PennyMac Mortgage Investment Trust
Form 10-Q
May 10, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# Form 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2013**

**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: 001-34416**

# PennyMac Mortgage Investment Trust

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Maryland** | **27-0186273** |
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification No.)** |
| **6101 Condor Drive, Moorpark, California** | **93021** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(818) 224-7442**

**(Registrant s telephone number, including area code)**

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

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 (§ 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 x No ¨

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

| Class | Outstanding at May 7, 2013 |
|---|---|
| **Common Shares of Beneficial Interest, $0.01par value** | **58,990,717** |

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**PENNYMAC MORTGAGE INVESTMENT TRUST**

**FORM 10-Q**

**March 31, 2013**

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## PART I. FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

**(In thousands, except share data)**

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 19,376 | $ 33,756 |
| Short-term investments | 45,024 | 39,017 |
| Mortgage loans acquired for sale at fair value | 1,123,348 | 975,184 |
| Mortgage loans at fair value | 1,366,922 | 1,189,971 |
| Real estate acquired in settlement of loans | 84,486 | 88,078 |
| Mortgage servicing rights at lower of amortized cost or fair value | 179,136 | 125,430 |
| Mortgage servicing rights at fair value | 1,305 | 1,346 |
| Principal and interest collections receivable | 31,391 | 29,204 |
| Interest receivable | 3,136 | 3,029 |
| Derivative assets | 15,186 | 23,706 |
| Servicing advances | 37,695 | 32,191 |
| Due from affiliates | 5,991 | 4,829 |
| Other assets | 14,164 | 13,922 |
| Total assets | $ 2,927,160 | $ 2,559,663 |
| **LIABILITIES** | | |
| Assets sold under agreements to repurchase: | | |
| Mortgage loans acquired for sale at fair value | $ 1,035,486 | $ 894,906 |
| Mortgage loans at fair value | 576,018 | 353,805 |
| Real estate acquired in settlement of loans | 3,546 | 7,391 |
| Derivative liabilities | 2,079 | 967 |
| Recourse liability | 6,231 | 4,441 |
| Accounts payable and accrued liabilities | 22,259 | 42,402 |
| Contingent underwriting fees payable | 5,883 | 5,883 |
| Payable to affiliates | 14,748 | 12,216 |
| Income taxes, net | 38,481 | 36,316 |
| Total liabilities | 1,704,731 | 1,358,327 |
| Commitments and contingencies | | |
| **SHAREHOLDERS EQUITY** | | |
| Common shares of beneficial interest authorized, 500,000,000 common shares of $0.01 par value; issued and outstanding, 58,990,225 and 58,904,456 common shares, respectively | 590 | 589 |
| Additional paid-in capital | 1,131,231 | 1,129,858 |
| Retained earnings | 90,608 | 70,889 |
| Total shareholders equity | 1,222,429 | 1,201,336 |

| | | |
|---|---|---|
| Total liabilities and shareholders equity | $ 2,927,160 | $ 2,559,663 |

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

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**PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

**(In thousands, except per share data)**

| | Quarter ended March 31, 2013 | 2012 |
|---|---|---|
| **Net Investment Income** | | |
| Net gain on mortgage loans acquired for sale | $ 29,279 | $ 13,370 |
| Net gain on investments: | | |
| Mortgage-backed securities | | 357 |
| Mortgage loans | 63,980 | 11,131 |
| | 63,980 | 11,488 |
| Interest income: | | |
| Short-term investments | 31 | 9 |
| Mortgage-backed securities | | 574 |
| Mortgage loans | 16,820 | 15,820 |
| Other | 24 | 22 |
| | 16,875 | 16,425 |
| Loan origination fees | 5,473 | 1,451 |
| Results of real estate acquired in settlement of loans | (3,253) | 3,717 |
| Net loan servicing fees | 6,698 | 197 |
| Other | | 1 |
| Net investment income | 119,052 | 46,649 |
| **Expenses** | | |
| Loan fulfillment fees | 28,136 | 6,124 |
| Interest | 11,236 | 6,674 |
| Loan servicing | 8,090 | 4,938 |
| Management fees | 6,492 | 1,804 |
| Compensation | 2,089 | 1,301 |
| Professional services | 2,384 | 442 |
| Other | 4,690 | 791 |
| Total expenses | 63,117 | 22,074 |
| Income before provision for income taxes | 55,935 | 24,575 |
| Provision for income taxes | 2,639 | 5,517 |
| Net income | $ 53,296 | $ 19,058 |
| **Earnings per share** | | |
| Basic | $ 0.90 | $ 0.65 |
| Diluted | $ 0.90 | $ 0.65 |
| **Weighted-average shares outstanding** | | |
| Basic | 58,927 | 29,076 |
| Diluted | 59,319 | 29,355 |

| | | | | |
|---|---|---|---|---|
| **Dividends declared per share** | $ | 0.57 | $ | 0.55 |

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

(In thousands, except share data)

| | Number of shares | Par value | Additional paid-in capital | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance at December 31, 2011** | 28,404,554 | $ 284 | $ 518,272 | $ 27,461 | $ 546,017 |
| Net income | | | | 19,058 | 19,058 |
| Share-based compensation | 87,999 | | 883 | | 883 |
| Cash dividends, $0.55 per share | | | | (15,692) | (15,692) |
| Proceeds from offerings of common shares | 2,531,310 | 26 | 46,581 | | 46,607 |
| Underwriting and offering costs | | | (917) | | (917) |
| **Balance at March 31, 2012** | 31,023,863 | $ 310 | $ 564,819 | $ 30,827 | $ 595,956 |
| **Balance at December 31, 2012** | 58,904,456 | 589 | 1,129,858 | 70,889 | 1,201,336 |
| Net income | | | | 53,296 | 53,296 |
| Share-based compensation | 85,769 | 1 | 1,451 | | 1,452 |
| Cash dividends, $0.57 per share | | | | (33,577) | (33,577) |
| Underwriting and offering costs | | | (78) | | (78) |
| **Balance at March 31, 2013** | 58,990,225 | $ 590 | $ 1,131,231 | $ 90,608 | $ 1,222,429 |

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

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**PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**(In thousands)**

| | Quarter ended March 31, 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 53,296 | $ 19,058 |
| Adjustments to reconcile net income to net cash (used) provided by operating activities: | | |
| Net gain on mortgage loans acquired for sale at fair value | (29,279) | (13,370) |
| Net gain on mortgage-backed securities at fair value | | (357) |
| Net gain on mortgage loans at fair value | (63,980) | (11,131) |
| Accrual of unearned discounts on mortgage-backed securities at fair value and capitalization of interest and advances on mortgage loans at fair value | (5,230) | (8,935) |
| Results of real estate acquired in settlement of loans | 3,253 | (3,717) |
| Change in fair value, amortization and impairment of mortgage servicing rights | 4,539 | 455 |
| Amortization of credit facility commitment fees | 1,143 | 559 |
| Accrual of costs related to forward purchase agreements | | 1,954 |
| Share-based compensation expense | 1,452 | 883 |
| Purchases of mortgage loans acquired for sale at fair value | (8,849,152) | (1,858,147) |
| Sales of mortgage loans acquired for sale at fair value | 8,683,133 | 1,931,024 |
| Increase in principal and interest collections receivable | (2,187) | (6,286) |
| Increase in principal and interest collections receivable under forward purchase agreements | | (2,379) |
| (Increase) decrease in interest receivable | (107) | 113 |
| Increase in due from affiliates | (1,161) | (5,117) |
| Increase in other assets | (5,420) | (6,491) |
| (Decrease) increase in accounts payable and accrued liabilities | (20,142) | 579 |
| Increase in payable to affiliates | 2,532 | 5,181 |
| Increase in income taxes, net | 2,165 | 4,042 |
| Net cash (used) provided by operating activities | (225,145) | 47,918 |
| **Cash flows from investing activities** | | |
| Net increase in short-term investments | (6,007) | (33,125) |
| Repayment of United States Treasury security | | 50,000 |
| Repayments of mortgage-backed securities at fair value | | 11,086 |
| Purchases of mortgage loans at fair value | (200,473) | |
| Repayments of mortgage loans at fair value | 61,421 | 34,781 |
| Repayments of mortgage loans under forward purchase agreements at fair value | | 8,701 |
| Sales of real estate acquired in settlement of loans | 32,024 | 26,777 |
| Sales of real estate acquired in settlement of loans under forward purchase agreements | | 6,787 |
| Purchases of mortgage servicing rights | | (29) |
| (Increase) decrease in margin deposits and restricted cash | (1,493) | 4,540 |
| Net cash (used) provided by investing activities | (114,528) | 109,518 |
| **Cash flows from financing activities** | | |
| Sales of securities under agreements to repurchase | | 291,914 |
| Repurchases of securities sold under agreements to repurchase | | (354,339) |
| Sale of mortgage loans acquired for sale at fair value under agreements to repurchase | 8,224,637 | 1,721,043 |
| Repurchases of mortgage loans acquired for sale at fair value sold under agreements to repurchase | (8,084,057) | (1,789,901) |
| Sale of mortgage loans at fair value under agreements to repurchase | 286,321 | 7,137 |

| | | |
|---|---|---|
| Repurchases of mortgage loans at fair value sold under agreements to repurchase | (64,108) | (26,549) |
| Repayments of note payable secured by mortgage loans at fair value | | (2,044) |
| Repayments of borrowings under forward purchase agreements | | (27,129) |
| Sales of real estate acquired in settlement of loans financed under agreement to repurchase | | 3,797 |
| Repurchases of real estate acquired in settlement of loans financed under agreement to repurchase | (3,845) | (9,547) |
| Proceeds from issuance of common shares | | 46,607 |
| Payment of common share underwriting and offering costs | (78) | (917) |
| Payment of dividends | (33,577) | (15,692) |
| Net cash provided (used) by financing activities | 325,293 | (155,620) |
| Net (decrease) increase in cash | (14,380) | 1,816 |
| Cash at beginning of period | 33,756 | 14,589 |
| Cash at end of period | $ 19,376 | $ 16,405 |

The accompanying notes are an integral part of these consolidated financial statements

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**PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1 Organization and Basis of Presentation**

PennyMac Mortgage Investment Trust ( PMT or the Company ) was organized in Maryland on May 18, 2009, and commenced operations on August 4, 2009, when it completed its initial offerings of common shares of beneficial interest ( shares ). The Company is a specialty finance company, which, through its subsidiaries (all of which are wholly-owned), invests primarily in residential mortgage loans and mortgage-related assets.

The Company operates in two segments: correspondent lending and investment activities:

The correspondent lending segment represents the Company s operations aimed at serving as an intermediary between mortgage lenders and the capital markets by purchasing, pooling and reselling newly originated prime credit quality mortgage loans either directly or in the form of mortgage backed securities ( MBS ), using the services of PNMAC Capital Management, LLC ( PCM or the Manager ) and PennyMac Loan Services, LLC ( PLS or the Servicer ).

Most of the loans the Company has acquired in its correspondent lending activities have been eligible for sale to government-sponsored entities such as the Federal National Mortgage Association ( Fannie Mae ) and Federal Home Loan Mortgage Corporation ( Freddie Mac ) or government agencies such as the U.S. Department of Housing and Urban Development s Government National Mortgage Association ( Ginnie Mae ). Fannie Mae, Freddie Mac and Ginnie Mae are each referred to as an Agency and, collectively, as the Agencies .

The investment activities segment represents the Company s investments in distressed mortgage loans, real estate acquired in settlement of loans ( REO ), MBS and mortgage servicing rights ( MSRs ). The Company seeks to maximize the value of the distressed mortgage loans that it acquires through proprietary loan modification programs, special servicing or other initiatives focused on keeping borrowers in their homes. Where this is not possible, such as in the case of many nonperforming mortgage loans, the Company seeks to effect property resolution in a timely, orderly and economically efficient manner, including through the use of resolution alternatives to foreclosure.

The Company is externally managed by PCM, an investment adviser registered with the Securities and Exchange Commission (the SEC ) that specializes in and focuses on residential mortgage loans. Under the terms of a management agreement, PCM is paid a management fee with a base component and a performance incentive component. Determination of the amount of management fees is discussed in Note 3 *Transactions with Related Parties*.

The Company believes that it qualifies, and has elected to be taxed, as a real estate investment trust ( REIT ) under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code ), beginning with its taxable period ended on December 31, 2009. To maintain its tax status as a REIT, the Company plans to distribute at least 90% of its taxable income in the form of qualifying distributions to shareholders.

The Company conducts substantially all of its operations and makes substantially all of its investments through its subsidiary, PennyMac Operating Partnership, L.P. (the Operating Partnership ), and the Operating Partnership s subsidiaries. A subsidiary of the Company is the sole general partner, and the Company is the sole limited partner, of the Operating Partnership.

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States ( U.S. GAAP ) for interim financial information and with the SEC s instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by U.S. GAAP for complete financial statements. The interim consolidated information should be read together with the Company s Annual Report on Form 10-K for the year ended December 31, 2012 (the Annual Report ).

Preparation of financial statements in compliance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results will likely differ from those estimates.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the periods ended March 31, 2013 are not necessarily indicative of the results for the year ending December 31, 2013.

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**Note 2 Concentration of Risks**

As discussed in Note 1 *Organization and Basis of Presentation* above, PMT s operations and investing activities are centered in real estate-related assets, a substantial portion of which are distressed at acquisition. Because of the Company s investment strategy, many of the mortgage loans in its targeted asset class are purchased at discounts reflecting their distressed state or perceived higher risk of default, as well as a greater likelihood of collateral documentation deficiencies. Before acquiring loans or other assets, PCM validates key information provided by the sellers that is necessary to determine the value of the acquired asset. A substantial portion of the distressed loans purchased by the Company has been acquired from or through one or more subsidiaries of Citigroup, Inc. Because of the Company s investment focus, PMT is exposed, to a greater extent than traditional mortgage investors, to the risks that borrowers may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due, and to the effects of fluctuations in the residential real estate market on the performance of its investments. Factors influencing these risks include, but are not limited to:

- changes in the overall economy and unemployment rates and residential real estate values in the markets where the properties securing the Company s mortgage loans are located;

- PCM s ability to identify and the Company s loan servicers ability to execute optimal resolutions of problem mortgage loans;

- the accuracy of valuation information obtained during the Company s due diligence activities;

- PCM s ability to effectively model, and to develop appropriate model assumptions that properly anticipate, future outcomes;

- the level of government support for problem loan resolution and the effect of current and future proposed and enacted legislative and regulatory changes on the Company s ability to effect cures or resolutions to distressed loans; and

- regulatory, judicial and legislative support of the foreclosure process, and the resulting effect on the Company s ability to acquire and liquidate the real estate securing its portfolio of distressed mortgage loans in a timely manner or at all.

Due to these uncertainties, there can be no assurance that risk management activities identified and executed on PMT s behalf will prevent significant losses arising from the Company s investments in real estate-related assets.

On July 12, 2011 and December 20, 2011, the Company entered into forward purchase agreements with Citigroup Global Markets Realty Corp. ( CGM ), a subsidiary of Citigroup Inc., to purchase certain nonperforming residential mortgage loans and residential real property acquired in settlement of loans (collectively, the CGM Assets ). The CGM Assets were acquired by CGM from unaffiliated money center banks. The commitment under the forward purchase agreement dated July 12, 2011 was settled during the quarter ended June 30, 2012. The commitment under the forward purchase agreement dated December 20, 2011 was settled during the quarter ended September 30, 2012. There were no similar forward purchase agreements entered into or outstanding as of March 31, 2013.

The CGM Assets were included on the Company s consolidated balance sheet as *Mortgage loans under forward purchase agreements at fair value* and *Real estate acquired in settlement of loans under forward purchase agreements* and the related liabilities were included as *Borrowings under forward purchase agreements*. The CGM Assets were held by CGM within a separate trust entity deemed a variable interest entity. The Company s interests in the CGM Assets were deemed to be contractually segregated from all other interests in the trust. When assets are contractually segregated, they are often referred to as a silo. For these transactions, the silo consisted of the CGM Assets and its related liability. The Company directed all of the activities that drive the economic results of the CGM Assets. All of the changes in the fair value and cash flows of the CGM Assets were attributable solely to the Company, and such cash flows could only be used to settle the related liability.

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As a result of consolidating the silo, the Company s consolidated statements of income and cash flows for the three months ended March 31, 2012 include the following amounts related to the silo:

| | Quarter ended March 31, 2012 (in thousands) |
|---|---|
| Net income: | |
| Net gain on mortgage loans | $ 6,700 |
| Interest income on mortgage loans | $ 502 |
| Interest expense | $ 1,515 |
| Loan servicing fees | $ 585 |
| Cash flows: | |
| Repayments of mortgage loans | $ 8,701 |
| Repayments of borrowings under forward purchase agreements | $ 27,129 |

The Company has no other variable interests in the trust entity, or other exposure to the creditors of the trust entity which could expose the Company to loss.

The following table presents the fair value of mortgage loans (including forward purchase agreements) and REO purchased for its investment portfolio, including the CGM Assets:

| | Quarter ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Investment portfolio purchases: | | |
| Loans | $ 200,473 | $ 286 |
| REO | | 53 |
| | $ 200,473 | $ 339 |
| Investment portfolio purchases above through one or more subsidiaries of Citigroup, Inc.: | | |
| Loans | $ 200,297 | $ 286 |
| REO | | 53 |
| | $ 200,297 | $ 339 |

**Note 3 Transactions with Related Parties**

*Management Fees*

Before February 1, 2013, under a management agreement, PMT paid PCM a base management fee payable quarterly and in arrears. The base management fee was calculated at 1.5% per year of shareholders equity. The performance incentive fee was calculated at 20% per year of the amount by which core earnings, on a rolling four-quarter basis and before the incentive fee, exceeded an 8% hurdle rate as defined in the management agreement.

Effective February 1, 2013, the management agreement was amended to provide that:

The base management fee is equal to the sum of (i) 1.5% per year of shareholders equity up to $2 billion, (ii) 1.375% per year of shareholders equity in excess of $2 billion and up to $5 billion, and (iii) 1.25% per year of shareholders equity in excess of

$5 billion.

The performance incentive fee is calculated at a defined annualized percentage of the amount by which net income, on a rolling four-quarter basis and before deducting the incentive fee, exceeds certain levels of return on equity.

The performance incentive fee is calculated quarterly and is equal to: (a) 10% of the amount by which net income for the quarter exceeds (i) an 8% return on equity plus the high watermark, up to (ii) a 12% return on equity; plus (b) 15% of the amount by which net income for the quarter exceeds (i) a 12% return on equity plus the high watermark, up to (ii) a 16% return on equity; plus (c) 20% of the amount by which net income for the quarter exceeds a 16% return on equity plus the high watermark.

For the purpose of determining the amount of the performance incentive fee:

Net income is defined as net income or loss computed in accordance with U.S. GAAP and certain other non-cash charges determined after discussions between the Company s Manager and our independent trustees and approval by a majority of our independent trustees.

Equity is the weighted average of the issue price per common share of all of our public offerings, multiplied by the weighted average number of common shares outstanding (including restricted share units) in the four-quarter period.

The high watermark starts at zero and is adjusted quarterly. The quarterly adjustment reflects the amount by which the net income (stated as a percentage of return on equity) in that quarter exceeds or falls short of the lesser of 8% and the Fannie Mae MBS yield (the target yield) for such quarter. If the net income is lower than the target yield, the high watermark is increased by the difference. If the net income is higher than the target yield, the high watermark is reduced by the difference. Each time a performance incentive fee is earned, the high watermark returns to zero. As a result, the threshold amounts required for our Manager to earn a performance incentive fee are adjusted cumulatively based on the performance of our net income over (or under) the target yield, until the net income in excess of the target yield exceeds the then-current cumulative high watermark amount, and a performance incentive fee is earned.

The base management fee and the performance incentive fee are both payable quarterly in arrears. The performance incentive fee may be paid in cash or in our common shares (subject to a limit of no more than 50% paid in common shares), at the Company s option.

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Following is a summary of the base management and performance incentive fees recorded by the Company for the periods presented:

| | Quarter ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Base management fee | $ 4,364 | $ 1,804 |
| Performance incentive fee | 2,128 | |
| Total management fee incurred during the period | $ 6,492 | $ 1,804 |

*Mortgage Loan Servicing*

The Company, through its Operating Partnership, has a loan servicing agreement with PLS. Before February 1, 2013, the servicing fee rates were based on the risk characteristics of the mortgage loans serviced and total servicing compensation was established at levels that management believed were competitive with those charged by other servicers or specialty servicers, as applicable.

Servicing fee rates for nonperforming loans ranged between 50 and 100 basis points per year on the unpaid principal balance of the mortgage loans serviced on the Company s behalf. PLS was also entitled to certain customary market-based fees and charges, including boarding and deboarding fees, liquidation and disposition fees, assumption, modification and origination fees and late charges, as well as interest on funds on deposit in custodial accounts. In the event PLS either effected a refinancing of a loan on the Company s behalf and not through a third party lender and the resulting loan was readily saleable, or originated a loan to facilitate the disposition of real estate that the Company had acquired in settlement of a loan, PLS was entitled to receive from the Company market-based fees and compensation.

For mortgage loans serviced by the Company as a result of acquisitions and sales with servicing rights retained in connection with the Company s correspondent lending business, PLS was entitled to base subservicing fees and other customary market-based fees and charges as described above.

Effective February 1, 2013, the servicing agreement was amended to provide for servicing fees payable to PLS that changed from being based on a percentage of the loan s unpaid principal balance to fixed per-loan monthly amounts based on the delinquency, bankruptcy and/or foreclosure status of the serviced loan or the REO. PLS also remains entitled to market-based fees and charges relating to boarding, deboarding, liquidation, disposition, assumption, modification and origination fees and late charges relating to loans it services for the Company.

The term of the servicing agreement, as amended, expires on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the servicing agreement. The base servicing fees for distressed whole loans are calculated based on a monthly per-loan dollar amount, with the actual dollar amount for each loan based on the delinquency, bankruptcy and/or foreclosure status of such loan or the related underlying real estate. Presently, the base servicing fees for distressed whole loans range from $30 per month for current loans up to $125 per month for loans that are severely delinquent and in foreclosure.

The base servicing fees for loans subserviced by PLS on our behalf are also calculated through a monthly per-loan dollar amount, with the actual dollar amount for each loan based on whether the mortgage loan is a fixed-rate or adjustable-rate loan. The base servicing fees for loans subserviced on our behalf are $7.50 per month for fixed-rate loans and $8.50 per month for adjustable rate mortgage loans. To the extent that these loans become delinquent, PLS is entitled to an additional servicing fee per loan falling within a range of $10 to $75 per month and based on the delinquency, bankruptcy and foreclosure status of the loan or the related underlying real estate. PLS is also entitled to customary ancillary income and certain market-based fees and charges, including boarding and deboarding fees, liquidation and disposition fees, and assumption, modification and origination fees.

PLS is required to provide a range of services and activities significantly greater in scope than the services provided in connection with a customary servicing arrangement because the Company does not have any employees or infrastructure. For these services, PLS receives a supplemental fee of $25 per month for each distressed whole loan and $3.25 per month for each other subserviced loan. PLS is entitled to reimbursement for all customary, good faith reasonable and necessary out-of-pocket expenses incurred by the Servicer in connection with the performance of its servicing obligations.

PLS, on behalf of the Company, currently participates in U.S. Department of Housing and Urban Development s Home Affordable Modification Program ( HAMP ) (and other similar mortgage loan modification programs), which establishes standard loan modification guidelines for at risk homeowners and provides incentive payments to certain participants, including loan servicers, for achieving modifications and successfully remaining in the program. The loan servicing agreement entitles PLS to retain any incentive payments made to it and to which it is entitled under HAMP; provided, however, that with respect to any such incentive payments paid to PLS under HAMP in connection with a mortgage loan modification for which the Company previously paid PLS a modification fee, PLS shall reimburse the Company an amount equal to the incentive payments.

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Following is a summary of mortgage loan servicing fees payable to PLS for the periods presented:

| | Quarter ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Loan servicing fees to PLS: | | |
| Base | $ 4,361 | $ 3,028 |
| Activity-based | 3,729 | 1,910 |
| | $ 8,090 | $ 4,938 |

*Correspondent Lending*

Effective February 1, 2013, the mortgage banking and warehouse services agreement provides for a fulfillment fee paid to PLS based on the type of mortgage loan that the Company acquires. The fulfillment fee is equal to a percentage of the unpaid principal balance of mortgage loans purchased, with the addition of potential fee rate discounts applicable to the Company s monthly purchase volume in excess of designated thresholds. PLS has also agreed to provide such services exclusively for the Company s benefit, and PLS and its affiliates are prohibited from providing such services for any other third party. Before February 1, 2013, the Company paid PLS a fulfillment fee of 50 basis points of the unpaid principal balance of mortgage loans sold to non-affiliates where the Company is approved or licensed to sell to such non-affiliate.

PLS is entitled to a fulfillment fee based on the type of mortgage loan that the Company acquires and equal to a percentage of the unpaid principal balance of such mortgage loan. Presently, the applicable percentages are (i) 0.50% for conventional mortgage loans, (ii) 0.88% for loans underwritten in accordance with the Ginnie Mae Mortgage-Backed Securities Guide, (iii) 0.80% for Home Affordable Refinance Program ( HARP ) mortgage loans with a loan-to-value ratio of 105% or less, (iv) 1.20% for HARP mortgage loans with a loan-to-value ratio of greater than 105%, and (v) 0.50% for all other mortgage loans not contemplated above. At this time, the Company does not hold the Ginnie Mae approval required to issue securities guaranteed by Ginnie Mae MBS and act as a servicer. Accordingly, under the mortgage banking and warehouse services agreement, PLS currently purchases loans underwritten in accordance with the Ginnie Mae Mortgage-Backed Securities Guide as is and without recourse of any kind from us at our cost less an administrative fee plus accrued interest and a sourcing fee of three basis points.

In the event that the Company purchases mortgage loans with an aggregate unpaid principal balance in any month greater than $2.5 billion and less than $5 billion, PLS has agreed to discount the amount of such fulfillment fees by reimbursing PMT an amount equal to the product of (i) 0.025%, (ii) the amount of unpaid principal balance in excess of $2.5 billion and (iii) the percentage of the aggregate unpaid principal balance relating to mortgage loans for which PLS collected fulfillment fees in such month. In the event the Company purchases mortgage loans with an aggregate unpaid principal balance in any month greater than $5 billion, our PLS has agreed to discount the amount of such fulfillment fees by reimbursing us an amount equal to the product of (i) 0.05%, (ii) the amount of unpaid principal balance in excess of $5 billion and (iii) the percentage of the aggregate unpaid principal balance relating to mortgage loans for which PLS collected fulfillment fees in such month.

In consideration for the mortgage banking services provided by PLS with respect to the Company s acquisition of mortgage loans under the Servicer s early purchase program, PLS is entitled to fees accruing (i) at a rate equal to $25,000 per year, and (ii) in the amount of $50 for each mortgage loan the Company acquires. In consideration for the warehouse services provided by PLS with respect to mortgage loans that the Company finances for its warehouse lending clients, with respect to each facility, PLS is entitled to fees accruing (i) at a rate equal to $25,000 per year, and (ii) in the amount of $50 for each mortgage loan that the Company finances thereunder. Where we have entered into both an early purchase agreement and a warehouse lending agreement with the same client, our Servicer shall only be entitled to one $25,000 per annum fee and, with respect to any mortgage loan that becomes subject to both such agreements, only one $50 per loan fee.

The term of our mortgage banking and warehouse services agreement expires on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

Following is a summary of correspondent lending activity between the Company and PLS for the periods presented:

| | Quarter ended March 31, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Sourcing fees received | $ 1,010 | $ 244 |
| Fulfillment fees | $ 28,136 | $ 6,124 |
| Fair value of loans sold to PLS | $ 3,548,397 | $ 838,120 |
| Fair value of mortgage loans included in mortgage loans acquired for sale pending sale to PLS at period end | $ 542,490 | $ 41,247 |

*Investment Activities*

Pursuant to the terms of a MSR recapture agreement, effective February 1, 2013, if PLS refinances through its retail lending business loans for which PMT previously held the MSRs, PLS is generally required to transfer and convey to one of the Company s wholly-owned subsidiaries, PennyMac Corp. ( PMC ), without cost to PMC, the MSRs with respect to new mortgage loans originated in those refinancings (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the loans so originated. MSR recapture amounts are shown in Note 24 *Net loan servicing fees*. The MSR recapture agreement expires, unless terminated earlier in accordance with the agreement, on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated in accordance with the terms of the agreement.

Pursuant to the spread acquisition and MSR servicing agreement, PMT may acquire from PLS the rights to receive certain excess servicing spread arising from MSRs acquired by PLS, in which case PLS generally would be required to service or subservice the related mortgage loans. The terms of each transaction under the spread acquisition and MSR servicing agreement will be subject to the terms of such agreement as modified and supplemented by the terms of a confirmation executed in connection with such transaction.

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*Other Transactions*

In connection with the initial public offering of PMT s common shares ( IPO ) on August 4, 2009, the Company entered into an agreement with PCM pursuant to which the Company agreed to reimburse PCM for the $2.9 million payment that it made to the IPO underwriters (the Conditional Reimbursement ) if the Company satisfied certain performance measures over a specified period of time. Effective February 1, 2013, the Company amended the terms of the reimbursement agreement to provide for the reimbursement of PCM of the Conditional Reimbursement if the Company is required to pay PCM performance incentive fees under the management agreement at a rate of $10 in reimbursement for every $100 of performance incentive fees earned. The reimbursement of the Conditional Reimbursement is subject to a maximum reimbursement in any particular 12-month period of $1.0 million and the maximum amount that may be reimbursed under the agreement is $2.9 million. The reimbursement agreement also provides for the payment to the IPO underwriters of the payment that the Company agreed to make to them at the time of the IPO if the Company satisfied certain performance measures over a specified period of time. As PCM earns performance incentive fees under the management agreement, the IPO underwriters will be paid at a rate of $20 of payments for every $100 of performance incentive fees earned by PCM. The payment to the underwriters is subject to a maximum reimbursement in any particular 12-month period of $2.0 million and the maximum amount that may be paid under the agreement is $5.9 million.

In the event the termination fee is payable to PCM under the management agreement and PCM and the underwriters have not received the full amount of the reimbursements and payments under the reimbursement agreement, such amount will be paid in full. The term of the reimbursement agreement expires on February 1, 2019.

The Company reimburses PCM and its affiliates for other expenses, including common overhead expenses incurred on its behalf by PCM and its affiliates, in accordance with the terms of its management agreement.

The foregoing expenses are summarized below:

| | Quarter ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| Reimbursement of expenses incurred on PMT s behalf | $ 1,358 | $ 2,410 |
| Reimbursement of common overhead incurred by PCM and its affiliates | 2,606 | 386 |
| | $ 3,964 | $ 2,796 |
| Payments and settlements during the period (1) | $ 33,362 | $ 5,485 |

(1) Payments and settlements include payments for correspondent lending activities itemized in the preceding table and netting settlements made pursuant to master netting agreements between the Company and PCM and its affiliates.

Amounts due to affiliates are summarized below as of the dates presented:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| Management fee | $ 6,518 | $ 4,499 |
| Contingent offering costs | 2,941 | 2,941 |
| Other expenses | 5,289 | 4,776 |
| | $ 14,748 | $ 12,216 |

Amounts due from affiliates totaling $6.0 million and $4.8 million at March 31, 2013 and December 31, 2012, respectively, represent amounts receivable pursuant to loan sales to PLS and reimbursable expenses paid on the affiliates behalf by the Company.

PCM s parent company, Private National Mortgage Acceptance Company, LLC, held 75,000 of the Company s common shares of beneficial interest at both March 31, 2013 and December 31, 2012.

**Note 4 Earnings Per Share**

Basic earnings per share is determined using net income divided by the weighted-average common shares outstanding during the period. Diluted earnings per share is determined by dividing net income attributable to common shareholders by the weighted-average common shares outstanding, assuming all potentially dilutive common shares were issued. In periods in which the Company records a loss, potentially dilutive common shares are excluded from the diluted loss per share calculation, as their effect on loss per share is anti-dilutive.

The Company makes grants of restricted share units which entitle the recipients to receive dividend equivalents during the vesting period on a basis equivalent to the dividends paid to holders of common shares. For purposes of calculating earnings per share, unvested

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share-based compensation awards containing non-forfeitable rights to receive dividends or dividend equivalents (collectively, dividends ) are classified as participating securities and are included in the basic earnings per share calculation using the two-class method. Under the two-class method, all earnings (distributed and undistributed) are allocated to each class of common shares and participating securities, based on their respective rights to receive dividends.

The following table summarizes the basic and diluted earnings per share calculations:

| | Quarter ended March 31, 2013 | 2012 |
|---|---|---|
| | (in thousands, except per share amounts) | |
| Basic earnings per share: | | |
| Net income | $ 53,296 | $ 19,058 |
| Effect of participating securities share-based compensation instruments | (518) | (213) |
| Net income attributable to common shareholders | $ 52,778 | $ 18,845 |
| Weighted-average shares outstanding | 58,927 | 29,076 |
| Basic earnings per share | $ 0.90 | $ 0.65 |
| Diluted earnings per share: | | |
| Net income | $ 53,296 | $ 19,058 |
| Weighted-average shares outstanding | 58,927 | 29,076 |
| Dilutive potential common shares shares issuable under share-based compensation plan | 392 | 279 |
| Diluted weighted-average number of common shares outstanding | 59,319 | 29,355 |
| Diluted earnings per common share | $ 0.90 | $ 0.65 |

**Note 5 Loan Sales**

The Company purchases and sells mortgage loans into the secondary mortgage market without recourse for credit losses. However the Company maintains continuing involvement with the loans in the form of servicing arrangements and the potential liability under representations and warranties it makes to purchasers and insurers of the loans.

The following table summarizes cash flows between the Company and transferees upon sale of loans in transactions whereby the Company maintains continuing involvement with the mortgage loan as well as unpaid principal balance information at period end:

| | Quarter ended March 31, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Cash flows: | | |
| Proceeds from sales | $ 8,683,133 | $ 1,931,024 |
| Service fees received | $ 16,965 | $ 701 |
| Period-end information: | | |
| Unpaid principal balance of loans outstanding at period-end | $ 16,642,130 | $ 1,532,615 |
| Delinquencies: | | |
| 30-89 days | $ 38,272 | $ 1,487 |
| 90 or more days or in foreclosure or bankruptcy | $ 4,257 | $ |

**Note 6 Netting of Financial Instruments**

The Company uses derivative instruments to manage exposure to interest rate risk created by the commitments it makes to correspondent lenders to purchase loans at specified interest rates, also called interest rate lock commitments ( IRLCs ), mortgage loans acquired for sale at fair value and MSRs. All derivative financial instruments are recorded on the balance sheet at fair value. The

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Company has elected to net derivative asset and liability positions, and cash collateral obtained (or posted) by (or to) its counterparties when subject to an enforceable master netting arrangement. In the event of default, all counterparties are subject to legally enforceable master netting agreements. The derivatives that are not subject to a master netting arrangement are IRLCs. As of March 31, 2013 and December 31, 2012, the Company did not enter into reverse repurchase agreements or securities lending transactions that are required to be disclosed in the following table.

*Offsetting of Derivative Assets*

| | March 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognized assets | Gross amounts offset in the balance sheet | Net amounts of assets presented in the balance sheet | Gross amounts of recognized assets | Gross amounts offset in the balance sheet | Net amounts of assets presented in the balance sheet |
| | (in thousands) | | | | | |
| Derivatives: | | | | | | |
| MBS put options | $ 326 | $ | $ 326 | $ 977 | $ | $ 977 |
| MBS call options | 1,052 | | 1,052 | | | |
| Forward purchase contracts | 6,460 | | 6,460 | 2,617 | | 2,617 |
| Forward sale contracts | 1,121 | | 1,121 | 3,458 | | 3,458 |
| Netting | | (4,825) | (4,825) | | (2,825) | (2,825) |
| Total derivatives, subject to a master netting arrangement | 8,959 | (4,825) | 4,134 | 7,052 | (2,825) | 4,227 |
| Total derivatives, not subject to a master netting arrangement | 11,052 | | 11,052 | 19,479 | | 19,479 |
| Total | $ 20,011 | $ (4,825) | $ 15,186 | $ 26,531 | $ (2,825) | $ 23,706 |

*Derivative Assets, and Collateral Held by Counterparty*

The following table summarizes by significant counterparty the amount of derivative asset positions after considering master netting arrangements and financial instruments or cash pledged that do not meet the accounting guidance qualifying for netting.

| | March 31, 2013 | | | | December 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Gross amounts not offset in the balance sheet | | | | Gross amounts not offset in the balance sheet | | |
| | Net amount of assets in the balance sheet | Financial instruments | Cash collateral received | Net amount | Net amount of assets in the balance sheet | Financial instruments | Cash collateral received | Net amount |
| | (in thousands) | | | | | | | |
| Interest rate lock commitments | $ 11,052 | $ | $ | $ 11,052 | $ 19,479 | $ | $ | $ 19,479 |
| Barclays | 1,400 | | | 1,400 | 15 | | | 15 |
| Bank of America, N.A. | 596 | | | 596 | 1,219 | | | 1,219 |
| Cantor Fitzgerald LP | 579 | | | 579 | 581 | | | 581 |
| Citibank | 456 | | | 456 | 1,009 | | | 1,009 |
| Credit Suisse First Boston Mortgage Capital LLC | 166 | | | 166 | 820 | | | 820 |
| Morgan Stanley Bank, N.A. | 104 | | | 104 | 316 | | | 316 |
| Other | 833 | | | 833 | 267 | | | 267 |
| Total | $ 15,186 | $ | $ | $ 15,186 | $ 23,706 | $ | $ | $ 23,706 |

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*Offsetting of Derivative Liabilities and Financial Liabilities*

Following is a summary of net derivative liabilities and assets sold under agreements to repurchase. As discussed above, all derivatives with the exception of IRLCs are subject to master netting arrangements. Assets sold under agreements to repurchase do not qualify for offset.

| | March 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognized liabilities | Gross amounts offset in the balance sheet | Net amounts of liabilities presented in the balance sheet | Gross amounts of recognized liabilities | Gross amounts offset in the balance sheet | Net amounts of liabilities presented in the balance sheet |
| | (in thousands) | | | | | |
| Derivatives: | | | | | | |
| Forward purchase contracts | $ 462 | $ | $ 462 | $ 1,741 | $ | $ 1,741 |
| Forward sale contracts | 8,560 | | 8,560 | 4,520 | | 4,520 |
| Netting | | (6,943) | (6,943) | | (5,294) | (5,294) |
| Total derivatives, subject to a master netting arrangement | 9,022 | (6,943) | 2,079 | 6,261 | (5,294) | 967 |
| Total derivatives, not subject to a master netting arrangement | | | | | | |
| Total derivatives | 9,022 | (6,943) | 2,079 | 6,261 | (5,294) | 967 |
| Assets sold under agreements to repurchase: | | | | | | |
| Mortgage loans acquired for sale at fair value | 1,035,486 | | 1,035,486 | 894,906 | | 894,906 |
| Mortgage loans at fair value | 576,018 | | 576,018 | 353,805 | | 353,805 |
| Real estate acquired in settlement of loans | 3,546 | | 3,546 | 7,391 | | 7,391 |
| Total assets sold under agreements to repurchase | 1,615,050 | | 1,615,050 | 1,256,102 | | 1,256,102 |
| Total | $ 1,624,072 | $ (6,943) | $ 1,617,129 | $ 1,262,363 | $ (5,294) | $ 1,257,069 |

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*Derivative Liabilities, Financial Liabilities, and Collateral Held by Counterparty*

The following table summarizes by significant counterparty the amount of derivative liabilities and assets sold under agreements to repurchase after considering master netting arrangements and financial instruments or cash pledged that does not meet the accounting guidance qualifying for offset. All assets sold under agreements to repurchase have sufficient collateral or exceed the liability amount recorded on the consolidated balance sheet.

| | March 31, 2013 | | | | December 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Gross amounts not offset in the balance sheet | | | | Gross amounts not offset in the balance sheet | | |
| | Net liabilities in the balance sheet | Financial instruments | Cash collateral pledged | Net amount | Net liabilities in the balance sheet | Financial instruments | Cash collateral pledged | Net amount |
| | (in thousands) | | | | | | | |
| Citibank | $ 778,701 | $ (777,825) | $ | $ 876 | $ 474,625 | $ (474,625) | $ | $ |
| Bank of America, N.A. | 259,858 | (259,858) | | | 256,711 | (256,711) | | |
| Credit Suisse First Boston Mortgage Capital LLC | 372,985 | (372,663) | | 322 | 243,525 | (243,525) | | |
| Morgan Stanley Bank, N.A. | 133,413 | (133,413) | | | 155,321 | (155,321) | | |
| Barclays | 71,291 | (71,291) | | | 79,253 | (78,780) | | 473 |
| Wells Fargo Bank, N.A. | 88 | | | 88 | 47,140 | (47,140) | | |
| Other | 793 | | | 793 | 494 | | | 494 |
| Total | $ 1,617,129 | $ (1,615,050) | $ | $ 2,079 | $ 1,257,069 | $ (1,256,102) | $ | $ 967 |

**Note 7 Fair Value**

The Company s consolidated financial statements include assets and liabilities that are measured based on their estimated fair values. The application of fair value estimates may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability and whether management has elected to carry the item at its estimated fair value as discussed in the following paragraphs.

***Fair Value Accounting Elections***

Management identified all of its non cash financial assets, including short-term investments and mortgage loans, as well as its MSRs relating to loans with initial interest rates of more than 4.5% that were acquired as a result of its correspondent lending operations, to be accounted for at estimated fair value so such changes in fair value will be reflected in income as they occur and more timely reflect the results of the Company s performance.

For MSRs relating to mortgage loans with initial interest rates of less than or equal to 4.5% that were acquired as a result of the Company s correspondent lending operations, management has concluded that such assets present different risks to the Company than MSRs relating to mortgage loans with initial interest rates of more than 4.5% and therefore require a different risk management approach. Management s risk management efforts relating to these assets are aimed at moderating the effects of non-interest rate risks on fair value, such as the effect of changes in home prices on the assets values. Management has identified these assets for accounting at the lower of amortized cost or fair value.

The Company s risk management efforts in connection with MSRs relating to mortgage loans with initial interest rates of more than 4.5% are generally aimed at moderating the effects of changes in interest rates on the assets values. During the period, a portion of the IRLCs, the fair value of which typically increases when prepayment speeds increase, were used to mitigate the effect of changes in fair value of the servicing assets, which typically decreases as prepayment speeds increase.

For loans sold under agreements to repurchase, REO financed through agreements to repurchase and borrowings under forward purchase agreements, management has determined that historical cost accounting is more appropriate because under this method debt issuance costs are amortized over the term of the debt, thereby matching the debt issuance cost to the periods benefiting from the usage of the debt.

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***Financial Statement Items Measured at Fair Value on a Recurring Basis***

Following is a summary of financial statement items that are measured at estimated fair value on a recurring basis:

| | March 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (in thousands) | | | |
| Assets: | | | | |
| Short-term investments | $ 45,024 | $ | $ | $ 45,024 |
| Mortgage loans acquired for sale at fair value | | 1,123,348 | | 1,123,348 |
| Mortgage loans at fair value | | | 1,366,922 | 1,366,922 |
| Mortgage servicing rights at fair value | | | 1,305 | 1,305 |
| Derivative assets: | | | | |
| Interest rate lock commitments | | | 11,052 | 11,052 |
| MBS put options | | 326 | | 326 |
| MBS call options | | 1,052 | | 1,052 |
| Forward purchase contracts | | 6,460 | | 6,460 |
| Forward sales contracts | | 1,121 | | 1,121 |
| Total derivative assets before netting | | 8,959 | 11,052 | 20,011 |
| Netting (1) | | | | (4,825) |
| Total derivative assets | | 8,959 | 11,052 | 15,186 |
| | $ 45,024 | $ 1,132,307 | $ 1,379,279 | $ 2,551,785 |
| Liabilities: | | | | |
| Derivative liabilities: | | | | |
| Forward purchase contracts | $ | $ 462 | $ | $ 462 |
| Forward sales contracts | | 8,560 | | 8,560 |
| Total derivative liabilities before netting | | 9,022 | | 9,022 |
| Netting (1) | | | | (6,943) |
| Total derivative liabilities | $ | $ 9,022 | $ | $ 2,079 |

(1) Derivatives are reported net of cash collateral received and paid and, to the extent that the criteria of the accounting guidance covering the offsetting of amounts related to certain contracts are met, positions with the same counterparty are netted as part of a legally enforceable master netting agreement.

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| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (in thousands) | | | |
| Assets: | | | | |
| Short-term investments | $ 39,017 | $ | $ | $ 39,017 |
| Mortgage loans acquired for sale at fair value | | 975,184 | | 975,184 |
| Mortgage loans at fair value | | | 1,189,971 | 1,189,971 |
| Mortgage servicing rights at fair value | | | 1,346 | 1,346 |
| Derivative assets: | | | | |
| Interest rate lock commitments | | | 19,479 | 19,479 |
| MBS put options | | 977 | | 977 |
| Forward purchase contracts | | 2,617 | | 2,617 |
| Forward sales contracts | | 3,458 | | 3,458 |
| Total derivative assets before netting (1) | | 7,052 | 19,479 | 26,531 |
| Netting (1) | | | | (2,825) |
| Total derivative assets | | 7,052 | 19,479 | 23,706 |
| | $ 39,017 | $ 982,236 | $ 1,210,796 | $ 2,229,224 |
| Liabilities: | | | | |
| Derivative liabilities: | | | | |
| Forward purchase contracts | $ | $ 1,741 | $ | $ 1,741 |
| Forward sales contracts | | 4,520 | | 4,520 |
| Total derivative liabilities before netting | | 6,261 | | 6,261 |
| Netting (1) | | | | (5,294) |
| Total derivative liabilities | $ | $ 6,261 | $ | $ 967 |

(1) Derivatives are reported net of cash collateral received and paid and, to the extent that the criteria of the accounting guidance covering the offsetting of amounts related to certain contracts are met, positions with the same counterparty are netted as part of a legally enforceable master netting agreement.

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The Company s MBS, mortgage loans at fair value, mortgage loans under forward purchase agreements, MSRs, IRLCs and securities sold under agreements to repurchase were measured using Level 3 inputs on a recurring basis. The following is a summary of changes in those items:

| | Quarter ended March 31, 2013 | | | |
|---|---|---|---|---|
| | Mortgage loans | Mortgage servicing rights | Interest rate lock commitments | Total |
| | (in thousands) | | | |
| Assets: | | | | |
| Balance, December 31, 2012 | $ 1,189,971 | $ 1,346 | $ 19,479 | $ 1,210,796 |
| Purchases | 200,473 | | | 200,473 |
| Repayments | (61,421) | | | (61,421) |
| Interest rate lock commitments issued, net | | | 35,414 | 35,414 |
| Capitalization of interest | 5,230 | | | 5,230 |
| Servicing received as proceeds from sales of mortgage loans | | 26 | | 26 |
| Changes in fair value included in income arising from: | | | | |
| Changes in instrument-specific credit risk | 8,445 | | | 8,445 |
| Other factors | 55,535 | (67) | | 55,468 |
| | 63,980 | (67) | | 63,913 |
| Transfers of mortgage loans to REO | (31,311) | | | (31,311) |
| Transfers of interest rate lock commitments to mortgage loans acquired for sale | | | (43,841) | (43,841) |
| Balance, March 31, 2013 | $ 1,366,922 | $ 1,305 | $ 11,052 | $ 1,379,279 |
| Changes in fair value recognized during the period relating to assets still held at March 31, 2013 | $ 50,608 | $ (67) | $ 11,052 | $ 61,593 |
| Accumulated changes in fair value relating to assets still held at March 31, 2013 | $ 147,627 | | $ 11,052 | |

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| | Quarter ended March 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Mortgage-backed securities | Mortgage loans | Mortgage loans under forward purchase agreements (in thousands) | Mortgage servicing rights | Total |
| Assets: | | | | | |
| Balance, December 31, 2011 | $ 72,813 | $ 696,266 | $ 129,310 | $ 749 | $ 899,138 |
| Purchases | | | 286 | 20 | 306 |
| Repayments | (11,086) | (26,187) | (8,701) | | (45,974) |
| Accrual of unearned discounts | 335 | | | | 335 |
| Servicing received as proceeds from sales of mortgage loans | | | | 520 | 520 |
| Changes in fair value included in income arising from: | | | | | |
| Changes in instrument-specific credit risk | | 7,704 | 1,743 | | 9,447 |
| Other factors | 363 | (3,367) | 4,957 | (101) | 1,852 |
| | 363 | 4,337 | 6,700 | (101) | 11,299 |
| Transfers of mortgage loans to REO | | (24,201) | | | (24,201) |
| Transfer from mortgage loans acquired for sale | | 18 | | | 18 |
| Transfers of mortgage loans under forward purchase agreements to REO under forward purchase agreements | | | (5,256) | | (5,256) |
| Transfers of mortgage loans under forward purchase agreements to mortgage loans | | 17,309 | (17,309) | | |
| Balance, March 31, 2012 | $ 62,425 | $ 667,542 | $ 105,030 | $ 1,188 | $ 836,185 |
| Changes in fair value recognized during the period relating to assets still held at March 31, 2012 | $ 363 | $ 26 | $ 4,494 | $ (101) | $ 4,782 |
| Accumulated changes in fair value relating to assets still held at March 31, 2012 | $ (2,288) | $ 58,748 | $ 9,091 | | |

| | Securities sold under agreements to repurchase (in thousands) |
|---|---|
| Liabilities: | |
| Balance, December 31, 2011 | $ 115,493 |
| Changes in fair value included in income | |
| Sales | 291,914 |
| Repurchases | (354,339) |
| Balance, March 31, 2012 | $ 53,068 |
| Changes in fair value recognized during the period relating to liabilities still outstanding at March 31, 2012 | $ |

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Following are the fair values and related principal amounts due upon maturity of mortgage loans accounted for under the fair value option (including mortgage loans acquired for sale, mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value):

| | March 31, 2013 | | |
|---|---|---|---|
| | Fair value | Principal amount due upon maturity (in thousands) | Difference |
| Mortgage loans acquired for sale: | | | |
| Current through 89 days delinquent | $ 1,123,348 | $ 1,078,360 | $ 44,988 |
| 90 or more days delinquent (1) | | | |
| | 1,123,348 | 1,078,360 | 44,988 |
| Other mortgage loans at fair value: | | | |
| Current through 89 days delinquent | 448,054 | 673,684 | (225,630) |
| 90 or more days delinquent (1) | 918,868 | 1,679,842 | (760,974) |
| | 1,366,922 | 2,353,526 | (986,604) |
| | $ 2,490,270 | $ 3,431,886 | $ (941,616) |

| | December 31, 2012 | | |
|---|---|---|---|
| | Fair value | Principal amount due upon maturity (in thousands) | Difference |
| Mortgage loans acquired for sale: | | | |
| Current through 89 days delinquent | $ 975,184 | $ 931,787 | $ 43,397 |
| 90 or more days delinquent (1) | | | |
| | 975,184 | 931,787 | 43,397 |
| Other mortgage loans at fair value: | | | |
| Current through 89 days delinquent | 404,016 | 640,722 | (236,706) |
| 90 or more days delinquent (1) | 785,955 | 1,483,311 | (697,356) |
| | 1,189,971 | 2,124,033 | (934,062) |
| | $ 2,165,155 | $ 3,055,820 | $ (890,665) |

(1) Loans delinquent 90 or more days are placed on nonaccrual status and previously accrued interest is reversed.

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Following are the changes in fair value included in current period income by consolidated statement of income line item for financial statement items accounted for under the fair value option:

| | Quarter ended March 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Net gain on mortgage loans acquired for sale | Net gain on investments | Interest income | Net loan servicing fees | Total |
| | | | (in thousands) | | |
| Assets: | | | | | |
| Short-term investments | $ | $ | $ | $ | $ |
| Mortgage loans acquired for sale at fair value | 24,757 | | | | 24,757 |
| Mortgage loans at fair value | | 63,980 | | | |