American Capital Agency Corp
Form 10-Q
August 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-34057

AMERICAN CAPITAL AGENCY CORP.
(Exact name of registrant as specified in its charter)

Delaware	26-1701984
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2 Bethesda Metro Center, 14th Floor
Bethesda, Maryland 20814
(Address of principal executive offices)
(301) 968-9300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports 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 earlier 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 ý 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 ý 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý		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 ý

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of July 31, 2014 was 352,788,707.

AMERICAN CAPITAL AGENCY CORP.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	June 30, 2014 (Unaudited)	December 31, 2013
Assets:		
Agency securities, at fair value (including pledged securities of $50,057 and $62,205, respectively)	$52,174	$64,482
Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities)	1,377	1,459
U.S. Treasury securities, at fair value (including pledged securities of $1,247 and $3,778, respectively)	1,247	3,822
REIT equity securities, at fair value	202	237
Cash and cash equivalents	1,747	2,143
Restricted cash	783	101
Derivative assets, at fair value	593	1,194
Receivable for securities sold (including pledged securities of $441 and $622, respectively)	1,872	652
Receivable under reverse repurchase agreements	6,621	1,881
Other assets	238	284
Total assets	$66,854	$76,255
Liabilities:		
Repurchase agreements	$48,714	$63,533
Debt of consolidated variable interest entities, at fair value	844	910
Payable for securities purchased	558	118
Derivative liabilities, at fair value	583	422
Dividends payable	235	235
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	6,094	1,848
Accounts payable and other accrued liabilities	215	492
Total liabilities	57,243	67,558
Stockholders' equity:		
Preferred stock - $0.01 par value; 10.0 shares authorized:		
Redeemable Preferred Stock; $0.01 par value; 6.9 shares issued and outstanding (aggregate liquidation preference of $348 and $173, respectively)	336	167
Common stock - $0.01 par value; 600.0 shares authorized:		
352.8 and 356.2 shares issued and outstanding, respectively	4	4
Additional paid-in capital	10,332	10,406
Retained deficit	(1,073)	(497)
Accumulated other comprehensive income (loss)	12	(1,383)
Total stockholders' equity	9,611	8,697
Total liabilities and stockholders' equity	$66,854	$76,255

See accompanying notes to consolidated financial statements.

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AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in millions, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Interest income:				
Interest income	$385	$545	$784	$1,092
Interest expense	95	131	203	271
Net interest income	290	414	581	821
Other loss (income), net:				
Gain (loss) on sale of agency securities, net	22	17	3	(9)
(Loss) gain on derivative instruments and other securities, net	(244)	1,444	(621)	1,346
Total other (loss) income, net	(222)	1,461	(618)	1,337
Expenses:				
Management fees	30	37	59	70
General and administrative expenses	6	9	12	18
Total expenses	36	46	71	88
Income (loss) before income tax	32	1,829	(108)	2,070
Provision for income tax, net	—	—	—	10
Net income (loss)	32	1,829	(108)	2,060
Dividend on preferred stock	5	3	9	7
Net income (loss) available (attributable) to common shareholders	$27	$1,826	$(117)	$2,053
Net income (loss)	$32	$1,829	$(108)	$2,060
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net	790	(2,813)	1,312	(3,650)
Unrealized gain on derivative instruments, net	40	48	83	97
Other comprehensive income (loss)	830	(2,765)	1,395	(3,553)
Comprehensive income (loss)	862	(936)	1,287	(1,493)
Dividend on preferred stock	5	3	9	7
Comprehensive income (loss) available (attributable) to common shareholders	$857	$(939)	$1,278	$(1,500)
Weighted average number of common shares outstanding - basic and diluted	352.8	396.4	353.8	376.4
Net income (loss) per common share - basic and diluted	$0.08	$4.61	$(0.33)	$5.45
Comprehensive income (loss) per common share - basic and diluted	$2.43	$(2.37)	$3.61	$(3.99)
Dividends declared per common share	$0.65	$1.05	$1.30	$2.30

See accompanying notes to consolidated financial statements.

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AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(in millions)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2012	6.9	$ 167	338.9	$ 3	$ 9,460	$ (289)	$ 1,555	$ 10,896
Net income	—	—	—	—	—	2,060	—	2,060
Other comprehensive income:								
Unrealized loss on available-for-sale securities, net	—	—	—	—	—	—	(3,650)	(3,650)
Unrealized gain on derivative instruments, net	—	—	—	—	—	—	97	97
Issuance of common stock	—	—	57.6	1	1,802	—	—	1,803
Repurchase of common stock	—	—	(0.3)	—	(7)	—	—	(7)
Preferred dividends declared	—	—	—	—	—	(7)	—	(7)
Common dividends declared	—	—	—	—	—	(912)	—	(912)
Balance, June 30, 2013	6.9	$ 167	396.2	$ 4	$ 11,255	$ 852	$ (1,998)	$ 10,280
Balance, December 31, 2013	6.9	$ 167	356.2	$ 4	$ 10,406	$ (497)	$ (1,383)	$ 8,697
Net loss	—	—	—	—	—	(108)	—	(108)
Other comprehensive income:								
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	—	1,312	1,312
Unrealized gain on derivative instruments, net	—	—	—	—	—	—	83	83
Issuance of preferred stock	—	169	—	—	—	—	—	169
Repurchase of common stock	—	—	(3.4)	—	(74)	—	—	(74)
Preferred dividends declared	—	—	—	—	—	(9)	—	(9)
Common dividends declared	—	—	—	—	—	(459)	—	(459)
Balance, June 30, 2014	6.9	$ 336	352.8	$ 4	$ 10,332	$ (1,073)	$ 12	$ 9,611

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Six months ended June 30, 2014	2013
Operating activities:		
Net (loss) income	$(108)	$2,060
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of agency securities premiums and discounts, net	251	232
Amortization of accumulated other comprehensive loss on interest rate swaps de-designated as qualifying hedges	83	97
(Gain) loss on sale of agency securities, net	(3)	9
Loss (gain) on derivative instruments and other securities, net	621	(1,346)
Decrease (increase) in other assets	64	(10)
Increase (decrease) in accounts payable and other accrued liabilities	24	(30)
Net cash provided by operating activities	932	1,012
Investing activities:		
Purchases of agency securities	(6,677)	(33,962)
Proceeds from sale of agency securities	15,660	33,318
Principal collections on agency securities	3,713	5,304
Purchases of U.S. Treasury securities	(16,640)	(28,555)
Proceeds from sale of U.S. Treasury securities	23,324	23,396
Net (payments on) proceeds from reverse repurchase agreements	(4,740)	2,388
Net proceeds from (payments on) other derivative instruments	225	(306)
Purchases of REIT equity securities	(204)	—
Proceeds from sale of REIT equity securities	238	—
Increase in restricted cash	(682)	(817)
Other investing cash flows, net	(277)	—
Net cash provided by investing activities	13,940	766
Financing activities:		
Proceeds from repurchase arrangements	143,771	209,673
Repayments on repurchase agreements	(158,590)	(211,700)
Repayments on debt of consolidated variable interest entities	(76)	(128)
Net proceeds from preferred stock issuance	169	—
Net proceeds from common stock issuance	—	1,803
Payments for common stock repurchases	(74)	(7)
Cash dividends paid	(468)	(926)
Net cash used in financing activities	(15,268)	(1,285)
Net change in cash and cash equivalents	(396)	493
Cash and cash equivalents at beginning of period	2,143	2,430
Cash and cash equivalents at end of period	$1,747	$2,923

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Unaudited Interim Consolidated Financial Statements

The unaudited interim consolidated financial statements of American Capital Agency Corp. (referred throughout this report as the "Company", "we", "us" and "our") are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Our unaudited interim consolidated financial statements include the accounts of our wholly-owned subsidiary, American Capital Agency TRS, LLC, and variable interest entities for which the Company is the primary beneficiary. Significant intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the year.

Note 2. Organization

We were organized in Delaware on January 7, 2008, and commenced operations on May 20, 2008 following the completion of our initial public offering ("IPO"). Our common stock is traded on The NASDAQ Global Select Market under the symbol "AGNC."

We are externally managed by American Capital AGNC Management, LLC (our "Manager"), an affiliate of American Capital, Ltd. ("American Capital").

We operate so as to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As a REIT, we are required to distribute annually 90% of our taxable net income. As long as we continue to qualify as a REIT, we will generally not be subject to U.S. federal or state corporate taxes on our taxable net income to the extent that we distribute all of our annual taxable net income to our stockholders. It is our intention to distribute 100% of our taxable net income, after application of available tax attributes, within the limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year.

We earn income primarily from investing on a leveraged basis in agency mortgage-backed securities ("agency MBS"). These investments consist of residential mortgage pass-through securities and collateralized mortgage obligations ("CMOs") for which the principal and interest payments are guaranteed by a government-sponsored enterprise, such as the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or by a U.S. Government agency, such as the Government National Mortgage Association ("Ginnie Mae") (collectively referred to as "GSEs"). We may also invest in agency debenture securities issued by Freddie Mac, Fannie Mae or the Federal Home Loan Bank ("FHLB") and in other assets reasonably related to agency securities.

Our principal objective is to preserve our net asset value (also referred to as "net book value", "NAV" and "stockholders' equity") while generating attractive risk-adjusted returns for distribution to our stockholders through regular quarterly dividends from the combination of our net interest income and net realized gains and losses on our investments and hedging activities. We fund our investments primarily through short-term borrowings structured as repurchase agreements.

Note 3. Summary of Significant Accounting Policies

Investment Securities

ASC Topic 320, Investments—Debt and Equity Securities ("ASC 320"), requires that at the time of purchase, we designate a security as held-to-maturity, available-for-sale or trading, depending on our ability and intent to hold such security to maturity. Securities classified as trading and available-for-sale are reported at fair value, while securities classified as held-to-maturity are reported at amortized cost. We may sell any of our agency securities as part of our overall management of our investment portfolio. Accordingly, we typically designate our agency securities as available-for-sale. All securities classified as available-for-sale are reported at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss) ("OCI"), a separate component of stockholders' equity. Upon the sale of a security, we determine the cost of the security and the amount of unrealized gains or losses to reclassify out of accumulated OCI into earnings based on the specific identification method.

Interest-only securities and inverse interest-only securities (collectively referred to as "interest-only securities") represent our right to receive a specified proportion of the contractual interest flows of specific agency CMO securities. Principal-only securities represent our right to receive the contractual principal flows of specific agency CMO securities. Interest and principal-only securities are measured at fair value through earnings in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Our investments in interest and principal-only securities are included in agency securities, at fair value on the accompanying consolidated balance sheets.

REIT equity securities represent investments in the common stock of other publicly traded mortgage REITs that invest predominantly in agency MBS. We designate our investments in REIT equity securities as trading securities and report them at fair value on the accompanying consolidated balance sheets.

We estimate the fair value of our agency securities based on a market approach using "Level 2" inputs from third-party pricing services and non-binding dealer quotes derived from common market pricing methods. Such methods incorporate, but are not limited to, reported trades and executable bid and asked prices for similar securities, benchmark interest rate curves, such as the spread to the U.S. Treasury rate and interest rate swap curves, convexity, duration and the underlying characteristics of the particular security, including coupon, periodic and life caps, rate reset period, issuer, additional credit support and expected life of the security. We estimate the fair value of our REIT equity securities on a market approach using "Level 1" inputs based on quoted market prices. Refer to Note 8 for further discussion of fair value measurements.

We evaluate our agency securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired may involve judgments and assumptions based on subjective and objective factors. When a security is impaired, an OTTI is considered to have occurred if any one of the following three conditions exist as of the financial reporting date: (i) we intend to sell the security (that is, a decision has been made to sell the security), (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis or (iii) we do not expect to recover the security's amortized cost basis, even if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security. A general allowance for unidentified impairments in a portfolio of securities is not permitted.

If either of the first two conditions exists as of the financial reporting date, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. If the third condition exists, the OTTI is separated into (i) the amount relating to credit loss (the "credit component") and (ii) the amount relating to all other factors (the "non-credit components"). Only the credit component is recognized in earnings, with the non-credit components recognized in OCI. However, in evaluating if the third condition exists, our investments in agency securities typically would not have a credit component since the principal and interest are guaranteed by a GSE and, therefore, any unrealized loss is not the result of a credit loss. In addition, since we designate our agency securities as available-for-sale securities with unrealized gains and losses recognized in OCI, any impairment loss for non-credit components is already recognized in OCI.

The liquidity of the agency securities market allows us to obtain competitive bids and execute on a sale transaction typically within a day of making the decision to sell a security and, therefore, we generally do not make decisions to sell specific agency securities until shortly prior to initiating a sell order. In some instances, we may sell specific agency securities by delivering such securities into existing short to-be-announced ("TBA") contracts. TBA market conventions require the identification of the specific securities to be delivered no later than 48 hours prior to settlement. If we settle a short TBA contract through the delivery of securities, we will generally identify the specific securities to be delivered within one to two days of the 48-hour deadline.

Interest Income

Interest income is accrued based on the outstanding principal amount of the investment securities and their contractual terms. Premiums or discounts associated with the purchase of investment securities are amortized or accreted into interest income, respectively, over the projected lives of the securities, including contractual payments and estimated prepayments using the interest method in accordance with ASC Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs ("ASC 310-20").

We estimate long-term prepayment speeds of our agency securities using a third-party service and market data. The third-party service estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates and mortgage rates of the outstanding loans, age and size of the outstanding loans, loan-to-value ratios, volatility and other factors. We review the prepayment speeds estimated by the third-party service and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate the reasonableness of the prepayment speeds estimated by the third-party service and, based on our Manager's judgment, we may make adjustments to its estimates. Actual and anticipated prepayment experience is reviewed quarterly and effective yields are recalculated when differences arise between (i) our previously estimated future prepayments and (ii) the actual prepayments to date plus our currently estimated future prepayments. If the actual and estimated future prepayment experience differs from our prior estimate of prepayments, we are required to record an adjustment in the current period to the amortization or accretion of premiums and discounts for the cumulative difference in the effective yield through the reporting date.

Derivative Instruments

We use a variety of derivative instruments to hedge a portion of our exposure to market risks, including interest rate risk, prepayment risk and extension risk. The objective of our risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing during a period of rising interest rates. The principal instruments that we use are interest rate swaps and options to enter into interest rate swaps ("swaptions"). We also utilize forward contracts for the purchase or sale of agency MBS securities on a generic pool basis, or a TBA contract, and on a non-generic, specified pool basis, and we utilize U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales. We may also purchase or write put or call options on TBA securities and we may invest in other types of mortgage derivatives, such as interest and principal-only securities.

We may also enter into TBA contracts as a means of investing in and financing agency securities (thereby increasing our "at risk" leverage) or as a means of disposing of or reducing our exposure to agency securities (thereby reducing our "at risk" leverage). Pursuant to TBA contracts, we agree to purchase or sell, for future delivery, agency securities with certain principal and interest terms and certain types of collateral, but the particular agency securities to be delivered are not identified until shortly before the TBA settlement date. We also may choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting short or long position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing or selling a similar TBA contract for a later settlement date. This transaction is commonly referred to as a "dollar roll." The agency securities purchased or sold for a forward settlement date are typically priced at a discount to agency securities for settlement in the current month. This difference (or discount) is referred to as the "price drop." The price drop is the economic equivalent of net interest carry income on the underlying agency securities over the roll period (interest income less implied financing cost) and is commonly referred to as "dollar roll income/loss." Consequently, forward purchases of agency securities and dollar roll transactions represent a form of off-balance sheet financing.

We account for derivative instruments in accordance with ASC Topic 815, Derivatives and Hedging ("ASC 815"). ASC 815 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and to measure those instruments at fair value.

Our derivative agreements generally contain provisions that allow for netting or setting off derivative assets and liabilities with the counterparty; however, we report related assets and liabilities on a gross basis in our consolidated balance sheets. Derivative instruments in a gain position are reported as derivative assets at fair value and derivative instruments in a loss position are reported as derivative liabilities at fair value in our consolidated balance sheets. Changes in fair value of derivative instruments and periodic settlements related to our derivative instruments are recorded in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Cash receipts and payments related to derivative instruments are classified in our consolidated statements of cash flows according to the underlying nature or purpose of the derivative transaction, generally in the investing section.

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. We attempt to minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings, monitoring positions with individual counterparties and adjusting posted collateral as required.

Discontinuation of hedge accounting for interest rate swap agreements

Prior to September 30, 2011, we entered into interest rate swap agreements typically with the intention of qualifying for hedge accounting under ASC 815. However, as of September 30, 2011, we elected to discontinue hedge accounting for our interest rate swaps. Upon discontinuation of hedge accounting, the net deferred loss related to our de-designated interest rate swaps remained in accumulated OCI and is being reclassified from accumulated OCI into interest expense on a straight-line basis over the remaining term of each interest rate swap.

Interest rate swap agreements

We use interest rate swaps to hedge the variable cash flows associated with borrowings made under our repurchase agreement facilities. Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on one, three or six-month LIBOR ("payer swaps") with terms up to 20 years. The floating rate we receive under our swap agreements has the

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effect of offsetting the repricing characteristics of our repurchase agreements and cash flows on such liabilities. Our swap agreements are privately negotiated in the over−the−counter ("OTC") market and may be centrally cleared through a registered commodities exchange ("centrally cleared swaps").

We estimate the fair value of our centrally cleared interest rate swaps using the daily settlement price determined by the respective exchange. Centrally cleared swaps are valued by the exchange using a pricing model that references the underlying rates including the overnight index swap rate and LIBOR forward rate to produce the daily settlement price.

We estimate the fair value of our "non-centrally cleared" swaps using a combination of inputs from counterparty and third-party pricing models to estimate the net present value of the future cash flows using the forward interest rate yield curve in effect as of the end of the measurement period. We also incorporate both our own and our counterparties' nonperformance risk in estimating the fair value of our interest rate swaps. In considering the effect of nonperformance risk, we consider the impact of netting and credit enhancements, such as collateral postings and guarantees, and have concluded that our own and our counterparty risk is not significant to the overall valuation of these agreements.

Interest rate swaptions

We purchase interest rate swaptions to help mitigate the potential impact of larger changes in interest rates on the performance of our investment portfolio (referred to as "convexity risk"). Interest rate swaptions provide us the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. Our swaption agreements typically provide us the option to enter into a pay fixed rate interest rate swap, which we refer as "payer swaptions." We may also enter into swaption agreements that provide us the option to enter into a receive fixed interest rate swap, which we refer to as "receiver swaptions." The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. The premium is valued at an amount equal to the fair value of the swaption that would have the effect of closing the position adjusted for nonperformance risk, if any. The difference between the premium and the fair value of the swaption is reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. If a swaption expires unexercised, the realized loss on the swaption would be equal to the premium paid. If we sell or exercise a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash or the fair value of the underlying interest rate swap received and the premium paid.

Our interest rate swaption agreements are privately negotiated in the OTC market and are not subject to central clearing. We estimate the fair value of interest rate swaptions using a combination of inputs from counterparty and third-party pricing models based on the fair value of the future interest rate swap that we have the option to enter into as well as the remaining length of time that we have to exercise the option, adjusted for non-performance risk, if any.

TBA securities

A TBA security is a forward contract for the purchase ("long position") or sale ("short position") of agency MBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific agency MBS delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. We may enter into TBA contracts as a means of hedging against short-term changes in interest rates. We may also enter into TBA contracts as a means of acquiring or disposing of agency securities and we may from time to time utilize TBA dollar roll transactions to finance agency MBS purchases.

We account for TBA contracts as derivative instruments since either the TBA contracts do not settle in the shortest period of time possible or we cannot assert that it is probable at inception and throughout the term of the TBA contract that we will take physical delivery of the agency security upon settlement of the contract. We account for TBA dollar roll transactions as a series of derivative transactions. Gains, losses and dollar roll income associated with our TBA contracts and dollar roll transactions are recognized in our consolidated statements of comprehensive income in gain (loss) on derivative instruments and other securities, net.

We estimate the fair value of TBA securities based on similar methods used to value our agency MBS securities.

U.S. Treasury securities

We purchase or sell short U.S. Treasury securities and U.S. Treasury futures contracts to help mitigate the potential impact of changes in interest rates on the performance of our portfolio. We borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements. We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on the balance sheet based on the value of the underlying borrowed securities as of the reporting date. Gains and losses associated with purchases and short sales of U.S. Treasury securities and U.S. Treasury futures contracts are recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Note 4. Investment Securities

As of June 30, 2014, we had agency MBS of $53.6 billion at fair value, with a total cost basis of $53.3 billion. The net unamortized premium balance on our agency MBS as of June 30, 2014 was $2.4 billion, including interest and principal-only strips. The following tables summarize our investments in agency MBS as of June 30, 2014 (dollars in millions):

	June 30, 2014			
Agency MBS	Fannie Mae	Freddie Mac	Ginnie Mae	Total
Available-for-sale agency MBS:				
Agency MBS, par	$39,944	$10,494	$191	$50,629
Unamortized discount	(17)	(5)	—	(22)
Unamortized premium	1,777	515	5	2,297
Amortized cost	41,704	11,004	196	52,904
Gross unrealized gains	488	131	5	624
Gross unrealized losses	(267)	(134)	—	(401)
Total available-for-sale agency MBS, at fair value	41,925	11,001	201	53,127
Agency MBS remeasured at fair value through earnings:				
Interest-only and principal-only strips, amortized cost [1]	368	29	—	397
Gross unrealized gains	27	3	—	30
Gross unrealized losses	(2)	(1)	—	(3)
Total agency MBS remeasured at fair value through earnings	393	31	—	424
Total agency MBS, at fair value	$42,318	$11,032	$201	$53,551
Weighted average coupon as of June 30, 2014 [2]	3.60%	3.75%	3.54%	3.63%
Weighted average yield as of June 30, 2014 [3]	2.68%	2.81%	1.65%	2.70%
Weighted average yield for the quarter ended June 30, 2014 [3]	2.69%	2.76%	1.70%	2.71%

1. The underlying unamortized principal balance ("UPB" or "par value") of our interest-only agency MBS strips was $1.3 billion and the weighted average contractual interest we are entitled to receive was 5.48% of this amount as of June 30, 2014. The par value of our principal-only agency MBS strips was $259 million as of June 30, 2014.
2. The weighted average coupon includes the interest cash flows from our interest-only agency MBS strips taken together with the interest cash flows from our fixed rate, adjustable-rate and CMO agency MBS as a percentage of the par value of our agency MBS (excluding the UPB of our interest-only securities) as of June 30, 2014.
3. Incorporates a weighted average future constant prepayment rate assumption of 8% based on forward rates as of June 30, 2014.

	June 30, 2014			
Agency MBS	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Fixed rate	$50,691	$581	$(401)	$50,871
Adjustable rate	967	21	—	988
CMO	1,246	22	—	1,268
Interest-only and principal-only strips	397	30	(3)	424
Total agency MBS	$53,301	$654	$(404)	$53,551

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As of December 31, 2013, we had agency MBS of $65.9 billion at fair value, with a total cost basis of $67.0 billion. The net unamortized premium balance on our agency MBS as of December 31, 2013 was $3.0 billion, including interest and principal-only strips. The following tables summarize our investments in agency MBS as of December 31, 2013 (dollars in millions):

	December 31, 2013			
Agency MBS	Fannie Mae	Freddie Mac	Ginnie Mae	Total
Available-for-sale agency MBS:				
Agency MBS, par	$50,914	$12,640	$223	$63,777
Unamortized discount	(25)	(7)	—	(32)
Unamortized premium	2,210	631	7	2,848
Amortized cost	53,099	13,264	230	66,593
Gross unrealized gains	181	74	5	260
Gross unrealized losses	(991)	(358)	—	(1,349)
Total available-for-sale agency MBS, at fair value	52,289	12,980	235	65,504
Agency MBS remeasured at fair value through earnings:				
Interest-only and principal-only strips, amortized cost [1]	400	32	—	432
Gross unrealized gains	13	3	—	16
Gross unrealized losses	(9)	(2)	—	(11)
Total agency MBS remeasured at fair value through earnings	404	33	—	437
Total agency MBS, at fair value	$52,693	$13,013	$235	$65,941
Weighted average coupon as of December 31, 2013 [2]	3.53 %	3.78 %	3.56 %	3.58 %
Weighted average yield as of December 31, 2013 [3]	2.66 %	2.87 %	1.66 %	2.70 %
Weighted average yield for the year ended December 31, 2013 [3]	2.74 %	2.87 %	1.79 %	2.77 %

1. The underlying unamortized principal balance ("UPB" or "par value") of our interest-only agency MBS strips was $1.4 billion and the weighted average contractual interest we are entitled to receive was 5.50% of this amount as of December 31, 2013. The par value of our principal-only agency MBS strips was $271 million as of December 31, 2013.
2. The weighted average coupon includes the interest cash flows from our interest-only agency MBS strips taken together with the interest cash flows from our fixed rate, adjustable-rate and CMO agency MBS as a percentage of the par value of our agency MBS (excluding the UPB of our interest-only securities) as of December 31, 2013.
3. Incorporates a weighted average future constant prepayment rate assumption of 7% based on forward rates as of December 31, 2013.

	December 31, 2013			
Agency MBS	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Fixed rate	$64,057	$242	$(1,338)	$62,961
Adjustable rate	1,223	15	(3)	1,235
CMO	1,313	3	(8)	1,308
Interest-only and principal-only strips	432	16	(11)	437
Total agency MBS	$67,025	$276	$(1,360)	$65,941

The actual maturities of our agency MBS are generally shorter than the stated contractual maturities. Actual maturities are affected by the contractual lives of the underlying mortgages, periodic contractual principal payments and principal prepayments. As of June 30, 2014 and December 31, 2013, our weighted average expected constant prepayment rate ("CPR") over the remaining life of our aggregate agency MBS portfolio was 8% and 7%, respectively. Our estimates differ materially for different types of securities and thus individual holdings have a wide range of projected CPRs. We estimate long-term prepayment assumptions for different securities using a third-party service and market data. The third-party service estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates and mortgage rates of the outstanding loans, age and size of the outstanding loans, loan-to-value ratios, volatility and other factors. We review the prepayment speeds estimated by the third-party service and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate reasonableness. As market conditions may change rapidly, we may make adjustments for different securities based on our Manager's judgment. Various market participants could use materially different assumptions.

The following table summarizes our agency MBS classified as available-for-sale as of June 30, 2014 and December 31, 2013 according to their estimated weighted average life classification (dollars in millions):

	June 30, 2014				December 31, 2013			
Estimated Weighted Average Life of Agency MBS Classified as Available-for-Sale [1]	Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield	Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield
≤ 1 year	$93	$90	2.66%	2.31%	$129	$ 129	3.07%	2.53%
> 1 year and ≤ 3 years	163	158	4.61%	3.26%	498	491	4.08%	2.25%
> 3 years and ≤ 5 years	22,395	22,042	3.46%	2.46%	24,471	24,342	3.59%	2.57%
> 5 years and ≤10 years	29,833	29,955	3.54%	2.82%	38,522	39,635	3.39%	2.73%
> 10 years	643	659	3.82%	2.99%	1,884	1,996	3.66%	2.96%
Total	$53,127	$52,904	3.51%	2.68%	$65,504	$ 66,593	3.47%	2.68%

1. Excludes interest and principal-only strips.

The weighted average life of our interest-only strips was 6.5 and 6.3 years as of June 30, 2014 and December 31, 2013, respectively. The weighted average life of our principal-only strips was 8.8 and 8.6 years as of June 30, 2014 and December 31, 2013, respectively.

Our agency securities classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated OCI. The following table summarizes changes in accumulated OCI, a separate component of stockholders' equity, for our available-for-sale securities for the three and six months ended June 30, 2014 and 2013 (in millions):

Agency Securities Classified as Available-for-Sale	Beginning Accumulated OCI Balance	Unrealized Gains and (Losses), Net	Reversal of Unrealized (Gains) and Losses, Net on Realization	Ending Accumulated OCI Balance
Three months ended June 30, 2014	$(566)	813	(22)	$225
Three months ended June 30, 2013	$1,203	(2,796)	(17)	$(1,610)
Six months ended June 30, 2014	$(1,087)	1,315	(3)	$225
Six months ended June 30, 2013	$2,040	(3,659)	9	$(1,610)

The following table presents the gross unrealized loss and fair values of our available-for-sale agency securities by length of time that such securities have been in a continuous unrealized loss position as of June 30, 2014 and December 31, 2013 (in millions):

	Unrealized Loss Position For					
	Less than 12 Months		12 Months or More		Total	
Agency Securities Classified as Available-for-Sale	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
June 30, 2014	$349	$(4)	$19,583	$(397)	$19,932	$(401)
December 31, 2013	$42,853	$(1,248)	$1,586	$(101)	$44,439	$(1,349)

As of the end of each respective reporting period, a decision had not been made to sell any of these agency securities and we do not believe it is more likely than not we will be required to sell the agency securities before recovery of their amortized cost basis. The unrealized losses on these agency securities are not due to credit losses given the GSE guarantees, but are rather due to changes in interest rates and prepayment expectations. Accordingly, we did not recognize any OTTI charges on our investment securities for the three and six months ended June 30, 2014 and 2013. However, as we continue to actively manage our portfolio, we may recognize additional realized losses on our agency securities upon selecting specific securities to sell.

Gains and Losses

The following table is a summary of our net gain (loss) from the sale of agency securities classified as available-for-sale for the three and six months ended June 30, 2014 and 2013 (in millions):

Agency Securities Classified as Available-for-Sale	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Agency MBS sold, at cost	$(7,166)	$(15,069)	$(16,877)	$(35,397)
Proceeds from agency MBS sold [1]	7,188	15,086	16,880	35,388
Net gain (loss) on sale of agency MBS	$22	$17	$3	$(9)
Gross gain on sale of agency MBS	$49	$93	$91	$180
Gross loss on sale of agency MBS	(27)	(76)	(88)	(189)
Net gain (loss) on sale of agency MBS	$22	$17	$3	$(9)

1. Proceeds include cash received during the period, plus receivable for agency MBS sold during the period as of period end.

For the three and six months ended June 30, 2014, we recognized a net unrealized gain of $15 million and $27 million, respectively, and for the three and six months ended June 30, 2013 we recognized an unrealized loss of $20 million and $21 million, respectively, for the change in value of investments in interest and principal-only strips in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Over the same periods, we did not recognize any realized gains or losses on our interest or principal-only securities.

Securitizations and Variable Interest Entities

As of June 30, 2014 and December 31, 2013, we held investments in CMO trusts, which are VIEs. We have consolidated certain of these CMO trusts in our consolidated financial statements where we have determined we are the primary beneficiary of the trusts. All of our CMO securities are backed by fixed or adjustable-rate agency MBS. Fannie Mae or Freddie Mac guarantees the payment of interest and principal and acts as the trustee and administrator of their respective securitization trusts. Accordingly, we are not required to provide the beneficial interest holders of the CMO securities any financial or other support. Our maximum exposure to loss related to our involvement with CMO trusts is the fair value of the CMO securities and interest and principal-only securities held by us, less principal amounts guaranteed by Fannie Mae and Freddie Mac.

In connection with our consolidated CMO trusts, we recognized agency securities with a total fair value of $1.4 billion and $1.5 billion as of June 30, 2014 and December 31, 2013, respectively, and debt, at fair value, of $844 million and $910 million, respectively, in our accompanying consolidated balance sheets. As of June 30, 2014 and December 31, 2013, such agency securities had an aggregate unpaid principal balance of $1.3 billion and $1.4 billion, respectively, and such debt had an aggregate unpaid principal balance of $823 million and $900 million, respectively. We re-measure our consolidated debt at fair value through earnings in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. For the three and six months ended June 30, 2014, we recognized a net loss of $9 million and $12 million, respectively, and for the three and six months ended June 30, 2013 we recognized a net gain of $20 million and $34 million, respectively, associated with our consolidated debt. Our involvement with the consolidated trusts is limited to the agency securities transferred by us upon the formation of the trusts and the CMO securities subsequently held by us. There are no arrangements that could require us to provide financial support to the trusts.

As of June 30, 2014 and December 31, 2013, the fair value of our CMO securities and interest and principal-only securities was $1.7 billion, excluding the consolidated CMO trusts discussed above, or $2.2 billion and $2.3 billion, respectively, including the net asset value of our consolidated CMO trusts. Our maximum exposure to loss related to our CMO securities and interest and principal-only securities, including our consolidated CMO trusts, was $281 million and $246 million as of June 30, 2014 and December 31, 2013, respectively.

Note 5. Repurchase Agreements and Other Debt

We pledge certain of our securities as collateral under repurchase arrangements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. For additional information regarding our pledged assets please refer to Note 7. Interest rates on these borrowings are generally based on LIBOR plus or minus a margin and amounts available to be borrowed are dependent upon the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. If the fair value of our pledged securities declines, lenders will typically require us to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of our pledged securities increases, lenders may release collateral back to us. As of June 30, 2014, we have met all margin call requirements.

The following table summarizes our borrowings under repurchase arrangements and weighted average interest rates classified by remaining maturities as of June 30, 2014 and December 31, 2013 (dollars in millions):

	June 30, 2014				December 31, 2013			
Remaining Maturity	Repurchase Agreements	Weighted Average Interest Rate		Weighted Average Days to Maturity	Repurchase Agreements	Weighted Average Interest Rate		Weighted Average Days to Maturity
Agency MBS:								
≤ 1 month	$11,119	0.34	%	15	$23,577	0.42	%	15
> 1 to ≤ 3 months	14,511	0.36	%	54	20,490	0.43	%	61
> 3 to ≤ 6 months	10,293	0.42	%	138	6,946	0.45	%	140
> 6 to ≤ 9 months	4,735	0.48	%	236	2,232	0.53	%	230
> 9 to ≤ 12 months	2,585	0.49	%	309	3,607	0.54	%	323
> 12 to ≤ 24 months	2,273	0.59	%	485	3,261	0.60	%	603
> 24 to ≤ 36 months	600	0.59	%	782	500	0.62	%	930
> 36 to ≤ 48 months	502	0.63	%	1,355	202	0.71	%	1,257
> 48 to < 60 months	900	0.67	%	1,726	400	0.66	%	1,574
Total agency MBS	47,518	0.41	%	170	61,215	0.45	%	124
U.S. Treasury securities:								
1 day	1,196	(0.35	)%	1	2,318	0.02	%	1
Total / Weighted Average	$48,714	0.39	%	166	$63,533	0.44	%	119

As of June 30, 2014 and December 31, 2013, debt of consolidated VIEs, at fair value ("other debt") was $844 million and $910 million, respectively. As of June 30, 2014 and December 31, 2013, our other debt had a weighted average interest rate of LIBOR plus 43 and 42 basis points and a principal balance of $823 million and $900 million, respectively. The actual maturities of our other debt are generally shorter than the stated contractual maturities. The actual maturities are affected by the contractual lives of the underlying agency MBS securitizing our other debt and periodic principal prepayments of such underlying securities. The estimated weighted average life of our other debt as of June 30, 2014 was 6.2 years.

As of June 30, 2014 and December 31, 2013, we also had outstanding forward commitments to purchase and sell agency securities through the TBA market (see Notes 3 and 6). These transactions, also referred to as TBA dollar roll transactions, represent a form of off-balance sheet financing and serve to either increase, in the case of forward purchases, or decrease, in the case of forward sales, our "at risk" leverage. However, pursuant to ASC 815, we account for such transactions as one or more series of derivative transactions and, consequently, they are not included in our on-balance sheet debt or measurement of commensurate leverage ratios.

Note 6. Derivative and Other Hedging Instruments

In connection with our risk management strategy, we hedge a portion of our interest rate risk by entering into derivative and other hedging instrument contracts. We typically enter into agreements for interest rate swaps and interest rate swaptions. We may also purchase or short TBA and U.S. Treasury securities, purchase or write put or call options on TBA securities or we may invest in other types of mortgage derivative securities, such as interest and principal-only securities. Our risk management strategy attempts to manage the overall risk of the portfolio, reduce fluctuations in book value and generate additional income distributable to stockholders. For additional information regarding our derivative instruments and our overall risk management strategy, please refer to the discussion of derivative and other hedging instruments in Note 3.

Prior to September 30, 2011, our interest rate swaps were typically designated as cash flow hedges under ASC 815; however, as of September 30, 2011, we elected to discontinue hedge accounting for our interest rate swaps in order to increase our funding flexibility. For the three and six months ended June 30, 2014, we reclassified $40 million and $83 million, respectively, and for the three and six months ended June 30, 2013, we reclassified $48 million and $97 million, respectively, of net deferred losses from accumulated OCI into interest expense related to our de-designated interest rate swaps and recognized an equal, but offsetting, amount in other comprehensive income. Our total net periodic interest costs on our swap portfolio was $127 million and $253 million for the three and six months ended June 30, 2014, respectively, and $153 million and $286 million for the three and six months ended June 30, 2013, respectively. The difference between our total net periodic interest costs on our swap portfolio and the amount recorded in interest expense related to our de-designated hedges is reported in our accompanying consolidated statements of comprehensive income in gain (loss) on derivative instruments and other securities, net (or $87 million and $170 million for the three and six months ended June 30, 2014, respectively, and $105 million and $189 million for the three and six months ended June 30, 2013, respectively). As of June 30, 2014, the remaining net deferred loss in accumulated OCI related to de-designated interest rate swaps was $213 million and will be reclassified from OCI into interest expense over a remaining weighted average period of 1.7 years. As of June 30, 2014, the net deferred loss expected to be reclassified from OCI into interest expense over the next twelve months was $128 million.

Derivative Assets (Liabilities), at Fair Value

The table below summarizes fair value information about our derivative assets and liabilities as of June 30, 2014 and December 31, 2013 (in millions):

Derivatives Instruments	Balance Sheet Location	June 30, 2014	December 31, 2013
Interest rate swaps	Derivative assets, at fair value	$295	$ 880
Swaptions	Derivative assets, at fair value	72	258
TBA securities	Derivative assets, at fair value	223	17
U.S. Treasury futures - short	Derivative assets, at fair value	3	39
		$593	$ 1,194
Interest rate swaps	Derivative liabilities, at fair value	$(560)	$ (400)
TBA securities	Derivative liabilities, at fair value	(23)	(22)
		$(583)	$ (422)

Additionally, as of June 30, 2014 and December 31, 2013, we had obligations to return U.S. Treasury securities borrowed under reverse repurchase agreements accounted for as securities borrowing transactions at a fair value of $6.1 billion and $1.8 billion, respectively. The borrowed securities were used to cover short sales of U.S. Treasury securities from which we received total proceeds of $6.0 billion and $1.9 billion, respectively. The change in fair value of the borrowed securities is recorded in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

The following tables summarize our interest rate swap agreements outstanding as of June 30, 2014 and December 31, 2013 (dollars in millions):

	June 30, 2014				
Payer Interest Rate Swaps	Notional Amount [1]	Average Fixed Pay Rate [2]	Average Receive Rate [3]	Net Estimated Fair Value	Average Maturity (Years) [4]
≤ 3 years	$16,150	1.58%	0.17%	$(292)	1.4
> 3 to ≤ 5 years	9,775	1.30%	0.23%	12	4.0
> 5 to ≤ 7 years	6,250	2.09%	0.23%	(22)	5.9
> 7 to ≤ 10 years	10,275	2.50%	0.23%	64	8.5
> 10 years	5,450	3.23%	0.23%	(27)	13.5
Total Payer Interest Rate Swaps	$47,900	1.97%	0.20%	$(265)	5.4

1. Notional amount includes forward starting swaps of $11.7 billion with an average forward start date of 1.7 years and an average maturity of 8.6 years from June 30, 2014.
2. Average fixed pay rate includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.61% as of June 30, 2014.
3. Average receive rate excludes forward starting swaps.
4. Average maturity measured from June 30, 2014 through stated maturity date.

Payer Interest Rate Swaps [1]	December 31, 2013 Notional Amount	Average Fixed Pay Rate	Average Receive Rate	Net Estimated Fair Value	Average Maturity (Years)
≤ 3 years	$16,750	1.57%	0.19%	$(382)	1.6
> 3 to ≤ 5 years	10,225	1.07%	0.24%	81	3.9
> 5 to ≤ 7 years	5,700	1.97%	0.26%	113	6.0
> 7 to ≤ 10 years	8,825	2.28%	0.24%	499	8.8
> 10 years	1,750	2.79%	0.24%	169	14.7
Total Payer Interest Rate Swaps	$43,250	1.70%	0.22%	$480	4.7

1. Notional amount includes forward starting swaps of $4.0 billion with an average forward start date of 1.9 years from December 31, 2013.
2. Average fixed pay rate includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.57% as of December 31, 2013.
3. Average receive rate excludes forward starting swaps.
4. Average maturity measured from December 31, 2013 through stated maturity date.

The following tables summarize our interest rate swaption agreements outstanding as of June 30, 2014 and December 31, 2013 (dollars in millions):

	June 30, 2014 Option			Underlying Payer Swap			
Years to Expiration	Cost	Fair Value	Average Months to Expiration	Notional Amount	Average Fixed Pay Rate	Average Receive Rate (LIBOR)	Average Term (Years)
Payer Swaptions							
≤ 1 year	$95	$36	3	$4,300	2.73%	3M	6.2
> 1 to ≤ 2 years	63	20	16	2,650	3.59%	3M	4.7
> 2 to ≤ 3 years	21	6	26	700	3.95%	3M	5.0
Total Payer Swaptions	$179	$62	10	$7,650	3.14%	3M	5.6

	June 30, 2014 Option			Underlying Receiver Swap			
	Cost	Fair Value	Average Months to Expiration	Notional Amount	Average Fixed Receive Rate	Average Pay Rate (LIBOR)	Average Term (Years)
Receiver Swaptions	$9	$10	8	$1,750	2.37%	3M	10.0

	December 31, 2013 Option			Underlying Payer Swap			
Years to Expiration	Cost	Fair Value	Average Months to Expiration	Notional Amount	Average Fixed Pay Rate	Average Receive Rate (LIBOR)	Average Term (Years)
Payer Swaptions							
≤ 1 year	$193	$117	4	$9,400	2.87%	3M	7.8
> 1 to ≤ 2 years	105	92	19	3,600	3.40%	3M	5.6
> 2 to ≤ 3 years	35	45	30	1,150	3.81%	3M	5.8
> 3 to ≤ 5 years	2	4	52	100	4.80%	3M	7.0

Total Payer Swaptions	$335	$258	10	$14,250	3.09%	3M	7.0

We did not have any receiver swaptions outstanding as of December 31, 2013.
The following table summarizes our contracts to purchase and sell TBA contracts as of June 30, 2014 and December 31, 2013 (in millions):