CHIMERA INVESTMENT CORP
Form 10-Q
August 11, 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: JUNE 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 (State or other jurisdiction of incorporation or organization)	26-0630461 (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 August 8, 2014
Common Stock, $.01 par value	1,027,508,880

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

		June 30, 2014 (Unaudited)		December 31, 2013 (1)
Assets:				
Cash and cash equivalents	$	73,871	$	77,629
Non-Agency RMBS, at fair value				
Senior		230,465		89,687
Senior interest-only		220,131		229,065
Subordinated		485,544		457,569
Subordinated interest-only		15,609		16,571
Agency RMBS, at fair value				
Pass-through		7,976,923		1,954,796
Interest-only		38,627		42,782
Receivable for investments sold		-		253,541
Accrued interest receivable		31,105		15,821
Other assets (includes Due from FIDAC of $2 million and $0, respectively)		82,182		8,297
Derivatives, at fair value, net		-		8,095
Subtotal		9,154,457		3,153,853
Assets of Consolidated VIEs:				
Non-Agency RMBS transferred to consolidated variable interest entities ("VIEs"), at fair value		2,682,308		2,981,571
Securitized loans held for investment, net of allowance for loan losses of $9 million, respectively		714,471		783,484
Accrued interest receivable		14,681		17,173
Subtotal		3,411,460		3,782,228
Total assets	$	12,565,917	$	6,936,081
Liabilities:				
Repurchase agreements, RMBS ($6.1 billion and $1.7 billion pledged as collateral, respectively)	$	5,564,554	$	1,658,561
Payable for investments purchased		2,030,128		-
Accrued interest payable		9,018		1,397
Dividends payable		92,455		297,904
Accounts payable and other liabilities		1,094		1,861
Investment management fees and expenses payable to affiliate		6,280		5,658
Derivatives, at fair value		25,325		30,199
Subtotal		7,728,854		1,995,580
Non-Recourse Liabilities of Consolidated VIEs				
Securitized debt, collateralized by Non-Agency RMBS ($2.7 billion and $3.0 billion pledged as collateral, respectively)		787,162		933,732
		604,655		669,981

Securitized debt, collateralized by loans held for investment ($703 million and $763 million pledged as collateral, respectively)				
Accrued interest payable		4,545		5,278
Subtotal		1,396,362		1,608,991
Total liabilities	$	9,125,216	$	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, 1,027,534,449 and 1,027,626,237 shares issued and outstanding, respectively		10,273		10,272
Additional paid-in-capital		3,605,358		3,605,241
Accumulated other comprehensive income (loss)		1,079,648		990,803
Retained earnings (accumulated deficit)		(1,254,578)		(1,274,806)
Total stockholders' equity	$	3,440,701	$	3,331,510
Total liabilities and stockholders' equity	$	12,565,917	$	6,936,081

(1) Derived from the audited consolidated financial statements.
See accompanying notes to consolidated financial statements.

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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 Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net Interest Income:				
Interest income	$ 49,056	$ 33,629	$ 84,512	$ 62,696
Interest expense	(3,504)	(1,629)	(5,230)	(3,462)
Interest income, Assets of consolidated VIEs	85,262	93,936	170,473	190,664
Interest expense, Non-recourse liabilities of consolidated VIEs	(17,176)	(24,982)	(37,875)	(51,978)
Net interest income (expense)	113,638	100,954	211,880	197,920
Other-than-temporary impairments:				
Total other-than-temporary impairment losses	(3,813)	-	(4,213)	-
Portion of loss recognized in other comprehensive income (loss)	(1,534)	-	(2,668)	(6,163)
Net other-than-temporary credit impairment losses	(5,347)	-	(6,881)	(6,163)
Other gains (losses):				
Net unrealized gains (losses) on derivatives	(22,497)	13,178	(24,695)	18,580
Net realized gains (losses) on derivatives	(19,792)	(5,391)	(25,540)	(10,921)
Net gains (losses) on derivatives	(42,289)	7,787	(50,235)	7,659
Net unrealized gains (losses) on interest-only RMBS	5,791	(12,974)	20,801	(13,987)
Net realized gains (losses) on sales of investments	(4,339)	54,117	4,038	54,123
Gain on deconsolidation	47,846	-	47,846	-
Loss on Extinguishment of Debt	-	-	(2,184)	-
Total other gains (losses)	7,009	48,930	20,266	47,795
Net investment income (loss)	115,300	149,884	225,265	239,552
Other expenses:				
Management fees	6,271	6,498	12,492	12,947
Expense recoveries from Manager	(2,164)	(3,315)	(2,845)	(5,170)
Net management fees	4,107	3,183	9,647	7,777

Provision for loan losses, net	214	(1,703)	533	(1,279)
General and administrative expenses	6,210	5,197	9,946	10,044
Total other expenses	10,531	6,677	20,126	16,542
Income (loss) before income taxes	104,769	143,207	205,139	223,010
Income taxes	-	-	2	2
Net income (loss)	$ 104,769	$ 143,207	$ 205,137	$ 223,008
Net income (loss) per share available to common shareholders:				
Basic	$ 0.10	$ 0.14	$ 0.20	$ 0.22
Diluted	$ 0.10	$ 0.14	$ 0.20	$ 0.22
Weighted average number of common shares outstanding:				
Basic	1,027,208,949	1,027,066,041	1,027,235,633	1,027,052,341
Diluted	1,027,534,449	1,027,593,441	1,027,561,456	1,027,594,472
Dividends declared per share of common stock	$ 0.09	$ 0.09	$ 0.18	$ 0.18
Comprehensive income (loss):				
Net income (loss)	$ 104,769	$ 143,207	$ 205,137	$ 223,008
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities, net	100,647	(22,582)	138,150	95,012
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	5,347	-	6,881	6,163
Reclassification adjustment for net realized losses (gains) included in net income (loss)	37	(54,117)	(8,340)	(54,123)
Reclassification adjustment for gain on deconsolidation included in net income	(47,846)	-	(47,846)	-
Other comprehensive income (loss)	58,185	(76,699)	88,845	47,052
Comprehensive income (loss)	$ 162,954	$ 66,508	$ 293,982	$ 270,060

See accompanying notes to consolidated financial statements.

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

	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	-	-	-	223,008	223,008
Unrealized gains (losses) on available-for-sale securities, net	-	-	95,012	-	95,012
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	-	-	6,163	-	6,163
Reclassification adjustment for net realized losses (gains) included in net income (loss)	-	-	(54,123)	-	(54,123)
Proceeds from restricted stock grants	3	160	-	-	163
Common dividends declared, $0.18 per share	-	-	-	(184,869)	(184,869)
Balance, June 30, 2013	$ 10,271	$ 3,604,714	$ 1,036,988	$ (1,024,140)	$ 3,627,833
Balance, December 31, 2013	$ 10,272	$ 3,605,241	$ 990,803	$ (1,274,806)	$ 3,331,510
Net income	-	-	-	205,137	205,137
Unrealized gains (losses) on available-for-sale securities, net	-	-	138,150	-	138,150
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	-	-	6,881	-	6,881
Reclassification adjustment for net realized losses (gains) included in net income (loss)	-	-	(8,340)	-	(8,340)
Reclassification adjustment for gain on deconsolidation included in net income	-	-	(47,846)	-	(47,846)
	1	117	-	-	118

Proceeds from restricted stock grants					
Common dividends declared, $0.18 per share	-	-	-	(184,909)	(184,909)
Balance, June 30, 2014	$ 10,273	$ 3,605,358	$ 1,079,648	$ (1,254,578)	$ 3,440,701

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended	
	June 30, 2014	June 30, 2013
Cash Flows From Operating Activities:		
Net income (loss)	$ 205,137	$ 223,008
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Accretion) amortization of investment discounts/premiums, net	(39,925)	(40,603)
Amortization of deferred financing costs	1,177	3,850
Accretion (amortization) of securitized debt discounts/premiums, net	5,064	4,753
Net unrealized losses (gains) on derivatives	24,695	(18,580)
Net realized losses (gains) on option contracts settled	1,246	-
Proceeds (payments) for derivative sales and settlements	5,477	-
Margin (paid) received on derivatives	(99,817)	-
Net unrealized losses (gains) on interest-only RMBS	(20,801)	13,987
Net realized losses (gains) on sales of investments	(4,038)	(54,123)
Gain on deconsolidation	(47,846)	-
Net other-than-temporary credit impairment losses	6,881	6,163
Loss on extinguishment of securitized debt	2,184	-
Provision for loan losses, net	533	(1,279)
Equity-based compensation expense	118	163
Changes in operating assets:		
Decrease (increase) in accrued interest receivable, net	(10,176)	1,795
Decrease (increase) in other assets	(2,420)	675
Changes in operating liabilities:		
Increase (decrease) in accounts payable and other liabilities	(767)	1,129
Increase (decrease) in investment management fees and expenses payable to affiliate	622	(1,877)
Increase (decrease) in accrued interest payable, net	6,888	(3,008)
Net cash provided by (used in) operating activities	$ 34,232	$ 136,053
Cash Flows From Investing Activities:		
Agency RMBS portfolio:		
Purchases	$ (4,333,388)	$ (934,685)
Sales	578,848	285,698
Principal payments	121,100	300,187
Non-Agency RMBS portfolio:		
Purchases	(188,779)	(174,661)
Sales	49,446	143,864
Principal payments	16,927	3,323
Non-Agency RMBS transferred to consolidated VIEs:		
Sales	212,394	-
Principal payments	141,323	230,947
Securitized loans held for investment:		
Principal payments	67,423	367,765
Net cash provided by (used in) investing activities	$ (3,334,706)	$ 222,438
Cash Flows From Financing Activities:		
Proceeds from repurchase agreements	$	$ 3,633,247

		8,805,230		
Payments on repurchase agreements		(4,899,237)		(3,683,131)
Payments on securitized debt borrowings, collateralized by loans held for investment		(65,545)		(363,451)
Payments on securitized debt borrowings, collateralized by Non-Agency RMBS		(97,302)		(213,292)
Repurchase of securitized debt borrowings, collateralized by Non-Agency RMBS		(56,072)		-
Common dividends paid		(390,358)		(184,864)
Net cash provided by (used in) financing activities	$	3,296,716		(811,491)
Net increase (decrease) in cash and cash equivalents		(3,758)		(453,000)
Cash and cash equivalents at beginning of period		77,629		621,153
Cash and cash equivalents at end of period	$	73,871	$	168,153
Supplemental disclosure of cash flow information:				
Interest received	$	202,267	$	214,552
Interest paid	$	29,976	$	49,846
Management fees and expenses paid to affiliate	$	11,870	$	14,824
Non-cash investing activities:				
Payable for investments purchased	$	2,030,128	$	-
Net change in unrealized gain (loss) on available-for sale securities	$	88,845	$	47,052
Non-cash financing activities:				
Common dividends declared, not yet paid	$	92,455	$	92,436

See accompanying notes to consolidated financial statements.

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CHIMERA INVESTMENT CORPORATION
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. 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 significant 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 jumbo, prime, 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 has it provided, 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 June 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).

Following the recognition of an OTTI through earnings for the credit loss component, a new amortized cost basis is established for the security and subsequent recoveries in fair value may not be adjusted through earnings.

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 or discount is calculated in accordance with ASC 325-40. Changes in fair value are presented in Net unrealized gains (losses) on interest-only RMBS 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 $12 million as of June 30, 2014 and December 31, 2013. Interest income reported on IO securities was $8 million and $7 million for the quarters ended June 30, 2014 and 2013, respectively. Interest income reported on IO securities was $18 million and $10 million for the six months ended June 30, 2014 and 2013, respectively.

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

The Company’s securitized residential mortgage loans are comprised of fixed-rate and variable-rate loans. 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 estimates the fair value of securitized loans for disclosure purposes only as described in Note 5 of these consolidated financial statements.

(g) Allowance for Loan Losses – Securitized Loans Held for Investment

The securitized loan portfolio is comprised primarily of non-conforming, single family, owner occupied, jumbo, prime loans that are not guaranteed as to repayment of principal or interest. Securitized loans are serviced and modified 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 technical default, including whether or not to proceed with foreclosure.

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.

(h) Repurchase Agreements

The Company finances the acquisition of a significant portion of its Agency 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, Non-Agency RMBS Transferred to Consolidated VIEs, and Securitized Debt, Loans Held for Investment

The Company has issued securitized debt to finance a portion of its residential mortgage loan and RMBS portfolios. 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. 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 estimates the fair value of its securitized debt for disclosure purposes 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 June 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), 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 June 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.

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 $2.7 billion and $3.0 billion at June 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 June 30, 2014 and December 31, 2013, by asset class.

June 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	$317,544	$-	$(99,313)	$218,231	$230,465	$12,251	$(17)	$12,234
Senior interest-only	5,605,322	252,851	-	252,851	220,131	14,739	(47,459)	(32,720)
Subordinated	807,222	-	(465,550)	341,672	485,544	144,534	(662)	143,872
Subordinated interest-only	266,766	13,364	-	13,364	15,609	2,717	(472)	2,245
RMBS transferred to consolidated VIEs	3,471,222	6,989	(1,568,428)	1,834,492	2,682,308	847,816	-	847,816
Agency RMBS								
Pass-through	7,522,103	374,289	-	7,896,392	7,976,923	103,000	(22,469)	80,531
Interest-only	219,301	41,273	-	41,273	38,627	329	(2,975)	(2,646)
Total	$18,209,480	$688,766	$(2,133,291)	$10,598,275	$11,649,607	$1,125,386	$(74,054)	$1,051,332

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 Unrealized Gain/(Loss)
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 Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(dollars in thousands)		(dollars in thousands)	
Balance at beginning of period	$ 1,726,475	$ 2,014,789	$ 1,794,577	$ 2,107,387
Purchases	15,275	-	39,564	-
Accretion	(73,164)	(82,995)	(150,449)	(168,930)
Reclassification (to) from non-accretable difference	53,356	18,297	39,376	11,665
Sales and deconsolidation	(91,789)	(28,404)	(92,915)	(28,435)
Balance at end of period	$ 1,630,153	$ 1,921,687	$ 1,630,153	$ 1,921,687

The table below presents the outstanding principal balance and related amortized cost at June 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	For the Year Ended
	June 30, 2014	December 31, 2013
	(dollars in thousands)	
Outstanding principal balance:		
Beginning of period	$ 3,936,908	$ 4,508,475
End of period	$ 3,664,543	$ 3,949,664
Amortized cost:		
Beginning of period	$ 2,043,076	$ 2,268,751
End of period	$ 1,891,872	$ 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 June 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).

June 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	$ 13,534	$ (17)	1	$ -	$ -	-	$ 13,534	$ (17)	1
Senior interest-only	46,481	(7,236)	39	93,967	(40,223)	43	140,448	(47,459)	82
Subordinated	-	-	-	11,398	(662)	3	11,398	(662)	3
Subordinated interest-only	1,291	(472)	3	-	-	-	1,291	(472)	3
RMBS transferred to consolidated VIEs	-	-	-	-	-	-	-	-	-
Agency RMBS									
Pass-through	212,680	(87)	3	738,346	(22,382)	14	951,026	(22,469)	17
Interest-only	23,682	(1,099)	3	10,896	(1,876)	3	34,578	(2,975)	6
Total	$ 297,668	$ (8,911)	49	$ 854,607	$ (65,143)	63	$ 1,152,275	$ (74,054)	112

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 June 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 June 30, 2014.

Gross unrealized losses on the Company's Agency RMBS were $25 million and $53 million at June 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 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 June 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 June 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 six months ended June 30, 2014 and 2013 is presented below.

	For the Quarter Ended	
	June 30, 2014	June 30, 2013
	(dollars in thousands)	
Total other-than-temporary impairment losses	$ (3,813)	$ -
Portion of loss recognized in other comprehensive income (loss)	(1,534)	-
Net other-than-temporary credit impairment losses	$ (5,347)	$ -

	For the Six Months Ended	
	June 30, 2014	June 30, 2013
	(dollars in thousands)	
Total other-than-temporary impairment losses	$ (4,213)	$ -
Portion of loss recognized in other comprehensive income (loss)	(2,668)	(6,163)
Net other-than-temporary credit impairment losses	$ (6,881)	$ (6,163)

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	
	June 30, 2014	June 30, 2013
	(dollars in thousands)	
Cumulative credit loss beginning balance	$ 521,483	$ 513,946
Additions:		
Other-than-temporary impairments not previously recognized	5,347	-
Reductions for securities sold or deconsolidated during the period	(11,214)	(10,760)
Increases related to other-than-temporary impairments on securities with previously recognized other-than-temporary impairments	-	-
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(3,033)	(4,934)
Cumulative credit loss ending balance	$ 512,583	$ 498,252

	For the Six Months Ended	
	June 30, 2014	June 30, 2013
	(dollars in thousands)	
Cumulative credit loss beginning balance	$ 524,432	$ 510,089
Additions:		
Other-than-temporary impairments not previously recognized	6,881	712

Reductions for securities sold or deconsolidated during the period	(12,884)	(11,119)
Increases related to other-than-temporary impairments on securities with previously recognized other-than-temporary impairments	-	5,451
Reductions for increases in cash flows expected to be collected over the remaining life of the securities	(5,846)	(6,881)
Cumulative credit impairment loss ending balance	$ 512,583	$ 498,252

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 Six Months Ended	
		June 30, 2014	June 30, 2013
Loss Severity			
	Weighted Average	73%	45%
	Range	43% - 80%	41% - 69%
60+ days delinquent			
	Weighted Average	32%	16%
	Range	17% - 47%	0% - 34%
Credit Enhancement (1)			
	Weighted Average	3%	10%
	Range	0% - 14%	0% - 48%
3 Month CPR			
	Weighted Average	8%	18%
	Range	2% - 11%	0% - 25%
12 Month CPR			
	Weighted Average	11%	20%
	Range	6% - 19%	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 June 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 June 30, 2014, IO RMBS had a net unrealized loss of $28 million and had an amortized cost of $314 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 June 30, 2014 and December 31, 2013 was $286 million, and $300 million, respectively. All changes in fair value of IOs are reflected in Net income (loss).

June 30, 2014
(dollars in thousands)

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

	Comprehensive Income			Comprehensive Income		
Non-Agency RMBS						
Senior	$ 12,251	$ -	$ 12,251	$ (17)	$ -	$ (17)
Senior interest-only	-	14,739	14,739	-	(47,459)	(47,459)
Subordinated	144,534	-	144,534	(662)	-	(662)
Subordinated interest-only	-	2,717	2,717	-	(472)	(472)
RMBS transferred to consolidated VIEs	843,011	4,805	847,816	-	-	-
Agency RMBS						
Pass-through	103,000	-	103,000	(22,469)	-	(22,469)
Interest-only	-	329	329	-	(2,975)	(2,975)
Total	$ 1,102,796	$ 22,590	$ 1,125,386	$ (23,148)	$ (50,906)	$ (74,054)

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 June 30, 2014 and December 31, 2013.

	June 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	$ 317,544	$ 68.72	$ 72.58	1.9 %	5.0 %
Senior, interest only	$ 5,605,322	$ 4.51	$ 3.93	1.6 %	12.4 %
Subordinated	$ 807,222	$ 42.33	$ 60.15	3.0 %	13.1 %
Subordinated, interest only	$ 266,766	$ 5.01	$ 5.85	1.1 %	11.7 %
RMBS transferred to consolidated variable interest entities	$ 3,471,222	$ 54.02	$ 78.99	4.6 %	16.9 %
Agency Mortgage-Backed Securities					
Pass-through	$ 7,522,103	$ 104.98	$ 106.56	3.9 %	3.1 %
Interest-only	$ 219,301	$ 18.82	$ 17.61	3.3 %	4.8 %

(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 variable interest entities	$ 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 June 30, 2014 and December 31, 2013.

	June 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	1.8%	1.4%
B	4.1%	4.3%
Below B or not rated	92.3%	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 June 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.

June 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	$ 3,475	$ 45,531	$ 114,469	$ 66,990	$ 230,465
Senior interest-only	561	60,617	122,899	36,054	220,131
Subordinated	2,164	92,838	269,407	121,135	485,544
Subordinated interest-only	-	-	9,704	5,905	15,609
RMBS transferred to consolidated VIEs	-	305,598	1,601,161	775,549	2,682,308
Agency RMBS					
Pass-through	-	677,111	7,299,812	-	7,976,923
Interest-only	-	544	38,083	-	38,627
Total fair value	$ 6,200	$ 1,182,239	$ 9,455,535	$ 1,005,633	$ 11,649,607
Amortized cost					
Non-Agency RMBS					
Senior	$ 3,310	$ 42,449	$ 109,923	$ 62,549	$ 218,231
Senior interest-only	1,119	71,163	141,538	39,031	252,851
Subordinated	1,740	70,066	191,607	78,259	341,672
Subordinated interest-only	-	-	8,916	4,448	13,364
RMBS transferred to consolidated VIEs	-	232,553	1,087,722	514,217	1,834,492
Agency RMBS					
Pass-through	-	655,843	7,240,549	-	7,896,392
Interest-only	-	706	40,567	-	41,273
Total amortized cost	$ 6,169	$ 1,072,780	$ 8,820,822	$ 698,504	$ 10,598,275

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. The Company categorizes collateral as Alt-A regardless of whether the loans were originally described as "prime" if the behavior of the collateral when the Company purchased the security more typically resembles Alt-A. The Company defines Alt-A collateral characteristics to be evidenced by the 60+ day delinquency bucket of the pool being greater than 5% or the current weighted average FICO scores between 585 and 700. At June 30, 2014 and December 31, 2013, 93% and 97% of the Non-Agency RMBS collateral was Alt-A, respectively and the weighted average FICO score was 698 for both periods.

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

	June 30, 2014			December 31, 2013		
Weighted average maturity (years)		22.9			24.1	
Weighted average amortized loan to value (1)		68.9	%		69.4	%
Weighted average FICO (2)		685			710	
Weighted average loan balance (in thousands)	$	386		$	385	
Weighted average percentage owner occupied		83.8	%		84.0	%
Weighted average percentage single family residence		65.5	%		65.4	%
Weighted average current credit enhancement		1.7	%		1.6	%
Weighted average geographic concentration of top five states	CA	32.9	%	CA	33.4	%
	FL	8.7	%	FL	9.1	%
	NY	8.1	%	NY	7.1	%
	NJ	2.9	%	NJ	3.0	%
	MD	2.6	%	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 June 30, 2014 and December 31, 2013.

Origination Year	June 30, 2014	December 31, 2013
1999	0.2%	0.0%
2000	0.6%	0.6%
2001	2.0%	1.2%
2002	0.4%	1.0%
2003	1.1%	1.4%
2004	3.9%	3.6%
2005	20.4%	17.8%
2006	29.4%	32.2%
2007	39.0%	40.1%
2008	2.1%	2.1%
2013	0.9%	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 six months ended June 30, 2014 and 2013 are as follows:

	For the Quarter Ended	
	June 30, 2014	June 30, 2013
	(dollars in thousands)	

Proceeds from sales	$ 33,212	$ 429,380
Gross realized gains	29	54,117
Gross realized losses	(4,368)	-
Net realized gain	$ (4,339)	$ 54,117

	For the Six Months Ended	
	June 30, 2014	June 30, 2013
	(dollars in thousands)	
Proceeds from sales	$ 133,468	$ 429,562
Gross realized gains	8,498	54,126
Gross realized losses	(4,460)	(3)
Net realized gain	$ 4,038	$ 54,123

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 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 securitized loans held for investment at June 30, 2014 and December 31, 2013:

	For the Six Months Ended June 30, 2014	For the Year Ended December 31, 2013
	(dollars in thousands)	
Balance, beginning of period	$ 783,484	$ 1,300,131
Purchases	-	-
Principal paydowns	(67,423)	(507,683)
Net periodic amortization (accretion)	(1,057)	(10,763)
Change to loan loss provision	(533)	1,799
Balance, end of period	$ 714,471	$ 783,484

The following table represents the Company's securitized residential mortgage loans classified as held for investment at June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
	(dollars in thousands)	
Securitized loans, at amortized cost	$ 723,089	$ 792,547
Less: allowance for loan losses	8,618	9,063
Securitized loans held for investment	$ 714,471	$ 783,484

The securitized loan portfolio is collateralized by prime, jumbo, first lien residential mortgages of which 41% were originated during 2012, 37% were originated during 2011, 6% during 2010, and the remaining 16% of the loans were originated prior to 2010. A summary of key characteristics of these loans follows.

		June 30, 2014		December 31, 2013
Number of loans		972		1,053
Weighted average maturity (years)		26.9		27.3
Weighted average loan to value (1)		71.6 %		71.7 %
Weighted average FICO (2)		766		766
Weighted average loan balance (in thousands)		$ 728		$ 737
Weighted average percentage owner occupied		95.3 %		94.7 %
Weighted average percentage single family residence		70.6 %		70.0 %
Weighted average geographic concentration of top five states	CA	34.9 %	CA	34.7 %
	VA	5.6 %	VA	5.6 %
	NJ	5.3 %	NY	5.5 %
	NY	4.9 %	NJ	5.1 %
	MD	4.9 %	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 at June 30, 2014 and December 31, 2013:

	For the Six Months Ended June 30, 2014	For the Year Ended December 31, 2013
	(dollars in thousands)	
Balance, beginning of period	$ 9,063	$ 11,624
Provision for loan losses	533	(1,799)
Charge-offs	(978)	(762)
Balance, end of period	$ 8,618	$ 9,063

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

The total unpaid principal balance of impaired loans for which the Company established a specific reserve was $25 million and $26 million at June 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 June 30, 2014 and December 31, 2013 was $18 million and $19 million, respectively. The total unpaid principal balance of non-impaired loans for which the Company established a general reserve was $683 million and $750 million at June 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 June 30, 2014 and December 31, 2103 was $696 million and $765 million, respectively. Interest income on impaired loans is not significant.

The following table summarizes the outstanding principal balance of loans 30 days delinquent and greater as reported by the servicer at June 30, 2014 and December 31, 2013.

	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total
			(dollars in thousands)				
June 30, 2014	$ 571	$ 1,720	$ 4,691	$ 0	$ 6,535	$ 816	$ 14,333
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 loans held for investment. 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 loans held for investment due to the limitation of information available to the Company. The following table presents the loans that were modified by the servicer during the quarters ended June 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)				
Six Months Ended						
June 30, 2014	2	$ 1,139	$ 1,256	$ 1,173	$ 1,173	$0
June 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 June 30, 2014, the Company determined that all loans 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 June 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 June 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 June 30, 2014, there were no loans that were modified in the past twelve months and delinquent on scheduled payments.

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. For the Company's investments in Non-Agency RMBS categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs include the discount rates, assumptions relating to prepayments, default rates and loss severities. Significant increases (decreases) in any of the discount rates, default rates or loss severities in isolation would result in a significantly lower (higher) fair value measurement. The impact of changes in prepayment speeds would have differing impacts on fair value, depending on the seniority of the investment. Generally, a change in the default assumption is accompanied by directionally similar changes in the assumptions used for the loss severity and the prepayment speed.

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 Non-Agency RMBS. 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. In addition, validating third party pricing for the Company's investments may be more subjective as fewer participants may be willing to provide this service to the Company. 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:

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.

Agency and Non-Agency RMBS

Generally, the Company determines the fair value of its investment securities utilizing an internal pricing model that incorporates such factors 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. Management reviews the fair values generated by the model to determine whether prices are reflective of the current market. Management indirectly corroborates its estimates of the fair value using pricing models by comparing its results to independent prices provided by third party pricing services. Certain very liquid asset classes, such as Agency fixed-rate pass-throughs may be priced using independent sources such as quoted prices for To-Be-Announced ("TBA") securities.

The Agency RMBS market is considered to be an active market such that participants transact with sufficient frequency and volume to provide transparent pricing information on an ongoing basis. The liquidity of the Agency RMBS market and the similarity of the Company's securities to those actively traded enable the Company to observe quoted prices in the market and utilize those prices as a basis for formulating fair value measurements. Consequently, the Company has classified Agency RMBS as having Level 2 inputs in the fair value hierarchy.

The Company's fair value estimation process for Non-Agency RMBS utilizes inputs other than quoted prices that are observed in the market. 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.

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.

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

June 30, 2014

(dollars in thousands)

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral, netting	Total
	(dollars in thousands)				
Assets:					
Non-Agency RMBS					
Senior	$ -	$ -	$ 230,465	$ -	$ 230,465
Senior interest-only	-	-	220,131	-	$ 220,131
Subordinated	-	-	485,544	-	$ 485,544
Subordinated interest-only	-	-	15,609	-	$ 15,609
RMBS transferred to consolidated	-	-	2,682,308	-	$ 2,682,308

VIEs					
Agency RMBS					
Pass-through	-	7,976,923	-	-	$ 7,976,923
Interest-only	-	38,627	-	-	$ 38,627
Liabilities:					
Derivatives, net	(2,637)	(45,968)	(1,137)	24,417	(25,325)
Total	$ (2,637)	$ 7,969,582	$ 3,632,920	$ 24,417	$ 11,624,282

December 31, 2013

(dollars in thousands)

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral, netting	Total
		(dollars in thousands)			
Assets:					
Non-Agency RMBS					
Senior	$ -	$ -	$ 89,687	$ -	$ 89,687
Senior interest-only	-	-	229,065	-	$ 229,065
Subordinated	-	-	457,569	-	$ 457,569
Subordinated interest-only	-	-	16,571	-	$ 16,571
RMBS transferred to consolidated VIEs	-	-	2,981,571	-	$ 2,981,571
Agency RMBS					
Pass-through	-	1,954,796	-	-	$ 1,954,796
Interest-only	-	42,782	-	-	$ 42,782
Derivatives, net	10,629	-	-	(2,534)	$ 8,095
Liabilities:					
Derivatives, net	-	(30,199)	-	-	$ (30,199)
Total	$ 10,629	$ 1,967,379	$ 3,774,463	$ (2,534)	$ 5,749,937

The table below provides a summary of the changes in the fair value of securities classified as Level 3 at June 30, 2014 and December 31, 2013.

Fair Value Reconciliation, Level 3

	For the Six Months Ended June 30, 2014 (dollars in thousands)		
	Non-Agency RMBS	Derivatives	Total
Beginning balance Level 3 assets	$ 3,774,463	$ -	$ 3,774,463
Transfers in to Level 3 assets	-	-	-
Transfers out of Level 3 assets	-	-	-
Purchases	188,779	-	188,779
Principal payments	(159,117)	-	(159,117)
Sales and Settlements	(260,973)	(8,374)	(269,347)
Accretion of purchase discounts	49,884	-	49,884
Gains (losses) included in net income			
Other than temporary credit impairment losses	(6,881)	-	(6,881)
Realized gains (losses) on sales and settlements	(1,655)	2,898	1,243
Realized gain on deconsolidation	47,846	-	47,846
Net unrealized gains (losses) included in income	22,462	-	22,462
Gains (losses) included in other comprehensive income			
Total unrealized gains (losses) for the period	(20,751)	4,339	(16,412)
Ending balance Level 3 assets	$ 3,634,057	$ (1,137)	$ 3,632,920

Fair Value Reconciliation, Level 3

	For the Year Ended December 31, 2013 (dollars in thousands)		
	Non-Agency RMBS	Derivatives	Total
Beginning balance Level 3 assets	$ 3,961,208	-	$ 3,961,208
Transfers in to Level 3 assets	-	-	-
Transfers out of Level 3 assets	-	-	-
Purchases	317,299	-	317,299
Principal payments	(475,092)	-	(475,092)
Sales and Settlements	(181,215)	(10,221)	(191,436)
Accretion of purchase discounts	106,290	-	106,290
Gains (losses) included in net income			
Other than temporary credit impairment losses	(45,167)	-	(45,167)

Realized gains (losses) on sales and settlements	36,645	10,221	46,866
Realized losses on principal write-downs of Non-Agency RMBS	(18,316)	-	(18,316)
Net unrealized gains (losses) included in income	(43,252)	-	(43,252)
Gains (losses) included in other comprehensive income			
Total unrealized gains (losses) for the period	116,063	-	116,063
Ending balance Level 3 assets	$ 3,774,463	$ -	$ 3,774,463

There were no transfers to or from Level 3 for the quarter ended June 30, 2014 and for year ended December 31, 2013.

Sensitivity of Significant Inputs

The significant unobservable inputs used in the fair value measurement of the Company's Non-Agency RMBS are the weighted average discount rates, constant prepayment speed ("CPR"), cumulative default rate, and the loss severity.

Prepayment speeds, as reflected by the CPR, vary according to interest rates, the type of investment, conditions in financial markets, and other factors, none of which can be predicted with any certainty. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their mortgage loans, and as a result, prepayment speeds tend to decrease. When interest rates fall, prepayment speeds tend to increase. For RMBS investments purchased at a premium, as prepayment speeds increase, the amount of income the Company earns decreases as the purchase premium on the bonds amortizes faster than expected. Conversely, decreases in prepayment speeds result in increased income and can extend the period over which the Company amortizes the purchase premium. For RMBS investments purchased at a discount, as prepayment speeds increase, the amount of income the Company earns increases from the acceleration of the accretion of the discount into interest income. Conversely, decreases in prepayment speeds result in decreased income as the accretion of the purchase discount into interest income occurs over a longer period.

Cumulative default rates represent an annualized rate of default on a group of mortgages. The constant default rate ("CDR") represents the percentage of outstanding principal balances in the pool that are in default, which typically equates to the home being past 60-day and 90-day notices and in the foreclosure process. When default rates increase, expected cash flows on the underlying collateral decreases. When default rates decrease, expected cash flows on the underlying collateral increases.

Loss severity rates reflect the amount of loss expected from a foreclosure and liquidation of the underlying collateral in the mortgage loan pool. When a mortgage loan is foreclosed the collateral is sold and the resulting proceeds are used to settle the outstanding obligation. In many circumstances, the proceeds from the sale do not fully repay the outstanding obligation. In these cases a loss is incurred by the lender. Loss severity is used to predict how costly future losses are likely to be. An increase in loss severity results in a decrease in expected future cashflows. A decrease in loss severity results in an increase in expected future cashflows.

The discount rate refers to the interest rate used in the discounted cash flow analysis to determine the present value of future cash flows. The discount rate takes into account not just the time value of money, but also the risk or uncertainty of future cash flows. An increased uncertainty of future cash flows results in a higher discount rate. The discount rate used to calculate the present value of the expected future cash flows is based on the discount rate implicit in the security as of the last measurement date. As discount rates move up, the discounted cash flows are reduced.

A summary of the significant inputs used to estimate the fair value of Non-Agency RMBS as of June 30, 2014 and December 31, 2013 follows:

	June 30, 2014 Significant Inputs				December 31, 2013 Significant Inputs			
	Weighted Average Discount Rate	CPR	CDR	Loss Severity	Weighted Average Discount Rate	CPR	CDR	Loss Severity
		Range				Range		
Non-Agency RMBS								
Senior	4.9%	1% - 8%	0% - 33%	50% - 85%	6.4%	1% - 6%	0% - 33%	50% - 85%
Senior interest-only	13.5%	2% - 26%	0% - 34%	50% - 85%	14.1%	1% - 28%	0% - 33%	50% - 85%
Subordinated	6.1%	2% - 24%	0% - 33%	50% - 85%	6.1%	1% - 22%	0% - 38%	50% - 85%
Subordinated interest-only	13.7%	3% - 10%	0% - 18%	50% - 68%	12.7%	2% - 13%	0% - 18%	50% - 73%
RMBS transferred to consolidated VIEs	4.6%	1% - 18%	0% - 32%	50% - 85%	5.3%	1% - 20%	0% - 33%	50% - 85%

All of the significant inputs listed have some degree of market observability, based on the Company's knowledge of the market, information available to market participants, and use of common market data sources. Collateral default and loss severity projections are in the form of "curves" that are updated quarterly to reflect the Company's collateral cash flow projections. Methods used to develop these projections conform to industry conventions. The Company uses assumptions it considers its best estimate of future cash flows for each respective security.

The discount rates applied to the expected cash flows to determine fair value are derived from a range of observable prices on securities backed by similar collateral. As the market becomes more or less liquid, the availability of these observable inputs will change.

The prepayment speed specifies the percentage of the collateral balance that is expected to prepay at each point in the future. The prepayment speed is based on factors such as collateral FICO score, loan-to-value ratio, debt-to-income ratio, and vintage on a loan level basis and is scaled up or down to reflect recent collateral-specific prepayment experience as obtained from remittance reports and market data services.

Default vectors are determined from the current "pipeline" of loans that are more than 30 days delinquent, in foreclosure, bankruptcy, or are real estate owned ("REO"). These delinquent loans determine the first 30 months of the default curve. Beyond month 30, the default curve transitions to a value that is reflective of a portion of the current delinquency pipeline.

The curve generated to reflect the Company's expected loss severity is based on collateral-specific experience with consideration given to other mitigating collateral characteristics. Characteristics such as seasoning are taken into consideration because severities tend to initially increase on newly originated securities, before beginning to decline as the collateral ages and eventually stabilize. Collateral characteristics such as loan size, loan-to-value, and geographic location of collateral also effect loss severity.

Securitized Loans Held for Investment

The Company carries securitized loans held for investment at principal value, plus unamortized premiums, less unaccreted discounts and an allowance for loan losses. The Company estimates the fair value of its securitized loans held for investment by considering the loan characteristics, including the credit characteristics of the borrower, purpose of the loan, use of the collateral securing the loan, and management's expectations of general economic conditions in the sector and greater economy.

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.

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

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.

The following table presents the carrying value and fair value, as described above, of the Company's financial instruments not carried at fair value on a recurring basis at June 30, 2014 and December 31, 2013.

		June 30, 2014 (dollars in thousands)	
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value
Securitized loans held for investment	3	714,471	703,455
Repurchase agreements	2	(5,564,554)	(5,571,505)
Securitized debt, collateralized by Non-Agency RMBS	3	(787,162)	(800,457)
Securitized debt, collateralized by loans held for investment	3	(604,655)	(591,967)

		December 31, 2013 (dollars in thousands)	
		Carrying Amount	Fair Value

	Level in Fair Value Hierarchy		
Securitized loans held for investment	3	783,484	762,550
Repurchase agreements	2	(1,658,561)	(1,660,941)
Securitized debt, collateralized by Non-Agency RMBS	3	(933,732)	(940,712)
Securitized debt, collateralized by loans held for investment	3	(669,981)	(647,628)

6. Repurchase Agreements

The Company had outstanding $5.6 billion and $1.7 billion of repurchase agreements with weighted average borrowing rates of 0.44% and 0.44% and weighted average remaining maturities of 75 days and 58 days as of June 30, 2014 and December 31, 2013, respectively. At June 30, 2014 and December 31, 2013, Agency RMBS pledged as collateral under these repurchase agreements had an estimated fair value of $5.6 billion and $1.7 billion, respectively. At June 30, 2014, Non-Agency RMBS pledged as collateral under these repurchase agreements had an estimated fair value of $542 million. There were no Non-Agency RMBS pledged as collateral at December 31, 2013. The average daily balances of the Company's repurchase agreements for the quarters ended June 30, 2014 and December 31, 2013 were $3.1 billion and $1.5 billion, respectively. The interest rates of these repurchase agreements are generally indexed to the one-month or the three-month LIBOR rate and re-price accordingly.

At June 30, 2014 and December 31, 2013, the repurchase agreements collateralized by RMBS had the following remaining maturities.

	June 30, 2014	December 31, 2013
	(dollars in thousands)	
Overnight	$ -	$ -
1-29 days	1,694,284	644,332
30 to 59 days	1,085,418	606,945
60 to 89 days	1,684,618	-
90 to 119 days	63,545	129,049
Greater than or equal to 120 days	1,036,689	278,235
Total	$ 5,564,554	$ 1,658,561

At June 30, 2014 and December 31, 2013, the Company did not have an amount at risk under its repurchase agreements greater than 15% of its equity with any counterparty.

7. Securitized Debt

All of the Company's securitized debt is collateralized by residential mortgage loans or Non-Agency RMBS. For financial reporting purposes, the Company's securitized debt is accounted for as secured borrowings. Thus, the residential mortgage loans or RMBS held as collateral are recorded in the assets of the Company as securitized loans held for investment or Non-Agency RMBS transferred to consolidated VIEs and the securitized debt is recorded as a non-recourse liability in the accompanying Consolidated Statements of Financial Condition.

At June 30, 2014 and December 31, 2013 the Company's securitized debt collateralized by residential mortgage loans had a principal balance of $605 million and $670 million, respectively. At June 30, 2014 and December 31, 2014 the debt carried a weighted average cost of financing equal to 3.28% and 3.31% respectively. The debt matures between the years 2023 and 2042.

At June 30, 2014 and December 31, 2013 the Company's securitized debt collateralized by Non-Agency RMBS had a principal balance of $815 million and $966 million, respectively. At June 30, 2014 and December 31, 2013, the debt carried a weighted average cost of financing equal to 4.26%, respectively. The debt matures between the years 2035 and 2047.

During the first quarter of 2014, the Company acquired securitized debt collateralized by Non-Agency RMBS with an outstanding principal balance of $54 million for $56 million in cash. This transaction resulted in a loss on the extinguishment of debt of $2 million. This loss is reflected in earnings for the six months ended June 30, 2014.

The carrying value of securitized debt is based on its amortized cost, net of premiums or discounts related to sales of senior certificates to third parties. The following table presents the estimated principal repayment schedule of the securitized debt at June 30, 2014 and December 31, 2013, based on expected cash flows of the residential mortgage loans or RMBS, as adjusted for projected losses on the underlying collateral of the debt. All of the securitized debt recorded in the Company's Consolidated Statements of Financial Condition is non-recourse to the Company.

	June 30, 2014	December 31, 2013
	(dollars in thousands)	
Within One Year	$ 295,142	$ 370,250

One to Three Years	405,518	497,943
Three to Five Years	228,650	264,456
Greater Than or Equal to Five Years	376,409	396,916
Total	$ 1,305,719	$ 1,529,565

Maturities of the Company's securitized debt are dependent upon cash flows received from the underlying loans. The estimate of their repayment is based on scheduled principal payments on the underlying loans. This estimate will differ from actual amounts to the extent prepayments and/or loan losses are experienced. See Notes 3 and 4 for a more detailed discussion of the securities and loans collateralizing the securitized debt.

8. Consolidated Securitization Vehicles and Other Variable Interest Entities

Since its inception, the Company has created VIEs for the purpose of securitizing whole mortgage loans or re-securitizing RMBS and obtaining permanent, non-recourse term financing. The Company evaluated its interest in each VIE to determine if it is the primary beneficiary.

As of June 30, 2014, the Company's Consolidated Statements of Financial Condition includes consolidated VIEs with \$3.4 billion of assets and \$1.4 billion of liabilities. As of December 31, 2013, the Company's Consolidated Statements of Financial Condition includes consolidated VIEs with \$3.8 billion of assets and \$1.6 billion of liabilities.

During the first quarter of 2014, the Company sold all of its interests in a consolidated VIE to an unrelated third party. Subsequent to this sale, the purchaser of the interests in this VIE liquidated the VIE and took possession of the underlying securities of the original VIE for the purposes of creating a new re-securitization entity. The Company agreed to acquire certain interests in the new re-securitization entity collateralized by the underlying securities of the original VIE. These new interests acquired by the Company were evaluated for consolidation under GAAP. The Company determined that the acquired interests in the new re-securitization entity represented variable interests in only specified assets of the new re-securitization entity as these specified assets are essentially the only source of payment for the related variable interests of the new re-securitization entity. As the Company acquired 100% of certain classes of the new resecuritization entity, it concluded that it was the primary beneficiary of certain specified assets and interests of the new re-securitization entity for which it owned 100% of the class and, therefore, consolidated the assets and liabilities related only to their interests acquired.

As the Company did not repurchase all of the interests in the new re-securitization entity, a gain of \$48 million was recognized during the second quarter of 2014 related to the sale of its interests in the previously consolidated VIE which were not repurchased by the Company as part of the new re-securitization entity. This gain is presented as a Gain on deconsolidation during the second quarter of 2014.

As of June 30, 2014, the balance sheet includes the underlying assets of the original consolidated VIE the Company agreed to repurchase from the new re-securitization entity; therefore, no gain or loss is recognized on that portion of the transaction. All intercompany balances related to the consolidated interests are eliminated in consolidation.

VIEs for Which the Company is the Primary Beneficiary

The retained beneficial interests in VIEs for which the Company is the primary beneficiary are typically the subordinated tranches of these re-securitizations and in some cases the Company may hold interests in additional tranches. The results of consolidation at June 30, 2014 is the inclusion of \$2.7 billion of Non-Agency RMBS at fair value representing the underlying securities of the trusts, the inclusion of \$714 million of securitized loans held for investment, the recognition of \$787 million of securitized debt associated with Non-Agency RMBS transferred to consolidated VIEs and \$605 million of securitized debt associated with loans held for investment. In addition, at June 30, 2014 the Company recognized \$15 million and \$5 million of accrued interest receivable and accrued interest payable, respectively, of the securitizations.

The table below reflects the assets and liabilities recorded in the Consolidated Statements of Financial Condition related to the consolidated VIEs as of June 30, 2014 and December 31, 2013.

	June 30, 2014	December 31, 2013
	(dollars in thousands)	
Assets		

Non-Agency RMBS transferred to consolidated VIEs	$ 2,682,308	$ 2,981,571
Securitized loans held for investment	714,471	783,484
Accrued interest receivable	14,681	17,173
Liabilities		
Securitized debt, collateralized by Non-Agency RMBS	$ 787,162	$ 933,732
Securitized debt, collateralized by loans held for investment	604,655	669,981
Accrued interest payable	4,545	5,278

Income and expense and OTTI amounts related to consolidated VIEs recorded in the Consolidated Statements of Operations and Comprehensive Income (Loss) is presented in the table below.

	For the Quarter Ended	
	June 30, 2014	June 30, 2013
	(dollars in thousands)	
Interest income, Assets of consolidated VIEs	$ 85,262	$ 93,936
Interest expense, Non-recourse liabilities of VIEs	(17,176)	(24,982)
Net interest income	$ 68,086	$ 68,954
Total other-than-temporary impairment losses	(479)	-
Portion of loss recognized in other comprehensive income (loss)	(3,471)	-
Net other-than-temporary credit impairment losses	$ (3,950)	$ -

	For the Six Months Ended	
	June 30, 2014	June 30, 2013
	(dollars in thousands)	
Interest income, Assets of consolidated VIEs	$ 170,473	$ 190,664
Interest expense, Non-recourse liabilities of VIEs	(37,875)	(51,978)
Net interest income	$ 132,598	$ 138,686
Total other-than-temporary impairment losses	(479)	-
Portion of loss recognized in other comprehensive income (loss)	(3,471)	(135)
Net other-than-temporary credit impairment losses	$ (3,950)	$ (135)

VIEs for Which the Company is Not the Primary Beneficiary

The Company is not required to consolidate VIEs in which it has concluded it does not have a controlling financial interest, and thus is not the primary beneficiary. In such cases, the Company does not have both the power to direct the entities' most significant activities and the obligation to absorb losses or right to receive benefits that could potentially be significant to the VIEs. The Company's investments in these unconsolidated VIEs are carried in Non-Agency RMBS on the Consolidated Statements of Financial Condition and include senior and subordinated bonds issued by the VIEs. The Company's investments in unconsolidated VIEs at June 30, 2014, ranged from less than $1 million to $45 million, with an aggregate amount of $952 million. The Company's investments in unconsolidated VIEs at December 31, 2013, ranged from less than $1 million to $42 million, with an aggregate amount of $793 million. The Company's maximum exposure to loss from these unconsolidated VIEs was $826 million at June 30, 2014 and $727 million at December 31, 2013. The maximum exposure to loss was determined as the amortized cost of the unconsolidated VIE, which represents the purchase price of the investment less any unamortized premiums or discounts as of the reporting date.

9. Derivative Instruments

In connection with the Company's interest rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts in the form of interest rate swaps and Treasury futures. The Company's swaps are used to lock in a fixed rate related to a portion of its current and anticipated payments on its repurchase agreements. The Company typically agrees to pay a fixed rate of interest ("pay rate") in exchange for the right to receive a floating rate of interest ("receive rate") over a specified period of time. Treasury futures are derivatives which track the prices of specific Treasury securities and are traded on an active exchange. It is generally the Company's policy to close out any Treasury futures positions prior to taking delivery of the underlying security. The Company uses Treasury futures to lock in prices on the purchase or sale of Agency RMBS and to hedge changes in interest rates on its existing portfolio.

In addition to interest rate swaps, from time to time the Company purchases and sells mortgage options. Mortgage options give the Company the right, but not the obligation, to buy or sell mortgage backed securities at a future date for a fixed price. The Company uses mortgage options to lock in prices on the purchase or sale of Agency RMBS and to enhance investment returns.

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. In the event of a default by the counterparty, the Company could have difficulty obtaining its RMBS or cash pledged as collateral for these derivative instruments. The Company periodically monitors the credit of its counterparties to determine if it is exposed to counterparty credit risk. See Note 14 for further discussion of counterparty credit risk.

The table below summarizes the location and fair value of the derivatives reported in the Consolidated Statements of Financial Condition after counterparty netting and posting of cash collateral as of June 30, 2014 and December 31, 2013.

June 30, 2014

Derivative Instruments	Notional Amount Outstanding	Derivative Assets: Location on Consolidated Statements of Financial Condition	Derivative Assets: Net Estimated Fair Value/Carrying Value	Derivative Liabilities: Location on Consolidated Statements of Financial Condition	Derivative Liabilities: Net Estimated Fair Value/Carrying Value
	(dollars in thousands)				
Interest Rate Swaps	$ 3,360,000	Derivatives, at fair value, net	$ -	Derivatives, at fair value	$ (24,188)
Mortgage Options	2,000,000	Derivatives, at fair value, net	-	Derivatives, at fair value	(1,137)
Treasury Futures	1,230,000	Derivatives, at fair value, net	-	Derivatives, at fair value	-
Total	$ 6,590,000		$ -		$ (25,325)

December 31, 2013

Derivative Instruments	Notional Amount Outstanding	Derivative Assets: Location on Consolidated Statements of Financial Condition	Derivative Assets: Net Estimated Fair Value/Carrying Value	Derivative Liabilities: Location on Consolidated Statements of Financial Condition	Derivative Liabilities: Net Estimated Fair Value/Carrying Value
	(dollars in thousands)				
Interest Rate Swaps	$ 1,355,000	Derivatives, at fair value, net	$ -	Derivatives, at fair value	$ (30,199)
Treasury Futures	550,000	Derivatives, at fair value, net	8,095	Derivatives, at fair value	-
Total	$ 1,905,000		$ 8,095		$ (30,199)

The effect of the Company's derivatives on the Consolidated Statements of Operations and Comprehensive Income (Loss) is presented below.

		For the Quarter Ended	
		June 30, 2014	June 30, 2013
Derivative Instruments	Location on Consolidated Statements of Operations and Comprehensive Income (Loss)	Net gains (losses) on derivatives	Net gains (losses) on derivatives
	(dollars in thousands)		
		$ (19,834)	$ 13,178

Interest Rate Swaps	Net unrealized gains (losses) on derivatives		
Interest Rate Swaps	Net realized gains (losses) on derivatives	(12,061)	(5,391)
Mortgage Options	Net unrealized gains (losses) on derivatives	3,593	-
Mortgage Options	Net realized gains (losses) on derivatives	1,050	-
Treasury Futures	Net unrealized gains (losses) on derivatives	(6,256)	-
Treasury Futures	Net realized gains (losses) on derivatives	(8,781)	-
Total		$ (42,289)	$ 7,787

		For the Six Months Ended	
		June 30, 2014	June 30, 2013
Derivative Instruments	Location on Consolidated Statements of Operations and Comprehensive Income (Loss)	Net gains (losses) on derivatives	Net gains (losses) on derivatives
	(dollars in thousands)		
Interest Rate Swaps	Net unrealized gains (losses) on derivatives	$ (15,769)	$ 18,580
Interest Rate Swaps	Net realized gains (losses) on derivatives	(17,711)	(10,921)
Mortgage Options	Net unrealized gains (losses) on derivatives	4,339	-
Mortgage Options	Net realized gains (losses) on derivatives	1,653	-
Treasury Futures	Net unrealized gains (losses) on derivatives	(13,265)	-
Treasury Futures	Net realized gains (losses) on derivatives	(9,482)	-
Total		$ (50,235)	$ 7,659

The weighted average pay rate on the Company’s interest rate swaps at June 30, 2014 was 2.28% and the weighted average receive rate was 0.20%. The weighted average pay rate on the Company’s interest rate swaps at December 31, 2013 was 1.81% and the weighted average receive rate was 0.17%.

Certain of the Company's interest rate swap and mortgage option contracts are subject to International Swaps and Derivatives Association Master Agreements ("ISDA") which contain provisions that grant counterparties certain rights with respect to the applicable ISDA upon the occurrence of (i) negative performance that results in a decline in net assets in excess of specified thresholds or dollar amounts over set periods of time, (ii) the Company's failure to maintain its REIT status, (iii) the Company's failure to comply with limits on the amount of leverage, and (iv) the Company's stock being delisted from the New York Stock Exchange (NYSE). Upon the occurrence of items (i) through (iv), the counterparty to the applicable ISDA has a right to terminate the ISDA in accordance with its provisions. Certain of the Company's interest rate swaps are cleared through a registered commodities exchange. Each of the Company's ISDAs and clearing exchange agreements contains provisions under which the Company is required to fully collateralize its obligations under the interest rate swap agreements if at any point the fair value of the swap represents a liability greater than the minimum transfer amount contained within the agreements. The Company is also required to post initial collateral upon execution of certain of its swap transactions. If the Company breaches any of these provisions, it will be required to settle its obligations under the agreements at their termination values, which approximates fair value. Cleared swaps are fair valued using internal pricing models and compared to the exchange market values. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position at June 30, 2014 is approximately $53 million including accrued interest, which represents the maximum amount the Company would be required to pay upon termination, which is fully collateralized.

10. Common Stock

During the quarters ended June 30, 2014 and 2013, the Company declared dividends to common shareholders totaling $92 million, or $0.09 per share. During the six months ended June 30, 2014 and 2013, the Company declared dividends to common shareholders totaling $185 million, or $0.18 per share.

Earnings per share for the quarters and six months ended June 30, 2014 and 2013, respectively, are computed as follows:

	For the Quarter Ended	
	June 30, 2014	June 30, 2013
	(dollars in thousands)	
Numerator:		
Net income	$ 104,769	$ 143,207
Effect of dilutive securities:	-	-
Dilutive net income available to stockholders		