	721,907	2,528,335
Agency RMBS					
Pass-through	-	7,830,535	88,424	36,846	7,955,805
Interest-only	-	31,795	82,374	-	114,169
Total fair value	$ 3,232	$ 8,232,885	$ 2,300,138	$ 957,135	$ 11,493,390
Amortized cost					
Non-Agency RMBS					
Senior	$ 2,504	$ 54,965	$ 154,622	$ 1,859	$ 213,950
Senior interest-only	1,395	70,864	129,346	37,442	239,047
Subordinated	-	36,703	170,152	129,621	336,476
Subordinated interest-only	-	-	8,653	1,204	9,857
RMBS transferred to consolidated VIEs	-	143,036	1,119,807	474,967	1,737,810
Agency RMBS					
Pass-through	-	7,805,818	85,390	36,841	7,928,049
Interest-only	-	32,007	85,104	-	117,111
Total amortized cost	$ 3,899	$ 8,143,393	$ 1,753,074	$ 681,934	$ 10,582,300

December 31, 2013
(dollars in thousands)

		Weighted Average Life			
	Less than one year	Greater than one year and less than five years	Greater than five years and less than ten years	Greater than ten years	Total

Fair value					
Non-Agency RMBS					
Senior	$ -	$ 29,283	$ 60,404	$ -	$ 89,687
Senior interest-only	376	103,688	96,968	28,033	229,065
Subordinated	3,359	63,177	321,333	69,700	457,569
Subordinated interest-only	-	-	14,862	1,709	16,571
RMBS transferred to consolidated VIEs	5,724	276,752	1,986,879	712,216	2,981,571
Agency RMBS					
Pass-through	-	20,375	1,808,346	126,075	1,954,796
Interest-only	54	636	42,092	-	42,782
Total fair value	$ 9,513	$ 493,911	$ 4,330,884	$ 937,733	$ 5,772,041
Amortized cost					
Non-Agency RMBS					
Senior	$ -	$ 28,900	$ 59,922	$ -	$ 88,822
Senior interest-only	1,017	131,159	117,008	34,087	283,271
Subordinated	2,877	50,483	243,350	43,522	340,232
Subordinated interest-only	-	-	13,344	1,322	14,666
RMBS transferred to consolidated VIEs	4,744	211,925	1,356,981	501,978	2,075,628
Agency RMBS					
Pass-through	-	18,608	1,837,611	127,751	1,983,970
Interest-only	122	825	42,819	-	43,766
Total amortized cost	$ 8,760	$ 441,900	$ 3,671,035	$ 708,660	$ 4,830,355

The Non-Agency RMBS portfolio is subject to credit risk. The Company seeks to mitigate credit risk through its asset selection process. The Non-Agency RMBS portfolio is primarily collateralized by what the Company classifies as Alt-A first lien mortgages. An Alt-A mortgage is a type of U.S. mortgage that, for various reasons, is considered riskier than A-paper, or prime, and less risky than subprime, the riskiest category. Alt-A interest rates, which are determined by credit risk, therefore tend to be between those of prime and subprime home loans. Typically, Alt-A mortgages are characterized by borrowers with less than full documentation, lower credit scores and higher loan-to-value ratios. The Company defines Alt-A mortgage securities as non-agency RMBS where (i) the underlying collateral has weighted average FICO scores between 680 and 720 or (ii) for instances where FICO scores are greater than 720, RMBS have 30% or less of the underlying collateral composed of full documentation loans. At September 30, 2014 and December 31, 2013, 65% and 61% of the Non-Agency RMBS collateral was classified as Alt-A, respectively. At September 30, 2014 and December 31, 2013, 24% and 28% of the Non-Agency RMBS collateral was classified as prime, respectively.

The Non-Agency RMBS in the Portfolio have the following collateral characteristics at September 30, 2014 and December 31, 2013.

	September 30, 2014			December 31, 2013		
Weighted average maturity (years)		22.7			24.1	
Weighted average amortized loan to value (1)		67.9	%		69.4	%
Weighted average FICO (2)		685			710	
Weighted average loan balance (in thousands)	$	371		$	385	
Weighted average percentage owner occupied		83.1	%		84.0	%
Weighted average percentage single family residence		65.5	%		65.4	%
Weighted average current credit enhancement		1.6	%		1.6	%
Weighted average geographic concentration of top five states	CA	32.8	%	CA	33.4	%
	FL	8.5	%	FL	9.1	%
	NY	7.8	%	NY	7.1	%
	NJ	2.9	%	NJ	3.0	%
	MD	2.7	%	MD	2.7	%

(1) Value represents appraised value of the collateral at the time of loan origination.
(2) FICO as determined at the time of loan origination.

The table below presents the origination year of the underlying loans related to the Company’s portfolio of Non-Agency RMBS at September 30, 2014 and December 31, 2013.

Origination Year	September 30, 2014		December 31, 2013	
1999	0.2	%	0.0	%
2000	0.6	%	0.6	%
2001	2.1	%	1.2	%
2002	0.4	%	1.0	%
2003	2.6	%	1.4	%

2004	4.0	%	3.6	%
2005	20.0	%	17.8	%
2006	28.5	%	32.2	%
2007	37.8	%	40.1	%
2008	2.2	%	2.1	%
2013	0.9	%	0.0	%
2014	0.7	%	0.0	%
Total	100.0	%	100.0	%

Gross realized gains and losses are recorded in "Net realized gains (losses) on sales of investments" on the Company's Consolidated Statements of Operations and Comprehensive Income. The proceeds and gross realized gains and gross realized losses from sales of investments for the quarters and nine months ended September 30, 2014 and 2013 are as follows:

	For the Quarter Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(dollars in thousands)			
Proceeds from sales	$ 1,683,377	$ 394,361	$ 1,816,845	$ 823,923
Gross realized gains	66,566	18,816	75,056	72,942
Gross realized losses	(2,459)	-	(6,911)	(3)
Net realized gain (loss)	$ 64,107	$ 18,816	$ 68,145	$ 72,939

Included in the gross realized gains in the table above are exchanges of securities with a fair value of $89 million where the Company exchanged its investment in a re-remic security for the underlying collateral supporting the group related to the exchanged asset. These exchanges were treated as non-cash sales and purchases and resulted in a realized gain of $23 million reflected in earnings.

4. Securitized Loans Held for Investment

The Company is considered to be the primary beneficiary of VIEs formed for the purpose of securitizing whole mortgage loans. Refer to Note 8 for additional details regarding the Company's involvement with VIEs. The securitized loans held for investment are carried at amortized cost or at fair value.

Securitized loans held for investment, net of allowance for loan losses

The prime jumbo securitized loans held for investment for which the Company has not elected the fair value option are carried at amortized cost which is their principal balance outstanding, plus unamortized premiums, less unaccreted discounts and an allowance for loan losses. The following table provides a summary of the changes in the carrying value of these securitized loans held for investment at September 30, 2014 and December 31, 2013:

	For the Nine Months Ended September 30, 2014	For the Year Ended December 31, 2013
	(dollars in thousands)	
Balance, beginning of period	$ 783,484	$ 1,300,131
Purchases	-	-
Principal paydowns	(100,673)	(507,683)
Net periodic amortization (accretion)	(4,057)	(10,763)
Change to loan loss provision	112	1,799
Balance, end of period	$ 678,866	$ 783,484

The following table represents the Company's prime jumbo securitized residential mortgage loans held for investment which are carried at amortized cost at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Securitized loans, at amortized cost	$ 686,269	$ 792,547
Less: allowance for loan losses	7,403	9,063
Securitized loans held for investment	$ 678,866	$ 783,484

The securitized loan portfolio carried at amortized cost is collateralized by prime, jumbo, first lien residential mortgages of which 41% were originated during 2012, 37% were originated during 2011, 7% during 2010, and the remaining 15% of the loans were originated prior to 2010. A summary of key characteristics of these loans follows.

	September 30, 2014	December 31, 2013
Number of loans	930	1,053
Weighted average maturity (years)	26.7	27.3
Weighted average loan to value (1)	71.6 %	71.7 %
Weighted average FICO (2)	766	766
Weighted average loan balance (in thousands)	$ 725	$ 737
Weighted average percentage owner	95.1 %	94.7 %

occupied						
Weighted average percentage single family residence		71.0	%		70.0	%
Weighted average geographic concentration of top five states	CA	35.4	%	CA	34.7	%
	VA	5.4	%	VA	5.6	%
	NJ	5.4	%	NY	5.5	%
	MD	5.0	%	NJ	5.1	%
	NY	4.8	%	TX	4.9	%

(1) Value represents appraised value of the collateral at the time of loan origination.
(2) FICO as determined at the time of loan origination.

The following table summarizes the changes in the allowance for loan losses for the securitized mortgage loan portfolio carried at amortized cost at September 30, 2014 and December 31, 2013:

	For the Nine Months Ended September 30, 2014	For the Year Ended December 31, 2013
	(dollars in thousands)	
Balance, beginning of period	$ 9,063	$ 11,624
Provision for loan losses	(112)	(1,799)
Charge-offs	(1,548)	(762)
Balance, end of period	$ 7,403	$ 9,063

The Company has established an allowance for loan losses related to jumbo prime securitized loans carried at amortized cost that is composed of a general and specific reserve. The balance in the allowance for loan losses related to the general reserve at September 30, 2014 and December 31, 2013 was $3 million and $4 million, respectively. The balance in the allowance for loan losses related to the specific reserve at September 30, 2014 and December 31, 2013 was $4 million and $5 million, respectively.

The total unpaid principal balance of impaired loans for which the Company established a specific reserve was $23 million and $26 million at September 30, 2014 and December 31, 2013, respectively. The Company's recorded investment in impaired loans for which there is a related allowance for credit losses at September 30, 2014 and December 31, 2013 was $17 million and $19 million, respectively. The total unpaid principal balance of non-impaired loans for which the Company established a general reserve was $651 million and $750 million at September 30, 2014 and December 31, 2013, respectively. The Company's recorded investment in loans that are not impaired for which there is a related general reserve for credit losses at September 30, 2014 and December 31, 2103 was $662 million and $765 million, respectively. Interest income on impaired loans carried at amortized cost is not significant.

The following table summarizes the outstanding principal balance of the jumbo prime loans carried at amortized cost which are 30 days delinquent and greater as reported by the servicer at September 30, 2014 and December 31, 2013.

	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total
			(dollars in thousands)				
September 30, 2014	$ 1,909	$ 0	$ 5,506	$ 0	$ 3,814	$ 473	$ 11,702
December 31, 2013	$ 999	$ 570	$ 2,087	$ 473	$ 7,530	$ 1,179	$ 12,838

With the exception of its ability to approve certain loan modifications, the Company is not involved with the servicing or modification of the jumbo prime loans held for investment which are carried at amortized cost. The trustee and servicer of the respective securitization are responsible for servicing and modifying these loans. The Company is required to make certain assumptions in accounting for these loans due to the limitation of information available to the Company. The following table presents the loans that were modified by the servicer during the nine months ended September 30, 2014 and 2013.

	Number of Loans Modified During Period	Unpaid Principal Balance of Modified Loans (Pre-modification)	Unpaid Principal Balance of Modified Loans (Post-modification)	Amortized Cost of Modified Loans	Amortized Cost of Modified Loans For Which There is an Allowance for Loan Losses	Amortized Cost of Modified Loans For Which There is No Allowance for Loan Losses
			(dollars in thousands)			
Nine Months Ended						
September 30, 2014	2	$ 1,139	$ 1,256	$ 1,173	$ 1,173	$ 0
September 30, 2013	3	$ 2,349	$ 2,358	$ 2,248	$ 2,248	$ 0

Loans are modified by the servicer as a method of loss mitigation. Based on the information available, during the quarter ended September 30, 2014, the Company determined that all loans carried at amortized cost which were modified by the servicer were considered TDRs, as defined under GAAP. A TDR is generally any modification of a loan to a borrower that is experiencing financial difficulties, where a lender agrees to terms that are more favorable to the borrower than are otherwise available in the current market. All loan modifications during the quarters ended September 30, 2014 and 2013 included a reduction of the stated interest rates. Loans modified by the servicer have been individually assessed for impairment and measurement of impairment is based on the excess of the recorded investment in the loan over the present value of the expected cash flows, post modification, discounted at the loan's effective interest rate at inception. In the absence of additional loan modifications by the servicer in future periods that are considered to be TDRs, the $4 million specific reserve related to TDRs as of September 30, 2014 will be recognized in net income in future periods by way of a decrease in the provision for loan losses. If there are further modifications, the reduction of the cashflow is reflected in the provision for loan losses.

As of September 30, 2014, there were no loans that were modified in the past twelve months and delinquent on scheduled payments.

Securitized loans held for investment, at fair value

The securitized loans held for investment for which the Company has elected the fair value option are carried at fair value. See Note 5 to our Consolidated Financial Statements for a discussion on how we determine the fair values of the securitized loans held for investment. As changes in the fair value of these securitized loans are reflected in earnings, the Company does not estimate or record a loan loss provision.

The following table provides a summary of the changes in the carrying value of securitized loans held for investment for which the Company has elected the fair value option at September 30, 2014 and December 31, 2013:

	From Acquisition to September 30, 2014 (dollars in thousands)
Balance, beginning of period	$ -
Purchases	4,722,824
Principal paydowns	(44,809)
Net periodic amortization (accretion)	(484)
Change in fair value	139,020
Balance, end of period	$ 4,816,551

The securitized loan portfolio for which the Company has elected fair value option is collateralized by seasoned sub-prime residential mortgages originated during the following years:

Origination Year	September 30, 2014
2002 and prior	6.1 %
2003	4.4 %
2004	12.4 %
2005	20.6 %
2006	18.1 %
2007	26.2 %
2008	9.9 %
2009	1.2 %
2010 and later	1.1 %
Total	100.0 %

A summary of key characteristics of these loans follows.

	September 30, 2014
Number of loans	59,447
Weighted average maturity (years)	6.3
Weighted average loan to value (1)	80.2 %
Weighted average FICO (1)	629
Weighted average loan balance (in thousands)	$ 79,872
Weighted average percentage owner occupied	95.8 %
	79.3 %

Weighted average percentage single family residence			
Weighted average geographic concentration of top five states	CA	9.3	%
	FL	7.0	%
	NC	7.0	%
	VA	6.4	%
	OH	6.0	%

(1) As provided by the Trustee

The following table summarizes the outstanding principal balance of loans carried at fair value which are 30 days delinquent and greater as reported by the servicer at September 30, 2014.

	30 Days	60 Days	90+ Days				
	Delinquent	Delinquent	Delinquent	Bankruptcy	Foreclosure	REO	Total
			(dollars in thousands)				
September 30, 2014	$155,898	$66,793	$114,221	$292,983	$72,897	$12,710	$715,502

The fair value of the loans 90 days or more past due is $80 million. The fair value of REO assets is $6 million and is recorded in Other assets of consolidated VIEs.

5. Fair Value Measurements

The Company follows fair value guidance in accordance with GAAP to account for its financial instruments. The Company categorizes its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Consolidated Statements of Financial Condition or disclosed in the related notes are categorized based on the inputs to the valuation techniques as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets and liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to fair value.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value and such changes could result in a significant increase or decrease in the fair value. Any changes to the valuation methodology are reviewed by management to ensure the changes are appropriate. As markets and products evolve and the pricing for certain products becomes more transparent, the Company will continue to refine its valuation methodologies. The methodology utilized by the Company for the periods presented is unchanged. The methods used to produce a fair value calculation may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced.

During times of market dislocation, as has been experienced for some time and continues to exist, the observability of prices and inputs can be difficult for certain investments. If third party pricing services are unable to provide a price for an asset, or if the price provided by them is deemed unreliable by the Company, then the asset will be valued at its fair value as determined by the Company without validation to third-party pricing. Illiquid investments typically experience greater price volatility as an active market does not exist. Observability of prices and inputs can vary significantly from period to period and may cause instruments to change classifications within the three level hierarchy.

A description of the methodologies utilized by the Company to estimate the fair value of its financial instruments by instrument class follows:

Agency and Non-Agency RMBS

For each reporting period, the Company determines the fair value of its investment securities based on discounted cash flows utilizing an internal pricing model that incorporates factors such as coupon, prepayment speeds, weighted average life, collateral composition, borrower characteristics, expected interest rates, life caps, periodic caps, reset dates, collateral seasoning, expected losses, expected default severity, credit enhancement, and other pertinent factors. The Company reviews the fair values generated by the model to determine whether prices are reflective of the current market by corroborating its estimates of fair value by comparing the results to non-binding independent prices provided by two independent third party pricing services for all securities. For certain highly liquid asset classes, such as Agency fixed-rate pass-throughs, the Company's valuations are also compared to quoted prices for To-Be-Announced ("TBA") securities.

Each quarter the Company develops thresholds which are determined utilizing current bid/ask spreads, liquidity, price volatility and other factors as appropriate. If internally developed prices differ from the independent prices provided by greater than a predetermined threshold for the period, the Company highlights these differences for further review, both internally and with the third party pricing service. The Company obtains the inputs used by the third party pricing services and compares them to the Company's inputs. The Company updates its own inputs if the Company determines the third party pricing inputs more accurately reflect the current market environment. If the Company believes that its internally developed inputs more accurately reflect the current market environment, it will request that the third party pricing service review market factors that may not have been considered by the third party pricing service. The Company reconciles and resolves all pricing differences in excess of the predetermined thresholds before a final price is established.

The Company's estimate of prepayment, default and severity curves all involve management judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting Non-Agency RMBS fair value estimates Level 3 inputs in the fair value hierarchy.

Securitized Loans Held for Investment

The Company estimates the fair value of its securitized loans held for investment on a loan by loan basis using an internally developed model which compares the loan held by the Company with a loan currently offered in the market. The loan price is adjusted in the model by considering the loan factors which would impact the value of a loan. These loan factors include: loan coupon as compared to coupon currently available in the market, FICO, loan-to-value ratios, delinquency history, owner occupancy, and property type, among other factors. The Company develops a baseline for each significant loan factor and adjusts the price up or down depending on how that factor for each specific loan compares to the baseline rate. Generally, the most significant impact on loan value is the loan interest rate as compared to interest rates currently available in the market and delinquency history. These two factors are based on relevant observable inputs.

The Company also monitors market activity to identify trades which may be used to compare internally developed prices; however, as the portfolio of loans held at fair value by the Company is a seasoned sub-prime pool of mortgage loans, comparables are not common or directly comparable. There are limited transactions in the marketplace to develop a comprehensive direct range of values. However, if market data becomes available, the Company will compare this data to the internally developed prices to ensure reasonableness of the valuation.

The Company reviews the fair values generated by the model to determine whether prices are reflective of the current market by corroborating its estimates of fair value by comparing the results to non-binding independent prices provided by two independent third party pricing services for the loan portfolio.

If the internally developed fair value of the loan pools differ from the independent prices provided by greater than a predetermined threshold for the period, the Company highlights these differences for further review, both internally and with the third party pricing service. The Company obtains certain inputs used by the third party pricing services and evaluates them for reasonableness. The Company updates its own model if the Company determines the third party pricing inputs more accurately reflect the current market environment or observed information from the third party vendors. If the Company believes that its internally developed inputs more accurately reflect the current market environment, it will request that the third party pricing service review market factors that may not have been considered by the third party pricing service. The Company reconciles and resolves all pricing differences in excess of the predetermined thresholds before a final price is established.

The Company's estimates of fair value of securitized loans held for investment involve management judgements and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates Level 3 inputs in the fair value hierarchy.

Securitized Debt, collateralized by Non-Agency RMBS Transferred to Consolidated VIEs and Securitized Debt, Loans Held for Investment at cost

The Company records securitized debt for certificates or notes financed without recourse to the Company in securitization or re-securitization transactions treated as secured borrowings. The Company carries securitized debt at the principal balance outstanding plus unamortized premiums, less unaccreted discounts recorded in connection with the financing of the loans or RMBS with third parties. The premiums or discounts associated with the financing of the notes or certificates are amortized over the contractual life of the instrument using the interest method. The Company estimates the fair value of securitized debt by estimating the future cash flows associated with the underlying assets collateralizing the secured debt outstanding. The Company models the fair value of each underlying asset by considering, among other items, the structure of the underlying security, coupon, servicer, actual and expected defaults, actual and expected default severities, reset indices, and prepayment speeds in conjunction with market research for similar collateral performance and management’s expectations of general economic conditions in the sector and other economic factors.

Securitized Debt, collateralized by Loans Held for Investment at fair value

The Company records securitized debt for certificates or notes financed without recourse to the Company in securitization or re-securitization transactions treated as secured borrowings. The Company carries certain securitized debt at fair value. The Company estimates the fair value of this securitized debt consistent with non-agency RMBS by estimating the future cash flows associated with the underlying assets collateralizing the secured debt outstanding. The Company models the fair value of each underlying asset by considering, among other items, the structure of the underlying security, coupon, servicer, actual and expected defaults, actual and expected default severities, reset indices, and prepayment speeds in conjunction with market research for similar collateral performance and management’s expectations of general economic conditions in the sector and other economic factors.

See the further discussion of the valuation process and benchmarking process in the Agency and Non-Agency RMBS discussion of fair value.

The Company's estimates of fair value of Securitized debt, collateralized by loans held for investment at fair value involve management judgements and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates Level 3 inputs in the fair value hierarchy.

Derivatives

Interest Rate Swaps

The Company determines the fair value of its interest rate swaps based on the net present value of future cash flows of the swap. The Company compares its own estimate of fair value to dealer quotes received to evaluate for reasonableness. The dealer quotes incorporate common market pricing methods, including a spread measurement to the Treasury yield curve or interest rate swap curve as well as underlying characteristics of the particular contract. Interest rate swaps are modeled by the Company by incorporating such factors as the term to maturity, Treasury curve, overnight index swap rates, and the payment rates on the fixed portion of the interest rate swaps. The Company has classified the characteristics used to determine the fair value of interest rate swaps as Level 2 inputs in the fair value hierarchy.

Mortgage Options

Mortgage options are valued using an option pricing model which considers the strike price of the option, the price of the underlying security, settle date, a discount rate and the implied volatility. The implied volatility is determined from the daily price of the underlying security as well as prices on similar financial instruments. The Company has classified the characteristics used to determine the fair value of mortgage options as Level 3 inputs in the fair value hierarchy.

Treasury Futures

The fair value of Treasury futures is determined by quoted market prices for similar financial instruments in an active market. The Company has classified the characteristics used to determine the fair value of Treasury futures as Level 1 inputs in the fair value hierarchy.

Repurchase Agreements

Repurchase agreements are collateralized financing transactions utilized by the Company to acquire investment securities. Due to the short term nature of these financial instruments, the Company estimates the fair value of these repurchase agreements using the contractual obligation plus accrued interest payable at maturity.

Short-term Instruments

The carrying value of cash and cash equivalents, accrued interest receivable, receivable for securities, dividends payable, payable for securities and accrued interest payable are considered to be a reasonable estimate of fair value due to the short term nature of these financial instruments.

The Company’s financial assets and liabilities carried at fair value on a recurring basis, including the level in the fair value hierarchy, at September 30, 2014 and December 31, 2013 is presented below.

September 30, 2014
(dollars in thousands)

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral, netting	Total
		(dollars in thousands)			