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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 September 30, 2015

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	**(IRS Employer**
incorporation or organization)	**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 November 4 , 2015
Common Shares of Beneficial Interest, $0.01 par value	**73,767,435**

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PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

September 30, 2015

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (Report) contains certain forward-looking statements that are subject to various risks and uncertainties. Forward-looking statements are generally identifiable by use of forward-looking terminology such as may, will, should, potential, intend, expect, seek, anticipate, estimate, approximately, be predict, continue, plan or other similar words or expressions.

Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain financial and operating projections or state other forward-looking information. Examples of forward-looking statements include the following:

- projections of our revenues, income, earnings per share, capital structure or other financial items;
- descriptions of our plans or objectives for future operations, products or services;
- forecasts of our future economic performance, interest rates, profit margins and our share of future markets; and
- descriptions of assumptions underlying or relating to any of the foregoing expectations regarding the timing of generating any revenues.

Our ability to predict results or the actual effect of future events, actions, plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. There are a number of factors, many of which are beyond our control that could cause actual results to differ significantly from management s expectations. Some of these factors are discussed below.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this Report and the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 2, 2015.

Factors that could cause actual results to differ materially from historical results or those anticipated include, but are not limited to:

- changes in our investment objectives or investment or operational strategies, including any new lines of business or new products and services that may subject us to additional risks;
- volatility in our industry, the debt or equity markets, the general economy or the real estate finance and real estate markets specifically, whether the result of market events or otherwise;

events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, or threatened or actual armed conflicts;

changes in general business, economic, market, employment and political conditions, or in consumer confidence and spending habits from those expected;

declines in real estate or significant changes in U.S. housing prices or activity in the U.S. housing market;

the availability of, and level of competition for, attractive risk-adjusted investment opportunities in mortgage loans and mortgage-related assets that satisfy our investment objectives;

the inherent difficulty in winning bids to acquire distressed loans or correspondent loans, and our success in doing so;

the concentration of credit risks to which we are exposed;

the degree and nature of our competition;

our dependence on our manager and servicer, potential conflicts of interest with such entities and their affiliates, and the performance of such entities;

changes in personnel and lack of availability of qualified personnel at our manager, servicer or their affiliates;

the availability, terms and deployment of short-term and long-term capital;

the adequacy of our cash reserves and working capital;

our ability to maintain the desired relationship between our financing and the interest rates and maturities of our assets;

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the timing and amount of cash flows, if any, from our investments;

unanticipated increases or volatility in financing and other costs, including a rise in interest rates;

the performance, financial condition and liquidity of borrowers;

the ability of our servicer, which also provides us with fulfillment services, to approve and monitor correspondent sellers and underwrite loans to investor standards;

incomplete or inaccurate information or documentation provided by customers or counterparties, or adverse changes in the financial condition of our customers and counterparties;

changes in the number of investor repurchases or indemnifications and our ability to obtain indemnification or demand repurchase from our correspondent sellers;

the quality and enforceability of the collateral documentation evidencing our ownership and rights in the assets in which we invest;

increased rates of delinquency, default and/or decreased recovery rates on our investments;

our ability to foreclose on our investments in a timely manner or at all;

increased prepayments of the mortgages and other loans underlying our mortgage-backed securities (MBS) or relating to our mortgage servicing rights (MSRs), excess servicing spread (ESS) and other investments;

the degree to which our hedging strategies may or may not protect us from the negative impacts of interest rate volatility;

the effect of the accuracy of or changes in the estimates we make about uncertainties, contingencies and asset and liability valuations when measuring and reporting upon our financial condition and results of operations;

our failure to maintain appropriate internal controls over financial reporting;

technologies for loans and our ability to mitigate security risks and cyber intrusions;

our ability to obtain and/or maintain licenses and other approvals in those jurisdictions where required to conduct our business;

our ability to detect misconduct and fraud;

our ability to comply with various federal, state and local laws and regulations that govern our business;

developments in the secondary markets for our mortgage loan products;

legislative and regulatory changes that impact the mortgage loan industry or housing market;

changes in regulations or the occurrence of other events that impact the business, operations or prospects of government agencies such as the Government National Mortgage Association (Ginnie Mae), the Federal Housing Administration (the FHA), the Veterans Administration (the VA) or the U.S. Department of Agriculture (USDA), or government-sponsored entities such as the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) (Fannie Mae, Freddie Mac and Ginnie Mae are each referred to as an Agency and, collectively, as the Agencies), or such changes that increase the cost of doing business with such entities;

the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and its implementing regulations and regulatory agencies, and any other legislative and regulatory changes that impact the business, operations or governance of mortgage lenders and/or publicly-traded companies;

the mortgage lending and servicing-related regulations promulgated by the Consumer Financial Protection Bureau and its enforcement of the regulations;

changes in government support of homeownership;

changes in government or government-sponsored home affordability programs;

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limitations imposed on our business and our ability to satisfy complex rules for us to qualify as a real estate investment trust (REIT) for U.S. federal income tax purposes and qualify for an exemption from registering as an investment company under the Investment Company Act of 1940 and the ability of certain of our subsidiaries to qualify as REITs or as taxable REIT subsidiaries (TRSs) for U.S. federal income tax purposes, as applicable, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;

changes in governmental regulations, accounting treatment, tax rates and similar matters (including changes to laws governing the taxation of REITs, or the exclusions from registration as an investment company);

our ability to make distributions to our shareholders in the future;

the effect of public opinion on our reputation;

the occurrence of natural disasters or other events or circumstances that could impact our operations; and

our organizational structure and certain requirements in our charter documents.

Other factors that could also cause results to differ from our expectations may not be described in this Report or any other document. Each of these factors could by itself, or together with one or more other factors, adversely affect our business, results of operations and/or financial condition.

Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2015	December 31, 2014
	(in thousands, except share data)	
ASSETS		
Cash	$ 89,303	$ 76,386
Short-term investments	31,518	139,900
Mortgage-backed securities at fair value (includes $306,638 and $307,363 pledged to secure assets sold under agreements to repurchase and $8,961 and $0 pledged to secure Federal Home Loan Bank advances)	315,599	307,363
Mortgage loans acquired for sale at fair value (includes $903,806 and $609,608 pledged to secure assets sold under agreements to repurchase, $63,162 and $20,862 pledged to secure mortgage loan participation and sale agreement, and $68,937 and $0 pledged to secure Federal Home Loan Bank advances)	1,050,296	637,722
Mortgage loans at fair value (includes $2,485,046 and $2,709,161 pledged to secure assets sold under agreements to repurchase and asset-backed secured financing of a variable interest entity at fair value and $140,025 and $0 pledged to secure Federal Home Loan Bank advances)	2,637,730	2,726,952
Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value pledged to secure note payable to PennyMac Financial Services, Inc.	418,573	191,166
Derivative assets	16,806	11,107
Real estate acquired in settlement of loans (includes $280,045 and $150,649 pledged to secure assets sold under agreements to repurchase)	353,563	303,228
Real estate held for investment	4,448	
Mortgage servicing rights (includes $57,751 and $57,358 carried at fair value and $423,095 and $0 pledged to secure borrowings under notes payable)	423,095	357,780
Servicing advances	79,528	79,878
Due from PennyMac Financial Services, Inc.	9,050	6,621
Other	162,722	59,155
Total assets	$ 5,592,231	$ 4,897,258
LIABILITIES		
Assets sold under agreements to repurchase	$ 2,864,032	$ 2,729,027
Mortgage loan participation and sale agreement	61,078	20,222
Federal Home Loan Bank advances	183,000	
Notes payable	192,332	
Note payable to PennyMac Financial Services, Inc.	150,000	
Asset-backed secured financing of a variable interest entity at fair value	234,287	165,920

Exchangeable senior notes	244,805	244,079
Derivative liabilities	2,786	2,430
Accounts payable and accrued liabilities	67,086	67,806
Due to PennyMac Financial Services, Inc.	17,220	23,943
Income taxes payable	42,702	51,417
Liability for losses under representations and warranties	18,473	14,242
Total liabilities	4,077,801	3,319,086

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2015	December 31, 2014
	(in thousands, except share data)	
SHAREHOLDERS EQUITY		
Common shares of beneficial interest authorized, 500,000,000 common shares of $0.01 par value; issued and outstanding, 73,792,435 and 74,510,159 common shares	738	745
Additional paid-in capital	1,468,739	1,479,699
Retained earnings	44,953	97,728
Total shareholders equity	1,514,430	1,578,172
Total liabilities and shareholders equity	$ 5,592,231	$ 4,897,258

Assets and liabilities of consolidated variable interest entities (VIEs) included in total assets and liabilities (the assets of each VIE can only be used to settle liabilities of that VIE):

	September 30, 2015	December 31, 2014
	(in thousands)	
ASSETS		
Mortgage loans at fair value	$ 477,271	$ 527,369
Derivative assets	626	
Other assets		
Interest receivable	1,502	1,651
Restricted cash	87,891	
	$ 567,290	$ 529,020
LIABILITIES		
Asset-backed secured financing at fair value	$ 234,287	$ 165,920
Accounts payable and accrued expenses interest payable	679	477
	$ 234,966	$ 166,397

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)

	Quarter ended September 30, 2015	Quarter ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
	(in thousands, except per share data)			
Net investment income				
Interest income				
From nonaffiliates	$ 53,412	$ 37,659	$ 129,860	$ 119,522
From PennyMac Financial Services, Inc.	8,026	3,577	17,596	9,578
	61,438	41,236	147,456	129,100
Interest expense				
To nonaffiliates	36,471	22,020	91,423	63,660
To PennyMac Financial Services, Inc.	1,289		1,822	
	37,760	22,020	93,245	63,660
Net interest income	23,678	19,216	54,211	65,440
Net gain on mortgage loans acquired for sale	13,884	9,509	35,219	29,702
Loan origination fees	9,135	6,447	21,701	13,288
Net gain on investments				
From nonaffiliates	32,802	77,786	56,521	203,943
From PennyMac Financial Services, Inc.	(7,844)	(7,396)	(5,502)	(17,834)
	24,958	70,390	51,019	186,109
Net loan servicing fees	20,791	10,533	41,810	26,712
Results of real estate acquired in settlement of loans	(4,221)	(11,926)	(11,859)	(23,900)
Other	2,549	2,361	6,095	6,330
Net investment income	90,774	106,530	198,196	303,681
Expenses				
Earned by PennyMac Financial Services, Inc.:				
Loan fulfillment fees	17,553	15,497	45,752	36,832
Loan servicing fees	11,736	12,325	34,542	41,096
Management fees	5,742	9,623	18,524	26,609
Compensation	1,550	1,843	5,748	6,668
Professional services	1,759	1,927	5,249	6,348
Other	7,327	7,384	22,006	18,604
Total expenses	45,667	48,599	131,821	136,157
Income before provision for (benefit from) income taxes	45,107	57,931	66,375	167,524

Provision for (benefit from) income taxes	6,295	2,982	(8,016)	(509)
Net income	$ 38,812	$ 54,949	$ 74,391	$ 168,033
Earnings per share				
Basic	$ 0.51	$ 0.74	$ 0.98	$ 2.28
Diluted	$ 0.49	$ 0.69	$ 0.95	$ 2.13
Weighted-average shares outstanding				
Basic	74,681	74,140	74,675	73,254
Diluted	83,411	82,832	83,486	81,978
Dividends declared per share	$ 0.47	$ 0.61	$ 1.69	$ 1.79

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)

	Common shares				
	Number of shares	Par value	Additional paid-in capital	Retained earnings	Total
Balance at December, 2013	70,458	$ 705	$ 1,384,468	$ 81,941	$ 1,467,114
Net income				168,033	168,033
Share-based compensation	235	2	4,354		4,356
Common share dividends, $1.79 per share				(132,863)	(132,863)
Issuance of common shares	3,447	34	82,419		82,453
Share underwriting and offering costs			(1,052)		(1,052)
Balance at September 30, 2014	74,140	$ 741	$ 1,470,189	$ 117,111	$ 1,588,041
Balance at December 31, 2014	74,510	$ 745	$ 1,479,699	$ 97,728	$ 1,578,172
Net income				74,391	74,391
Share-based compensation	302	3	4,977		4,980
Common share dividends, $1.69 per share				(127,166)	(127,166)
Issuance of common shares			8		8
Repurchase of common shares	(1,020)	(10)	(15,945)		(15,955)
Balance at September 30, 2015	73,792	$ 738	$ 1,468,739	$ 44,953	$ 1,514,430

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine months ended September 30,	
	2015	2014
	(in thousands)	
Cash flows from operating activities		
Net income	$ 74,391	$ 168,033
Adjustments to reconcile net income to net cash used by operating activities:		
Accrual of unearned discounts and amortization of premiums on mortgage-backed securities, mortgage loans at fair value, and asset-backed secured financing	(884)	(905)
Capitalization of interest on mortgage loans at fair value	(34,979)	(40,805)
Accrual of interest on excess servicing spread	(17,596)	(9,578)
Amortization of credit facility commitment fees and debt issuance costs	8,491	7,298
Net gain on mortgage loans acquired for sale	(35,219)	(29,702)
Reversal of costs related to forward purchase agreements		(168)
Net gain on investments	(51,019)	(186,109)
Change in fair value, amortization and impairment of mortgage servicing rights	32,876	30,285
Results of real estate acquired in settlement of loans	11,859	23,900
Share-based compensation expense	4,980	4,356
Purchases of mortgage loans acquired for sale at fair value from nonaffiliates	(35,922,418)	(20,759,885)
Purchases of mortgage loans acquired for sale at fair value from PennyMac Financial Services, Inc.	(13,708)	(4,955)
Repurchase of mortgage loans subject to representation and warranties	(14,873)	(14,266)
Sales and repayments of mortgage loans acquired for sale at fair value to nonaffiliates	10,593,309	8,548,903
Sales of mortgage loans acquired for sale to PennyMac Financial Services, Inc.	24,877,077	11,947,251
Increase in servicing advances	(16,930)	(14,347)
(Increase) decrease in due from PennyMac Financial Services, Inc.	(2,090)	2,163
Increase in other assets	(14,891)	(70,252)
Increase in accounts payable and accrued liabilities	10,624	6,038
(Decrease) increase in payable to PennyMac Financial Services, Inc.	(6,487)	3,076
(Decrease) increase in income taxes payable	(8,715)	6,273
Net cash used in operating activities	(526,202)	383,396
Cash flows from investing activities		
Net decrease in short-term investments	108,382	54,946
Purchases of mortgage-backed securities at fair value	(62,224)	(73,922)
Repayments of mortgage-backed securities at fair value	52,520	9,830
Purchases of mortgage loans at fair value	(241,981)	(283,017)
Sales and repayments of mortgage loans at fair value	215,630	532,375
Repayments of mortgage loans under forward purchase agreements at fair value		6,413

Purchases of excess servicing spread from PennyMac Financial Services, Inc.	(271,452)	(82,646)
Repayments of excess servicing spread by PennyMac Financial Services, Inc.	55,800	25,280
Purchase of Federal Home Loan Bank capital stock	(7,330)	
Settlements of derivative financial instruments	(8,766)	(7,879)
Sale of mortgage loans at fair value to PennyMac Financial Services, Inc.	1,466	
Purchase of real estate acquired in settlement of loans		(3,049)
Sales of real estate acquired in settlement of loans	174,784	124,794
Sales of real estate acquired in settlement of loans under forward purchase agreements		5,365
Sale of mortgage servicing rights	392	137
Deposits of cash collateral to variable interest entities	(87,891)	
Decrease (increase) in margin deposits and restricted cash	1,438	(350)
Net cash (used) provided by investing activities	(69,232)	308,277

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)

	Nine months ended September 30,	
	2015	2014
	(in thousands)	
Cash flows from financing activities		
Sales of assets under agreement to repurchase	38,669,898	26,109,117
Repurchases of assets sold under agreements to repurchase	(38,534,306)	(25,732,035)
Sales of mortgage loan participation certificates	3,613,090	
Repayments of mortgage loan participation certificates	(3,572,232)	
Issuances of credit risk transfer financing	1,204,187	
Repayments of credit risk transfer financing	(1,204,187)	
Federal Home Loan Bank advances	461,484	
Repayments of Federal Home Loan Bank advances	(278,484)	
Advances under note payable	346,179	
Repayments under note payable	(153,765)	
Advances under note payable to PennyMac Financial Services, Inc.	168,546	
Repayments under note payable to PennyMac Financial Services, Inc.	(18,546)	
Repayments of borrowings under forward purchase agreements		(227,866)
Issuances of asset-backed secured financing at fair value	85,206	
Repayments of asset-backed secured financing at fair value	(15,590)	(6,161)
Payments of debt issuance cost and commitment fees	(8,436)	
Issuances of common shares	8	82,453
Repurchases of common shares	(15,955)	
Payments of common share underwriting and offering costs		(1,052)
Payments of contingent underwriting fees payable	(705)	(1,295)
Payments of dividends	(138,041)	(128,966)
Net cash provided financing activities	608,351	94,195
Net increase in cash	12,917	19,076
Cash at beginning of period	76,386	27,411
Cash at end of period	$ 89,303	$ 46,487

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 (common 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 production and investment activities:

The correspondent production 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), both indirect subsidiaries of PennyMac Financial Services, Inc. (PFSI).

Most of the mortgage loans the Company has acquired in its correspondent production activities have been eligible for sale to government-sponsored entities such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) or through government agencies such as the 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 mortgage-related assets, which include distressed mortgage loans, real estate acquired in settlement of loans (REO), MBS, mortgage servicing rights (MSRs) and excess servicing spread (ESS). The Company seeks to maximize the value of its acquired distressed mortgage loans 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 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 has 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 wholly-owned 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 (GAAP) as codified in the Financial Accounting Standards Board s (FASB)

Accounting Standards Codification (ASC) for interim financial information and with the Securities and Exchange Commission 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 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 fiscal year ended December 31, 2014.

The accompanying unaudited consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, income, and cash flows for the interim periods, but are not necessarily indicative of the results of operations that may be anticipated for the full year. Intercompany accounts and transactions have been eliminated.

Preparation of financial statements in compliance with GAAP requires the Manager to make estimates and judgments 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.

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Reclassification of previously presented balances

In April of 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the consolidated balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 specifies that its adoption be made on a retrospective basis. Accordingly, the Company has reclassified its debt issuance costs from *Other* assets as previously presented to *Assets sold under agreements to repurchase, Mortgage loan participation and sale agreement* and *Exchangeable senior notes* to conform its December 31, 2014 balance sheet to the current presentation. The adoption of ASU 2015-03 did not result in changes to the Company s previously presented consolidated statements of income.

Following is a summary of the balance sheet reclassifications:

	December 31, 2014		
	As reported	**As previously reported**	**Reclassification**
		(in thousands)	
ASSETS			
Other	$ 59,155	$ 66,193	$ (7,038)
Total assets	$ 4,897,258	$ 4,904,296	$ (7,038)
LIABILITIES			
Assets sold under agreements to repurchase	$ 2,729,027	$ 2,730,130	$ (1,103)
Mortgage loan participation and sale agreement	$ 20,222	$ 20,236	$ (14)
Exchangeable senior notes	$ 244,079	$ 250,000	$ (5,921)
Total liabilities	$ 3,319,086	$ 3,326,124	$ (7,038)
Total liabilities and shareholders equity	$ 4,897,258	$ 4,904,296	$ (7,038)

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 mortgage-related assets, a substantial portion of which are distressed at acquisition. The mortgage loans at fair value not acquired for sale are generally purchased at discounts reflecting their distressed state or perceived higher risk of default, as well as a greater likelihood of collateral documentation deficiencies.

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 PLS 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 mortgage 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 mortgage 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.

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A substantial portion of the distressed mortgage loans and REO purchased by the Company in prior years has been acquired from or through one or more subsidiaries of Citigroup Inc. The following tables present purchases for the Company s investment portfolio of mortgage loans and REO (including purchases under forward purchase agreements), and the portion thereof representing assets purchased from or through one or more subsidiaries of Citigroup Inc.:

	Quarter ended September 30, 2015	Quarter ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
	(in thousands)			
Investment portfolio purchases:				
Mortgage loans	$	$	$ 241,981	$ 284,403
REO				3,117
	$	$	$ 241,981	$ 287,520
Investment portfolio purchases above through one or more subsidiaries of Citigroup Inc.:				
Mortgage loans	$	$	$	$ 26,737
REO				68
	$	$	$	$ 26,805

Following is a summary of the Company s holdings of assets purchased through one or more subsidiaries of Citigroup Inc.:

	September 30, 2015	December 31, 2014
	(in thousands)	
Mortgage loans	$ 879,990	$ 943,163
REO	97,619	108,302
	$ 977,609	$ 1,051,465
Total holdings of mortgage loans and REO	$ 2,991,293	$ 3,030,180

During the year ended December 31, 2013, the Company entered into forward purchase agreements with Citigroup Global Markets Realty Corp. (CGM), a subsidiary of Citigroup Inc., to purchase certain nonperforming mortgage loans and REO (collectively, the CGM Assets). The CGM Assets were acquired by CGM from unaffiliated money center banks and were held in a trust subsidiary by CGM pending settlement by the Company. The commitment under the forward purchase agreement was settled in full during the quarter ended June 30, 2014.

The Company recognized the CGM assets and related obligations as of the dates of the forward purchase agreements and recognized all subsequent income and changes in fair value relating to such assets. As a result of recognizing the CGM assets and related obligations, the Company s consolidated statements of income and cash flows included the following amounts related to the forward purchase agreements:

	Quarter ended September 30, 2014	Nine months ended September 30, 2014
	(in thousands)	
Statements of income:		
Interest income	$	$ 3,584
Interest expense	$	$ 2,364
Net gain on investments	$	$ 803
Net loan servicing fees	$	$ 517
Results of REO	$	$ (473)
Statements of cash flows:		
Repayments of mortgage loans	$	$ 6,413
Sales of REO	$	$ 5,365
Repayments of borrowings under forward purchase agreements	$	$ (227,866)

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The Company had no other variable interests in the trust entity or other exposure to the creditors of the trust entity that could expose the Company to loss.

Note 3 Transactions with Related Parties

Correspondent Production Activities

Following is a summary of correspondent production activity between the Company and PLS:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Fulfillment fees earned by PLS	$ 17,553	$ 15,497	$ 45,752	$ 36,832
Unpaid principal balance of loans fulfilled by PLS	$ 4,073,201	$ 3,677,613	$ 10,542,411	$ 8,588,955
Sourcing fees received from PLS	$ 3,236	$ 1,384	$ 7,084	$ 3,401
Unpaid principal balance of loans sold to PLS	$ 10,783,882	$ 4,609,947	$ 23,602,020	$ 11,332,898
Purchases of mortgage loans acquired for sale at fair value from PLS	$ 2,880	$ 2,970	$ 13,708	$ 4,955
Tax service fee to paid to PLS	$ 1,291	$ 703	$ 3,293	$ 1,753
At period end:				
Mortgage loans included in mortgage loans acquired for sale pending sale to PLS	$ 373,812	$ 59,719		

Mortgage Loan Servicing Activities

Following is a summary of mortgage loan servicing fees earned by PLS:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Mortgage loans acquired for sale at fair value:				
Base	$ 130	$ 28	$ 198	$ 74
Activity-based	153	35	243	112
	283	63	441	186
Mortgage loans at fair value:				
Distressed mortgage loans				
Base	3,896	4,662	12,053	14,549
Activity-based	2,961	4,076	8,948	16,208
	6,857	8,738	21,001	30,757

Mortgage loans held in VIE				
Base	34	17	92	71
Activity-based				
	34	17	92	71
MSRs:				
Base	4,473	3,459	12,783	9,930
Activity-based	89	48	225	152
	4,562	3,507	13,008	10,082
	$ 11,736	$ 12,325	$ 34,542	$ 41,096
Average investment in:				
Mortgage loans acquired for sale at fair value	$ 1,783,011	$ 732,287	$ 1,189,754	$ 530,861
Distressed mortgage loans	$ 2,201,533	$ 2,122,397	$ 2,268,538	$ 2,171,724
Mortgage loans held in a VIE	$ 481,925	$ 537,367	$ 504,351	$ 534,784
Average mortgage loan servicing portfolio	$ 38,172,371	$ 30,701,324	$ 36,446,663	$ 28,597,033

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Investing and Financing Activities

Following is a summary of investing and financing activities between the Company and PFSI:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
ESS:				
Purchases	$ 84,165	$ 9,253	$ 271,452	$ 82,646
Recapture income recognized	$ 2,428	$ 2,143	$ 5,173	$ 6,558
Repayments	$ 24,717	$ 8,786	$ 55,800	$ 25,280
Interest income	$ 8,026	$ 3,577	$ 17,596	$ 9,578
Net gain (loss)	$ (10,272)	$ (9,539)	$ (10,675)	$ (24,392)
MSR recapture income recognized	$ 670	$	$ 670	$ 9
Note payable:				
Advances	$ 97,474	$	$ 168,546	$
Repayments	$	$	$ 18,546	$
Interest expense	$ 1,289	$	$ 1,822	$

PLS is a party to a lending facility with a nonaffiliate lender pursuant to which it finances certain of its MSRs and servicing advance receivables. On April 30, 2015, PLS amended and restated the lending facility to increase the maximum loan amount to $407 million, $150 million of which is for the purpose of facilitating its financing of the related ESS by PennyMac Holdings, LLC (PMH), a wholly owned subsidiary of the Company.

In connection with the amendment to lending facility, PMH and PLS entered into an underlying loan and security agreement, dated as of April 30, 2015, pursuant to which PMH may borrow up to $150 million from PLS for the purpose of financing its purchase of ESS. The principal amount of the borrowings under the underlying loan and security agreement is based upon a percentage of the market value of the ESS pledged by PMH, subject to the $150 million sublimit described above. Pursuant to the underlying loan and security agreement, PMH granted to PLS a security interest in all of its right, title and interest in, to and under the ESS pledged to secure loans. The portion of the loan amount outstanding under the lending facility between PLS and the nonaffiliate lender and relating to advances for ESS outstanding with PMH under the underlying loan and security agreement was guaranteed in full by the Company.

PMH and PLS have agreed that PMH is required to repay PLS the principal amount of such borrowings plus accrued interest to the date of such repayment, and PLS is required to repay its lender the corresponding amount under the lending facility. Interest accrues under the underlying loan and security agreement at a rate based on the nonaffiliate lender s cost of funds. PMH was also required to pay PLS a fee for the structuring of the underlying loan and security agreement in an amount equal to the portion of the corresponding fee paid by PLS to the nonaffiliate lender under the lending facility and allocable to the $150 million relating to the ESS financing.

In addition, in connection with its initial public offering of common shares on August 4, 2009 (IPO), the Company conditionally agreed to reimburse PCM up to $2.9 million for underwriting fees paid to the IPO underwriters by PCM on the Company s behalf. During the quarter and nine months ended September 30, 2015, the Company reimbursed PCM $7,000 and $237,000, respectively, compared to $256,000 and $292,000 for the same periods in 2014.

Also in connection with its IPO, the Company agreed to pay the IPO underwriters up to $5.9 million in contingent underwriting fees. During the quarter and nine months ended September 30, 2015, the Company paid $14,000 and $473,000 to the underwriters, respectively, compared to $615,000 and $1.0 million for the same periods in 2014. At September 30, 2015 and December 31, 2014, $459,000 and $1.7 million, respectively, of contingent underwriting fees were included in accounts payable and accrued liabilities.

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Other Transactions

Following is a summary of the base management and performance incentive fees payable to PCM recorded by the Company:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Base	$ 5,742	$ 6,033	$ 17,181	$ 17,392
Performance incentive		3,590	1,343	9,217
Total management fee incurred during the period	$ 5,742	$ 9,623	$ 18,524	$ 26,609

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 as summarized below:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Reimbursement of:				
Common overhead incurred by PCM and its affiliates (1)	$ 2,694	$ 2,912	$ 8,125	$ 8,181
Expenses incurred on the Company s behalf	(85)	122	377	671
	$ 2,609	$ 3,034	$ 8,502	$ 8,852
Payments and settlements during the period (2)	$ 17,709	$ 31,621	$ 64,575	$ 72,975

(1) For the quarter and nine months ended September 30, 2015, in accordance with the terms of the management agreement, PCM provided the Company discretionary waivers of $900,000 and $1.6 million, respectively, of overhead expenses that otherwise would have been allocable to the Company.

(2) Payments and settlements include payments for management fees and correspondent production activities itemized in the preceding tables and netting settlements made pursuant to master netting agreements between the Company, on the one hand, and PCM and PLS, on the other hand.

Amounts due to PCM and PLS are summarized below:

	September 30, 2015	December 31, 2014
	(in thousands)	
Management fees	$ 5,742	$ 8,426

Allocated expenses	5,237	6,582
Fulfillment fees	3,031	506
Servicing fees	2,310	3,457
Conditional reimbursement	900	1,136
Unsettled purchases of ESS		3,836
	$ 17,220	$ 23,943

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Amounts due from PCM and its affiliates totaled $9.1 million and $6.6 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015 and December 31, 2015, the balance represents payments receivable relating to cash flows from the Company s investment in ESS and amounts receivable relating to unsettled ESS and MSR recaptures.

PFSI, through a controlled subsidiary, held 75,000 of the Company s common shares at both September 30, 2015 and December 31, 2014.

Note 4 Earnings Per Share

The Company grants 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. Unvested 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 common shares and participating securities, based on their respective rights to receive dividends. Basic earnings per share is determined by dividing net income, reduced by income attributable to the participating securities, by the weighted-average common shares outstanding during the period.

Diluted earnings per share is determined by dividing net income attributable to diluted shareholders, which adds back to net income the interest expense, net of applicable income taxes, on the Company s exchangeable senior notes (the Exchangeable Notes), by the weighted-average common shares outstanding, assuming all potentially dilutive securities were issued. In periods in which the Company records a loss, potentially dilutive securities are excluded from the diluted loss per share calculation, as their effect on loss per share is anti-dilutive.

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

	Quarter ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
	(in thousands except per share amounts)			
Basic earnings per share:				
Net income	38,812	$ 54,949	$ 74,391	$ 168,033
Effect of participating securities share-based compensation awards	(361)	(305)	(1,352)	(1,360)
Net income attributable to common shareholders	$ 38,451	$ 54,644	$ 73,039	$ 166,673
Diluted earnings per share:				
Net income attributable to common shareholders	$ 38,451	$ 54,949	$ 73,039	$ 168,033
Interest on Exchangeable Notes, net of income taxes	2,123	2,081	6,364	6,237
Net income attributable to diluted shareholders	$ 40,574	$ 57,030	$ 79,403	$ 174,270

Weighted-average basic shares outstanding	74,681	74,140	74,675	73,254
Potentially dilutive securities:				
Shares issuable pursuant to exchange of the Exchangeable Notes	8,414	8,401	8,414	8,401
Shares issuable under share-based compensation plan	316	291	397	323
Diluted weighted-average number of shares outstanding	83,411	82,832	83,486	81,978
Basic earnings per share	$ 0.51	$ 0.74	$ 0.98	$ 2.28
Diluted earnings per share	$ 0.49	$ 0.69	$ 0.95	$ 2.13

Dividends and undistributed earnings allocated to participating securities under the basic and diluted earnings per share calculations require specific shares to be included or excluded that may differ in certain circumstances.

Note 5 Loan Sales and Variable Interest Entities

The Company is a variable interest holder in various special purpose entities that relate to its loan transfer and financing activities. These entities are classified as variable interest entities (VIEs) for accounting purposes. The Company has segregated its involvement with VIEs between those VIEs which the Company does not consolidate and those VIEs which the Company consolidates.

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Unconsolidated VIEs with Continuing Involvement

The following table summarizes cash flows between the Company and transferees in transfers that are accounted for as sales where PMT maintains continuing involvement with the mortgage loans, as well as unpaid principal balance (UPB) information at period end:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Cash flows:				
Proceeds from sales	$ 4,885,668	$ 3,745,193	$ 10,593,309	$ 8,534,637
Servicing fees received (1)	$ 25,054	$ 17,797	$ 69,876	$ 52,704
Period end information:				
Unpaid principal balance of:				
Mortgage loans outstanding	$ 39,786,376	$ 32,134,609		
Delinquent mortgage loans:				
30-89 days delinquent	$ 154,346	$ 87,374		
90 or more days delinquent				
Not in foreclosure or bankruptcy	25,243	20,708		
In foreclosure or bankruptcy	30,406	11,583		
	55,649	32,291		
	$ 209,995	$ 119,665		

(1) Net of guarantee fees.

Consolidated VIEs

Credit Risk Transfer (CRT) Transactions

The Company, through its wholly-owned subsidiary, PennyMac Corp. (PMC), entered into CRT arrangements with Fannie Mae, pursuant to which PMC, through subsidiary trust entities, may sell pools of mortgage loans into Fannie Mae-guaranteed securitizations while retaining a portion of the credit risk underlying such mortgage loans (the CRT Agreements).

Transfers of mortgage loans subject to CRT Agreements receive sale accounting treatment upon fulfillment of the criteria for sale recognition contained in the *Transfers and Servicing* topic of the FASB s ASC.

The Company retains a portion of the credit risk underlying such mortgage loans by issuing a credit guarantee to Fannie Mae in exchange for a portion of the guarantee fee normally charged by Fannie Mae for mortgage loan securitizations that it guarantees. The mortgage loans subject to the CRT Agreements are transferred by PMC to subsidiary trust entities which sell the mortgage loans into Fannie Mae mortgage loan securitizations and issue the credit guarantees to Fannie Mae.

The Manager has concluded that the Company s subsidiary trust entities are VIEs. The Manager concluded that the Company is the primary beneficiary of the VIEs as it is the holder of the primary beneficial interests which absorb the variability of the trusts results of operations. Consolidation of the VIEs results in the inclusion on the Company s consolidated balance sheet of the credit guarantees, including the cash pledged to fulfill the guarantee obligation, on the Company s consolidated balance sheet in the form of a net derivative and the restricted cash deposited to secure the guarantee obligation. The restricted cash represents the Company s maximum contractual exposure to claims under its credit guarantee and is the sole source of settlement of losses under the CRT Agreements. Gains and losses on net derivatives related to CRT Agreements are included in net gain on investments in the consolidated statements of income.

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Following is a summary of the CRT Agreements:

	Quarter ended September 30, 2015	Nine months ended September 30, 2015
	(in thousands)	
During the period:		
UPB of mortgage loans transferred and sold under CRT Agreements	$ 1,660,280	$ 2,400,433
Restricted cash deposited to fund guarantees	$ 59,841	$ 87,891
Gains recognized on net derivatives related to CRT Agreements		
Realized	$	$
Resulting from valuation changes	626	626
	$ 626	$ 626
Payments made to settle losses	$	$
At period end:		
UPB of mortgage loans subject to guarantee obligation	$ 2,400,433	
Delinquency		
Current 89 days delinquent	$ 2,400,433	
90 or more days delinquent		
	$ 2,400,433	
Carrying value of CRT Agreements:		
Restricted cash included in Other assets	$ 87,891	
Net derivative assets included in Derivative assets	626	
	$ 88,517	

Jumbo Mortgage Loan Financing

On September 30, 2013, the Company completed a securitization transaction in which a VIE issued $537.0 million in UPB of certificates backed by fixed-rate prime jumbo mortgage loans of PMT Loan Trust 2013-J1, at a 3.9% weighted yield. The Company retained $366.8 million of those certificates. During the quarter ended September 30, 2015, the Company sold an additional $85.2 million in certificates issued under PMT Loan Trust 2013-J1, thereby reducing the certificates retained by the Company to $238.8 million as of September 30, 2015.

The Manager concluded that the Company is the primary beneficiary of the VIE and, as a result, the Company consolidates the VIE. Consolidation of the VIE results in the securitized mortgage loans remaining on the consolidated balance sheets of the Company and the certificates issued by the VIE to nonaffiliates being accounted for as a secured financing. The certificates are secured solely by the assets of the VIE and not by any other assets of the Company. The assets of the VIE are the only source of repayment of the certificates.

Note 6 Netting of Financial Instruments

The Company uses derivative financial instruments to manage exposure to interest rate risk created by its MBS, interest rate lock commitments (IRLCs), mortgage loans acquired for sale at fair value, mortgage loans at fair value held in VIE, ESS and MSRs. All derivative financial instruments are recorded on the balance sheet at fair value. The Company has elected to net derivative asset and liability positions, and cash collateral obtained (or posted) by (or to) its counterparties when subject to a legally enforceable master netting arrangement. The derivative financial instruments that are not subject to master netting arrangements are IRLCs and the net derivatives related to CRT Agreements. As of September 30, 2015 and December 31, 2014, the Company did not enter into reverse repurchase agreements or securities lending transactions that are required to be disclosed in the following tables.

Offsetting of Derivative Assets

Following is a summary of net derivative assets. As discussed above, all derivatives with the exception of IRLCs and the net derivatives related to CRT Agreements are subject to master netting arrangements.

	September 30, 2015			December 31, 2014		
	Gross amounts of recognized assets	Gross amounts offset in the consolidated balance sheet	Net amounts of assets presented in the consolidated balance sheet	Gross amounts of recognized assets	Gross amounts offset in the consolidated balance sheet	Net amounts of assets presented in the consolidated balance sheet
	(in thousands)					
Derivatives subject to master netting arrangements:						
MBS put options	$	$	$	$ 374	$	$ 374
MBS call options						
Forward purchase contracts	22,985		22,985	3,775		3,775
Forward sale contracts	15		15	52		52
Put options on interest rate futures	693		693	193		193
Call options on interest rate futures	3,270		3,270	3,319		3,319
Treasury futures contracts						
Netting		(19,892)	(19,892)		(2,284)	(2,284)
	26,963	(19,892)	7,071	7,713	(2,284)	5,429
Derivatives not subject to master netting arrangements:						
Interest rate lock commitments	9,109		9,109	5,678		5,678
Net derivatives related to CRT Agreements	626		626			
	$ 36,698	$ (19,892)	$ 16,806	$ 13,391	$ (2,284)	$ 11,107

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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.

	September 30, 2015				December 31, 2014			
	Net amount of assets presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet			Net amount of assets presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		
		Financial instruments	Cash collateral received	Net amount		Financial instruments	Cash collateral received	Net amount
	(in thousands)							
Interest rate lock commitments	$ 9,109	$	$	$ 9,109	$ 5,678	$	$	$ 5,678
RJ O Brien & Associates, LLC	3,112			3,112	3,034			3,034
Nomura Securities International, Inc	733			733				
Fannie Mae Capital Markets	730			730				
Jefferies Group, LLC	598			598	133			133
Deutsche Bank	572			572	124			124
Morgan Stanley Bank, N.A.	531			531	104			104
Bank of New York Mellon	403			403				
JP Morgan Chase & Co.	313			313				
Credit Suisse First Boston Mortgage Capital LLC	188			188	253			253
Goldman Sachs	186			186				
Royal Bank of Canada	173			173				
Daiwa Capital Markets	100			100	29			29
Bank of America, N.A.					738			738
Other	58			58	1,014			1,014
Total	$ 16,806	$	$	$ 16,806	$ 11,107	$	$	$ 11,107

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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 setoff accounting.

	September 30, 2015			December 31, 2014		
	Gross amounts of recognized liabilities in the consolidated balance sheet	Gross amounts offset in the consolidated balance sheet	Net amounts of liabilities presented in the consolidated balance sheet	Gross amounts of recognized liabilities in the consolidated balance sheet	Gross amounts offset in the consolidated balance sheet	Net amounts of liabilities presented in the consolidated balance sheet
	(in thousands)					
Derivatives subject to master netting arrangements:						
Forward purchase contracts	$ 6	$	$ 6	$ 34	$	$ 34
Forward sales contracts	21,794		21,794	6,649		6,649
Treasury futures sales contracts				478		478
Netting		(19,316)	(19,316)		(4,748)	(4,748)
	21,800	(19,316)	2,484	7,161	(4,748)	2,413
Derivatives not subject to master netting arrangements:						
Interest rate lock commitments	302		302	17		17
	22,102	(19,316)	2,786	7,178	(4,748)	2,430
Assets sold under agreements to repurchase	2,865,722		2,865,722	2,730,130		2,730,130
Unamortized commitment fees and issuance cost	(1,690)		(1,690)	(1,103)		(1,103)
	2,864,032		2,864,032	2,729,027		2,729,027
	$ 2,886,134	$ (19,316)	$ 2,866,818	$ 2,736,205	$ (4,748)	$ 2,731,457

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Derivative Liabilities, Financial Liabilities and Collateral Pledged 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 do not meet the accounting guidance qualifying for netting. All assets sold under agreements to repurchase represent sufficient collateral or exceed the liability amount recorded on the consolidated balance sheet.

	September 30, 2015				December 31, 2014			
		Gross amounts not offset in the consolidated balance sheet				Gross amounts not offset in the consolidated balance sheet		
	Net amount of liabilities presented in the consolidated balance sheet	Financial instruments (1)	Cash collateral pledged	Net amount	Net amount of liabilities presented in the consolidated balance sheet	Financial instruments	Cash collateral pledged	Net amount
	(in thousands)							
Interest rate lock commitments	$ 302	$	$	$ 302	$ 17	$	$	$ 17
Morgan Stanley Bank, N.A.	163,104	(163,104)			121,975	(121,975)		
Credit Suisse First Boston Mortgage Capital LLC	861,527	(861,527)			966,155	(966,155)		
Citibank	843,743	(843,743)			797,851	(797,663)		188
JPMorgan Chase & Co.	446,348	(446,348)						
Bank of America, N.A.	403,193	(402,917)		276	508,908	(508,908)		
Daiwa Capital Markets	148,083	(148,083)			126,909	(126,909)		
RBS Securities					208,520	(208,520)		
Other	2,208			2,208	2,225			2,225
Unamortized commitment fees and issuance cost	(1,690)	1,690			(1,103)	1,103		
Total	$ 2,866,818	$ (2,864,032)	$	$ 2,786	$ 2,731,457	$ (2,729,027)	$	$ 2,430

Note 7 Fair Value

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

Fair Value Accounting Elections

The Manager identified all of the Company s non-cash financial assets and MSRs relating to loans with initial interest rates of more than 4.5%, to be accounted for at fair value. The Manager has elected to account for these financial statement items at 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.

The Manager has also identified the Company s CRT financing and asset-backed secured financing of the VIE to be accounted for at fair value to reflect the generally offsetting changes in fair value of these borrowings to changes in fair value of mortgage loans at fair value collateralizing these financings.

The Company s subsequent accounting for MSRs is based on the class of MSRs. Originated MSRs backed by mortgage loans with initial interest rates of less than or equal to 4.5% are accounted for using the amortization method. Originated MSRs backed by loans with initial interest rates of more than 4.5% are accounted for at fair value with changes in fair value recorded in current period income.

For assets sold under agreements to repurchase, borrowings under forward purchase agreements and the Exchangeable Notes, the Manager 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 availability 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 fair value on a recurring basis:

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Short-term investments	$ 31,518	$	$	$ 31,518
Mortgage-backed securities at fair value		315,599		315,599
Mortgage loans acquired for sale at fair value		1,050,296		1,050,296
Mortgage loans at fair value		477,271	2,160,459	2,637,730
Excess servicing spread purchased from PFSI			418,573	418,573
Derivative assets:				
Interest rate lock commitments			9,109	9,109
Forward purchase contracts		22,985		22,985
Forward sales contracts		15		15
Net derivatives related to CRT Agreements			626	626
Put options on interest rate futures	693			693
Call options on interest rate futures	3,270			