PennyMac Mortgage Investment Trust
Form 10-Q
May 03, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

Or

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

For the transition period from to

Commission file number: 001-34416

PennyMac Mortgage Investment Trust

(Exact name of registrant as specified in its charter)

Maryland	27-0186273
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
3043 Townsgate Road, Westlake Village, California	91361
(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol (s)	Name of Each Exchange on Which Registered
8.125% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest, $0.01 Par Value	PMT/PA	New York Stock Exchange
8.00% Series B Cumulative Redeemable Preferred Shares of Beneficial Interest, $0.01 Par Value	PMT/PB	New York Stock Exchange
Common Shares of Beneficial Interest, $0.01 Par Value	PMT	New York Stock Exchange

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

Class	Outstanding at May 2, 2019
Common Shares of Beneficial Interest, $0.01 par value	68,412,435

PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

March 31, 2019

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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," "believe," " "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, 2018, filed with the Securities and Exchange Commission ("SEC") on February 26, 2019.

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;
- the occurrence of natural disasters or other events or circumstances that could impact our operations;
- 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 and housing markets or otherwise have a broad impact on financial and housing 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 domestic and international 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 mortgage 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;

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- our ability to maintain the desired relationship between our financing and the interest rates and maturities of our assets;
- 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;
- our indemnification and repurchase obligations in connection with mortgage loans we purchase and later sell or securitize;
- 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;
- the performance of mortgage loans underlying mortgage-backed securities ("MBS") in which we retain credit risk;
- our ability to foreclose on our investments in a timely manner or at all;
- increased prepayments of the mortgages and other loans underlying our 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 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 ability to maintain appropriate internal control over financial reporting;
- our exposure to risks of loss and disruptions in operations resulting from adverse weather conditions and man-made or natural disasters;
- 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") or the Veterans Administration (the "VA"), 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 Consumer Financial Protection Bureau ("CFPB") and its issued and future rules and the enforcement thereof;
- changes in government support of homeownership;
- changes in government or government-sponsored home affordability programs;
- 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 exclusion from the Investment Company Act of 1940 (the "Investment Company Act") 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;
- our failure to deal appropriately with issues that may give rise to reputational risk; 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.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2019	December 31, 2018
	(in thousands, except share information)	
ASSETS		
Cash	$68,538	$ 59,845
Short-term investments at fair value	29,751	74,850
Mortgage-backed securities at fair value pledged to creditors	2,589,106	2,610,422
Mortgage loans acquired for sale at fair value (includes $1,414,330 and $1,621,879 pledged to creditors, respectively)	1,435,071	1,643,957
Mortgage loans at fair value (includes $394,361 and $399,266 pledged to creditors, respectively)	398,664	408,305
Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value pledged to secure *Assets sold to PennyMac Financial Services, Inc. under agreements to* repurchase	205,081	216,110
Derivative assets (includes $97,883 and $87,976 pledged to creditors, respectively)	188,710	167,165
Firm commitment to purchase credit risk transfer securities at fair value	79,784	37,994
Real estate acquired in settlement of loans (includes $18,927 and $40,198 pledged to creditors, respectively)	72,175	85,681
Real estate held for investment (includes $30,007 and $23,262 pledged to creditors, respectively)	42,346	43,110
Deposits securing credit risk transfer agreements (includes $1,137,283 and $1,146,501 pledged to creditors, respectively)	1,137,283	1,146,501
Mortgage servicing rights at fair value (includes $1,133,736 and $1,139,582 pledged to creditors, respectively)	1,156,908	1,162,369
Servicing advances	37,392	67,666
Due from PennyMac Financial Services, Inc.	3,345	4,077
Other	111,833	85,309
Total assets	$7,555,987	$ 7,813,361
LIABILITIES		
Assets sold under agreements to repurchase	$4,179,829	$ 4,777,027
Mortgage loan participation purchase and sale agreements	73,142	178,639
Exchangeable senior notes	248,652	248,350
Notes payable	739,224	445,573

Asset-backed financing of a variable interest entity at fair value	275,509	276,499
Interest-only security payable at fair value	32,564	36,011
Assets sold to PennyMac Financial Services, Inc. under agreements to repurchase	125,929	131,025
Derivative liabilities	8,750	5,914
Accounts payable and accrued liabilities	74,294	70,687
Due to PennyMac Financial Services, Inc.	29,951	33,464
Income taxes payable	32,866	36,526
Liability for losses under representations and warranties	7,688	7,514
Total liabilities	5,828,398	6,247,229
Commitments and contingencies Note 20		
SHAREHOLDERS' EQUITY		
Preferred shares of beneficial interest, $0.01 par value per share, authorized 100,000,000 shares, issued and outstanding 12,400,000 shares, liquidation preference $310,000,000	299,707	299,707
Common shares of beneficial interest—authorized, 500,000,000 common shares of $0.01 par value; issued and outstanding, 68,412,435 and 60,951,444 common shares, respectively	684	610
Additional paid-in capital	1,431,887	1,285,533
Accumulated deficit	(4,689)	(19,718)
Total shareholders' equity	1,727,589	1,566,132
Total liabilities and shareholders' equity	$7,555,987	$7,813,361

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)

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):

	March 31, 2019	December 31, 2018
	(in thousands)	
ASSETS		
Mortgage loans at fair value	$289,552	$ 290,573
Derivative assets	130,447	123,987
Deposits securing credit risk transfer agreements	1,137,283	1,146,501
Other—interest receivable	825	839
	$1,558,107	$ 1,561,900
LIABILITIES		
Asset-backed financing at fair value	$275,509	$ 276,499
Interest-only security payable at fair value	32,564	36,011
Accounts payable and accrued liabilities—interest payable	825	839
	$308,898	$ 313,349

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Quarter ended March 31,	
	2019	2018
	(in thousands, except per share amounts)	
Net investment income		
Net gain (loss) on investments:		
From nonaffiliates	$98,655	$(7,733)
From PennyMac Financial Services, Inc.	(3,562)	7,751
	95,093	18
Net gain on mortgage loans acquired for sale:		
From nonaffiliates	19,329	4,986
From PennyMac Financial Services, Inc.	1,994	2,641
	21,323	7,627
Mortgage loan origination fees	12,938	7,037
Net mortgage loan servicing fees:		
From nonaffiliates	(31,714)	55,560
From PennyMac Financial Services, Inc.	634	595
	(31,080)	56,155
Interest income:		
From nonaffiliates	60,015	37,046
From PennyMac Financial Services, Inc.	3,066	3,934
	63,081	40,980
Interest expense:		
To nonaffiliates	52,943	32,840
To PennyMac Financial Services, Inc.	1,796	1,976
	54,739	34,816
Net interest income	8,342	6,164
Results of real estate acquired in settlement of loans	(1,480)	(3,226)
Other	1,482	1,898
Net investment income	106,618	75,673
Expenses		
Earned by PennyMac Financial Services, Inc.:		
Mortgage loan fulfillment fees	27,574	11,944
Mortgage loan servicing fees	10,570	11,019
Management fees	7,248	5,696
Mortgage loan origination	2,277	272
Compensation	1,969	1,268
Mortgage loan collection and liquidation	1,584	2,229
Professional services	1,327	1,319
Real estate held for investment	1,054	1,438
Other	3,148	2,650
Total expenses	56,751	37,835
Income before (benefit from) provision for income taxes	49,867	37,838

(Benefit from) provision for income taxes	(3,660)	9,652
Net income	53,527	28,186
Dividends on preferred shares	6,234	6,234
Net income attributable to common shareholders	$47,293	$21,952
Earnings per common share		
Basic	$0.73	$0.36
Diluted	$0.68	$0.35
Weighted average common shares outstanding		
Basic	64,629	60,761
Diluted	73,371	69,875
Dividends declared per common share	$0.47	$0.47

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	Preferred shares		Common shares				
	Number of shares	Amount	Number of shares	Par value	Additional paid-in capital	Accumulated deficit	Total
	(in thousands, except per share amounts)						
Balance at December 31, 2017	12,400	$299,707	61,334	$613	$1,290,931	$ (46,666)	$1,544,585
Cumulative effect of a change in accounting principle—Adoption of fair value accounting for mortgage servicing rights	—	—	—	—	—	14,361	14,361
Balance at January 1, 2018	12,400	299,707	61,334	613	1,290,931	(32,305)	1,558,946
Net income	—	—	—	—	—	28,186	28,186
Share-based compensation	—	—	220	2	897	—	899
Dividends:							
Common shares ($0.47 per share)	—	—	—	—	—	(28,818)	(28,818)
Preferred shares	—	—	—	—	—	(6,236)	(6,236)
Repurchase of common shares	—	—	(671)	(6)	(10,713)	—	(10,719)
Balance at March 31, 2018	12,400	$299,707	60,883	$609	$1,281,115	$ (39,173)	$1,542,258
Balance at December 31, 2018	12,400	$299,707	60,951	$610	$1,285,533	$ (19,718)	$1,566,132
Net income	—	—	—	—	—	53,527	53,527
Share-based compensation	—	—	240	2	(985)	—	(983)
Issuance of common shares	—	—	7,221	72	149,395	—	149,467
Issuance costs relating to common shares	—	—	—	—	(2,056)	—	(2,056)
Dividends:							
Common shares ($0.47 per share)	—	—	—	—	—	(32,262)	(32,262)
Preferred shares	—	—	—	—	—	(6,236)	(6,236)
Balance at March 31, 2019	12,400	$299,707	68,412	$684	$1,431,887	$ (4,689)	$1,727,589

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Cash flows from operating activities		
Net income	$53,527	$28,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on investments	(95,093)	(18)
Net gain on mortgage loans acquired for sale at fair value	(21,323)	(7,627)
Net change in fair value of mortgage servicing rights	96,194	(5,125)
Accrual of interest on excess servicing spread purchased from PennyMac Financial Services, Inc.	(3,066)	(3,934)
Capitalization of interest and fees on mortgage loans at fair value	(762)	(2,180)
Amortization of debt issuance (premiums) and costs, net	(4,899)	236
Accrual of unearned discounts and amortization of premiums on mortgage-backed securities, mortgage loans at fair value, and asset-backed financing of a VIE	5,252	507
Results of real estate acquired in settlement of loans	1,480	3,226
Share-based compensation expense	1,617	899
Purchase of mortgage loans acquired for sale at fair value from nonaffiliates	(15,473,441)	(13,524,468)
Purchase of mortgage loans acquired for sale at fair value from PennyMac Financial Services, Inc.	(884,510)	(781,326)
Repurchase of mortgage loans subject to representation and warranties	(2,880)	(2,830)
Sale to nonaffiliates and repayment of mortgage loans acquired for sale at fair value	9,475,174	5,200,584
Sale of mortgage loans acquired for sale to PennyMac Financial Services, Inc.	6,959,390	9,212,188
Settlement of repurchase agreement derivatives	4,492	—
Decrease in servicing advances	33,052	17,204
Decrease in due from PennyMac Financial Services, Inc.	713	3,767
Decrease (Increase) in other assets	6,846	(25,462)
Increase (decrease) in accounts payable and accrued liabilities	313	(1,229)
(Decrease) increase in due to PennyMac Financial Services, Inc.	(3,513)	237
(Decrease) increase in income taxes payable	(3,660)	9,652
Net cash provided by operating activities	144,903	122,487
Cash flows from investing activities		
Net decrease (increase) in short-term investments	45,099	(52,646)
Purchase of mortgage-backed securities at fair value	—	(500,573)
Sale and repayment of mortgage-backed securities at fair value	53,682	30,741
Repurchase of mortgage loans at fair value	(1,077)	—
Sale and repayment of mortgage loans at fair value	8,436	276,467
Repayment of excess servicing spread by PennyMac Financial Services, Inc.	10,552	12,291
Net settlement of derivative financial instruments	(4,814)	(2,329)
Sale of real estate acquired in settlement of loans	16,900	32,437
Distribution from credit risk transfer agreements	30,262	27,655
Deposit of cash securing credit risk transfer agreements	—	(41,789)
Decrease (increase) in margin deposits	16,429	(9,823)

Net cash provided by (used in) investing activities	175,469	(227,569)

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Cash flows from financing activities		
Sale of assets under agreements to repurchase	22,303,421	17,446,171
Repurchase of assets sold under agreements to repurchase	(22,901,600)	(17,218,539)
Issuance of mortgage loan participation certificates	1,661,385	1,208,189
Repayment of mortgage loan participation certificates	(1,766,937)	(1,252,708)
Issuance of note payable	295,730	—
Repayment of asset-backed financing of a variable interest entity at fair value	(4,669)	(3,915)
Advances under assets sold to PennyMac Financial Services, Inc. under agreements to repurchase	—	2,293
Repurchase of assets sold to PennyMac Financial Services, Inc. under agreement to repurchase	(5,096)	(3,483)
Payment of debt issuance costs	(3,520)	(2,306)
Payment of dividends to preferred shareholders	(6,236)	(6,236)
Payment of dividends to common shareholders	(28,816)	(29,145)
Issuance of common shares	149,467	—
Payment of issuance costs related to common shares	(2,056)	—
Payment of vested share withholdings	(2,600)	—
Payment of contingent underwriting fees payable	(152)	—
Repurchase of common shares	—	(10,719)
Net cash (used in) provided by financing activities	(311,679)	129,602
Net increase in cash	8,693	24,520
Cash at beginning of quarter	59,845	77,647
Cash at end of quarter	$68,538	$102,167

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1—Organization

PennyMac Mortgage Investment Trust ("PMT" or the "Company") is a specialty finance company, which, through its subsidiaries (all of which are wholly-owned), invests primarily in residential mortgage-related assets. The Company operates in four segments: correspondent production, credit sensitive strategies, interest rate sensitive strategies and corporate:

- 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"), both indirect controlled subsidiaries of PennyMac Financial Services, Inc. ("PFSI").

Almost all of the mortgage loans the Company has acquired in its correspondent production activities have been eligible for sale to government-sponsored entities ("GSEs") 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 credit sensitive strategies segment represents the Company's investments in credit risk transfer ("CRT") arrangements, including CRT agreements ("CRT Agreements") and CRT securities, distressed mortgage loans, real estate acquired in settlement of mortgage loans ("REO"), real estate held for investment, non-Agency subordinated bonds and small balance commercial real estate mortgage loans.
- The interest rate sensitive strategies segment represents the Company's investments in mortgage servicing rights ("MSRs"), excess servicing spread purchased from PFSI ("ESS"), Agency and senior non-Agency MBS and the related interest rate hedging activities.
- The corporate segment includes management fees, corporate expense amounts and certain interest income.

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 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. To maintain its tax status as a REIT, the Company is required to distribute at least 90% of its taxable income in the form of qualifying distributions to shareholders.

Note 2—Basis of Presentation

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, 2018 (the "Annual Report").

The accompanying unaudited consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, 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.

The Company held no restricted cash during the Quarters presented. Therefore the consolidated statements of cash flows do not include references to restricted cash.

Note 3—Accounting Development

Stock Compensation

The Company adopted Accounting Standard Update 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* ("ASU 2018-07"), effective January 1, 2019. ASU 2018-07 expands the scope of the *Compensation—Stock Compensation* topic of the ASC, which provides accounting guidance relating to share-based payments issued to employees, to include share-based payments issued to non-employees of the Manager and its affiliates for goods or services. Consequently, under ASU 2018-07, the accounting for share-based payments to employees of the Manager and its affiliates is now substantially aligned with the Company's present accounting for share-based payments to its trustees.

The Company issues share-based compensation to certain employees of the Manager and its affiliates. Through December 31, 2018, the Company accounted for share-based payments to employees of the Manager and its affiliates under the guidance of *Equity – Equity-Based Payments to Non-Employees* topic of the ASC. Under that topic, the measure of cost relating to such grants was generally established based on the fair value of the shares upon vesting of the share-based awards. Accordingly, the Manager's estimate of compensation costs, and by extension periodic expense amounts, fluctuated with movements in the Company's common share price during the period that expense relating to the grants is being recognized. As a result of the adoption of ASU 2018-07, the cost of share-based grants made to employees of the Manager and its affiliates are fixed at the date of the grant for restricted share units issued to employees of the Manager and its affiliates and variable to the extent of changes in performance attainment expectations for performance share units issued to all grantees.

Upon adoption of ASU 2018-07, the Company did not record a cumulative effect adjustment to its accumulated deficit.

Note 4—Concentration of Risks

As discussed in Note 1— *Organization* above, PMT's operations and investing activities are centered in residential mortgage-related assets, including CRT arrangements and distressed mortgage loans. These investments include assets that are more sensitive to borrower creditworthiness than other mortgage investments such as traditional mortgage loans and mortgage-backed securities.

As detailed in Note 6 – *Loan Sales and Variable Interest Entities*, the Company also invests in CRT arrangements whereby it sells pools of recently-originated mortgage loans into Fannie Mae-guaranteed securitizations while either:

- through May 2018, retaining a portion of the credit risk underlying such mortgage loans as part of the retention of an interest-only ("IO") ownership interest in such mortgage loans and an obligation to absorb credit losses arising from such mortgage loans ("Recourse Obligations"); or
- beginning in June 2018, entering into a firm commitment to purchase CRT securities that absorb losses from defaults of such loans.

The Company's retention of credit risk through its investment in CRT arrangements subjects it to risks associated with delinquency and foreclosure similar to the risks associated with owning the related mortgage loans, and, in the case of CRT Agreements, exposes the Company to risk of loss greater than the risks associated with selling such mortgage loans to Fannie Mae without the retention of such credit risk.

CRT Agreements are structured such that mortgage loans that reach a specific number of days delinquent will trigger losses chargeable to the CRT Agreements in proportion to the size of the loan and a contractual schedule of loss severity. Therefore, the risks associated with delinquency and foreclosure may in some instances be greater than the risks associated with owning the related mortgage loans because the structure of certain of the CRT Agreements provides that the Company may be required to realize losses in the event of delinquency or foreclosure even when there is ultimately no loss realized with respect to such loans (e.g., as a result of a borrower's re-performance).

At the beginning of the aggregation period and before the settlement of the CRT securities, the Company makes a firm commitment to purchase the CRT securities. The Company has elected to account for these commitments at fair value. Accordingly, the Company recognizes the fair value of such commitment as it sells loans subject to the firm commitment, and also recognizes changes in fair value of the firm commitment during the time it is outstanding. Unlike the Company's investment in CRT Agreements before June 2018, the structure of its investment in CRT securities only requires the Company to absorb incurred losses when the reference mortgage loans realize actual losses.

In addition to the risks specific to credit, the Company is exposed to market risk and, as a result of prevailing market conditions or the economy generally, may be required to recognize losses associated with adverse changes to the fair value of the CRT arrangements.

Note 5—Transactions with Related Parties

Operating Activities

Correspondent Production Activities

The Company is provided fulfillment and other services by PLS under an amended and restated mortgage banking services agreement.

Pursuant to the terms of the agreement, the monthly fulfillment fee is an amount that shall equal (a) no greater than the product of (i) 0.35% and (ii) the aggregate initial unpaid principal balance (the “Initial UPB”) of all mortgage loans purchased in such month, plus (b) in the case of all mortgage loans other than mortgage loans sold to or securitized through Fannie Mae or Freddie Mac, no greater than the product of (i) 0.50% and (ii) the aggregate Initial UPB of all such mortgage loans sold and securitized in such month; provided however, that no fulfillment fee shall be due or payable to PLS with respect to any mortgage loans underwritten to the Ginnie Mae MBS Guide.

The Company does not hold the Ginnie Mae approval required to issue securities guaranteed by Ginnie Mae MBS and act as a servicer. Accordingly, under the agreement, PLS currently purchases loans saleable in accordance with the Ginnie Mae MBS Guide “as is” and without recourse of any kind from the Company at cost less any administrative fees paid by the correspondent to the Company plus accrued interest and a sourcing fee ranging from two to three and one-half basis points, generally based on the average number of calendar days loans are held by the Company prior to purchase by PLS.

The mortgage banking services agreement expires on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

The Company purchases newly originated conforming balance non-government insured or guaranteed mortgage loans from PLS under a mortgage loan purchase and sale agreement.

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

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Mortgage loan fulfillment fees earned by PLS	$27,574	$11,944
UPB of mortgage loans fulfilled by PLS	$8,135,552	$4,225,631
Sourcing fees received from PLS included in		
Net gain on mortgage loans acquired for sale	$1,994	$2,641
UPB of mortgage loans sold to PLS	$6,647,338	$8,847,873
Purchases of mortgage loans acquired for sale from PLS	$884,510	$781,326
Tax service fee paid to PLS included in *Other* expense	$2,243	$1,208

	March 31, 2019	December 31, 2018
	(in thousands)	
Mortgage loans included in *Mortgage loans acquired* for sale at fair value pending sale to PLS	$195,839	$ 86,308

Mortgage Loan Servicing

The Company, through its Operating Partnership, has an amended and restated mortgage loan servicing agreement with PLS dated as of September 12, 2016, pursuant to which PLS provides servicing for the Company's portfolio of residential mortgage loans and subservicing for its portfolio of MSRs. The servicing agreement provides for servicing fees earned by PLS that are based on a percentage of the mortgage loan’s unpaid principal balance or fixed per loan monthly amounts based on the delinquency, bankruptcy and/or foreclosure status of the serviced mortgage loan or the REO. PLS is also entitled to market-based fees and charges including boarding and deboarding fees, liquidation and disposition, assumption, modification and origination fees and a percentage of late charges relating to mortgage loans it services for the Company.

The base servicing fee rates for distressed whole mortgage loans range from $30 per month for current loans up to $85 per month for loans where the borrower has declared bankruptcy. The base servicing fee rate for REO is $75 per month.

To the extent that the Company rents its REO under an REO rental program, the Company pays PLS an REO rental fee of $30 per month per REO, an REO property lease renewal fee of $100 per lease renewal, and a property management fee in an amount equal to PLS' cost if property management services and/or any related software costs are outsourced to a third-party property management firm or 9% of gross rental income if PLS provides property management services directly. PLS is also entitled to retain any tenant paid application fees and late rent fees and seek reimbursement for certain third party vendor fees.

Except as otherwise provided in the MSR recapture agreement, when PLS effects a refinancing of a mortgage loan on behalf of the Company and not through a third-party lender and the resulting mortgage loan is readily saleable, or PLS originates a loan to facilitate the disposition of an REO, PLS is entitled to receive from the Company market-based fees and compensation consistent with pricing and terms PLS offers unaffiliated parties on a retail basis.

PLS is required to provide a range of services and activities significantly greater in scope than the services provided in connection with a customary servicing arrangement because the Company has a small number of employees and limited infrastructure. For these services, PLS received a supplemental fee of $25 per month for each distressed whole loan. PLS is entitled to reimbursement for all customary, good faith reasonable and necessary out-of-pocket expenses incurred in the performance of its servicing obligations.

PLS, on behalf of the Company, is entitled to retain any incentive payments made to it and to which it is entitled under the U.S. Department of Treasury's Home Affordable Modification Plan ("HAMP"); provided, however, that with respect to any such incentive payments paid to PLS under HAMP in connection with a mortgage loan modification for which the Company previously paid PLS a modification fee, PLS shall reimburse the Company an amount equal to the incentive payments.

PLS is also entitled to certain activity-based fees for distressed whole mortgage loans that are charged based on the achievement of certain events. These fees range from $750 for a streamline modification to $1,750 for a full modification or liquidation and $500 for a deed-in-lieu of foreclosure. PLS is not entitled to earn more than one liquidation fee, reperformance fee or modification fee per mortgage loan in any 18-month period.

The base servicing fees for non-distressed mortgage loans subserviced by PLS on the Company's behalf are also calculated through a monthly per-loan dollar amount, with the actual dollar amount for each loan based on whether the mortgage loan is a fixed-rate or adjustable-rate loan. The base servicing fees for loans subserviced on the Company's behalf are $7.50 per month for fixed-rate loans and $8.50 per month for adjustable-rate mortgage loans.

To the extent that these non-distressed mortgage loans become delinquent, PLS is entitled to an additional servicing fee per mortgage loan ranging from $10 to $55 per month and based on the delinquency, bankruptcy and foreclosure status of the mortgage loan or $75 per month if the underlying mortgaged property becomes REO. PLS is also entitled to customary ancillary income and certain market-based fees and charges, including boarding and deboarding fees, liquidation and disposition fees, assumption, modification and origination fees.

The term of the servicing agreement expires on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the servicing agreement.

Pursuant to the terms of an amended and restated MSR recapture agreement, if PLS refinances mortgage loans for which the Company previously held the MSRs, PLS is generally required to transfer and convey to one of the Company's wholly-owned subsidiaries cash in an amount equal to 30% of the fair market value of the MSRs related to all the loans so originated. The MSR recapture agreement expires, unless terminated earlier in accordance with the agreement, on September 12, 2020, subject to automatic renewal for additional 18-month periods.

Following is a summary of mortgage loan servicing fees earned by PLS and MSR recapture income earned from PLS:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Mortgage loan servicing fees:		
Mortgage loans acquired for sale at fair value	$239	$178
Mortgage loans at fair value	463	3,119
MSRs	9,868	7,722
	$10,570	$11,019
Average investment in:		
Mortgage loans acquired for sale at fair value	$1,633,711	$1,046,289
Mortgage loans at fair value:		
Distressed mortgage loans	$112,923	$738,333
Mortgage loans held in a VIE	$289,771	$314,717
Average MSR portfolio UPB	$95,953,915	$73,694,438
MSR recapture income recognized included in *Net mortgage loan servicing fees—from PennyMac* Financial Services, Inc.	$634	$595

Management Fees

The Company has a management agreement with PCM, which was amended and restated effective as of September 12, 2016. Under the management agreement, the Company pays PCM management fees as follows:

A base management fee that is calculated quarterly and is equal to the sum of (i) 1.5% per year of average shareholders' equity up to $2 billion, (ii) 1.375% per year of average shareholders' equity in excess of $2 billion and up to $5 billion, and (iii) 1.25% per year of average shareholders' equity in excess of $5 billion.

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

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

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

"Net income" is defined as net income or loss attributable to common shares of beneficial interest computed in accordance with GAAP and certain other non-cash charges determined after discussions between PCM and the Company's independent trustees and after approval by a majority of the Company's independent trustees.

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

The “high watermark” is the quarterly adjustment that reflects the amount by which the “net income” (stated as a percentage of return on equity) in that quarter exceeds or falls short of the lesser of 8% and the average Fannie Mae 30-year MBS yield (the target yield) for the four quarters then ended. The “high watermark” starts at zero and is adjusted quarterly. If the “net income” is lower than the target yield, the high watermark is increased by the difference. If the “net income” is higher than the target yield, the high watermark is reduced by the difference. Each time a performance incentive fee is earned, the high watermark returns to zero. As a result, the threshold amounts required for PCM to earn a performance incentive fee are adjusted cumulatively based on the performance of PMT’s “net income” over (or under) the target yield, until the “net income” in excess of the target yield exceeds the then-current cumulative high watermark amount.

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

The management agreement expires on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement. In the event of termination of the management agreement between the Company and PCM, PCM may be entitled to a termination fee in certain circumstances. The termination fee is equal to three times the sum of (a) the average annual base management fee, and (b) the average annual performance incentive fee earned by PCM, in each case during the 24-month period immediately preceding the date of termination.

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

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Base management	$6,109	$5,696
Performance incentive	1,139	—
	$7,248	$5,696

In the event of termination of the management agreement between the Company and PCM, PCM may be entitled to a termination fee in certain circumstances. The termination fee is equal to three times the sum of (a) the average annual base management fee, and (b) the average annual performance incentive fee earned by PCM, in each case during the 24-month period before termination.

Expense Reimbursement and Amounts Payable to and Receivable from PCM

Under the management agreement, PCM is entitled to reimbursement of its organizational and operating expenses, including third-party expenses, incurred on the Company's behalf, it being understood that PCM and its affiliates shall allocate a portion of their personnel's time to provide certain legal, tax and investor relations services for the direct benefit of the Company. With respect to the allocation of PCM's and its affiliates' compensation expenses, from and after September 12, 2016, PCM shall be reimbursed $120,000 per fiscal quarter, such amount to be reviewed annually and to not preclude reimbursement for any other services performed by PCM or its affiliates.

The Company is required to pay PCM and its affiliates a portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of PCM and its affiliates required for the Company's and its subsidiaries' operations. These expenses are allocated based on the ratio of the Company's and its subsidiaries' proportion of gross assets compared to all remaining gross assets managed by PCM as calculated at each fiscal quarter end.

Following is a summary of the Company's reimbursements to PCM and its affiliates for expenses:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Reimbursement of:		
Common overhead incurred by PCM and its affiliates	$1,236	$1,001

Compensation	120	120
Expenses incurred on the Company's behalf, net	570	573
	$1,926	$1,694
Payments and settlements during the quarter (1)	$15,189	$7,658

(1) Payments and settlements include payments and netting settlements made pursuant to master netting agreements between the Company and PFSI for the operating, investment and financing activities itemized in this Note.

Investing Activities

Spread Acquisition and MSR Servicing Agreements

On December 19, 2016, the Company, through a wholly-owned subsidiary, PennyMac Holdings, LLC ("PMH"), amended and restated a master spread acquisition and MSR servicing agreement with PLS (the "Spread Acquisition Agreement"), pursuant to which the Company may purchase from PLS, from time to time, the right to receive participation certificates representing beneficial ownership in ESS arising from Ginnie Mae MSRs acquired by PLS, in which case PLS generally would be required to service or subservice the related mortgage loans for Ginnie Mae. The primary purpose of the amendment and restatement was to facilitate the continued financing of the ESS owned by the Company in connection with the parties' participation in the GNMA MSR Facility (as defined below).

To the extent PLS refinances any of the mortgage loans relating to the ESS the Company has acquired, the Spread Acquisition Agreement also contains recapture provisions requiring that PLS transfer to the Company, at no cost, the ESS relating to a certain percentage of the unpaid principal balance of the newly originated mortgage loans. However, under the Spread Acquisition Agreement, in any month where the transferred ESS relating to newly originated Ginnie Mae mortgage loans is not equivalent to at least 90% of the product of the excess servicing fee rate and the unpaid principal balance of the refinanced mortgage loans, PLS is also required to transfer additional ESS or cash in the amount of such shortfall. Similarly, in any month where the transferred ESS relating to modified Ginnie Mae mortgage loans is not equivalent to at least 90% of the product of the excess servicing fee rate and the unpaid principal balance of the modified mortgage loans, the Spread Acquisition Agreement contains provisions that require PLS to transfer additional ESS or cash in the amount of such shortfall. To the extent the fair market value of the aggregate ESS to be transferred for the applicable month is less than $200,000, PLS may, at its option, settle its recapture liability to the Company in cash in an amount equal to such fair market value in lieu of transferring such ESS.

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

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
ESS:		
Received pursuant to a recapture agreement	$508	$ 904
Repayments and sales	$10,552	$ 12,291
Interest income	$3,066	$ 3,934
Net (loss) gain included in *Net gain (loss) on investments:*		
Valuation changes	$(4,051)	$ 6,921
Recapture income	489	830
	$(3,562)	$ 7,751

	March 31,	December 31,
	2019	2018
	(in thousands)	
Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value	$205,081	$ 216,110

Financing Activities

PFSI held 75,000 of the Company's common shares at both March 31, 2019 and December 31, 2018.

Repurchase Agreement with PLS

On December 19, 2016, the Company, through PMH, entered into a master repurchase agreement with PLS (the "PMH Repurchase Agreement"), pursuant to which PMH may borrow from PLS for the purpose of financing PMH's participation certificates representing beneficial ownership in ESS acquired from PLS under the Spread Acquisition Agreement. PLS then re-pledges such participation certificates to PNMAC GMSR ISSUER TRUST (the "Issuer Trust") under a master repurchase agreement by and among PLS, the Issuer Trust and Private National Mortgage Acceptance Company, LLC, as guarantor (the "PC Repurchase Agreement"). The Issuer Trust was formed for the purpose of allowing PLS to finance MSRs and ESS relating to such MSRs (the "GNMA MSR Facility").

In connection with the GNMA MSR Facility, PLS pledges and/or sells to the Issuer Trust participation certificates representing beneficial interests in MSRs and ESS pursuant to the terms of the PC Repurchase Agreement. In return, the Issuer Trust (a) has issued to PLS, pursuant to the terms of an indenture, the Series 2016-MSRVF1 Variable Funding Note, dated December 19, 2016, known as the “PNMAC GMSR ISSUER TRUST MSR Collateralized Notes, Series 2016-MSRVF1” (the “VFN”), and (b) may, from time to time pursuant to the terms of any supplemental indenture, issue to institutional investors additional term notes (“Term Notes”), in each case secured on a pari passu basis by the participation certificates relating to the MSRs and ESS. The maximum principal balance of the VFN is $1 billion.

The principal amount paid by PLS for the participation certificates under the PMH Repurchase Agreement is based upon a percentage of the market value of the underlying ESS. Upon PMH’s repurchase of the participation certificates, PMH is required to repay PLS the principal amount relating thereto plus accrued interest (at a rate reflective of the current market and consistent with the weighted average note rate of the VFN and any outstanding Term Notes) to the date of such repurchase. PLS is then required to repay the Issuer Trust the corresponding amount under the PC Repurchase Agreement.

Conditional Reimbursement of Initial Public Offering ("IPO") Underwriting Fees

In connection with its 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 (the "Conditional Reimbursement"). Also in connection with its IPO, the Company agreed to pay the IPO underwriters up to $5.9 million in contingent underwriting fees. On February 1, 2019, the term of the reimbursement agreement was extended and now expires on February 1, 2023.

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

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Sale of assets under agreements to repurchase	$—	$2,293
Repurchase of assets sold under agreements to repurchase	$5,096	$3,483
Interest expense	$1,796	$1,976
Conditional Reimbursement paid to:		
PCM	$75	$—
Underwriters	$152	$—

	March 31, 2019	December 31, 2018
	(in thousands)	
Assets sold to PFSI under agreement to repurchase	$125,929	$ 131,025
Conditional Reimbursement payable to PCM included in *Accounts payable and accrued liabilities*	$726	$ 801

Amounts Receivable from and Payable to PFSI

Amounts receivable from and payable to PFSI are summarized below:

	March 31, 2019	December 31, 2018
	(in thousands)	
Due from PFSI:		
MSR recapture receivable	$160	$ 179
Other	3,185	3,898
	$3,345	$ 4,077
Due to PFSI:		
Fulfillment fees	$11,744	$ 10,006
Management fees	7,238	6,559
Mortgage loan servicing fees	4,350	4,841
Allocated expenses and expenses paid by PFSI on PMT's behalf	3,907	9,066
Correspondent production fees	1,852	2,071
Conditional Reimbursement	726	801

Interest on *Assets sold to PFSI under agreement to repurchase*	134	120
	$29,951	$ 33,464

Note 6—Loan Sales and Variable Interest Entities

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

Unconsolidated VIEs with Continuing Involvement

The following table summarizes cash flows between the Company and transferees in transfers of mortgage loans that are accounted for as sales where the Company maintains continuing involvement with the mortgage loans:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Cash flows:		
Proceeds from sales	$9,475,174	$5,200,584
Mortgage loan servicing fees received (1)	$61,272	$48,732

(1) Net of guarantee fees

The following table summarizes collection status information for mortgage loans that are accounted for as sales where the Company maintains continuing involvement for the dates presented:

	March 31, 2019	December 31, 2018
	(in thousands)	
UPB of mortgage loans outstanding	$98,863,013	$91,982,335
UPB of delinquent mortgage loans:		
30-89 days delinquent	$564,184	$614,668
90 or more days delinquent:		
Not in foreclosure	$157,127	$142,871
In foreclosure	$39,739	$40,445
UPB of mortgage loans in bankruptcy	$88,936	$75,947
Custodial funds managed by the Company (1)	$1,384,404	$970,328

(1) Custodial funds include borrower and investor custodial cash accounts relating to mortgage loans serviced under mortgage servicing agreements and are not included on the Company's consolidated balance sheets. The Company earns placement fees on certain of the custodial funds it manages on behalf of the mortgage loans' borrowers and investors, which are included in *Interest income* in the Company's consolidated statements of income.

Consolidated VIEs

Credit Risk Transfer Transactions

The Company has entered into mortgage loan sales arrangements pursuant to which it accepts credit risk relating to certain of its mortgage loan sales. These arrangements include CRT Agreements and sales of mortgage loans that include commitments to purchase CRT securities that absorb credit losses on such mortgage loans.

The Company, through its subsidiary, PennyMac Corp. (“PMC”), entered into CRT Agreements with Fannie Mae, pursuant to which PMC, through subsidiary trust entities, sold pools of mortgage loans into Fannie Mae-guaranteed securitizations while retaining Recourse Obligations in addition to IO ownership interests in such mortgage loans. The transfers of mortgage loans subject to CRT Agreements were accounted for as sales. The Company placed *Deposits securing CRT Agreements* into the subsidiary trust entities to secure its Recourse Obligations. The *Deposits securing CRT Agreements* represent the Company’s maximum contractual exposure to claims under its Recourse Obligations and is the sole source of settlement of losses under the CRT Agreements.

The Company’s exposure to losses under its Recourse Obligation was initially established at 3.5% of the UPB of the mortgage loans sold under the CRT Agreements. As the UPB of the underlying mortgage loans subject to each CRT Agreement is reduced through repayments, the percentage exposure of each CRT Agreement will increase to a maximum of 4.5% of outstanding UPB, although the total dollar amount of exposure to losses does not increase. Gains and losses on derivatives related to CRT Agreements are included in *Net gain (loss) on investments* in the consolidated statements of income. The final sales of mortgage loans subject to the CRT Agreements were made during 2018.

Following is a summary of the CRT Agreements:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
UPB of mortgage loans sold under CRT Agreements	$—	$3,210,478
Deposits securing CRT Agreements	$—	$41,789
Increase (decrease) in commitments to fund *Deposits* securing CRT Agreements resulting from sale of mortgage loans under CRT Agreements	—	70,486
	$—	$112,275
Interest earned on *Deposits securing* CRT *Agreements*	$6,775	$2,031
Gains recognized on CRT Agreements included in *Net gain (loss) on investments*		
Realized	$21,043	$19,329
Resulting from valuation changes	6,460	5,355
	27,503	24,684
Change in fair value of *Interest-only security* payable at fair value	3,447	(2,133)
	$30,950	$22,551
Payments made to settle losses	$895	$828

	March 31, 2019	December 31, 2018
	(in thousands)	
UPB of mortgage loans subject to credit guarantee obligations	$29,265,550	$29,934,003
Collection status (in UPB):		
Delinquency		
Current	$28,989,452	$29,633,133
30—89 days delinquent	$198,833	$228,296
90—180 days delinquent	$41,299	$39,826
180 or more days delinquent	$2,704	$4,208
Foreclosure	$3,734	$5,180
Bankruptcy	$29,528	$23,360
Carrying value of CRT Agreements:		
Derivative assets	$130,447	$123,987
Deposits securing CRT Agreements	$1,137,283	$1,146,501
Interest-only security payable at fair value	$32,564	$36,011
CRT Agreement assets pledged to secure:		
Assets sold under agreements to repurchase		
Deposits securing CRT Agreements	$770,451	$1,146,501
Derivative assets	$73,148	$87,976
Notes payable		

Deposits securing CRT Agreements	$366,831	$—
Derivative assets	$24,735	$—

Effective in June 2018, the Company began entering into a different CRT arrangement. Under the new arrangement, the Company sells mortgage loans subject to agreements that require the Company to purchase securities that absorb credit losses on such mortgage loans. The Company has elected to account for the firm commitments to purchase such CRT securities at fair value. The Company recognizes these purchase commitments initially as a component of *Gain on sale of mortgage loans*; subsequent changes in fair value are recognized in *Net gain (loss) on investments*.

Following is a summary of activity under these purchase commitments:

	Quarter ended March 31, 2019 (in thousands)
UPB of mortgage loans sold	$7,702,080
Increase in expected face amount of firm commitment to purchase CRT securities backed by mortgage loans sold	$281,917
Fair value of firm commitment recognized in *Gain on sale of mortgage loans*	$19,600
Gains recognized on firm commitment included in *Net gain (loss) on investments*	$22,190

	March 31, 2019	December 31, 2018
	(in thousands)	
Face amount of firm commitment to purchase CRT securities	$886,969	$605,052
Fair value of firm commitment	$79,784	$37,994
UPB of mortgage loans sold subject to firm commitment to purchase CRT securities related to such loans	$23,652,494	$16,392,300
Collection status (in UPB):		
Current	$23,564,883	$16,329,044
30—89 days delinquent	$76,198	$61,035
90—180 days delinquent	$8,084	$2,221
180 or more days delinquent	$—	$—
Foreclosure	$1,599	$—
Bankruptcy	$1,730	$1,258

Jumbo Mortgage Loan Financing

On September 30, 2013, the Company completed a securitization transaction in which PMT Loan Trust 2013-J1, a VIE, issued $537.0 million in UPB of certificates backed by fixed-rate prime jumbo mortgage loans, at a 3.9% weighted yield. The fair value of the certificates retained by the Company was $14.0 million and $14.1 million as of March 31, 2019 and December 31, 2018, respectively. The Company includes the balance of certificates issued to nonaffiliates in *Asset backed financing of a variable interest entity at fair value.*

Note 7—Fair Value

The Company's consolidated financial statements include assets and liabilities that are measured at or 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 Company has elected to carry the item at its fair value as discussed in the following paragraphs.

The Company groups its assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the inputs used to determine fair value. These levels are:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Prices determined or determinable using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.
- Level 3—Prices determined using significant unobservable inputs. In situations where significant observable inputs are unavailable, unobservable inputs may be used. Unobservable inputs reflect the Company's own judgments about the factors that market participants use in pricing assets and liabilities, and are based on the best information available in the circumstances.
- As a result of the difficulty in observing certain significant valuation inputs affecting "Level 3" fair value assets and liabilities, the Company is required to make judgments regarding these items' fair values. Different persons in possession of the same facts may reasonably arrive at different conclusions as to the inputs to be applied in valuing these assets and liabilities and to their fair values. Such differences may result in significantly different fair value measurements. Likewise, due to the general illiquidity of some of these assets and liabilities, subsequent transactions may be at values significantly different from those reported.

Fair Value Accounting Elections

The Manager identified all of the Company's non-cash financial assets, firm commitment to purchase credit risk transfer securities and MSRs to be accounted for at fair value. The Company has elected to account for these assets 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 Company has also identified the Company's asset-backed financing of a VIE and interest only security payable at fair value 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 the assets at fair value collateralizing these financings. For other borrowings, the Company has determined that historical cost accounting is more appropriate because under this method debt issuance costs are amortized over the term of the debt facility, thereby matching the debt issuance cost to the periods benefiting from the availability of the debt.

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:

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Short-term investments	$29,751	$—	$—	$29,751
Mortgage-backed securities at fair value	—	2,589,106	—	2,589,106
Mortgage loans acquired for sale at fair value	—	1,416,710	18,361	1,435,071
Mortgage loans at fair value	—	289,552	109,112	398,664
Excess servicing spread purchased from PFSI	—	—	205,081	205,081
Derivative assets:				
CRT Agreements	—	—	130,447	130,447
Interest rate lock commitments	—	—	11,341	11,341
Repurchase agreement derivatives	—	—	17,701	17,701
Forward purchase contracts	—	26,570	—	26,570
Forward sale contracts	—	2,428	—	2,428
MBS put options	—	4,780	—	4,780
MBS call options	—	5,331	—	5,331
Call options on interest rate futures	10,699	—	—	10,699
Total derivative assets before netting	10,699	39,109	159,489	209,297
Netting	—	—	—	(20,587)
Total derivative assets after netting	10,699	39,109	159,489	188,710
Firm commitment to purchase credit risk transfer securities at fair value	—	—	79,784	79,784
Mortgage servicing rights at fair value	—	—	1,156,908	1,156,908
	$40,450	$4,334,477	$1,728,735	$6,083,075
Liabilities:				
Asset-backed financing of a VIE at fair value	$—	$275,509	$—	$275,509
Interest-only security payable at fair value	—	—	32,564	32,564
Derivative liabilities:				
Interest rate lock commitments	—	—	884	884

Forward purchase contracts	—	3,435	—	3,435
Forward sales contracts	—	20,490	—	20,490
Total derivative liabilities before netting	—	23,925	884	24,809
Netting	—	—	—	(16,059)
Total derivative liabilities after netting	—	23,925	884	8,750
	$—	$299,434	$33,448	$316,823

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Short-term investments	$74,850	$—	$—	$74,850
Mortgage-backed securities at fair value	—	2,610,422	—	2,610,422
Mortgage loans acquired for sale at fair value	—	1,626,483	17,474	1,643,957
Mortgage loans at fair value	—	290,573	117,732	408,305
Excess servicing spread purchased from PFSI	—	—	216,110	216,110
Derivative assets:				
CRT Agreements	—	—	123,987	123,987
Interest rate lock commitments	—	—	12,162	12,162
Repurchase agreement derivatives	—	—	14,511	14,511
Forward purchase contracts	—	14,845	—	14,845
Forward sale contracts	—	13	—	13
MBS put options	—	218	—	218
MBS call options	—	945	—	945
Call options on interest rate futures	5,137	—	—	5,137
Put options on interest rate futures	178	—	—	178
Total derivative assets before netting	5,315	16,021	150,660	171,996
Netting	—	—	—	(4,831)
Total derivative assets after netting	5,315	16,021	150,660	167,165
Firm commitment to purchase credit risk transfer securities at fair value	—	—	37,994	37,994
Mortgage servicing rights at fair value	—	—	1,162,369	1,162,369
	$80,165	$4,543,499	$1,702,339	$6,321,172
Liabilities:				
Asset-backed financing of a VIE at fair value	$—	$276,499	$—	$276,499
Interest-only security payable at fair value	—	—	36,011	36,011
Derivative liabilities:				
Interest rate lock commitments	—	—	174	174
Forward purchase contracts	—	43	—	43
Forward sales contracts	—	29,273	—	29,273
Total derivative liabilities before netting	—	29,316	174	29,490
Netting	—	—	—	(23,576)
Total derivative liabilities after netting	—	29,316	174	5,914
	$—	$305,815	$36,185	$318,424

The following is a summary of changes in items measured at fair value on a recurring basis using Level 3 inputs that are significant to the estimation of the fair values of the assets and liabilities at either the beginning or end of the quarters presented:

	Quarter ended March 31, 2019								
	Mortgage loans acquired for sale at fair value	Mortgage loans at fair value	Excess servicing spread	CRT Agreement derivatives	Interest rate lock commitments (1)	Repurchase agreement derivatives	Firm commitment to purchase CRT securities	Mortgage servicing rights	Total
	(in thousands)								
Assets									
Balance, December 31, 2018	$17,474	$117,732	$216,110	$123,987	$11,988	$14,511	$37,994	$1,162,369	$1,702,165
Purchases and issuances	3,331	1,077	—	—	2,971	7,913	—	—	15,292
Repayments and sales	(3,222)	(3,609)	(10,552)	(21,043)	—	(4,492)	—	—	(42,918)
Capitalization of interest and fees	—	762	3,066	—	—	—	—	—	3,828
Capitalization of advances	—	457	—	—	—	—	—	—	457
ESS received pursuant to a recapture agreement with PFSI	—	—	508	—	—	—	—	—	508
Amounts received as proceeds from sales of mortgage loans	—	—	—	—	—	—	19,600	131,868	151,468
Changes in fair value included in income arising from:									
Changes in instrument-specific credit risk	—	1,059	—	—	—	—	—	—	1,059
Other factors	(12)	(574)	(4,051)	27,503	25,531	(231)	22,190	(137,329)	(66,973)
	(12)	485	(4,051)	27,503	25,531	(231)	22,190	(137,329)	(65,914)

Transfers of mortgage loans to REO	—	(7,792)	—	—	—	—	—	—	(7,792)
Transfers of mortgage loans acquired for sale at fair value from "Level 2" to "Level 3" (2)	790	—	—	—	—	—	—	—	790
Transfers of interest rate lock commitments to mortgage loans acquired for sale	—	—	—	—	(30,033)	—	—	—	(30,033)
Balance, March 31, 2019	$18,361	$109,112	$205,081	$130,447	$10,457	$17,701	$79,784	$1,156,908	$1,727,851
Changes in fair value recognized during the quarter relating to assets still held at March 31, 2019	$(54)	$329	$(4,051)	$6,460	$10,457	$—	$22,190	$(137,329)	$(101,998)

(1) For the purpose of this table, the interest rate lock commitment ("IRLC") asset and liability positions are shown net.
(2) During the quarter ended March 31, 2019, the Manager identified certain "Level 2" fair value mortgage loans acquired for sale that were not saleable into the prime mortgage market and therefore transferred them to "Level 3".

	Quarter ended March 31, 2019 Interest-only security payable (in thousands)
Liabilities:	
Balance, December 31, 2018	$ 36,011
Changes in fair value included in income arising from:	
Changes in instrument-specific credit risk	—
Other factors	(3,447)
	(3,447)

Balance, March 31, 2019	$ 32,564
Changes in fair value recognized during the quarter relating to liability outstanding at March 31, 2019	$ (3,447)

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	Quarter ended March 31, 2018							
	Mortgage loans acquired for sale at fair value	Mortgage loans at fair value	Excess servicing spread	CRT Agreement derivatives	Interest rate lock commitments (1)	Repurchase agreement derivatives	Mortgage servicing rights	Total
	(in thousands)							
Assets:								
Balance, December 31, 2017	$8,135	$768,433	$236,534	$98,640	$4,632	$3,748	$91,459	$1,211,581
Cumulative effect of a change in accounting principle — Adoption of fair value accounting for mortgage servicing rights	—	—	—	—	—	—	773,035	773,035
Balance, January 1, 2018	$8,135	$768,433	$236,534	$98,640	$4,632	$3,748	$864,494	$1,984,616
Purchases and issuances	2,831	—	—	—	4,609	2,164	—	9,604
Repayments and sales	(3,539)	(272,513)	(12,291)	(19,329)	—	(8)	—	(307,680)
Capitalization of interest and fees	—	2,180	3,934	—	—	—	—	6,114
Capitalization of advances	—	1,677	—	—	—	—	—	1,677
ESS received pursuant to a recapture agreement with PFSI	—	—	904	—	—	—	—	904
Amounts received as proceeds from sales of mortgage loans	—	—	—	—	—	—	66,546	66,546
Changes in fair value included in								

income arising from:								
Changes in instrument-specific credit risk	—	2,681	—	—	—	—	—	2,681
Other factors	103	(12,632)	6,921	24,684	(19,467)	(12)	25,973	25,570
	103	(9,951)	6,921	24,684	(19,467)	(12)	25,973	28,251
Transfers of mortgage loans to REO	—	(21,439)	—	—	—	—	—	(21,439)
Transfers of mortgage loans acquired for sale at fair value from "Level 2" to "Level 3" (2)	160	—	—	—	—	—	—	160
Transfers of interest rate lock commitments to mortgage loans acquired for sale	—	—	—	—	12,935	—	—	12,935
Balance, March 31, 2018	$7,690	$468,387	$236,002	$103,995	$2,709	$5,892	$957,013	$1,781,688
Changes in fair value recognized during the quarter relating to assets still held at March 31, 2018	$(14)	$(9,040)	$6,921	$5,355	$2,709	$77	$25,973	$31,981

(1) For the purpose of this table, the IRLC asset and liability positions are shown net.
(2) During the quarter ended March 31, 2018, the Manager identified certain “Level 2” fair value mortgage loans acquired for sale that were not saleable into the prime mortgage market and therefore transferred them to “Level 3”.

	Quarter ended March 31, 2018 Interest-only security payable (in thousands)
Liabilities:	
Balance, December 31, 2017	$ 7,070
Changes in fair value included in income arising from:	
Changes in instrument-specific credit risk	—
Other factors	726
	726
Balance, March 31, 2018	$ 7,796
Changes in fair value recognized during the quarter relating to liability outstanding at March 31, 2018	$ 726

The Company had transfers among the fair value levels arising from transfers of IRLCs to mortgage loans held for sale at fair value upon purchase of the respective mortgage loans.

Following are the fair values and related principal amounts due upon maturity of mortgage loans accounted for under the fair value option (including mortgage loans acquired for sale, mortgage loans held in a consolidated VIE, and distressed mortgage loans):

	March 31, 2019			December 31, 2018		
	Fair value	Principal amount due upon maturity	Difference	Fair value	Principal amount due upon maturity	Difference
	(in thousands)					
Mortgage loans acquired for sale at fair value:						
Current through 89 days delinquent:	$ 1,434,210	$ 1,377,712	$ 56,498	$ 1,643,465	$ 1,580,504	$ 62,961
90 or more days delinquent:						
Not in foreclosure	377	490	(113)	492	492	—
In foreclosure	484	504	(20)	—	—	—
	861	994	(133)	492	492	—
	$ 1,435,071	$ 1,378,706	$ 56,365	$ 1,643,957	$ 1,580,996	$ 62,961
Mortgage loans at fair value:						

Mortgage loans held in a consolidated VIE:						
Current through 89 days delinquent	$ 288,670	$ 289,006	$ (336)	$ 290,573	$ 294,617	$ (4,044)
90 or more days delinquent:						
Not in foreclosure	882	883	(1)	—	—	—
In foreclosure	—	—	—	—	—	—
	882	883	(1)	—	—	—
	289,552	289,889	(337)	290,573	294,617	(4,044)
Distressed mortgage loans at fair value:						
Current through 89 days delinquent	33,202	48,119	(14,917)	28,806	43,043	(14,237)
90 or more days delinquent:						
Not in foreclosure	32,009	63,474	(31,465)	37,288	71,732	(34,444)
In foreclosure	43,901	74,894	(30,993)	51,638	86,259	(34,621)
	75,910	138,368	(62,458)	88,926	157,991	(69,065)
	109,112	186,487	(77,375)	117,732	201,034	(83,302)
	$ 398,664	$ 476,376	$ (77,712)	$ 408,305	$ 495,651	$ (87,346)

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

	Quarter ended March 31, 2019				
	Net mortgage loan servicing fees	Net gain on mortgage loans acquired for sale	Net gain (loss) on investments	Net interest income	Total
	(in thousands)				
Assets:					
Short-term investments at fair value	$—	$—	$ —	$—	$—
Mortgage-backed securities at fair value	—	—	36,922	(4,556)	32,366
Mortgage loans acquired for sale at fair value	—	37,803	—	—	37,803
Mortgage loans at fair value	—	—	4,070	883	4,953
ESS at fair value	—	—	(4,051)	3,066	(985)
Firm commitment to purchase credit risk transfer securities at fair value	—	19,600	22,190	—	41,790
MSRs at fair value	(137,329)	—	—	—	(137,329)
	$(137,329)	$57,403	$ 59,131	$(607)	$(21,402)
Liabilities:					
Interest-only security payable at fair value	$—	$—	$ 3,447	$—	$3,447
Asset-backed financing of a VIE at fair value	—	—	(2,857)	(821)	(3,678)
	$—	$—	$ 590	$(821)	$(231)

	Quarter ended March 31, 2018				
	Net mortgage servicing fees	Net gain on mortgage loans acquired for sale	Net gain (loss) on investments	Net interest income	Total
	(in thousands)				
Assets:					
Short-term investments at fair value	$—	$—	$ —	$—	$—
Mortgage-backed securities at fair value	—	—	(22,397)	440	(21,957)
Mortgage loans acquired for sale at fair value	—	(23,678)	—	—	(23,678)
Mortgage loans at fair value	—	—	(15,530)	1,774	(13,756)
ESS at fair value	—	—	6,921	3,934	10,855
MSRs at fair value	25,973	—	—	—	25,973
	$25,973	$(23,678)	$ (31,006)	$6,148	$(22,563)
Liabilities:					

Interest-only security payable	$—	$—	$ 726	$—	$726
Asset-backed financing of a VIE at fair value	—	—	6,183	339	6,522
	$—	$—	$ 6,909	$ 339	$7,248

Financial Statement Item Measured at Fair Value on a Nonrecurring Basis — Real estate acquired in settlement of loans

Following is a summary of the carrying value of REO that was re-measured based on fair value on a nonrecurring basis:

	Level 1	Level 2	Level 3	Total
Real estate acquired in settlement of loans	(in thousands)			
March 31, 2019	$—	$ —	$29,377	$29,377
December 31, 2018	$—	$ —	$24,515	$24,515

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The following table summarizes the fair value changes recognized during the quarter on REO held at quarter end that were remeasured at fair value on a nonrecurring basis:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Real estate asset acquired in settlement of loans	$(2,438)	$(4,769)

The Company evaluates its REO for impairment with reference to the respective properties' fair values less cost to sell. The initial carrying value of the REO is measured at cost as indicated by the purchase price in the case of purchased REO or as measured by the fair value of the mortgage loan immediately before REO acquisition in the case of acquisition in settlement of a mortgage loan. REO may be subsequently revalued due to the Company receiving greater access to the property, the property being held for an extended period or receiving indications that the property's fair value may not be supported by developing market conditions. Any subsequent change in fair value to a level that is less than or equal to the property's cost is recognized in *Results of real estate acquired in settlement of loans* in the Company's consolidated statements of income.

Fair Value of Financial Instruments Carried at Amortized Cost

Most of the Company's borrowings are carried at amortized cost. The Company's *Assets sold under agreements to repurchase*, *Mortgage loan participation purchase and sale agreements*, *Exchangeable senior notes, Notes payable* and *Assets sold to PennyMac Financial Services, Inc. under agreements to repurchase* are classified as "Level 3" fair value liabilities due to the Company's reliance on unobservable inputs to estimate these instruments' fair values.

The Manager has concluded that the fair values of these borrowings other than *Exchangeable senior notes* and *Notes payable* approximate the agreements' carrying values due to the borrowing agreements' variable interest rates and short maturities.

Following are the fair values of the other borrowings:

		March 31, 2019	December 31, 2018
		(in thousands)	
Instrument	Source of fair value		
Exchangeable senior notes	Broker indications	$250,634	$ 247,172
Notes payable	Broker quotes	$746,293	$ —
Notes payable	Discounted cash flow analysis	$—	$ 444,403

Valuation Governance

Most of the Company's assets, its *Asset-backed financing of a VIE,Interest-only security payable* and *Derivative liabilities* are carried at fair value with changes in fair value recognized in current period income. A substantial portion of these items are "Level 3" fair value assets and liabilities which require the use of unobservable inputs that are significant to the estimation of the fair values of the assets and liabilities. Unobservable inputs reflect the Company's own judgments about the factors that market participants use in pricing an asset or liability, and are based on the best information available under the circumstances.

Due to the difficulty in estimating the fair values of “Level 3” fair value assets and liabilities, the Company has assigned responsibility for estimating fair value of these assets and liabilities to specialized staff and subjects the valuation process to significant senior management oversight. PFSI’s Financial Analysis and Valuation group (the “FAV group”) is responsible for estimating the fair values of “Level 3” fair value assets and liabilities other than IRLCs and maintaining its valuation policies and procedures. The fair value of the Company’s IRLCs is developed by the Manager’s Capital Markets Risk Management staff and is reviewed by the Manager’s Capital Markets Operations group.

With respect to the non-IRLC “Level 3” valuations, the FAV group reports to PFSI’s senior management valuation committee, which oversees the valuations. The FAV group monitors the models used for valuation of the Company’s “Level 3” fair value assets and liabilities, including the models’ performance versus actual results, and reports those results to PFSI’s senior management valuation committee. PFSI’s senior management valuation committee includes the Company’s executive chairman, chief executive, chief financial, chief risk and deputy chief financial officers.

The FAV group is responsible for reporting to PFSI’s senior management valuation committee on the changes in the valuation of the non-IRLC “Level 3” fair value assets and liabilities, including major factors affecting the valuation and any changes in model methods and inputs. To assess the reasonableness of its valuations, the FAV group presents an analysis of the effect on the valuation of changes to the significant inputs to the models.

Valuation Techniques and Inputs

The following is a description of the techniques and inputs used in estimating the fair values of “Level 2” and “Level 3” fair value assets and liabilities:

Mortgage-Backed Securities

The Company categorizes its current holdings of MBS as “Level 2” fair value assets. Fair value of these MBS is established based on quoted market prices for the Company’s MBS holdings or similar securities. Changes in the fair value of MBS are included in *Net gain (loss) on investments* in the consolidated statements of income.

Mortgage Loans

Fair value of mortgage loans is estimated based on whether the mortgage loans are saleable into active markets:

- Mortgage loans that are saleable into active markets, comprised of most of the Company’s mortgage loans acquired for sale at fair value and all of the mortgage loans at fair value held in a VIE, are categorized as “Level 2” fair value assets. For mortgage loans acquired for sale, the fair values are established using the loans’ quoted market or contracted price or market price equivalent. For the mortgage loans at fair value held in a VIE, the quoted fair values of all of the individual securities issued by the securitization trust are used to derive a fair value for the mortgage loans. The Company obtains indications of fair value from nonaffiliated brokers based on comparable securities and validates the brokers’ indications of fair value using pricing models and inputs the Company believes are similar to the models and inputs used by other market participants.
- Mortgage loans that are not saleable into active markets, comprised primarily of distressed mortgage loans, are categorized as “Level 3” fair value assets and their fair values are estimated using a discounted cash flow approach. Inputs to the discounted cash flow model include current interest rates, loan amount, payment status, property type, discount rates and forecasts of future interest rates, home prices, prepayment speeds, default speeds, loss severities or contracted selling price when applicable.

Changes in fair value attributable to changes in instrument-specific credit risk are measured by the effect on fair value of the change in the respective mortgage loan’s delinquency status and performance history at quarter-end from the later of the beginning of the quarter or acquisition date.

The significant unobservable inputs used in the fair value measurement of the Company’s mortgage loans at fair value are discount rate, home price projections, voluntary prepayment speeds and default speeds. Significant changes in any of those inputs in isolation could result in a significant change to the mortgage loans’ fair value measurement. Increases in home price projections are generally accompanied by an increase in voluntary prepayment speeds. Changes in the fair value of mortgage loans at fair value are included in *Net gain (loss) on investments* in the consolidated statements of income.

Following is a quantitative summary of key inputs used in the valuation of the Company’s “Level 3” mortgage loans at fair value:

Key inputs (1)	March 31, 2019	December 31, 2018

Discount rate		
Range	3.1% – 19.6%	2.8% – 19.6%
Weighted average	10.8%	12.0%
Twelve-month projected housing price index change		
Range	3.3% – 3.7%	3.1% – 3.7%
Weighted average	3.5%	3.4%
Voluntary prepayment speed (2)		
Range	1.9% – 8.2%	0.9% – 8.3%
Weighted average	3.1%	3.2%
Total prepayment speed (3)		
Range	8.6% – 21.5%	8.3% – 22.0%
Weighted average	16.7%	18.3%

(1) Weighted-average inputs are based on fair value amounts of the mortgage loans.

(2) Prepayment speed is measured using Life Voluntary Conditional Prepayment Rate (“CPR”).
(3) Total prepayment speed is measured using Life Total CPR.

Excess Servicing Spread Purchased from PFSI

The Company categorizes ESS as a “Level 3” fair value asset. The Company uses a discounted cash flow approach to estimate the fair value of ESS. The key inputs used in the estimation of the fair value of ESS include pricing spread (discount rate) and prepayment speed. Significant changes to those inputs in isolation may result in a significant change in the ESS fair value measurement. Changes in these key inputs are not necessarily directly related. Changes in the fair value of ESS are included in *Net gain (loss) on investments* in the consolidated statements of income.

Following are the key inputs used in determining the fair value of ESS:

Key inputs (1)	March 31, 2019	December 31, 2018
UPB of underlying mortgage loans (in thousands)	$22,664,211	$23,196,033
Average servicing fee rate (in basis points)	34	34
Average ESS rate (in basis points)	19	19
Pricing spread (2)		
Range	3.0% - 3.3%	2.8% - 3.2%
Weighted average	3.2%	3.1%
Annual total prepayment speed (3)		
Range	8.5% - 29.9%	8.2% - 29.5%
Weighted average	10.4%	9.7%
Life (in years)		
Range	1.5 - 7.4	1.6 - 7.6
Weighted average	6.5	6.8

(1) Weighted-average inputs are based on UPB of the underlying mortgage loans.
(2) Pricing spread represents a margin that is applied to a reference forward rate to develop periodic discount rates. The Company applies pricing spreads to the forward rates implied by the United States Dollar London Interbank Offered Rate (“LIBOR”) swap curve for purposes of discounting cash flows relating to ESS.
(3) Prepayment speed is measured using Life Total CPR.

Derivative Financial Instruments

Interest Rate Lock Commitments

The Company categorizes IRLCs as “Level 3” fair value assets and liabilities. The Company estimates the fair value of IRLCs based on quoted Agency MBS prices, its estimate of the fair value of the MSRs it expects to receive in the sale of the mortgage loan and the probability that the mortgage loan will be purchased under the commitment (the “pull-through rate”).

The significant unobservable inputs used in the fair value measurement of the Company’s IRLCs are the pull-through rate and the MSR component of the Company’s estimate of the fair value of the mortgage loans it has committed to purchase. Significant changes in the pull-through rate or the MSR component of the IRLCs, in isolation, may result in a significant change in the IRLCs’ fair value. The financial effects of changes in these inputs are generally inversely correlated as increasing interest rates have a positive effect on the fair value of the MSR component of IRLC fair value, but also increase the pull-through rate for the mortgage loan principal and interest payment cash flow component that has decreased in fair value. Changes in fair value of IRLCs are included in *Net gain on mortgage loans acquired for sale* in the consolidated statements of income.

Following is a quantitative summary of key unobservable inputs used in the valuation of IRLCs:

Key inputs (1)	March 31, 2019	December 31, 2018
Pull-through rate		
Range	42.1% - 100%	45.4% - 100%
Weighted average	89.8%	91.8%
MSR fair value expressed as		
Servicing fee multiple		
Range	1.9 - 5.7	2.4 - 5.6
Weighted average	4.3	4.3
Percentage of UPB		
Range	0.6% - 2.9%	0.6% - 3.6%
Weighted average	1.4%	2.2%

(1) Weighted-average inputs are based on the committed amounts.

CRT Agreements

The Company categorizes CRT Agreement derivatives as "Level 3" fair value assets. The fair value of CRT Agreements is based on indications of fair value provided to the Company by nonaffiliated brokers for the certificates representing the beneficial interest in CRT Agreements which include the deposits securing the CRT Agreements, the Recourse Obligations and the IO ownership interest. Together, the Recourse Obligations and the IO ownership comprise the CRT Agreement derivative. Fair value of the CRT Agreement derivative is derived by deducting the balance of the *Deposits securing CRT Agreements* from the indication of fair value of the certificates provided by the nonaffiliated brokers.

The significant unobservable inputs into the valuation of CRT Agreement derivatives are the discount rate, voluntary and involuntary prepayment speeds and the remaining loss expectations of the reference mortgage loans. Changes in fair value of CRT Agreements are included in *Net gain (loss) on investments*.

Following is a quantitative summary of key unobservable inputs used in the Company's review and approval of broker-provided fair values for CRT Agreements:

Key inputs (1)	March 31, 2019	December 31, 2018
Discount rate		
Range	5.8% – 6.8%	6.6% – 7.5%
Weighted average	6.6%	7.3%
Voluntary prepayment speed (2)		
Range	12.8% – 14.7%	9.0% – 10.6%

Weighted average	13.9%	9.9%
Involuntary prepayment speed (3)		
Range	0.2% – 0.3%	0.2% – 0.2%
Weighted average	0.3%	0.2%
Remaining loss expectation (4)		
Range	0.1% – 0.2%	0.1% – 0.2%
Weighted average	0.1%	0.2%

(1) Weighted average inputs are based on fair value amounts of the CRT Agreements.
(2) Voluntary prepayment speed is measured using Life Voluntary CPR.
(3) Involuntary prepayment speed is measured using Life Involuntary CPR.
(4) Remaining loss expectation is measured as expected future contractual losses divided by the UPB of the reference mortgage loans.

Repurchase Agreement Derivatives

The Company has a master repurchase agreement that includes incentives for financing mortgage loans approved for satisfying certain consumer relief characteristics. These incentives are classified as embedded derivatives for accounting purposes and are reported separately from the repurchase agreements. The Company classifies repurchase agreement derivatives as “Level 3” fair value assets.

The significant unobservable inputs into the valuation of repurchase agreement derivative assets are the discount rate and the expected approval rate of the mortgage loans financed under the master repurchase agreement. The resulting ratio included in the Company’s fair value estimate was 97% at both March 31, 2019 and December 31, 2018. Changes in fair value of repurchase agreement derivatives are included in *Interest expense* in the consolidated statements of income.

Hedging Derivatives

Fair values of derivative financial instruments based on exchange traded market prices are categorized by the Company as “Level 1” fair value assets and liabilities; fair values of derivative financial instruments based on observable interest rates, volatilities and prices in the MBS market are categorized by the Company as “Level 2” fair value assets and liabilities. Changes in the fair value of hedging derivatives are included in *Net gain (loss) on investments*, *Net gain on mortgage loans acquired for sale*, or *Net mortgage loan servicing fees,* as applicable, in the consolidated statements of income.

Firm commitment to purchase CRT securities

The Company categorizes its firm commitment to purchase CRT securities as a “Level 3” fair value asset. The fair value of the firm commitment is estimated using a discounted cash flow approach to estimate the fair value of the CRT securities to be purchased less the contractual purchase price. Key inputs used in the estimation of fair value of the firm commitment are the discount rate and the voluntary and involuntary prepayment speeds of the reference mortgage loans. The firm commitment to purchase CRT securities is recognized initially as a component of *Gain on sale of mortgage loans acquired for sale*. Subsequent changes in fair value are recorded in *Net gain (loss) on investments*.

Following is a quantitative summary of key unobservable inputs in the valuation of firm commitment to purchase CRT securities:

Key inputs (1)	March 31, 2019	December 31, 2018
Discount rate	7.0%	7.9%
Voluntary prepayment speed (2)	15.8%	12.4%
Involuntary prepayment speed (3)	0.1%	0.1%
Remaining loss expectation (4)	0.1%	0.1%

(1) Weighted average inputs are based on the UPB of the underlying mortgage loans.
(2) Voluntary prepayment speed is measured using Life Voluntary CPR.
(3) Involuntary prepayment speed is measured using Life Involuntary CPR.
(4) Remaining loss expectation is measured as expected future contractual losses divided by the UPB of the reference mortgage loans.

Real Estate Acquired in Settlement of Loans

REO is measured based on its fair value on a nonrecurring basis and is categorized as a “Level 3” fair value asset. Fair value of REO is established by using a current estimate of fair value from either a broker’s price opinion, a full appraisal, or the price given in a pending contract of sale.

REO fair values are reviewed by the Manager’s staff appraisers when the Company obtains multiple indications of fair value and there is a significant difference between the fair values received. The Manager’s staff appraisers will attempt to resolve the difference between the indications of fair value. In circumstances where the appraisers are not able to generate adequate data to support a fair value conclusion, the staff appraisers will order an additional appraisal to determine fair value. Recognized changes in the fair value of REO are included in *Results of real estate acquired in settlement of loans* in the consolidated statements of income.

Mortgage Servicing Rights

MSRs are categorized as “Level 3” fair value assets. The Company uses a discounted cash flow approach to estimate the fair value of MSRs. The key inputs used in the estimation of the fair value of MSRs include the applicable pricing spread, the prepayment and default rates of the underlying mortgage loans and the annual per-loan cost to service mortgage loans, all of which are unobservable. Significant changes to any of those inputs in isolation could result in a significant change in the MSR fair value measurement. Changes in these key inputs are not necessarily directly related. Changes in the fair value of MSRs are included in *Net mortgage loan servicing fees* in the consolidated statements of income.

MSRs are generally subject to loss in fair value when mortgage interest rates decrease. Decreasing mortgage interest rates normally encourage increased mortgage refinancing activity. Increased refinancing activity reduces the expected life of the underlying mortgage loans, thereby reducing the cash flows expected to accrue to the MSRs. Reductions in the fair value of MSRs affect income primarily through recognition of the change in fair value.

Following are the key inputs used in determining the fair value of MSRs at the time of initial recognition:

	Quarter ended March 31,	
	2019	2018
	(MSR recognized and UPB of underlying mortgage loan amounts in thousands)	
MSR recognized	$131,868	$66,546
Key inputs (1)		
UPB of underlying mortgage loans	$9,245,177	$5,114,741
Weighted average annual servicing fee rate (in basis points)	32	26
Pricing spread (2)		
Range	5.8% – 9.5%	7.4% – 12.6%
Weighted average	5.8%	7.5%
Prepayment speed (3)		
Range	4.9% – 42.2%	3.2% – 22.8%
Weighted average	12.2%	8.1%
Life (in years)		
Range	1.8 – 10.5	3.5 – 11.9
Weighted average	6.6	8.4
Annual per-loan cost of servicing		
Range	$78 – $78	$79 – $79
Weighted average	$78	$79

(1) Weighted-average inputs are based on UPB of the underlying mortgage loans.
(2) Pricing spread represents a margin that is applied to a reference forward rate to develop periodic discount rates. The Company applies pricing spreads to the forward rates implied by the United States LIBOR swap curve for purposes of discounting cash flows relating to MSRs.
(3) Prepayment speed is measured using Life Total CPR.

Following is a quantitative summary of key inputs used in the valuation of MSRs as of the dates presented, and the effect on the fair value from adverse changes in those inputs:

	March 31, 2019	December 31, 2018
	(Carrying value, UPB of underlying mortgage loans and effect on fair value amounts in thousands)	
Carrying value	$1,156,908	$1,162,369
Key inputs (1):		
UPB of underlying mortgage loans	$99,279,532	$92,410,226
Weighted average annual servicing fee rate (in basis points)	26	25
Weighted average note interest rate	4.3%	4.2%
Pricing spread (2)		
Range	5.9% – 11.1%	5.7% – 10.7%
Weighted average	6.0%	5.8%
Effect on fair value of:		
5% adverse change	$(13,604)	$(13,872)
10% adverse change	$(26,895)	$(27,428)
20% adverse change	$(52,576)	$(53,626)
Prepayment speed (3)		
Range	9.1% – 29.9%	8.1% – 27.1%
Weighted average	11.6%	9.8%
Life (in years)		
Range	2.6 - 6.5	2.7 - 7.3
Weighted average	6.4	7.1
Effect on fair value of:		
5% adverse change	$(24,983)	$(21,661)
10% adverse change	$(48,861)	$(42,458)
20% adverse change	$(93,573)	$(81,660)
Annual per-loan cost of servicing		
Range	$77 – $78	$77 – $78
Weighted average	$78	$78
Effect on fair value of:		
5% adverse change	$(8,151)	$(8,298)
10% adverse change	$(16,302)	$(16,597)
20% adverse change	$(32,605)	$(33,194)

(1) Weighted-average inputs are based on the UPB of the underlying mortgage loans.

(2) Pricing spread represents a margin that is applied to a reference forward rate to develop periodic discount rates. The Company applies pricing spreads to the forward rates implied by the United States Dollar LIBOR swap curve for purposes of discounting cash flows relating to MSRs.

(3) Prepayment speed is measured using Life Total CPR.

The preceding sensitivity analyses are limited in that they were performed as of a particular date; only account for the estimated effect of the movements in the indicated inputs; do not incorporate changes in the inputs in relation to other inputs; are subject to the accuracy of the models and inputs used; and do not incorporate other factors that would affect the Company's overall financial performance in such events, including operational adjustments made by the Company to account for changing circumstances. For these reasons, the preceding estimates should not be viewed as earnings forecasts.

Note 8—Mortgage Backed Securities

Following is a summary of activity in the Company's investment in MBS:

Loan type	Quarter ended March 31, 2019	2018
	(in thousands)	
Balance at beginning of quarter	$2,610,422	$989,461
Purchases	—	500,573
Sale and repayment	(53,682)	(30,741)
Changes in fair value included in income arising from:		
Amortization of premiums	(4,556)	(440)
Valuation adjustments	36,922	(22,397)
	32,366	(22,837)
Balance at end of quarter	$2,589,106	$1,436,456

Following is a summary of the Company's investment in MBS:

	March 31, 2019				December 31, 2018			
	Principal balance	Unamortized purchase premiums	Accumulated valuation changes	Fair value	Principal balance	Unamortized purchase premiums	Accumulated valuation changes	Fair value
	(in thousands)							
Agency: (1)								
Fannie Mae	$2,007,629	$ 35,579	$ 13,966	$2,057,174	$2,050,769	$ 39,488	$ (14,920)	$2,075,337
Freddie Mac	520,193	6,054	5,685	531,932	530,734	6,702	(2,351)	535,085
	$2,527,822	$ 41,633	$ 19,651	$2,589,106	$2,581,503	$ 46,190	$ (17,271)	$2,610,422

(1) All MBS are fixed-rate pass-through securities with maturities of more than ten years.

All MBS are pledged to secure *Assets sold under agreements to repurchase* at both March 31, 2019 and December 31, 2018.

Note 9—Mortgage Loans Acquired for Sale at Fair Value

Mortgage loans acquired for sale at fair value is comprised of recently originated mortgage loans purchased by the Company for resale. Following is a summary of the distribution of the Company's mortgage loans acquired for sale at fair value:

Loan type	March 31, 2019	December 31, 2018
	(in thousands)	
Agency-eligible	$1,215,942	$1,495,954
Held for sale to PLS — Government insured or guaranteed	195,839	86,308
Jumbo	4,929	44,221
Commercial real estate	8,595	8,559
Home equity lines of credit	450	—
Repurchased pursuant to representations and warranties	9,316	8,915
	$1,435,071	$1,643,957
Mortgage loans pledged to secure:		
Assets sold under agreements to repurchase	$1,338,015	$1,436,437
Mortgage loan participation purchase and sale agreements	76,315	185,442
	$1,414,330	$1,621,879

The Company is not approved by Ginnie Mae as an issuer of Ginnie Mae-guaranteed securities which are backed by government-insured or guaranteed mortgage loans. The Company transfers government-insured or guaranteed mortgage loans that it purchases from correspondent sellers to PLS, which is a Ginnie Mae-approved issuer, and earns a sourcing fee ranging from two to three and one-half basis points, generally based on the average number of calendar days that mortgage loans are held before being bought by PLS.

Note 10—Mortgage Loans at Fair Value

Mortgage loans at fair value are comprised of mortgage loans that are not acquired for sale and, to the extent they are not held in a VIE securing an asset-backed financing, may be sold at a later date pursuant to the Manager's determination that such a sale represents the most advantageous disposition strategy for the identified mortgage loan.

Following is a summary of the distribution of the Company's mortgage loans at fair value:

	March 31, 2019		December 31, 2018	
Loan type	Fair value	Unpaid principal balance	Fair value	Unpaid principal balance
	(in thousands)			
Fixed interest rate jumbo mortgage loans held in a VIE	$289,552	$289,006	$290,573	$294,617
Distressed mortgage loans:				
Nonperforming	75,910	138,368	88,926	157,991
Performing	33,202	48,119	28,806	43,043
	109,112	186,487	117,732	201,034
	$398,664	$475,493	$408,305	$495,651
Mortgage loans at fair value pledged to secure:				
Assets sold under agreements to repurchase	$104,809		$108,693	
Asset-backed financing of a VIE at fair value	289,552		290,573	
	$394,361		$399,266	

Note 11—Derivative Activities

The Company holds and issues derivative financial instruments in connection with its operating activities. Derivative financial instruments are created as a result of certain of the Company's operations and the Company also enters into derivative transactions as part of its interest rate risk management activities.

Derivative financial instruments created as a result of the Company's operations include:

- IRLCs that are created when the Company commits to purchase mortgage loans acquired for sale;
- CRT Agreements whereby the Company retains a Recourse Obligation relating to certain mortgage loans it sells into Fannie Mae guaranteed securitizations as part of the retention of an IO ownership interest in such mortgage loans; and
- Derivatives that are embedded in a master repurchase agreement that provides for the Company to receive interest expense offsets if it finances mortgage loans approved as satisfying certain consumer credit relief characteristics under the master repurchase agreement. The master repurchase agreement is subject to a rolling six-month term through August 18, 2019, unless terminated earlier by the lender. There can be no assurance that the lender will not terminate this agreement before its stated maturity.

The Company engages in interest rate risk management activities in an effort to reduce the variability of earnings caused by the effects of changes in interest rates on the fair value of certain of its assets and liabilities. The Company is exposed to price risk relative to the IRLCs it issues to correspondent sellers and to the mortgage loans it purchases as a result of issuing the IRLCs. The Company bears price risk from the time an IRLC is issued to a correspondent seller until the time the purchased mortgage loan is sold:

- The Company is exposed to loss if market mortgage interest rates increase, because market interest rate increases generally cause the fair value of the IRLC or mortgage loan acquired for sale to decrease.
- The Company is exposed to losses if market mortgage interest rates decrease, because market interest rate decreases generally cause the fair value of MSRs to decrease. Market mortgage interest rate decreases generally encourage mortgage refinancing activity, which reduces the expected life of the mortgage loans underlying the MSRs, causing the fair value of MSRs to decrease.

To manage the price risk resulting from these interest rate risks, the Company uses derivative financial instruments with the intention of moderating the risk that changes in market interest rates will result in unfavorable changes in the fair value of the Company's inventory of mortgage loans acquired for sale, mortgage loans held in a VIE, IRLCs, MSRs and MBS financing.

The Company records all derivative financial instruments at fair value and records changes in fair value in current period income.

Derivative Notional Amounts and Fair Value of Derivatives

The Company had the following derivative assets and liabilities recorded within *Derivative assets* and *Derivative liabilities* and related margin deposits recorded in *Other* assets on the consolidated balance sheets:

	March 31, 2019			December 31, 2018		
		Fair value			Fair value	
Instrument	Notional amount	Derivative assets	Derivative liabilities	Notional amount	Derivative assets	Derivative liabilities
	(in thousands)					
Derivatives not designated as hedging instruments:						
Not subject to master netting arrangements:						
CRT Agreements	29,265,550	$130,447	$—	29,934,003	$123,987	$—
Interest rate lock commitments	2,037,160	11,341	884	1,688,516	12,162	174
Repurchase agreement derivatives		17,701	—		14,511	—
Subject to master netting agreements used for hedging purposes:						
Forward purchase contracts	5,126,069	26,570	3,435	3,072,223	14,845	43
Forward sale contracts	4,941,484	2,428	20,490	4,595,241	13	29,273
MBS put options	4,150,000	4,780	—	2,550,000	218	—
MBS call options	3,100,000	5,331	—	500,000	945	—
Call options on interest rate futures	1,475,000	10,699	—	512,500	5,137	—
Put options on interest rate futures	950,000	—	—	1,102,500	178	—
Swap futures	150,000	—	—	—	—	—
Bond futures	165,000	—	—	815,000	—	—
Total derivative instruments before netting		209,297	24,809		171,996	29,490
Netting		(20,587)	(16,059)		(4,831)	(23,576)
		$188,710	$8,750		$167,165	$5,914
Margin deposits (received from) placed with derivatives counterparties, net		$(4,528)			$18,744	
Derivative assets pledged to secure *Assets sold* under agreements to repurchase		$97,883			$87,976	

The following tables summarize the notional amount activity for derivative contracts used to hedge the Company’s inventory of mortgage loans acquired for sale, mortgage loans at fair value held in a VIE, IRLCs, MSRs and MBS financing.

Quarter ended March 31, 2019

Instrument	Notional amount, beginning of quarter	Additions	Dispositions/ expirations	Notional amount, end of quarter
	(in thousands)			
Forward purchase contracts	3,072,223	33,419,932	(31,366,086)	5,126,069
Forward sales contracts	4,595,241	42,338,646	(41,992,403)	4,941,484
MBS put options	2,550,000	9,600,000	(8,000,000)	4,150,000
MBS call options	500,000	5,400,000	(2,800,000)	3,100,000
Call options on interest rate futures	512,500	3,537,500	(2,575,000)	1,475,000
Put options on interest rate futures	1,102,500	5,352,500	(5,505,000)	950,000
Swap futures	—	150,000	—	150,000
Bond futures	815,000	2,702,400	(3,352,400)	165,000

Instrument	Quarter ended March 31, 2018 Notional amount, beginning of quarter	Additions	Dispositions/ expirations	Notional amount, end of quarter
	(in thousands)			
Forward purchase contracts	1,996,235	19,833,104	(19,318,639)	2,510,700
Forward sales contracts	2,565,271	24,410,334	(24,677,803)	2,297,802
MBS put options	2,375,000	4,125,000	(4,750,000)	1,750,000
Call options on interest rate futures	—	150,000	—	150,000
Put options on interest rate futures	550,000	3,325,000	(3,600,000)	275,000
Swap futures	275,000	—	(275,000)	—
Bond futures	—	450,000	—	450,000
Eurodollar future sale contracts	937,000	114,597	(203,933)	847,664

Netting of Financial Instruments

The Company has elected to net derivative asset and liability positions, and cash collateral placed with or received from 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, CRT Agreement derivatives and repurchase agreement derivatives. As of March 31, 2019 and December 31, 2018, the Company was not a party to any 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:

	March 31, 2019			December 31, 2018		
	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)					
Derivative assets						

Not subject to master netting arrangements:						
CRT Agreement derivatives	$130,447	$—	$ 130,447	$123,987	$—	$ 123,987
Interest rate lock commitments	11,341	—	11,341	12,162	—	12,162
Repurchase agreement derivatives	17,701	—	17,701	14,511	—	14,511
	159,489	—	159,489	150,660	—	150,660
Subject to master netting arrangements:						
Forward purchase contracts	26,570	—	26,570	14,845	—	14,845
Forward sale contracts	2,428	—	2,428	13	—	13
MBS put options	4,780	—	4,780	218	—	218
MBS call options	5,331	—	5,331	945	—	945
Call options on interest rate futures	10,699	—	10,699	5,137	—	5,137
Put options on interest rate futures	—	—	—	178	—	178
Netting	—	(20,587)	(20,587)	—	(4,831)	(4,831)
	49,808	(20,587)	29,221	21,336	(4,831)	16,505
	$209,297	$ (20,587)	$ 188,710	$171,996	$ (4,831)	$ 167,165

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Derivative Assets, Financial Instruments 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 setoff accounting:

	March 31, 2019				December 31, 2018			
	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	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
	(in thousands)							
CRT Agreement derivatives	$130,447	$ —	$ —	$130,447	$123,987	$ —	$ —	$123,987
Interest rate lock commitments	11,341	—	—	11,341	12,162	—	—	12,162
Deutsche Bank Securities LLC	17,701	—	—	17,701	14,511	—	—	14,511
RJ O'Brien & Associates, LLC	10,699	—	—	10,699	5,315	—	—	5,315
J.P. Morgan Securities LLC	4,853	—	—	4,853	107	—	—	107
Wells Fargo Securities, LLC	4,139	—	—	4,139	2,800	—	—	2,800
Federal National Mortgage Association	2,654	—	—	2,654	5,619	—	—	5,619
Bank of America, N.A.	2,449	—	—	2,449	—	—	—	—
Goldman Sachs	2,396	—	—	2,396	—	—	—	—
Citigroup Global Markets Inc.	1,726	—	—	1,726	971	—	—	971
Mitsubishi UFJ Sec	167	—	—	167	257	—	—	257
Credit Suisse Securities (USA) LLC	—	—	—	—	579	—	—	579
Morgan Stanley & Co. LLC	—	—	—	—	243	—	—	243
Other	138	—	—	138	614	—	—	614
	$188,710	$ —	$ —	$188,710	$167,165	$ —	$ —	$167,165

Offsetting of Derivative Liabilities and Financial Liabilities

Following is a summary of net derivative liabilities and assets sold under agreements to repurchase. Assets sold under agreements to repurchase do not qualify for setoff accounting.

March 31, 2019			December 31, 2018		
Gross amounts of	Gross amounts offset	Net amounts of liabilities	Gross amounts of	Gross amounts offset	Net amounts of liabilities

	recognized liabilities	in the consolidated balance sheet	presented in the consolidated balance sheet	recognized liabilities	in the consolidated balance sheet	presented in the consolidated balance sheet
	(in thousands)					
Derivative liabilities:						
Not subject to master netting arrangements —						
Interest rate lock commitments	$884	$—	$884	$174	$—	$174
Subject to master netting arrangements:						
Forward purchase contracts	3,435	—	3,435	43	—	43
Forward sales contracts	20,490	—	20,490	29,273	—	29,273
Netting	—	(16,059)	(16,059)	—	(23,576)	(23,576)
	23,925	(16,059)	7,866	29,316	(23,576)	5,740
	24,809	(16,059)	8,750	29,490	(23,576)	5,914
Assets sold under agreements to repurchase:						
UPB	4,179,308	—	4,179,308	4,777,486	—	4,777,486
Unamortized debt issuance costs	521	—	521	(459)	—	(459)
	4,179,829	—	4,179,829	4,777,027	—	4,777,027
	$4,204,638	$(16,059)	$4,188,579	$4,806,517	$(23,576)	$4,782,941

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 setoff accounting. All assets sold under agreements to repurchase represent sufficient collateral or exceed the liability amount recorded on the consolidated balance sheet.

	March 31, 2019				December 31, 2018			
	Net amount of liabilities presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet			Net amount of liabilities presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		
		Financial instruments	Cash collateral pledged	Net amount		Financial instruments	Cash collateral pledged	Net amount
	(in thousands)							
Interest rate lock commitments	$884	$—	$ —	$884	$174	$—	$ —	$174
J.P. Morgan Securities LLC	1,431,886	(1,431,886)	—	—	1,441,934	(1,441,934)	—	—
Bank of America, N.A.	1,165,071	(1,165,071)	—	—	1,307,923	(1,307,584)	—	339
Deutsche Bank Securities LLC	461,298	(461,298)	—	—	495,974	(495,974)	—	—
Mizuho Securities	263,233	(263,233)	—	—	270,708	(270,708)	—	—
Daiwa Capital Markets	253,521	(253,498)	—	23	254,332	(254,332)	—	—
Credit Suisse Securities (USA) LLC	198,479	(198,329)	—	150	512,662	(512,662)	—	—
BNP Paribas	151,560	(151,457)	—	103	162,636	(162,357)	—	279
Morgan Stanley & Co. LLC	97,291	(92,986)	—	4,305	105,366	(105,366)	—	—
Citigroup Global Markets Inc.	80,085	(79,287)	—	798	99,626	(98,644)	—	982
Wells Fargo Securities, LLC	68,791	(68,791)	—	—	70,130	(70,130)	—	—
RBC Capital Markets, L.P.	13,472	(13,472)	—	—	57,795	(57,795)	—	—
Federal National Mortgage Association	1,412	—	—	1,412	12	—	—	12
Other	1,075	—	—	1,075	4,128	—	—	4,128
	$4,188,058	$(4,179,308)	$ —	$8,750	$4,783,400	$(4,777,486)	$ —	$5,914

Following are the net gains (losses) recognized by the Company on derivative financial instruments and the consolidated statements of income line items where such gains and losses are included:

Quarter ended March 31,

Derivative activity	Income statement line	2019	2018
		(in thousands)	
Interest rate lock commitments	Net gain on mortgage loans acquired for sale	$ 28,502	$ (14,858)
CRT Agreements	Net gain (loss) on investments	$ 27,503	$ 24,684
Repurchase agreement derivatives	Interest expense	$ 231	$ (12)
Hedged item:			
Interest rate lock commitments and mortgage loans acquired for sale	Net gain on mortgage loans acquired for sale	$ (34,345)	$ 32,810
Mortgage servicing rights	Net mortgage loan servicing fees	$ 41,135	$ (20,848)
Fixed-rate assets and LIBOR-indexed repurchase agreements	Net gain (loss) on investments	$ 7,380	$ 1,460

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Note 12—Real Estate Acquired in Settlement of Loans

Following is a summary of financial information relating to REO:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Balance at beginning of quarter	$85,681	$ 162,865
Transfers:		
From mortgage loans at fair value and advances	4,550	16,363
From real estate held for investment	324	—
To real estate held for investment	—	(2,059)
Results of REO:		
Valuation adjustments, net	(3,561)	(5,359)
Gain on sale, net	2,081	2,133
	(1,480)	(3,226)
Sales	(16,900)	(32,437)
Balance at end of quarter	$72,175	$ 141,506

	March 31, 2019	December 31, 2018
REO pledged to secure assets sold under agreements to repurchase	$18,927	$ 1,939
REO held in a consolidated subsidiary whose stock is pledged to secure financings of such properties	—	38,259
	$18,927	$ 40,198

Note 13—Mortgage Servicing Rights

Following is a summary of MSRs:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Balance at beginning of quarter	$1,162,369	$ 91,459
Transfer of mortgage servicing rights from mortgage servicing rights carried at lower of amortized cost or fair value pursuant to a	—	773,035

change in accounting principle		
Balance after reclassification	1,162,369	864,494
MSRs resulting from mortgage loan sales	131,868	66,546
Changes in fair value:		
Due to changes in valuation inputs used in valuation model (1)	(96,508)	52,611
Other changes in fair value (2)	(40,821)	(26,638)
	(137,329)	25,973
Balance at end of quarter	$ 1,156,908	$ 957,013

	March 31, 2019	December 31, 2018
	(in thousands)	
Fair value of mortgage servicing rights pledged to secure *Assets sold under agreements to* repurchase and Notes payable	$ 1,133,736	$ 1,139,582

(1) Principally reflects changes in pricing spread (discount rate) and prepayment speed inputs, primarily due to changes in market interest rates.
(2) Represents changes due to realization of expected cash flows.

Servicing fees relating to MSRs are recorded in *Net mortgage loan servicing fees* on the Company's consolidated statements of income and are summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Contractually-specified servicing fees	$61,272	$48,732
Ancillary and other fees:		
Late charges	330	214
Other	2,878	1,489
	$64,480	$50,435

Note 14—Assets Sold Under Agreements to Repurchase

Following is a summary of financial information relating to assets sold under agreements to repurchase:

	Quarter ended March 31,	
	2019	2018
	(dollars in thousands)	
Weighted average interest rate (1)	3.49 %	3.20 %
Average balance	$4,844,689	$3,077,914
Total interest expense (2)	$36,851	$24,507
Maximum daily amount outstanding	$5,210,162	$3,655,250

(1) Excludes the effect of amortization of net debt issuance premiums of $ 5.7 million and $169,000 for the quarters ended March 31, 2019 and March 31, 2018, respectively.

(2) The Company's interest expense relating to assets sold under agreements to repurchase for the quarters ended March 31, 2019 and 2018, includes recognition of incentives it received for financing certain of its mortgage loans acquired for sale satisfying certain consumer debt relief characteristics under a master repurchase agreement. During the quarters ended March 31, 2019 and March 31, 2018, the Company recognized $7.5 million and $2.4 million, respectively, in such incentives as reductions of *Interest expense*. The master repurchase agreement expires on August 21, 2019, unless terminated earlier at the option of the lender. The Company expects that it will cease to accrue the incentives under the repurchase agreement in the second quarter of 2019

	March 31, 2019	December 31, 2018
	(dollars in thousands)	
Carrying value:		
Unpaid principal balance	$4,179,308	$4,777,486
Unamortized debt issuance premiums and (costs), net	521	(459)
	$4,179,829	$4,777,027

Weighted average interest rate	3.31 %	3.38 %
Available borrowing capacity (1):		
Committed	$959,720	$ 783,415
Uncommitted	2,498,773	2,325,246
	$3,458,493	$ 3,108,661
Margin deposits placed with counterparties included in *Other* assets	$36,831	$ 43,676
Assets securing agreements to repurchase:		
Mortgage-backed securities	$2,589,106	$ 2,610,422
Mortgage loans acquired for sale at fair value	$1,338,015	$ 1,436,437
Mortgage loans at fair value	$104,809	$ 108,693
CRT Agreements:		
Deposits securing CRT Agreements	$770,451	$ 1,146,501
Derivative assets	$73,148	$ 87,976
Real estate acquired in settlement of loans	$18,927	$ 40,198
Real estate held for investment	$30,007	$ 23,262
MSRs (2)	$952,392	$ 945,042

(1) The amount the Company is able to borrow under asset repurchase agreements is tied to the fair value of unencumbered assets eligible to secure those agreements and the Company’s ability to fund the agreements’ margin requirements relating to the assets financed.

(2) Beneficial interests in Fannie Mae MSRs are pledged as collateral for both *Assets sold under agreements to repurchase* and *Notes payable*.

Following is a summary of maturities of outstanding assets sold under agreements to repurchase by facility maturity date:

Remaining maturity at March 31, 2019	Contractual balance (in thousands)
Within 30 days	$1,912,626
Over 30 to 90 days	1,432,187
Over 90 days to 180 days	800,629
Over 180 days to one year	33,866
	$4,179,308
Weighted average maturity (in months)	1.8

The Company is subject to margin calls during the period the repurchase agreements are outstanding and therefore may be required to repay a portion of the borrowings before the respective repurchase agreements mature if the fair value (as determined by the applicable lender) of the assets securing those repurchase agreements decreases.

The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and interest payable) and maturity information relating to the Company's assets sold under agreements to repurchase is summarized by pledged asset and counterparty below as of March 31, 2019:

Mortgage loans, REO and MSRs sold under agreements to repurchase

Counterparty	Amount at risk (in thousands)	Weighted average maturity	Facility maturity
Credit Suisse First Boston Mortgage Capital LLC	$ 382,436	December 20, 2020	December 20, 2020
Credit Suisse First Boston Mortgage Capital LLC	$ 15,034	April 26, 2019	April 26, 2019
Deutsche Bank	$ 160,578	June 22, 2019	August 18, 2019
Citibank, N.A.	$ 49,199	June 7, 2019	June 7, 2019
Bank of America, N.A.	$ 25,689	May 1, 2019	July 1, 2019
BNP Paribas Corporate & Institutional Banking	$ 8,805	June 20, 2019	August 2, 2019
Morgan Stanley	$ 5,351	June 17, 2019	August 23, 2019
Royal Bank of Canada	$ 662	May 31, 2019	May 31, 2019

Securities sold under agreements to repurchase

Counterparty	Amount at risk	Weighted average maturity

	(in thousands)	
Bank of America, N.A.	$ 51,003	April 22, 2019
JPMorgan Chase & Co.	$ 43,618	May 29, 2019
Daiwa Capital Markets America Inc.	$ 14,921	May 4, 2019
Mizuho Securities	$ 12,521	June 6, 2019
Wells Fargo, N.A.	$ 5,327	April 20, 2019
Credit Suisse First Boston Mortgage Capital LLC	$ 2,078	April 29, 2019

CRT Agreements sold under agreements to repurchase

Counterparty	Amount at risk	Weighted average maturity
	(in thousands)	
JPMorgan Chase & Co.	$ 204,877	April 5, 2019

Note 15—Mortgage Loan Participation Purchase and Sale Agreements

Certain borrowing facilities secured by mortgage loans acquired for sale are in the form of mortgage loan participation purchase and sale agreements. Participation certificates, each of which represents an undivided beneficial ownership interest in a pool of mortgage loans that have been pooled with Fannie Mae or Freddie Mac, are sold to a lender pending the securitization of such mortgage loans and the sale of the resulting security. The commitment between the Company and a nonaffiliate to sell such security is also assigned to the lender at the time a participation certificate is sold.

The purchase price paid by the lender for each participation certificate is based on the trade price of the security, plus an amount of interest expected to accrue on the security to its anticipated delivery date, minus a present value adjustment, any related hedging costs and a holdback amount. The holdback amount is based on a percentage of the purchase price and is not required to be paid to the Company until the settlement of the security and its delivery to the lender.

Mortgage loan participation purchase and sale agreements are summarized below:

	Quarter ended March 31,	
	2019	2018
	(dollars in thousands)	
Weighted average interest rate (1)	3.70 %	2.49 %
Average balance	$56,210	$45,661
Total interest expense	$574	$314
Maximum daily amount outstanding	$207,065	$77,404

(1) Excludes the effect of amortization of debt issuance costs of $55,000 and $0 for the quarters ended March 31, 2019 and March 31, 2018, respectively.

	March 31, 2019	December 31, 2018
	(dollars in thousands)	
Carrying value:		
Amount outstanding	$73,175	$ 178,726
Unamortized debt issuance costs	(33)	(87)
	$73,142	$ 178,639
Weighted average interest rate	3.74 %	3.77 %
Mortgage loans acquired for sale pledged to secure mortgage loan participation purchase and sale agreements	$76,315	$ 185,442

Note 16—Exchangeable Senior Notes

PMC issued in a private offering $250 million aggregate principal amount of exchangeable senior notes ("Exchangeable Notes") due May 1, 2020. The Exchangeable Notes bear interest at a rate of 5.375% per year, payable semiannually. The Exchangeable Notes are exchangeable into common shares of the Company at a rate of 33.8667 common shares per $1,000 principal amount of the Exchangeable Notes as of March 31, 2019, which is an increase over the initial exchange rate of 33.5149. The increase in the calculated exchange rate was the result of quarterly cash dividends exceeding the quarterly dividend threshold amount of $0.57 per share in prior reporting periods, as provided in the related indenture.

Following is financial information relating to the Exchangeable Notes:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Average balance	$250,000	$250,000
Total interest expense	$3,661	$3,644

	March 31, 2019	December 31, 2018
	(in thousands)	
Carrying value:		
UPB	$250,000	$ 250,000
Unamortized debt issuance costs	(1,348)	(1,650)
	$248,652	$ 248,350

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Note 17—Notes Payable

On March 29, 2019, the Company through its indirect subsidiary, PMT CREDIT RISK TRANSFER TRUST 2019-1R ("2019-1R Trust"), issued an aggregate principal amount of $295.7 million in secured term notes (the "2019-1R Notes") to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. The 2019-1R Notes bear interest at a rate equal to one-month LIBOR plus 2.00% per annum, with an initial payment date that occurred on April 29, 2019 and, with respect to each calendar month thereafter, a payment date that shall occur on the second business day following the latest underlying payment date of all of the underlying series in that calendar month. The 2019-1R Notes mature on March 29, 2022 or, if extended pursuant to the terms of the related indenture, March 29, 2024 (unless earlier redeemed in accordance with their terms).

On April 25, 2018, the Company, through its indirect subsidiary, PMT ISSUER TRUST-FMSR ("FMSR Issuer Trust"), issued an aggregate principal amount of $450 million in secured term notes (the "2018-FT1 Notes") to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. The 2018-FT1 Notes bear interest at a rate equal to one-month LIBOR plus 2.35% per annum, payable each month beginning in May 2018, on the 25th day of such month or, if such 25th day is not a business day, the next business day. The 2018-FT1 Notes mature on April 25, 2023 or, if extended pursuant to the terms of the related term note indenture supplement, April 25, 2025 (unless earlier redeemed in accordance with their terms). The 2018-FT1 Notes rank pari passu with the Series 2017-VF1 Note dated December 20, 2017 (the "FMSR VFN") pledged to Credit Suisse under an agreement to repurchase. The 2018-FT1 Notes and the FMSR VFN are secured by certain participation certificates relating to Fannie Mae MSRs and ESS relating to such MSRs.

On February 1, 2018, the Company, through PMC and PMH, entered into a Loan and Security Agreement with Credit Suisse First Boston Mortgage Capital LLC ("Credit Suisse"), pursuant to which PMC and PMH may finance certain mortgage servicing rights (inclusive of any related excess servicing spread arising therefrom and that may be transferred from PMC to PMH from time to time) relating to mortgage loans pooled into Freddie Mac securities (collectively, the "Freddie MSRs"), in an aggregate loan amount not to exceed $175 million, all of which is committed. The note matures on February 1, 2020.

On March 24, 2017, the Company, through PMC and PMH, entered into a Loan and Security Agreement with Barclays Bank PLC ("Barclays"), pursuant to which PMC and PMH may finance certain mortgage servicing rights (inclusive of any related excess servicing spread arising therefrom and that may be transferred from PMC to PMH from time to time) relating to mortgage loans pooled into Freddie Mac securities (collectively, the "Freddie MSRs"), in an aggregate loan amount not to exceed $170 million, all of which is committed. The note matured and was repaid on February 1, 2018.

Following is a summary of financial information relating to the notes payable:

	Quarter ended March 31, 2019 (dollars in thousands)	
Weighted average interest rate (1)	4.89	%
Average balance	$ 465,377	
Total interest expense	$ 5,823	
Maximum daily amount outstanding	$ 745,730	

(1) Excludes the effect of amortization of debt issuance costs of $256,000 for the quarter ended March 31, 2019.

	March 31, 2019	December 31, 2018
	(dollars in thousands)	
Carrying value:		
Amount outstanding	$745,730	$450,000
Unamortized debt issuance costs	(6,506)	(4,427)
	$739,224	$445,573
Weighted average interest rate	4.75%	4.86%
Assets securing notes payable:		
MSRs (1)	$1,133,736	$1,139,582
CRT Agreements:		
Deposits securing CRT Agreements	$366,831	$—
Derivative assets	$24,735	$—

(1) Beneficial interests in Fannie Mae MSRs are pledged as collateral both *Assets sold under agreements to repurchase* and *Notes payable*.

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Note 18—Asset-Backed Financing of a Variable Interest Entity at Fair Value

Following is a summary of financial information relating to the asset-backed financing of a VIE:

	Quarter ended March 31,	
	2019	2018
	(dollars in thousands)	
Average balance	$275,787	$297,682
Total interest expense	$3,268	$2,296
Weighted average interest rate	3.55 %	3.54 %

	March 31, 2019	December 31, 2018
	(dollars in thousands)	
Fair value	$275,509	$ 276,499
UPB	$277,254	$ 281,922
Weighted average interest rate	3.51 %	3.51 %

The asset-backed financing of a VIE is a non-recourse liability and secured solely by the assets of a consolidated VIE and not by any other assets of the Company. The assets of the VIE are the only source of funds for repayment of the certificates.

Note 19—Liability for Losses Under Representations and Warranties

Following is a summary of the Company's liability for losses under representations and warranties:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Balance, beginning of quarter	$7,514	$8,678
Provision for losses:		
Pursuant to mortgage loan sales	720	572
Reduction in liability due to change in estimate	(528)	(1,042)
(Losses incurred) recoveries, net	(18)	41
Balance, end of quarter	$7,688	$8,249
UPB of mortgage loans subject to representations and warranties at end of quarter	$96,514,379	$74,554,838

Note 20—Commitments and Contingencies

Litigation

From time to time, the Company may be involved in various proceedings, claims and legal actions arising in the ordinary course of business. As of March 31, 2019, the Company was not involved in any such proceedings, claims or legal actions that in the Company's view would reasonably be likely to have a material adverse effect on the Company.

Commitments

The following table summarizes the Company's outstanding contractual commitments:

	March 31, 2019 (in thousands)
Commitments to purchase mortgage loans acquired for sale	$2,037,160
Face amount firm commitment to purchase credit risk transfer securities	$886,969

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Note 21—Shareholders' Equity

Preferred Shares of Beneficial Interest

Preferred shares of beneficial interest are summarized below:

Series	Description (1)	Number of shares	Liquidation preference	Issuance discount	Carrying value	Dividends per share Quarter ended March 31, 2019	2018
Fixed-to-floating rate cumulative redeemable preferred		(in thousands, except dividends per share)					
A	8.125% Issued March 2017	4,600	$ 115,000	$ 3,828	$ 111,172	$ 0.51	$ 0.51
B	8.00% Issued July 2017	7,800	195,000	6,465	188,535	$ 0.50	$ 0.50
		12,400	$ 310,000	$ 10,293	$ 299,707		

(1) Par value is $0.01 per share for both series.

During March 2017, the Company issued 4.6 million of its 8.125% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Shares of Beneficial Interest, $0.01 par value per share (the "Series A Preferred Shares"). From, and including, the date of original issuance to, but not including, March 15, 2024, the Company pays cumulative dividends on the Series A Preferred Shares at a fixed rate of 8.125% per annum based on the $25.00 per share liquidation preference. From, and including, March 15, 2024 and thereafter, the Company will pay cumulative dividends on the Series A Preferred Shares at a floating rate equal to three-month LIBOR as calculated on each applicable dividend determination date plus a spread of 5.831% per annum based on the $25.00 per share liquidation preference.

During July 2017, the Company issued 7.8 million of its 8.00% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Shares of Beneficial Interest, $0.01 par value per share (the "Series B Preferred Shares" and, together with the Series A Preferred Shares, the "Preferred Shares"). From, and including, the date of original issuance to, but not including, June 15, 2024, the Company pays cumulative dividends on the Series B Preferred Shares at a fixed rate of 8.00% per annum based on the $25.00 per share liquidation preference. From, and including, June 15, 2024 and thereafter, the Company will pay cumulative dividends on the Series B Preferred Shares at a floating rate equal to three-month LIBOR as calculated on each applicable dividend determination date plus a spread of 5.99% per annum based on the $25.00 per share liquidation preference.

The Company pays quarterly cumulative dividends on the Preferred Shares on the 15th day of each March, June, September and December, provided that if any dividend payment date is not a business day, then the dividend that would otherwise be payable on that dividend payment date may be paid on the following business day.

The Series A and Series B Preferred Shares will not be redeemable before March 15, 2024 and June 15, 2024, respectively, except in connection with the Company's qualification as a REIT for U.S. federal income tax purposes or upon the occurrence of a change of control. On or after the date the Preferred Shares become redeemable, or 120 days after the first date on which such change of control occurred, the Company may, at its option, redeem any or all of the Preferred Shares at $25.00 per share plus any accumulated and unpaid dividends thereon to, but not including, the redemption date.

The Preferred Shares have no stated maturity, are not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless redeemed or repurchased by the Company or converted into common shares in connection with a change of control by the holders of the Preferred Shares.

Common Share Issuances

from the issuance and sale of the common shares

he Company entered into

Company sold a total of 221,000 common shares at an average price of $20.76 per share, providing net proceeds to the Company of approximately $4.5 million, net of sales commissions and fees of $46,000.

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Common Share Repurchases

During August 2015, the Company's board of trustees authorized a common share repurchase program. Under the program, as amended, the Company may repurchase up to $300 million of its outstanding common shares.

The following table summarizes the Company's share repurchase activity:

	Quarter ended March 31, 2019	2018	Cumulative total (1)
	(in thousands)		
Common shares repurchased	—	671	14,731
Cost of common shares repurchased	$ —	$ 10,719	$ 216,625

(1) Amounts represent the share repurchase program total from its inception in August 2015 through March 31, 2019. The repurchased common shares were canceled upon settlement of the repurchase transactions and returned to the authorized but unissued common share pool.

Conditional Reimbursement of IPO Underwriting Costs

As more fully described in Note 5—*Transactions with Related Parties*, the Company has a Reimbursement Agreement, by and among the Company, the Operating Partnership and the Manager. The Reimbursement Agreement provides that, to the extent the Company is required to pay the Manager performance incentive fees under the management agreement, the Company will reimburse the Manager for underwriting costs it paid on the IPO offering date at a rate of $10 in reimbursement for every $100 of performance incentive fees earned. The Company paid reimbursements totaling $75,000 during the quarter ended March 31, 2019.

The Reimbursement Agreement also provides for the payment to the IPO underwriters of the amount that the Company agreed to pay to them at the time of the IPO if the Company satisfied certain performance measures over a specified period. As the Manager earns performance incentive fees under the management agreement, the IPO underwriters will be paid at a rate of $20 of payments for every $100 of performance incentive fees earned by PCM. The Company made payments under the Reimbursement Agreement totaling $152,000 during the quarter ended March 31, 2019. The Reimbursement Agreement was amended and now expires on February 1, 2023.

Note 22— Net Gain (Loss) on Investments

	Quarter ended March 31, 2019	2018
	(in thousands)	

From nonaffiliates:		
Mortgage-backed securities at fair value	$36,922	$(22,397)
Mortgage loans at fair value:		
Held in a VIE	3,585	(5,579)
Distressed	485	(9,951)
CRT Agreements	30,950	22,551
Firm commitment to purchase CRT securities	22,190	—
Asset-backed financing of a VIE at fair value	(2,857)	6,183
Hedging derivatives	7,380	1,460
	98,655	(7,733)
From PFSI—ESS	(3,562)	7,751
	$95,093	$18

Note 23—Net Gain on Mortgage Loans Acquired for Sale

Net gain on mortgage loans acquired for sale is summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
From nonaffiliates:		
Cash loss:		
Mortgage loans	$(101,721)	$(95,767)
Hedging activities	(14,315)	33,746
	(116,036)	(62,021)
Non-cash gain:		
Recognition of fair value of firm commitment to purchase credit risk transfer security	19,600	—
Receipt of MSRs in mortgage loan sale transactions	131,868	66,546
Provision for losses relating to representations and warranties provided in mortgage loan sales:		
Pursuant to mortgage loans sales	(720)	(572)
Reduction in liability due to change in estimate	528	1,042
	(192)	470
Change in fair value of financial instruments held at end of quarter:		
IRLCs	(1,531)	(1,924)
Mortgage loans	5,650	2,851
Hedging derivatives	(20,030)	(936)
	(15,911)	(9)
	135,365	67,007
Total from nonaffiliates	19,329	4,986
From PFSI—cash gain	1,994	2,641
	$21,323	$7,627

Note 24— Net Mortgage Loan Servicing Fees

Net mortgage loan servicing fees are summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
From nonaffiliates:		
Servicing fees (1)	$61,272	$48,732
Ancillary and other fees	3,208	1,703
Effect of MSRs fair value changes:		
Realization of cashflows	(40,821)	(26,638)

Market changes	(96,508)	52,611
	(137,329)	25,973
Gains (losses) on hedging derivatives	41,135	(20,848)
	(96,194)	5,125
Net mortgage servicing fees from non-affiliates	(31,714)	55,560
From PFSI—MSR recapture income	634	595
Net mortgage loan servicing fees	$(31,080)	$56,155
Average servicing portfolio UPB	$95,844,879	$73,694,438

(1) Includes contractually specified servicing fees, net of Agency guarantee fees.

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Note 25—Net Interest Income

Net interest income is summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Interest income:		
From nonaffiliates:		
Short-term investments	$670	$73
Mortgage-backed securities	19,452	8,791
Mortgage loans acquired for sale at fair value	20,438	11,332
Mortgage loans at fair value:		
Held in a VIE	2,924	2,603
Distressed	1,248	7,899
Deposits securing CRT Agreements	6,775	2,031
Placement fees relating to custodial funds	8,266	4,215
Other	242	102
	60,015	37,046
From PFSI—ESS	3,066	3,934
	63,081	40,980
Interest expense:		
To nonaffiliates:		
Assets sold under agreements to repurchase (1)	36,851	24,507
Mortgage loan participation purchase and sale agreements	574	314
Exchangeable Notes	3,661	3,644
Notes payable	5,823	—
Asset-backed financings of a VIE at fair value	3,268	2,296
Interest shortfall on repayments of mortgage loans serviced for Agency securitizations	2,271	1,594
Interest on mortgage loan impound deposits	495	485
	52,943	32,840
To PFSI—Assets sold under agreement to repurchase	1,796	1,976
	54,739	34,816
Net interest income	$8,342	$6,164

(1) In 2017, the Company entered into a master repurchase agreement that provides the Company with incentives to finance mortgage loans approved for satisfying certain consumer relief characteristics as provided in the agreement. During the quarters ended March 31, 2019 and 2018, the Company recognized $7.5 million and $2.4 million, respectively, in such incentives as reductions of interest expense, respectively. The master repurchase agreement expires on August 21, 2019, unless terminated earlier at the option of the lender. The Company expects that it will cease to accrue the incentives under the repurchase agreement in the second quarter of 2019.

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Note 26—Share-Based Compensation Plans

As of March 31, 2019 and December 31, 2018, the Company had one share-based compensation plan. The following table summarizes the Company's share-based compensation activity:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Grants:		
Restricted share units	96	129
Performance share units	79	116
Total share units granted	175	245
Grant date fair value:		
Restricted share units granted	$1,978	$2,300
Performance share units granted	1,631	1,542
Total grant date value of share units granted	$3,609	$3,842
Vestings:		
Restricted share units	226	192
Performance share units	141	28
Total share units vested	367	220
Compensation expense relating to share-based grants	$1,617	$899

There were no forfeitures of grants during the quarters presented.

Note 27—Other Expenses

Other expenses are summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Common overhead allocation from PFSI	$1,236	$1,001
Safekeeping	736	360
Bank service charges	568	545
Technology	373	378
Insurance	280	305
Other	(45)	61
	$3,148	$2,650

Note 28—Income Taxes

The Company's effective tax rates were (7.3)% and 25.5% for the quarters ended March 31, 2019 and 2018, respectively. The Company's taxable REIT subsidiary ("TRS") recognized a tax benefit of $3.9 million on a pretax loss of $17.4 million while the Company's consolidated pretax income was $49.9 million for the quarter ended March 31, 2019. For the same period in 2018, the Company's TRS recognized tax expense of $9.4 million on a pretax income of $34.6 million, while the Company's consolidated pretax income was $37.8 million. The relative values between the tax benefit or expense at the TRS and the Company's consolidated pretax income generally drive the fluctuation in the effective tax rate. The primary difference between the Company's effective tax rate and the statutory tax rate is attributable to nontaxable REIT income resulting from the dividends paid deduction.

In general, cash dividends declared by the Company will be considered ordinary income to the shareholders for income tax purposes. Some portion of the dividends may be characterized as capital gain distributions or a return of capital. For tax years beginning after December 31, 2017, the 2017 Tax Cuts and Jobs Act (subject to certain limitations) provides a 20% deduction from taxable income for ordinary REIT dividends.

Note 29—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 nonforfeitable 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 available to common shareholders (net income reduced by preferred dividends and 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 Notes, by the weighted average common shares outstanding, assuming all dilutive securities were issued.

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

	Quarter ended March 31,	
	2019	2018
	(in thousands except per share amounts)	
Net income	$53,527	$28,186
Dividends on preferred shares	(6,234)	(6,234)
Effect of participating securities—share-based compensation awards	(184)	(202)
Net income attributable to common shareholders	$47,109	$21,750
Net income attributable to common shareholders	$47,109	$21,750
Interest on Exchangeable Notes, net of income taxes	2,709	2,655
Income attributable to participating securities	184	—
Diluted net income attributable to common shareholders	$50,002	$24,405
Weighted average basic shares outstanding	64,629	60,761
Dilutive securities:		
Shares under share-based compensation plan	275	647
Shares issuable pursuant to exchange of the Exchangeable Notes	8,467	8,467
Diluted weighted average number of shares outstanding	73,371	69,875
Basic earnings per share	$0.73	$0.36
Diluted earnings per share	$0.68	$0.35

Calculation of diluted earnings per share requires certain potentially dilutive shares to be excluded when the inclusion of such shares in the diluted earnings per share calculation would be antidilutive. The following table summarizes the potentially dilutive shares excluded from the diluted earnings per share calculation:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Shares issuable under share-based compensation plan	209	—

Note 30—Segments

The Company operates in four segments: correspondent production, credit sensitive strategies, interest rate sensitive strategies and corporate:

- 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 MBS, using the services of the Manager and PLS.
- The credit sensitive strategies segment represents the Company's investments in CRT Agreements, firm commitments to purchase CRT securities, distressed mortgage loans, REO, real estate held for investment, non-Agency subordinated bonds and small balance commercial real estate mortgage loans.
- The interest rate sensitive strategies segment represents the Company's investments in MSRs, ESS, Agency and senior non-Agency MBS and the related interest rate hedging activities.
- The corporate segment includes management fees, corporate expense amounts and certain interest income.

Financial highlights by operating segment are summarized below:

Quarter ended March 31, 2019	Correspondent production	Credit sensitive strategies	Interest rate sensitive strategies	Corporate	Total
	(in thousands)				
Net investment income:					
Net gain (loss) on investments	$—	$53,808	$41,285	$—	$95,093
Net gain on mortgage loans acquired for sale (1)	10,226	11,097	—	—	21,323
Net mortgage loan servicing fees	—	—	(31,080)	—	(31,080)
Net interest income (expense):					
Interest income	20,316	8,256	34,079	430	63,081
Interest expense	(9,662)	(12,022)	(33,055)	—	(54,739)
	10,654	(3,766)	1,024	430	8,342
Other income (loss)	12,964	(30)	—	6	12,940
	33,844	61,109	11,229	436	106,618
Expenses:					
Mortgage loan fulfillment and servicing fees payable to PFSI	27,573	465	10,106	—	38,144
Management fees	—	—	—	7,248	7,248
Other	2,650	2,271	318	6,120	11,359
	30,223	2,736	10,424	13,368	56,751
Pretax income (loss)	$3,621	$58,373	$805	$(12,932)	$49,867
Total assets at period end	$1,511,887	$1,617,022	$4,326,579	$100,499	$7,555,987

(1) During the quarter ended March 31, 2019, the chief operating decision maker began attributing a portion of the initial fair value the Company recognizes relating to its firm commitment to purchase CRT securities upon the sale of mortgage loans to the correspondent production segment in recognition of pricing changes in the correspondent production segment. Accordingly, the Company allocated $8.6 million of the initial firm commitment gain to *Net gain on mortgage loans acquired for sale* in the correspondent production segment and $11.1 million in credit sensitive strategy segment during the quarter in the credit sensitive strategies segment.

Quarter ended March 31, 2018	Correspondent production	Credit sensitive strategies	Interest rate sensitive strategies	Corporate	Total
	(in thousands)				
Net investment income:					
Net gain (loss) on investments	—	12,414	(12,396)	—	18
Net gain (loss) on mortgage loans acquired for sale	7,599	28	—	—	7,627
Net mortgage loan servicing fees	$—	$7	$56,148	$—	$56,155
Net interest income:					
Interest income	11,169	10,208	19,428	175	40,980

Interest expense	(6,798)	(10,664)	(17,354)	—	(34,816)
	4,371	(456)	2,074	175	6,164
Other income (loss)	7,073	(1,389)	—	25	5,709
	19,043	10,604	45,826	200	75,673
Expenses:					
Mortgage loan fulfillment and servicing fees payable to PFSI	11,944	3,085	7,934	—	22,963
Management fees	—	—	—	5,696	5,696
Other	469	3,913	108	4,686	9,176
	12,413	6,998	8,042	10,382	37,835
Pretax income (loss)	$6,630	$3,606	$37,784	$(10,182)	$37,838
Total assets at year end	$1,141,457	$1,485,492	$2,989,692	$173,845	$5,790,486

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Note 31—Supplemental Cash Flow Information

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Payments:		
Income tax, net	$—	$—
Interest	$67,466	$32,112
Cumulative effect on accumulated deficit of conversion to fair value accounting for mortgage servicing rights	$—	$19,713
Non-cash investing activities:		
Transfer of mortgage loans and advances to real estate acquired in settlement of loans	$4,550	$16,363
Transfer of real estate acquired in settlement of mortgage loans to real estate held for investment	$—	$2,059
Transfer from real estate held for investment to real estate acquired in settlement of loans	$424	$—
Receipt of mortgage servicing rights as proceeds from sales of mortgage loans at fair value	$131,868	$66,546
Receipt of excess servicing spread pursuant to recapture agreement with PennyMac Financial Services, Inc.	$508	$904
Capitalization of servicing advances pursuant to mortgage loan modifications	$457	$1,677
Non-cash financing activities:		
Dividends declared, not paid	$32,262	$28,818

Note 32—Regulatory Capital and Liquidity Requirements

PMC is a seller/servicer for Fannie Mae and Freddie Mac. The Company is required to comply with the following minimum capital and liquidity eligibility requirements to remain in good standing with each Agency:

- A minimum net worth of $2.5 million plus 25 basis points of UPB for all mortgage loans serviced;
- A tangible net worth/total assets ratio greater than or equal to 6%; and
- Liquidity equal to or exceeding 3.5 basis points multiplied by the aggregate UPB of all mortgages secured by 1-4 unit residential properties serviced for Freddie Mac and Fannie Mae ("Agency Mortgage Servicing") plus 200 basis points multiplied by the sum of nonperforming (90 or more days delinquent) Agency Mortgage Servicing that exceeds 6% of Agency Mortgage Servicing.

Such Agencies' capital and liquidity amounts and requirements, the calculations of which are defined by each entity, are summarized below:

Fannie Mae and Freddie Mac	Net Worth (1)		Tangible Net Worth / Total Assets Ratio (1)		Liquidity (1)	
	Actual	Required	Actual	Required	Actual	Required
	(dollars in thousands)					
March 31, 2019	$515,013	$255,487	12%	6%	$65,992	$33,991
December 31, 2018	$528,506	$238,915	11%	6%	$58,144	$31,678

(1) Calculated in accordance with the Agencies' requirements.

Noncompliance with the Agencies' capital and liquidity requirements can result in the Agencies taking various remedial actions up to and including removing the Company's ability to sell loans to and service loans on behalf of the Agencies.

Note 33—Subsequent Events

Management has evaluated all events and transactions through the date the Company issued these consolidated financial statements. During this period, there have been no material events that would require recognition in our consolidated financial statements or disclosure in the notes to the consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read with the consolidated financial statements and the related notes of PennyMac Mortgage Investment Trust ("PMT") included within this Quarterly Report on Form 10-Q.

Statements contained in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to be materially different from those expressed or implied in such statements. You can identify these forward-looking statements by words such as "may," "will," "should," "expect," "anticipate," "believe," "estimate," "intend," "plan" and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading "Risk Factors," as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this Quarterly Report on Form 10-Q and our other filings with the United States Securities and Exchange Commission ("SEC"). The forward-looking statements contained in this Quarterly Report on Form 10-Q are made as of the date hereof and we assume no obligation to update or supplement any forward-looking statements.

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our consolidated results of operations and financial condition. Unless the context indicates otherwise, references in this Quarterly Report on Form 10-Q to the words "we," "us," "our" and the "Company" refer to PMT.

Our Company

We are a specialty finance company that invests primarily in residential mortgage loans and mortgage-related assets. Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. Our investment focus is on mortgage-related assets that we create through our correspondent production activities, including mortgage servicing rights ("MSRs") and credit risk transfer ("CRT") arrangements, which include CRT agreements ("CRT Agreements") and CRT securities that absorb credit losses on certain of the mortgage loans we sell. We also invest in mortgage-backed securities ("MBS"), and hold excess servicing spread ("ESS") on MSRs acquired by PennyMac Loan Services, LLC ("PLS"). We have also historically invested in distressed mortgage assets (mortgage loans and real estate acquired in settlement of mortgage loans) as well as other credit sensitive assets, including loans that finance multifamily and other commercial real estate, which are no longer a significant portion of our investments.

We are externally managed by PNMAC Capital Management, LLC ("PCM"), an investment adviser that specializes in and focuses on U.S. mortgage assets. Most of our mortgage loan portfolio is serviced by PLS.

Correspondent Production

Our correspondent production activities involve the acquisition and sale of newly originated prime credit quality residential mortgage loans. Correspondent production serves as the source of our investments in MSRs, CRT Agreements and commitments to purchase credit risk transfer securities, and are summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Sales of mortgage loans acquired for sale:		
To nonaffiliates	$9,475,174	$5,200,584
To PennyMac Financial Services, Inc.	6,959,390	9,212,188

	$16,434,564	$14,412,772
Net gain on mortgage loans acquired for sale	$21,323	$7,627
Investment activities driven by correspondent production:		
Receipt of MSRs as proceeds from sales of mortgage loans	$131,868	$66,546
Investments in CRT arrangements		
Increase in face amount of firm commitment to purchase CRT securities	$281,917	$—
Deposits of cash and change in commitments to fund *Deposits securing CRT Agreements* resulting from sale of mortgage loans under CRT Agreements and settlement of outstanding commitments	—	112,275
Total investments in CRT arrangements	$281,917	$112,275

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To the extent that we purchase mortgage loans that are insured by the U.S. Department of Housing and Urban Development ("HUD") through the Federal Housing Administration (the "FHA"), or insured or guaranteed by the Veterans Administration (the "VA") or U.S. Department of Agriculture ("USDA"), we and PLS have agreed that PLS will fulfill and purchase such mortgage loans, as PLS is a Ginnie Mae-approved issuer of government-guaranteed MBS and we are not. This arrangement has enabled us to compete with other correspondent aggregators that purchase both government and conventional mortgage loans. We receive a sourcing fee from PLS ranging from two to three and one-half basis points, generally based on the average number of calendar days that mortgage loans are held by us prior to purchase by PLS, on the unpaid principal balance ("UPB") of each mortgage loan that we sell to PLS.

We have transferred certain correspondent production loans into a private label securitization, and retained a portion of the securities created in the securitization transaction. Our private label securitization is accounted for as a financing arrangement. Sales of securities included in the securitization are treated as issuances of debt.

Credit Sensitive Investments

CRT Arrangements

We believe that CRT Agreements and CRT securities are long-term investments that can produce attractive risk-adjusted returns through our own mortgage production while aligning with Fannie Mae's strategic goal to attract private capital investment in its credit risk. We believe there is significant potential for investment in front-end credit risk transfer and MSRs that result from our correspondent production activities. During the quarter ended March 31, 2019, we made commitments to purchase CRT securities with UPB of $281.9 million. We held CRT-related investments (composed of deposits securing CRT Agreements, derivative assets and firm commitment to purchase CRT securities) totaling $1.5 billion at March 31, 2019. During the quarter ended March 31, 2018, we funded investments in CRT Agreements totaling $41.8 million, and held CRT-related investments (composed of deposits securing CRT Agreements and derivative assets) totaling $726.3 million at March 31, 2018.

Distressed Mortgage Assets

We have invested in distressed mortgage loans through direct acquisitions of mortgage loan portfolios from institutions such as banks and mortgage companies. We seek to maximize the fair value of these distressed mortgage loans using means that are appropriate for the particular loan, including both proprietary and nonproprietary loan modification programs, special servicing and other initiatives focused on avoiding foreclosure, when possible. When we are unable to effect a cure for a mortgage loan delinquency, our objective is timely acquisition and/or liquidation of the property securing the mortgage loan through the use, in part, of short sales and deed-in-lieu-of-foreclosure programs. We may elect to hold certain real estate acquired in settlement of loans ("REO") as income-producing properties for extended periods as a means of maximizing our returns on such properties. We seek to maximize our returns on distressed mortgage assets through individual loan and property resolutions, as well as bulk sales.

During the quarter ended March 31, 2019, we received proceeds from liquidations, payoffs, paydowns and sales from our portfolio of distressed mortgage loans and REO totaling $16.7 million, including loan sales totaling $216,000. During the quarter ended March 31, 2018, we received proceeds from liquidations, payoffs, paydowns and sales from our portfolio of distressed mortgage loans and REO totaling $305.2 million, including bulk sales totaling $258.2 million in fair value of distressed mortgage loans.

Interest Rate Sensitive Investments

Our interest rate sensitive investments include:

- Mortgage servicing rights. During the quarter ended March 31, 2019, we received $131.9 million of MSRs as proceeds from sales of mortgage loans acquired for sale. We held $1.2 billion of MSRs at fair value at March 31, 2019.

- REIT-eligible mortgage-backed or mortgage-related securities. We did not purchase MBS during the quarter ended March 31, 2019. We held MBS with fair values totaling $2.6 billion at March 31, 2019.
- ESS relating to MSRs held by PFSI. We received ESS with fair value totaling $508,000 during the quarter ended March 31, 2019, pursuant to a recapture agreement with PLS. We held ESS with a fair value totaling $205.1 million at March 31, 2019.

Capital Structure

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Company had sold a total of 221,000 of its common shares at an average price of $20.76 per share, providing net proceeds to the Company of approximately $4.5 million, net of sales commission and fees of $46,000.

Our board of trustees has authorized a repurchase program under which we may repurchase up to $300 million of our outstanding common shares. We have repurchased a cumulative total of 14.7 million common shares at a cost of $216.6 million under the program. The repurchased common shares were canceled upon settlement of the repurchase transactions and returned to the authorized but unissued share pool. We did not repurchase common shares during the quarter ended March 31, 2019.

Taxation

We believe that we qualify to be taxed as a REIT and as such will not be subject to federal income tax on that portion of our income that is distributed to shareholders as long as we meet applicable REIT asset, income and share ownership tests. If we fail to qualify as a REIT, and do not qualify for certain statutory relief provisions, our profits will be subject to income taxes and we may be precluded from qualifying as a REIT for the four tax years following the year we lose our REIT qualification. A portion of our activities, including our correspondent production business, is conducted in our taxable REIT subsidiary (“TRS”), which is subject to corporate federal and state income taxes. Accordingly, we have made a provision for income taxes with respect to the operations of our TRS. We expect that the effective rate for the provision for income taxes may be volatile in future periods. Our goal is to manage the business to take full advantage of the tax benefits afforded to us as a REIT.

Non-Cash Income

A substantial portion of our net investment income includes non-cash items, including fair value adjustments, recognition of the fair value of assets created and liabilities incurred in mortgage loan sale transactions and the capitalization and amortization of certain assets and liabilities. Because we have elected, or are required by generally accepted accounting principles, to record our financial assets (comprised of MBS, mortgage loans acquired for sale at fair value, mortgage loans at fair value and ESS), our firm commitment to purchase credit risk transfer securities, our derivatives, our MSRs, and our asset-backed financing and interest-only security payable at fair value, a substantial portion of the income or loss we record with respect to such assets and liabilities results from non-cash changes in fair value.

The amounts of non-cash income (loss) items included in net investment income are as follows:

	Quarter ended March 31,	
	2019	2018
	(dollars in thousands)	
Net mortgage loan servicing fees—MSR valuation adjustments	$(137,329)	$25,973
Net gain on mortgage loans acquired for sale:		
Receipt of MSRs in mortgage loan sale transactions	131,868	66,546
Fair value of commitment to purchase credit risk transfer securities	19,600	—
Provision for losses relating to representations and warranties provided in mortgage loan sales:		
Pursuant to mortgage loans sales	(720)	(572)
Reduction in liability due to change in estimate	528	1,042
Change in fair value during the year of financial instruments held at quarter end:		
IRLCs	(1,531)	(1,924)
Mortgage loans acquired for sale	5,650	2,851
Hedging derivatives	(20,030)	(936)
	135,365	67,007
Net gain (loss) on investments:		
Mortgage-backed securities	36,922	(22,397)
Mortgage loans:		
Held in a variable interest entity	3,585	(5,579)
Distressed	923	(9,271)
ESS	(3,562)	7,751
CRT Agreements	6,460	5,355
Firm commitment to purchase CRT securities	22,190	—
Interest-only security payable at fair value	3,447	(2,133)
Asset-backed financing of a VIE	(2,857)	6,183
	67,108	(20,091)
Net interest income—Capitalization of interest pursuant to mortgage loan modifications	762	2,180
	$65,906	$75,069
Net investment income	$106,618	$75,673
Non-cash items as a percentage of net investment income	62%	99%

We receive or pay cash relating to our investments as follows:

- We receive cash related to MSRs in the form of mortgage loan servicing fees.
- We receive proceeds on the sale of mortgage loans acquired for sale that include both cash and our estimate of the fair value of MSRs and a firm commitment to purchase CRT securities, and we recognize a liability for potential losses relating to representations and warranties created in the mortgage loan sales transactions. We pay cash relating to our provision for representations and warranties when we repurchase mortgage loans or settle loss claims from investors.
- We receive cash relating to our investments in MBS through monthly principal and interest payments from the issuer of such securities.
- We receive cash relating to CRT Agreements through a portion of both the interest payments collected on mortgage loans in the CRT Agreements' reference pools and the deposits securing the agreements that are released as principal on such mortgage loans is repaid.

- We receive or pay cash relating to hedging instruments when the instruments mature or when we effectively cancel the transactions through an offsetting trade.
- We receive cash relating to mortgage loan investments when the investments are paid down, paid off or sold, when payments of principal and interest occur on such mortgage loans or when the property securing the mortgage loan has been sold.

Results of Operations

The following is a summary of our key performance measures:

	Quarter ended March 31,	
	2019	2018
	(in thousands, except per common share amounts)	
Net investment income	$106,618	$75,673
Expenses	(56,751)	(37,835)
Pre-tax income	49,867	37,838
Benefit from (provision for) income taxes	3,660	(9,652)
Net income	53,527	28,186
Dividends on preferred shares	6,234	6,234
Net income attributable to common shareholders	$47,293	$21,952
Pre-tax income (loss) by segment:		
Correspondent production	$3,621	$6,630
Credit sensitive strategies	58,373	3,606
Interest rate sensitive strategies	805	37,784
Corporate	(12,932)	(10,182)
	$49,867	$37,838
Annualized return on average common shareholder's equity	14.0%	7.0%
Earnings per common share:		
Basic	$0.73	$0.36
Diluted	$0.68	$0.35
Dividends per common share	$0.47	$0.47
Per common share closing prices:		
During the quarter:		
High	$21.32	$18.03
Low	$18.84	$15.57
At quarter end	$20.71	$18.03

	March 31, 2019	December 31, 2018
Total assets	$7,555,987	$7,813,361
Book value per common share	$20.72	$20.61

During the quarter ended March 31, 2019, we recorded net income of $53.5 million, or $0.68 per diluted share. Our net income for the quarter ended March 31, 2019 reflects net gain on investments of $95.1 million, net gain on mortgage loans acquired for sale of $21.3 million, mortgage loan origination fees of $12.9 million, and net interest income of $8.3 million, partially offset by negative net mortgage loan servicing fees of $31.1 million.

During the quarter ended March 31, 2018, we recorded net income of $28.2 million, or $0.35 per diluted share. Our net income for the quarter ended March 31, 2018 reflects net mortgage loan servicing fees of $56.2 million, supplemented by net gain on mortgage loans acquired for sale of $7.6 million, mortgage loan origination fees of $7.0 million, net interest income of $6.2 million and net gain on investments of $18,000.

Our net income for the quarters ended March 31, 2019 and March 31, 2018 includes recognition of incentives we received for financing certain of our mortgage loans acquired for sale satisfying certain relief characteristics under a master repurchase agreement. During the quarter ended March 31, 2019, we recognized $7.5 million as a reduction of interest expense compared to $2.4 million in such incentives during the same period in 2018. The master repurchase agreement expires on August 21, 2019, unless terminated earlier at the option of the lender. We expect that we will cease to accrue the incentives under the repurchase agreement in the second quarter of 2019.

Our net income during the quarter ended March 31, 2019 was higher than the same period in 2018, due to an increase in pretax income in our credit sensitive strategies segment of $54.8 million. During the quarter ended March 31, 2019, our credit sensitive strategies segment recognized net investment income totaling $61.1 million, compared to $10.6 million during the same period in 2018, primarily due to gains from our investments in CRT arrangements which reflect both growth in our investment in CRT Agreements and commitment to purchase CRT securities and a tightening of credit spreads (credit spreads represent the yield premium demanded by investors for securities similar to CRT Agreements as compared to a U.S. Treasury security) in the quarter ended March 31, 2019.

Pretax income in our interest rate sensitive strategies activities decreased by $37.0 million during the quarter ended March 31, 2019, as compared to the same period in 2018, from $37.8 million to $805,000 due to the effect of decreasing interest rates on the fair value of our investments in MSRs and ESS. This negative effect was partially offset by increased fair value gains from our investments in MBS, which benefited from the lower interest rates.

Net Investment Income

Our net investment income is summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Net gain on investments	$95,093	$18
Net gain on mortgage loans held for sale	21,323	7,627
Net mortgage loan origination fees	12,938	7,037
Net mortgage loan servicing fees	(31,080)	56,155
Net interest income	8,342	6,164
Results of real estate acquired in settlement of loans	(1,480)	(3,226)
Other	1,482	1,898
	$106,618	$75,673

Following is a discussion of the changes in our net investment income:

Net Gain on Investments

Net gain (loss) on investments is summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
From non-affiliates:		
Mortgage-backed securities	$36,922	$(22,397)
Mortgage loans at fair value:		
Held in a VIE	3,585	(5,579)
Distressed	485	(9,951)
CRT Agreements	30,950	22,551
Firm commitment to purchase CRT securities	22,190	—
Asset-backed financings of a VIE at fair value	(2,857)	6,183
Hedging derivatives	7,380	1,460
	98,655	(7,733)
From PFSI—ESS	(3,562)	7,751

$95,093	$18

The increase in net gain on investments during the quarter ended March 31, 2019, as compared to the same period in 2018 was caused primarily by increased gains from our investments in MBS and CRT arrangements during the quarter ended March 31, 2019, as compared to the same period in 2018.

Mortgage-Backed Securities

During the quarter ended March 31, 2019, we recognized net valuation gains on MBS of $36.9 million, as compared to net valuation losses of $22.4 million for the quarter ended March 31, 2018. The gains we recorded for the quarter ended March 31, 2019 reflect the influence of decreasing interest rates during 2019, as compared to the same period in 2018 and the growth of our investment in MBS. Our average investment in MBS at fair value increased by $1.5 billion or 142% during the quarter ended March 31, 2019, as compared to the same quarter during 2018.

Mortgage Loans at Fair Value – Distressed

Net gains (losses) on our investment in distressed mortgage loans at fair value are summarized below:

	Quarter ended March 31,	
	2019	2018
	(dollars in thousands)	
Valuation changes:		
Performing loans	$388	$(4,169)
Nonperforming loans	535	(5,102)
	923	(9,271)
(Loss) gain on payoffs	(214)	235
Loss on sale	(224)	(915)
	$485	$(9,951)
Average portfolio balance at fair value	$112,923	$738,333
Interest and fees capitalized	$762	$2,180
Number of mortgage loans relating to gain/(loss) recognized on sales	4	1,144
UPB of mortgage loans relating to gain/(loss) recognized on sales	$677	$351,630

Valuation changes amounted to gains of $923,000 in the quarter ended March 31, 2019, as compared to losses of $9.3 million for the same quarter in 2018. The valuation changes on performing mortgage loans reflect the effects of capitalization of delinquent interest on loans we modify. When we capitalize interest in a loan modification, we increase the carrying value of the mortgage loan. The interest income we recognize is offset by a valuation loss of corresponding magnitude. Changes in other inputs may result in further valuation changes to the mortgage loan, and subsequent performance of a modified mortgage loan will be reflected in its future fair value. During the quarter ended March 31, 2019, we capitalized interest totaling $762,000 as compared to $2.2 million for the quarter ended March 31, 2019.

Our disposition strategy for mortgage loans at fair value includes identification of the most financially beneficial resolution for each loan. Such resolutions may include modification or sale of the mortgage loan or acquisition of the property securing the distressed mortgage loan. During the quarters ended March 31, 2019 and 2018, we received proceeds from the sale of mortgage loans at fair value totaling $216,000 and $258.2 million, respectively. We believe that while future resolution activity will include mortgage loan sales, a significant portion of our remaining portfolio of distressed mortgage loans will require resolution through ongoing collection activities and borrower performance.

CRT Transactions

The activity in and balances relating to our CRT Agreements and firm commitment to purchase credit risk transfer security are summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
CRT Agreements		
UPB of mortgage loans sold under CRT Agreements	$—	$3,210,478
Deposits of cash securing CRT Agreements	$—	$41,789
Increase in commitments to fund *Deposits securing credit* *risk transfer agreements* resulting from sale of mortgage loans	—	70,486
Total new investments in CRT Agreements	$—	$112,275
Interest earned on *Deposits securing CRT Agreements*	$6,775	$2,031
Gains recognized on CRT Agreements included in:		
Net gain (loss) on investments:		
Realized	$21,043	$19,329
Resulting from valuation changes	6,460	5,355
	27,503	24,684
Change in fair value of *Interest-only security payable at fair value*	3,447	(2,133)
	$30,950	$22,551
Payments made to settle losses	$895	$828
CRT Securities		
Net gain on firm commitments to purchase	$22,190	$—
UPB of mortgage loans sold subject to credit risk transfer security	$7,702,080	$16,392,300

	March 31,	December 31,
	2019	2018
	(in thousands)	
CRT Agreements		
UPB of mortgage loans subject to Recourse Obligations	$29,265,550	$29,934,003
Carrying value of investments in CRT Agreements (1)	$1,267,730	$1,270,488
CRT Interest-only security payable at fair value	$32,564	$36,011
Commitments to fund *Deposits securing CRT Agreements*	$—	$—
CRT Securities		
UPB of mortgage loans outstanding sold subject to *Firm commitment* to purchase credit risk transfer security	$23,652,494	$16,392,300
Face amount of firm commitment to purchase credit risk transfer securities (UPB)	$886,969	$605,052
Fair value of firm commitment to purchase credit risk transfer security	$79,784	$37,994

(2) Carrying value of investments in CRT Agreements includes Deposits securing CRT Agreements and CRT derivatives.

The increase in gains recognized on CRT Agreements is due to larger decreases in credit spreads and interest rates during the quarter ended March 31, 2019 compared to the quarter ended March 31, 2018. The gains we recognized on our firm commitments to purchase CRT securities reflects the effect of credit spread tightening we observed during the quarter ended March 31, 2019, on the fair value of previously recognized as well as carry recognized in the value of the commitment over time.

ESS Purchased from PFSI

We recognized fair value losses relating to our investment in ESS totaling $3.6 million for the quarter ended March 31, 2019, as compared to fair value gains of $7.8 million for the quarter ended March 31, 2018. The change in valuation results during 2019 as compared to 2018 reflects the different interest rate environments that prevailed during the period. The lower interest rates that prevailed during the quarter ended March 31, 2019 resulted in increased prepayment expectations for the mortgage loans underlying the ESS. Such prepayment expectations result in reduced cash flow expectations, negatively affecting the assets’ fair values.

Net Gain on Mortgage Loans Acquired for Sale

Our net gain on mortgage loans acquired for sale is summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
From non-affiliates:		
Cash loss:		
Mortgage loans	$(101,721)	$(95,767)
Hedging activities	(14,315)	33,746
	(116,036)	(62,021)
Non-cash gain:		
Receipt of MSRs in mortgage loan sale transactions	131,868	66,546
Provision for losses relating to representations and warranties provided in mortgage loan sales:		
Pursuant to mortgage loan sales	(720)	(572)
Reduction in liability due to change in estimate	528	1,042
	(192)	470
Recognition of fair value of commitment to purchase credit risk transfer security relating to loans sold	19,600	—
Change in fair value during the year of financial instruments held at year end:		
IRLCs	(1,531)	(1,924)
Mortgage loans	5,650	2,851
Hedging derivatives	(20,030)	(936)
	(15,911)	(9)
	135,365	67,007
Total from non—affiliates	19,329	4,986
From PFSI—cash gain	1,994	2,641
	$21,323	$7,627
Interest rate lock commitments issued on loans acquired for sale to nonaffiliates	$8,986,956	$4,404,895
Mortgage loans acquired for sale:		
To nonaffiliates	$8,256,869	$4,232,308
To PFSI	6,826,566	8,833,752
	$15,083,435	$13,066,060

The changes in gain on mortgage loans acquired for sale during the quarter ended March 31, 2019, as compared to the same period in 2018, reflects the value of our commitment to invest in the credit risk of our mortgage loan production. We included $19.6 million in gain on sale of mortgage loans related to our continued involvement in the credit risk relating to the mortgage loans we sold during the quarter ended March 31, 2019. Our commitment to invest in this credit risk contributed significantly to our gain on sale of mortgage loans, as the mortgage market remained intensely competitive through the quarter ended March 31, 2019.

Our net gain on mortgage loans acquired for sale includes both cash and non-cash elements. We receive proceeds on sale that include both cash and our estimate of the fair value of MSRs we receive and our estimate of our firm commitment to purchase CRT securities relating to our mortgage loan production. How the Company measures and updates MSRs and our firm commitment to purchase credit risk transfer securities as detailed in Note 7 — *Fair Value — Valuation Techniques and Inputs* to the consolidated financial statements included in this Report.

We also recognize a liability for potential losses relating to representations and warranties created in the mortgage loan sales transactions. Our agreements with the purchasers include representations and warranties related to the mortgage loans we sell. The representations and warranties require adherence to purchaser and insurer origination and underwriting guidelines, including but not limited to the validity of the lien securing the mortgage loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law.

In the event of a breach of our representations and warranties, we may be required to either repurchase the mortgage loans with the identified defects or indemnify the investor or insurer against credit losses attributable to the loan with indemnified defects. In such cases, we bear any subsequent credit loss on the mortgage loans. Our credit loss may be reduced by any recourse we have to correspondent sellers that, in turn, had sold such mortgage loans to us and breached similar or other representations and warranties. In such event, we have the right to seek a recovery of related repurchase losses from that correspondent seller.

Following is a summary of the indemnification and repurchase activity and mortgage loans subject to representations and warranties:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Indemnification activity:		
Mortgage loans indemnified at beginning of quarter	$7,075	$5,926
New indemnifications	96	—
Less: Indemnified mortgage loans repaid or refinanced	627	555
Mortgage loans indemnified at end of quarter	$6,544	$5,371
Mortgage loans with deposits received from correspondent sellers collateralizing prospective indemnification losses at end of quarter	$847	$1,145
Repurchase activity:		
Mortgage loans repurchased	$3,689	$2,830
Less:		
Mortgage loans repurchased by correspondent sellers	2,478	3,167
Mortgage loans repaid by borrowers	90	256
Net mortgage loans repurchased (repurchased by correspondent sellers or repaid by borrowers)	$1,121	$(593)
Net losses charged (recovery credited) to liability for representations and warranties	$18	$(41)
At end of quarter:		
Mortgage loans subject to representations and warranties	$96,514,379	$74,554,838
Liability for representations and warranties	$7,688	$8,249

The losses we have recorded to date have been moderated by our ability to recover most of the losses inherent in the repurchased mortgage loans from the correspondent sellers. As the outstanding balance of mortgage loans we purchase and sell subject to representations and warranties increases, as the mortgage loans sold season, as our correspondent sellers' ability and willingness to repurchase mortgage loans and as our investors' and guarantors' loss mitigation strategies change, we expect that the level of repurchase activity and associated losses may increase.

The method we use to estimate the liability for representations and warranties is a function of estimated future defaults, mortgage loan repurchase rates, the potential severity of loss in the event of default and the probability of reimbursement by the correspondent mortgage loan seller. We establish a liability at the time mortgage loans are sold and review our liability estimate on a periodic basis.

The amount of the liability for representations and warranties is difficult to estimate and requires considerable judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor loss mitigation strategies, our ability to recover any losses inherent in the repurchased mortgage loan from the correspondent seller and other external conditions that may change over the lives of the underlying mortgage loans. We may be required to incur losses related to such representations and warranties for several periods after the mortgage loans are sold or liquidated.

We record adjustments to our recorded liability for losses on representations and warranties as economic fundamentals change, as investor and Agency evaluations of their loss mitigation strategies (including claims under representations and warranties) change and as economic conditions affect our correspondent sellers' ability or willingness to fulfill their recourse obligations to us. Such adjustments may be material to our financial position and income in future periods.

Adjustments to our liability for representations and warranties are included as a component of our *Net gains on mortgage loans acquired for sale at fair value*. We recorded a $0.5 million reduction in liability for representations and warranties during the quarter ended March 31, 2019, due to the effects of certain mortgage loans reaching specified performance histories identified by the Agencies as sufficient to limit repurchase claims relating to such mortgage loans.

Mortgage Loan Origination Fees

Mortgage loan origination fees represent fees we charge correspondent sellers relating to our purchase of mortgage loans from those sellers. The changes in the amount of these fees during the quarter ended March 31, 2019, as compared to the same quarter in 2018, reflects an increase in our purchases of loans with delivery fees.

Net Mortgage Loan Servicing Fees

Our correspondent production activity is the primary source of our mortgage loan servicing portfolio. When we sell mortgage loans, we generally enter into a contract to service those loans and we recognize the fair value of such contracts as MSRs. Under these contracts, we are required to perform mortgage loan servicing functions in exchange for fees and the right to other compensation.

The servicing functions, which are performed on our behalf by PLS, typically include, among other responsibilities, collecting and remitting mortgage loan payments; responding to borrower inquiries; accounting for the mortgage loan; holding and remitting custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising foreclosures and property dispositions.

Net mortgage loan servicing fees are summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
From non-affiliates:		
Servicing fees (1)	$61,272	$48,732
Ancillary and other fees	3,208	1,703
Effect of MSRs fair value changes:		
Realization of cashflows	(40,821)	(26,638)
Market changes	(96,508)	52,611
	(137,329)	25,973
Gain (losses) on hedging derivatives, net	41,135	(20,848)
	(96,194)	5,125
	(31,714)	55,560
From PFSI—MSR recapture income	634	595
Net mortgage loan servicing fees	$(31,080)	$56,155
Average servicing portfolio	$95,844,879	$73,694,438

(1) Includes contractually specified servicing fees, net of guarantee fees.

Net mortgage loan servicing fees decreased during the quarter ended March 31, 2019, as compared to the same period in 2018 by $87.2 million. The decrease in net mortgage loan servicing fees during the quarter ended March 31, 2019, compared to the same quarter in 2018, was primarily attributable to the negative effect of the decrease in fair value of our MSRs as a result of decreasing interest rates during 2019 compared to 2018. The change in fair value attributable to market inputs such as projected prepayment speeds decreased $149.1 million, primarily due to the decrease in interest rates during the quarter ended March 31, 2019 as compared to the higher interest rates that prevailed during the quarter ended March 31, 2018. The loss was partially offset by an increase in hedging gains of $62.0 million during the quarter ended March 31, 2019 as compared to the quarter ended March 31, 2018. Mortgage servicing fees (including ancillary and other fees) increased $14.0 million, reflecting the growth of our servicing portfolio. This increase was offset by a $14.2 million increase in realization of cash flows. Realization of cash flows increased disproportionately to the increase in servicing fees due to acceleration of the rate of realization caused by the increased prepayment expectations that accompany decreasing interest rates.

We have entered into an MSR recapture agreement that requires PLS to transfer to us cash in an amount equal to 30% of the fair market value of the MSRs related to all the loans so originated. We recognized MSR recapture income during the quarter ended March 31, 2019 of $634,000 as compared to $595,000, for the quarter ended March 31, 2018.

Net Interest Income

Net interest income is summarized below:

	Quarter ended March 31, 2019				
	Interest income/expense				
	Coupon	Discount/ fees (1)	Total	Average balance	Interest yield/cost %
	(dollars in thousands)				
Assets:					
Short-term investments	$670	$—	$670	$36,074	7.43 %
Mortgage-backed securities	24,008	(4,556)	19,452	2,593,543	3.00 %
Mortgage loans acquired for sale at fair value	20,438	—	20,438	1,633,711	5.00 %
Mortgage loans:					
Held by variable interest entity	2,803	121	2,924	289,771	4.04 %
Distressed	627	621	1,248	112,923	4.42 %
	3,430	742	4,172	402,694	4.14 %
ESS from PFSI	3,066	—	3,066	214,419	5.72 %
Deposits securing CRT Agreements	6,775	—	6,775	1,142,819	2.37 %
	58,387	(3,814)	54,573	6,023,260	3.62 %
Placement fees relating to custodial funds	8,266	—	8,266		
Other	242	—	242		
	66,895	(3,814)	63,081	$6,023,260	4.19 %
Liabilities:					
Assets sold under agreements to repurchase (2)	$42,262	$ (5,411)	$36,851	$4,844,689	3.04 %
Mortgage loan participation purchase and sale agreements	520	54	574	56,210	4.08 %
Exchangeable Notes	3,359	302	3,661	250,000	5.86 %
Notes payable	5,568	255	5,823	455,519	5.11 %
Asset-backed financings of a VIE at fair value	2,447	821	3,268	275,787	4.74 %
Assets sold to PFSI under agreement to repurchase	1,796	—	1,796	128,549	5.67 %
	55,952	(3,979)	51,973	6,010,754	3.46 %
Interest shortfall on repayments of mortgage loans serviced for Agency securitizations	2,271	—	2,271		
Interest on mortgage loan impound deposits	495	—	495		
	$58,718	$ (3,979)	$54,739	$6,010,754	3.64 %
Net interest income	$8,177	$ 165	$8,342		
Net interest margin					0.55 %
Net interest spread					0.55 %

(1)

Amounts in this column represent capitalization of interest on delinquent mortgage loans, amortization of premiums and accrual of unearned discounts for assets and amortization of debt issuance costs and premiums for liabilities.

(2) In 2017, we entered into a master repurchase agreement that provides us with incentives to finance mortgage loans approved for satisfying certain consumer relief characteristics as provided in the agreement. During the quarter ended March 31, 2019, the Company included $7.5 million of such incentives as a reduction to *Interest expense*. The master repurchase agreement expires on August 21, 2019, unless terminated earlier at the option of the lender. We expect that we will cease to accrue the incentives under the repurchase agreement in the second quarter of 2019.

	Quarter ended March 31, 2018				
	Interest income/expense				
	Coupon	Discount/ fees (1)	Total	Average balance	Interest yield/cost %
	(dollars in thousands)				
Assets:					
Short-term investments	$73	$—	$73	$24,653	1.18 %
Mortgage-backed securities	9,231	(440)	8,791	1,069,971	3.29 %
Mortgage loans acquired for sale at fair value	11,332	—	11,332	1,046,289	4.33 %
Mortgage loans:					
Held by variable interest entity	3,009	(406)	2,603	314,717	3.31 %
Distressed	5,763	2,136	7,899	738,333	4.28 %
	8,772	1,730	10,502	1,053,050	3.99 %
ESS from PFSI	3,934	—	3,934	239,923	6.56 %
Deposits securing CRT Agreements	2,031	—	2,031	601,980	1.35 %
	35,373	1,290	36,663	4,035,866	3.68 %
Placement fees relating to custodial funds	4,215	—	4,215		
Other	102	—	102		
	39,690	1,290	40,980	$4,035,866	4.06 %
Liabilities:					
Assets sold under agreements to repurchase (2)	$19,703	$4,804	$24,507	$3,077,914	3.18 %
Mortgage loan participation purchase and sale agreements	283	31	314	45,561	2.76 %
Exchangeable Notes	3,359	285	3,644	250,000	5.83 %
Asset-backed financings of a VIE at fair value	2,635	(339)	2,296	297,682	3.09 %
Borrowing from PFSI	1,976	—	1,976	142,151	5.56 %
	27,956	4,781	32,737	3,813,308	3.43 %
Interest shortfall on repayments of mortgage loans serviced for Agency securitizations	1,594	—	1,594		
Interest on mortgage loan impound deposits	485	—	485		
	$30,035	$4,781	$34,816	$3,813,308	3.65 %
Net interest income	$9,655	$(3,491)	$6,164		
Net interest margin					0.61 %
Net interest spread					0.41 %

(1) Amounts in this column represent capitalization of interest on delinquent mortgage loans, amortization of premiums and accrual of unearned discounts for assets and amortization of debt issuance costs and premiums for liabilities.

(2) In 2017, we entered into a master repurchase agreement that provides us with incentives to finance mortgage loans approved for satisfying certain consumer relief characteristics as provided in the agreement. During the quarter ended March 31, 2018, we included $2.4 million of such incentives as a reduction to *Interest expense*. The master repurchase agreement is subject to a rolling six-month term through August 21, 2019, unless terminated earlier at the option of the lender. We expect that we will cease to accrue the incentives under the repurchase agreement in the second quarter of 2019.

The effects of changes in the yields and costs and composition of our investments on our interest income are summarized below:

	Quarter ended March 31, 2019 vs. Quarter ended March 31, 2018 Increase (decrease) due to changes in		
	Rate	Volume	Total change
	(in thousands)		
Assets:			
Short-term investments	$549	$48	$597
Mortgage-backed securities	(829)	11,490	10,661
Mortgage loans acquired for sale at fair value	1,971	7,135	9,106
Mortgage loans:			
Held by variable interest entity	539	(218)	321
Distressed	253	(6,904)	(6,651)
	792	(7,122)	(6,330)
ESS from PFSI	(474)	(394)	(868)
Deposits securing CRT Agreements	2,170	2,574	4,744
	4,179	13,731	17,910
Placement fees relating to custodial funds	—	4,051	4,051
Other	—	140	140
	4,179	17,922	22,101
Liabilities:			
Assets sold under agreements to repurchase	(1,140)	13,484	12,344
Mortgage loan participation purchase and sale agreement	175	85	260
Exchangeable Notes	17	—	17
Notes payable	—	5,823	5,823
Asset-backed financing of a VIE at fair value	1,152	(180)	972
Assets sold to PFSI under agreement to repurchase	10	(190)	(180)
	214	19,022	19,236
Interest shortfall on repayments of mortgage loans serviced for Agency securitizations	—	677	677
Interest on mortgage loan impound deposits	—	10	10
	214	19,709	19,923
Net interest income	$3,965	$(1,787)	$2,178

The increase in net interest income during the quarter ended March 31, 2019, as compared to the quarter ended March 31, 2018, reflects growth in our investments in MBS and mortgage loans acquired for sale along with increased earnings from the placement fees we received relating to the custodial funds we manage on behalf of borrowers and investors. These increases were partially offset by a continuing shift in our earning assets from our highest yielding assets – distressed mortgage loans – to lower-yielding MBS and mortgage loans acquired for sale.

Included in net interest income for the quarters ended March 31, 2019 and 2018 are $7.5 million and $2.4 million of incentives we recognized relating to a master repurchase agreement. The master repurchase agreement expires on August 21, 2019, unless terminated earlier at the option of the lender. We expect that we will cease to accrue the incentives under the repurchase agreement in the second quarter of 2019. We expect that the loss of such incentive income will be partially offset by an improvement in pricing margins, although there can be no assurance in that regard.

During the quarter ended March 31, 2019, we recognized interest income on distressed mortgage loans and mortgage loans held by VIEs totaling $4.2 million, including $762,000 of interest capitalized pursuant to loan modifications, which compares to $10.5 million including $2.2 million of interest capitalized pursuant to loan modifications, in the quarter ended March 31, 2018. This decrease reflects the significant liquidation of our investment in distressed mortgage loans during 2018.

During the quarter ended March 31, 2019, we incurred interest expense totaling $54.7 million as compared to $34.8 million during the quarter ended March 31, 2018. Our interest cost on interest-bearing liabilities was 3.46% for the quarter ended March 31, 2019 and 3.43% for the quarter ended March 31, 2018. The increase in interest expense primarily reflects the effects of increases in the advance rates we achieved on financed assets. These increases were partially offset by the benefits we realized from the financing incentives included in the master repurchase agreement discussed above.

Results of Real Estate Acquired in Settlement of Loans

Results of REO includes the gains or losses we record upon sale of the properties as well as valuation adjustments we record during the period we hold those properties. During the quarter ended March 31, 2019, we recorded net losses of $1.5 million, as compared to $3.2 million, for the same period in 2018, in *Results of real estate acquired in settlement of loans*. This decrease in losses reflects the ongoing liquidation of our investments in distressed mortgage assets. REO balances have decreased from $162.7 million at December 31, 2017 to $72.2 million at March 31, 2019.

Results of REO are summarized below:

	Quarter ended March 31,	
	2019	2018
	(dollars in thousands)	
Proceeds from sales of REO	$16,900	$32,437
Results of real estate acquired in settlement of loans:		
Valuation adjustments, net	(3,561)	(5,359)
Gain on sale, net	2,081	2,133
	$(1,480)	$(3,226)
Number of properties sold	80	224
Average carrying value of REO	$78,900	$153,653
At quarter end:		
Carrying value	$72,175	$141,506
Number of properties	227	487

Losses from REOs during the quarter ended March 31, 2019 decreased from the same period in 2018. The decrease in losses from REOs during the quarter ended March 31, 2019, as compared to the same period in 2018, was due primarily to the smaller overall REO portfolio during 2019 as compared to the same period in 2018.

Expenses

Our expenses are summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Earned by PennyMac Financial Services, Inc.:		
Mortgage loan fulfillment fees	$27,574	$11,944
Mortgage loan servicing fees	10,570	11,019
Management fees	7,248	5,696
Mortgage loan origination	2,277	272

Compensation	1,969	1,268
Mortgage loan collection and liquidation	1,584	2,229
Professional services	1,327	1,319
Real estate held for investment	1,054	1,438
Other	3,148	2,650
	$56,751	$37,835

Expenses increased $18.9 million, or 50%, during the quarter ended March 31, 2019, as compared to the same quarter in 2019, primarily due to increased fulfillment fees attributable to both increases in our production volume and to an increase in the average fulfillment fee rate we incurred during the quarter ended March 31, 2019 as compared to the quarter ended March 31, 2018.

Mortgage Loan Fulfillment Fees

Mortgage loan fulfillment fees represent fees we pay to PLS for the services it performs on our behalf in connection with our acquisition, packaging and sale of mortgage loans. The fee is calculated as a percentage of the UPB of the mortgage loans purchased. Mortgage loan fulfillment fees and related fulfillment volume are summarized below:

	Quarter ended March 31,	
	2019	2018
	(dollars in thousands)	
Fulfillment fee expense	$27,574	$11,944
UPB of mortgage loans fulfilled by PLS	$8,135,552	$4,225,631
Average fulfillment fee rate (in basis points)	34	28

The increase in loan fulfillment fees of $15.6 million during the quarter ended March 31, 2019, as compared to the same period in 2018, is primarily due to an increase in the volume of mortgage loans fulfilled for us by PFSI, combined with an increase in the average fulfillment fee rate charged by PFSI due to a decrease in discretionary reductions made by PFSI to facilitate successful loan acquisitions by us.

Mortgage Loan Servicing Fees

Mortgage loan servicing fees payable to PLS are summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Mortgage loan servicing fees:		
Mortgage loans acquired for sale at fair value	$239	$178
Mortgage loans at fair value	463	3,119
MSRs	9,868	7,722
	$10,570	$11,019
Average investment in:		
Mortgage loans acquired for sale at fair value	$1,633,711	$1,046,289
Mortgage loans at fair value:		
Distressed mortgage loans	$112,923	$738,333
Mortgage loans held in a VIE	$289,771	$314,717
Average MSR portfolio UPB	$95,953,915	$73,694,438
MSR recapture income recognized included in *Net mortgage loan servicing fees—from PennyMac* Financial Services, Inc.	$634	$595

Mortgage loan servicing fees decreased by $449,000 during the quarter ended March 31, 2019, as compared to the same period in 2018. We incur mortgage loan servicing fees primarily in support of our MSR portfolio and investment in mortgage loans at fair value. The decrease in mortgage loan servicing fees was primarily due to reductions in the distressed mortgage loan portfolio resulting from continuing loan sales and liquidations throughout 2018. This decrease was partially offset by the increase in servicing fees resulting from the ongoing growth of our MSR portfolio. Servicing fee rates relating to distressed mortgage loans are significantly higher than those relating to MSRs due to the higher cost of servicing such loans. Therefore, reductions in the balance of distressed mortgage loans had a proportionately more significant effect on mortgage loan servicing fees than the additions of new MSRs.

Management Fees

The components of our management fee payable to PCM are summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Base	$6,109	$5,696
Performance incentive	1,139	—
	$7,248	$5,696
Average shareholders' equity amounts used to calculate management fee expense	$1,651,648	$1,539,900

Management fees increased by $1.6 million during the quarter ended March 31, 2019, as compared to the same period in 2018, primarily due to recognition of a performance incentive fee, which is based on our profitability in relation to our common shareholders’ equity. The performance incentive fee reflects improvements in our return on common shareholders’ equity during 2019 as compared to 2018. The increase in the performance incentive fee was supplemented by an increase in the base management fee due to modestly higher average shareholders’ equity during the quarter ended March 31, 2019, as compared to the same period in 2018.

Compensation

Compensation expense increased $701,000 during the quarter ended March 31, 2019, as compared to the same period in 2018. The change was primarily due to an increase in share-based compensation expense, reflecting changes in performance expectations relating to the performance-based restricted share unit awards outstanding as of the quarter ended March 31, 2019.

Mortgage Loan Collection and Liquidation

Mortgage loan collection and liquidation expenses decreased $645,000 during the quarter ended March 31, 2019, as compared to the same period in 2018, due to the significant reductions in our portfolio of distressed mortgage loans as the result of our sales of such assets.

Other Expenses

Other expenses are summarized below:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Common overhead allocation from PFSI	$1,236	$1,001
Safekeeping	736	360
Bank service charges	568	545
Technology	373	378
Insurance	280	305
Other	(45)	61
	$3,148	$2,650

Income Taxes

We have elected to treat PMC as a taxable REIT subsidiary (“TRS”). Income from a TRS is only included as a component of REIT taxable income to the extent that the TRS makes dividend distributions of income to us. A TRS is subject to corporate federal and state income tax. Accordingly, a provision for income taxes for PMC is included in the accompanying consolidated statements of operations.

Our effective tax rates were (7.3) % and 25.5% for the quarters ended March 31, 2019 and 2018, respectively. Our TRS recognized a tax benefit of $3.9 million on a loss of $17.4 million while our consolidated pretax income was $49.9 million for the quarter ended March 31, 2019. For the same period in 2018, the TRS recognized tax expense of $9.4 million on income of $34.6 million while our consolidated pretax income was $37.8 million. The relative values between the tax benefit or expense at the TRS and our consolidated pretax income drive the fluctuation in the effective tax rate. The primary difference between our effective tax rate and the statutory tax rate is due to nontaxable REIT income resulting from the dividends paid deduction.

In general, cash dividends declared by the Company will be considered ordinary income to the shareholders for income tax purposes. Some portion of the dividends may be characterized as capital gain distributions or a return of capital. For tax years beginning after December 31, 2017, the 2017 Tax Cuts and Jobs Act (subject to certain limitations) provides a 20% deduction from taxable income for ordinary REIT dividends.

Balance Sheet Analysis

Following is a summary of key balance sheet items as of the dates presented:

	March 31, 2019	December 31, 2018
	(in thousands)	
Assets		
Cash	$68,538	$59,845
Investments:		
Short-term	29,751	74,850
Mortgage-backed securities	2,589,106	2,610,422
Mortgage loans acquired for sale at fair value	1,435,071	1,643,957
Mortgage loans at fair value	398,664	408,305
ESS	205,081	216,110
Derivative assets	188,710	167,165
Firm commitment to purchase CRT securities	79,784	37,994
Real estate	114,521	128,791
MSRs	1,156,908	1,162,369
Deposits securing CRT Agreements	1,137,283	1,146,501
	7,334,879	7,596,464
Other	152,570	157,052
Total assets	$7,555,987	$7,813,361
Liabilities		
Borrowings:		
Short-term debt	$4,378,900	$5,081,691
Long-term debt	1,295,949	1,011,433
	5,674,849	6,093,124
Other	153,549	154,105
Total liabilities	5,828,398	6,247,229
Shareholders’ equity	1,727,589	1,566,132
Total liabilities and shareholders’ equity	$7,555,987	$7,813,361

Total assets decreased by approximately $257.4 million, or 3%, during the period from December 31, 2018 through March 31, 2019, primarily due to a $208.9 million decrease in mortgage loans acquired for sale, along with a $21.3 million decrease in MBS and a $14.3 million decrease in real estate.

Asset Acquisitions

Our asset acquisitions are summarized below.

Correspondent Production

Following is a summary of our correspondent production acquisitions at fair value:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Correspondent mortgage loan purchases:		
Agency-eligible	$9,287,632	$5,106,242
Government-insured or guaranteed-for sale to PLS	7,066,892	9,189,632
Jumbo	5,454	—
Home equity lines of credit	450	—
Commercial mortgage loans	—	7,263
	$16,360,428	$14,303,137

During the quarter ended March 31, 2019, we purchased for sale $16.4 billion in fair value of correspondent production loans as compared to $14.3 billion in fair value of correspondent production loans during the quarter ended March 31, 2018. Our ability to maintain the level of correspondent production reflects our ability to invest in credit risk inherent in our mortgage loan production, the continuing expansion of our correspondent seller network and our efforts aimed at maximizing the share of our correspondent sellers' production that is sold to us.

Our ability to continue the expansion of our correspondent production business is subject to, among other factors, our ability to source additional mortgage loan volume, our ability to obtain additional inventory financing and our ability to fund the portion of the mortgage loans not financed, either through cash flows from business activities or the raising of additional equity capital. There can be no assurance that we will be successful in increasing our borrowing capacity or in obtaining the additional equity capital necessary or that we will be able to identify additional sources of mortgage loans.

Other Investment Activities

Following is a summary of our acquisitions of mortgage-related investments held in our interest rate sensitive strategies and credit-sensitive strategies segments:

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Interest rate sensitive assets:		
MSRs received in mortgage loan sales and purchased	$131,868	$66,546
MBS	—	500,573
ESS received pursuant to a recapture agreement	508	904
	132,376	568,023
Credit sensitive assets:		
Firm commitment to purchase credit risk transfer securities		
Fair value	41,790	—
UPB	281,917	—
	323,707	—
Deposits and commitments to fund deposits relating to CRT Agreements	—	112,275
	323,707	112,275
	$456,083	$680,298

Our acquisitions during the quarters ended March 31, 2019 and 2018 were financed through the use of a combination of proceeds from borrowings, liquidations of existing investments and proceeds from equity issuances. We continue to identify additional means of increasing our investment portfolio through cash flow from our business activities, existing investments, borrowings, and transactions that minimize current cash outlays. However, we expect that, over time, our ability to continue our investment portfolio growth will depend on our ability to raise additional equity capital.

Investment Portfolio Composition

Mortgage-Backed Securities

Following is a summary of our MBS holdings:

March 31, 2019	December 31, 2018

	Fair value	Principal	Average Life (in years)	Coupon	Market yield	Fair value	Principal	Average Life (in years)	Coupon	Market yield
	(dollars in thousands)									
Agency:										
Fannie Mae	$2,057,174	$2,007,629	5.9	3.8 %	3.2 %	$2,075,337	$2,050,769	7.5	3.8 %	3.5 %
Freddie Mac	531,932	520,193	7.0	3.7 %	3.3 %	$535,085	$530,734	8.3	3.7 %	3.5 %
	$2,589,106	$2,527,822				$2,610,422	$2,581,503			

Credit Risk Transfer Transactions

Following is a summary of the composition of the mortgage loans underlying our investment in CRT Agreements and our firm commitment to purchase CRT securities.

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CRT Agreements

Following is a summary of our CRT Agreements:

	December 31, 2018	December 31, 2017
	(in thousands)	
Carrying value of CRT Agreements:		
Derivative assets	$123,987	$98,640
Deposits securing CRT agreements	1,146,501	588,867
Interest-only security payable at fair value	(36,011)	(7,070)
	$1,234,477	$680,437
UPB of mortgage loans subject to credit guarantee obligations	$29,934,003	$26,845,392
Collection status (in UPB):		
Current	$29,633,133	$26,540,953
30—89 days delinquent	$228,296	$179,144
90—180 days delinquent	$39,826	$101,114
180 or more days delinquent	$4,208	$5,146
Foreclosure	$5,180	$5,463
Bankruptcy	$23,360	$13,572

Following is a summary of the composition of the mortgage loans underlying our investment in CRT Agreements as of March 31, 2019:

	Year of origination				
	2018	2017	2016	2015	Total
	(in millions)				
UPB:					
Outstanding	$3,847	$13,511	$8,976	$2,932	$29,266
Originally delivered	$4,118	$15,307	$11,515	$4,928	$35,868
Cumulative defaults	$1.1	$10.0	$17.2	$16.8	$45.1
Cumulative losses	$0.9	$0.7	$1.5	$1.4	$4.5

	Year of origination				
Original debt-to income ratio	2018	2017	2016	2015	Total
	(in millions)				
<25%	$396	$1,638	$1,236	$368	$3,638
25 - 30%	412	1,638	1,236	389	3,675
30 - 35%	555	2,213	1,601	528	4,897
35 - 40%	664	2,677	1,810	643	5,794
40 - 45%	844	3,342	2,357	843	7,386
>45%	976	2,003	736	161	3,876
	$3,847	$13,511	$8,976	$2,932	$29,266
Weighted average	37.7 %	36.2 %	35.1 %	35.3 %	36.0 %

Year of origination

Origination FICO score	2018	2017	2016	2015	Total
	(in millions)				
600 - 649	$56	$103	$71	$40	$270
650 - 699	698	1,806	1,052	503	4,059
700 - 749	1,307	4,507	2,902	959	9,675
750 or greater	1,779	7,076	4,950	1,429	15,234
N/A	7	19	1	1	28
	$3,847	$13,511	$8,976	$2,932	$29,266
Weighted average	740	747	750	743	747

Origination LTV	Year of origination 2018	2017	2016	2015	Total
	(in millions)				
<80 %	$1,320	$4,098	$3,518	$1,067	$10,003
80-85 %	1,024	3,733	2,306	742	7,805
85-90 %	211	736	527	159	1,633
90-95 %	429	1,740	1,033	378	3,580
95-100 %	863	3,204	1,592	586	6,245
	$3,847	$13,511	$8,976	$2,932	$29,266
Weighted average	82.5 %	83.1 %	81.3 %	82.1 %	82.4 %

Current LTV (1)	Year of origination 2018	2017	2016	2015	Total
	(in millions)				
<80 %	$2,317	$9,008	$7,770	$2,686	$21,781
80-85 %	436	1,955	833	167	3,391
85-90 %	598	1,805	300	61	2,764
90-95 %	419	641	58	15	1,133
95-100 %	70	91	11	2	174
>100%	7	11	4	1	23
	$3,847	$13,511	$8,976	$2,932	$29,266
Weighted average	77.8 %	75.1 %	68.3 %	65.3 %	72.4 %

(1) Based on current UPB compared to estimated fair value of the property securing the mortgage loan.

Geographic distribution	Year of origination 2018	2017	2016	2015	Total
	(in millions)				
CA	$534	$1,825	$2,148	$590	$5,097
TX	262	952	996	436	2,646
FL	324	1,130	740	216	2,410
VA	191	705	695	303	1,894
MD	211	736	548	170	1,665
Other	2,325	8,163	3,849	1,217	15,554
	$3,847	$13,511	$8,976	$2,932	$29,266

Regional geographic concentration (1)	Year of origination 2018	2017	2016	2015	Total
	(in millions)				
Midwest	$301	$1,248	$755	$223	$2,527
Northeast	327	1,481	966	377	3,151
Southeast	1,229	4,337	2,612	890	9,069
Southwest	817	2,709	1,632	615	5,773
West	1,173	3,736	3,011	827	8,748
	$3,847	$13,511	$8,976	$2,932	$29,266

(1) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD, WI; Northeast consists of CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT, VI; Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA, WV; Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX, UT; West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

	Year of origination				
Collection status	2018	2017	2016	2015	Total
	(in millions)				
Delinquency					
Current - 89 Days	$3,842	$13,493	$8,959	$2,922	$29,216
90 - 179 Days	5	16	14	8	43
180+ Days	—	1	1	1	3
Foreclosure	—	1	2	1	4
	$3,847	$13,511			