

PennyMac Mortgage Investment Trust  
Form 10-Q  
May 09, 2014  
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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, 2014**

**Or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 001-34416**

**PennyMac Mortgage Investment Trust**  
**(Exact name of registrant as specified in its charter)**

<p><b>Maryland</b>                  (State or other jurisdiction of                  incorporation or organization)</p> <p><b>6101 Condor Drive, Moorpark, California</b>                  (Address of principal executive offices)</p> <p style="text-align: center;"><b>(818) 224-7442</b></p> <p style="text-align: center;">(Registrant's telephone number, including area code)</p>	<p><b>27-0186273</b>                  (IRS Employer                  Identification No.)</p> <p><b>93021</b>                  (Zip Code)</p>
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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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

<p><b>Class</b></p> <p><b>Common Shares of Beneficial Interest, \$0.01</b></p> <p><b>par value</b></p>	<p><b>Outstanding at May 6, 2014</b></p> <p><b>73,989,941</b></p>
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**PENNYMAC MORTGAGE INVESTMENT TRUST**

**FORM 10-Q**

**March 31, 2014**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands, except share data)</b>	
<b>ASSETS</b>		
Cash	\$ 11,871	\$ 27,411
Short-term investments	91,338	92,398
Mortgage-backed securities at fair value pledged to secure securities sold under agreements to repurchase	198,110	197,401
Mortgage loans acquired for sale at fair value (includes \$339,153 and \$454,210 pledged to secure mortgage loans acquired for sale under agreements to repurchase)	344,680	458,137
Mortgage loans at fair value (includes \$1,913,828 and \$1,963,266 pledged to secure mortgage loans sold under agreements to repurchase)	2,079,020	2,076,665
Mortgage loans under forward purchase agreements at fair value pledged to secure borrowings under forward purchase agreements	202,661	218,128
Mortgage loans at fair value held by variable interest entity (includes \$522,684 and \$516,473 pledged to secure agreement to repurchase and asset-backed secured financing of the variable interest entity at fair value)	529,680	523,652
Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value	151,019	138,723
Derivative assets	7,928	7,976
Real estate acquired in settlement of loans (includes \$81,615 and \$89,404 pledged to secure real estate acquired in settlement of loans sold under agreements to repurchase)	172,987	138,942
Real estate acquired in settlement of loans under forward purchase agreements pledged to secure forward purchase agreements	13,890	9,138
Mortgage servicing rights (includes \$36,181 and \$26,452 carried at fair value)	301,427	290,572
Servicing advances	60,024	59,573
Due from PennyMac Financial Services, Inc.	3,590	6,009
Other assets	59,312	66,192
<b>Total assets</b>	<b>\$ 4,227,537</b>	<b>\$ 4,310,917</b>
<b>LIABILITIES</b>		
Assets sold under agreements to repurchase	\$ 1,887,778	\$ 2,039,605
Borrowings under forward purchase agreements	216,614	226,580
Asset-backed secured financing of the variable interest entity at fair value	166,514	165,415

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Exchangeable senior notes	250,000	250,000
Derivative liabilities	961	1,961
Accounts payable and accrued liabilities	72,413	71,561
Due to PennyMac Financial Services, Inc.	20,812	18,636
Income taxes payable	58,309	59,935
Liability for losses under representations and warranties	10,854	10,110
 Total liabilities	 2,684,255	 2,843,803
 Commitments and contingencies		
<b>SHAREHOLDERS EQUITY</b>		
Common shares of beneficial interest authorized, 500,000,000 common shares of \$0.01 par value; issued and outstanding, 73,929,541 and 70,458,082 common shares, respectively	739	705
Additional paid-in capital	1,466,347	1,384,468
Retained earnings	76,196	81,941
 Total shareholders equity	 1,543,282	 1,467,114
 Total liabilities and shareholders equity	 \$ 4,227,537	 \$ 4,310,917

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

**Table of Contents****PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands, except share data)</b>	
<b>Net investment income</b>		
Net gain on mortgage loans acquired for sale	\$ 9,971	\$ 29,279
Loan origination fees	2,356	5,473
Net interest income:		
Interest income	39,346	16,875
Interest expense	19,775	11,236
	19,571	5,639
Net gain on investments	42,585	63,980
Net loan servicing fees	7,421	6,011
Results of real estate acquired in settlement of loans	(6,626)	(3,253)
Other	1,317	687
Net investment income	76,595	107,816
<b>Expenses</b>		
Expenses payable to PennyMac Financial Services, Inc.:		
Loan fulfillment fees	8,902	28,244
Loan servicing fees	14,591	7,726
Management fees	8,074	6,492
Professional services	1,731	2,384
Compensation	2,942	2,089
Other	4,066	4,946
Total expenses	40,306	51,881
Income before provision for income taxes	36,289	55,935
(Benefit from) provision for income taxes	(1,584)	2,639
Net income	\$ 37,873	\$ 53,296
<b>Earnings per share</b>		
Basic	\$ 0.52	\$ 0.90
Diluted	\$ 0.50	\$ 0.90
<b>Weighted-average shares outstanding</b>		
Basic	71,527	58,927
Diluted	80,289	59,319
<b>Dividends declared per share</b>	<b>\$ 0.59</b>	<b>\$ 0.57</b>

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



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## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

	Number of shares	Par value	Additional paid-in capital (in thousands)	Retained earnings	Total
<b>Balance at December 31, 2012</b>	58,904	\$ 589	\$ 1,129,858	\$ 70,889	\$ 1,201,336
Net income				53,296	53,296
Share-based compensation	86	1	1,451		1,452
Cash dividends, \$0.57 per share				(33,577)	(33,577)
Underwriting and offering costs			(78)		(78)
<b>Balance at March 31, 2013</b>	58,990	\$ 590	\$ 1,131,231	\$ 90,608	\$ 1,222,429
<b>Balance at December 31, 2013</b>	70,458	\$ 705	\$ 1,384,468	\$ 81,941	\$ 1,467,114
Net income				37,873	37,873
Share-based compensation	85		1,814		1,814
Cash dividends, \$0.59 per share				(43,618)	(43,618)
Proceeds from offerings of common shares	3,387	34	80,983		81,017
Underwriting and offering costs			(918)		(918)
<b>Balance at March 31, 2014</b>	73,930	\$ 739	\$ 1,466,347	\$ 76,196	\$ 1,543,282

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

**Table of Contents****PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Cash flows from operating activities</b>		
Net income	\$ 37,873	\$ 53,296
Adjustments to reconcile net income to net cash used by operating activities:		
Net gain on mortgage loans acquired for sale at fair value	(9,971)	(29,279)
Accrual of unearned discounts on mortgage-backed securities at fair value	(240)	
Capitalization of interest and advances on mortgage loans at fair value	(12,470)	(5,230)
Accrual of interest on excess servicing spread	(2,862)	
Amortization of credit facility commitment fees and debt issuance costs	2,360	1,143
Accrual of costs related to forward purchase agreements	2,200	
Net gain on investments	(46,727)	(63,980)
Change in fair value, amortization and impairment of mortgage servicing rights	10,020	4,539
Results of real estate acquired in settlement of loans	6,626	3,253
Share-based compensation expense	1,814	1,452
Purchases of mortgage loans acquired for sale at fair value	(5,046,603)	(8,849,152)
Sales of mortgage loans acquired for sale at fair value to nonaffiliates	2,026,306	5,134,736
Sales of mortgage loans acquired for sale to PennyMac Financial Services, Inc.	3,130,531	3,548,397
Increase in servicing advances	(5,647)	(5,504)
Decrease (increase) in due from PennyMac Financial Services, Inc.	3,196	(1,161)
Decrease (increase) in other assets	17,434	(2,210)
Decrease in accounts payable and accrued liabilities	(1,124)	(20,142)
Increase in payable to PennyMac Financial Services, Inc.	2,212	2,532
(Decrease) increase in income taxes payable	(1,626)	2,165
<b>Net cash provided by (used in) operating activities</b>	<b>113,302</b>	<b>(225,145)</b>
<b>Cash flows from investing activities</b>		
Net decrease (increase) in short-term investments	1,060	(6,007)
Repayments of mortgage-backed securities at fair value	1,978	
Purchases of mortgage loans at fair value	(256,280)	(200,473)
Repayments and sales of mortgage loans at fair value	246,839	61,421
Repayments of mortgage loans under forward purchase agreements at fair value	5,329	
Repayments of mortgage loans at fair value held by variable interest entity	5,453	
Purchase of excess servicing spread from PennyMac Financial Services, Inc.	(20,526)	
Repayment of excess spread investment	7,413	
Purchases of derivative financial instruments	(259)	
Sales of real estate acquired in settlement of loans	31,772	32,024
Purchase of real estate acquired in settlement of loans	(3,049)	
Sales of real estate acquired in settlement of loans under forward purchase agreements	1,620	

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Increase in margin deposits and restricted cash	(21,857)	(1,493)
Net cash used in investing activities	(507)	(114,528)

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

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**PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) (UNAUDITED)**

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Cash flows from financing activities</b>		
Sale of assets under agreement to repurchase	6,814,735	8,510,958
Repurchases of assets sold under agreements to repurchase	(6,966,561)	(8,152,010)
Repayments of borrowings under forward purchase agreements	(13,124)	
Repayments of asset-backed secured financing of the variable interest entity at fair value	(1,805)	
Proceeds from issuance of common shares	81,017	
Payment of common share underwriting and offering costs	(918)	(78)
Payment of contingent underwriting fees payable	(109)	
Payment of dividends	(41,570)	(33,577)
Net cash (used in) provided by financing activities	(128,335)	325,293
Net decrease in cash	(15,540)	(14,380)
Cash at beginning of period	27,411	33,756
Cash at end of period	\$ 11,871	\$ 19,376

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

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**PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES**

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

**Note 1 Organization and Basis of Presentation**

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

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

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

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

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

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

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

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

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States ( U.S. GAAP ) as codified in the Financial Accounting Standards Board's ( FASB ) *Accounting Standards Codification* for interim financial information and with the SEC's instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by U.S. GAAP for complete financial statements. The interim consolidated information should be read together with the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the Annual Report). Intercompany accounts and transactions have been eliminated.

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

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Certain prior period amounts have been reclassified to conform to the current presentation. Specifically:

*Interest expense* is included with *Interest income* under a new caption, *Net interest income*, to better reflect the Company's results due to growth in its portfolio of interest-earning assets. This reclassification results in the presentation of *Net interest income* in *Net investment income* and a decrease in *Expenses*.

*Loan servicing fees payable to PennyMac Financial Services, Inc.* is presented without the inclusion of other servicing expenses payable to nonaffiliates. Previously, *Loan servicing expense* included amounts payable to PFSI and to nonaffiliates. Amounts payable to nonaffiliates have been reclassified to *Other expenses*.

Other minor amounts were reclassified to *Other expenses*, to conform to the current period presentation.

Following is a summary of the reclassifications:

	<b>Quarter ended March 31, 2013</b>		
	<b>As reported</b>	<b>As previously reported</b>	<b>Reclassification</b>
	<b>(in thousands)</b>		
<b>Net interest income (new caption):</b>			
Interest income	\$ 16,875	\$ 16,875	\$
Interest expense	11,236		11,236
	5,639	16,875	(11,236)
Net investment income	\$ 107,816	\$ 119,052	\$ (11,236)
<b>Expenses:</b>			
Interest expense	\$	\$ 11,236	\$ (11,236)
<b>Expenses payable to PennyMac Financial Services, Inc.:</b>			
Loan servicing fees	7,726	8,090	(364)
Other	4,946	4,690	256
Total expenses	\$ 51,881	\$ 63,117	\$ (11,236)

These reclassifications did not change previously reported income before provision for income taxes, (benefit from) provision for income taxes, net income, reported consolidated balance sheet amounts, including shareholders' equity, or consolidated cash flows.

**Note 2 Concentration of Risks**

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As discussed in Note 1 *Organization and Basis of Presentation* above, PMT's operations and investing activities are centered in mortgage-related assets, a substantial portion of which are distressed at acquisition. Many of the mortgage loans in its targeted asset class are purchased at discounts reflecting their distressed state or perceived higher risk of default, as well as a greater likelihood of collateral documentation deficiencies.

Because of the Company's investment focus, PMT is exposed, to a greater extent than traditional mortgage investors, to the risks that borrowers may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due, and to the effects of fluctuations in the residential real estate market on the performance of its investments. Factors influencing these risks include, but are not limited to:

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

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



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

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

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

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

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

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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Investment portfolio purchases:</b>		
Mortgage loans	\$ 257,200	\$ 200,473
REO	3,087	
	\$ 260,287	\$ 200,473
<b>Investment portfolio purchases above through one or more subsidiaries of Citigroup Inc.:</b>		
Mortgage loans	\$	\$ 200,473
REO	38	
	\$ 38	\$ 200,473

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

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	
Mortgage loans	\$ 927,107	\$ 1,138,131
Mortgage loans - forward	202,661	218,128
REO	88,081	84,726
REO - forward	13,032	8,705
	<b>\$ 1,230,881</b>	<b>\$ 1,449,690</b>

During the year ended December 31, 2013, the Company entered into forward purchase agreements with Citigroup Global Markets Realty Corp. ( CGM ), a subsidiary of Citigroup Inc., to purchase certain nonperforming mortgage loans and REO (collectively, the CGM Assets ). The CGM Assets were acquired by CGM from unaffiliated money center banks and are held in a trust subsidiary by CGM pending payment by the Company.

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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Statements of income:</b>		
Interest income on mortgage loans	\$ 2,154	\$
Interest expense	\$ 1,580	\$
Net gain on investments	\$ (940)	\$
Results of REO	\$ (400)	\$
Loan servicing fees	\$ 316	\$
<b>Statements of cash flows:</b>		
Repayments of mortgage loans	\$ 5,329	\$
Sales of REO	\$ 1,622	\$
Repayments of borrowings under forward purchase agreements	\$ (13,124)	\$

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

**Note 3 Transactions with Related Parties**

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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Management fee:</b>		
Base	\$ 5,521	\$ 4,364
Performance incentive	2,553	2,128
	\$ 8,074	\$ 6,492

In the event of termination, PFSI 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 (or, if the period is less than 24 months, annualized) performance incentive fee earned by PFSI, in each case during the 24-month period before termination.



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Following is a summary of mortgage loan servicing fees payable to PFSI:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Mortgage loan servicing fees payable to PFSI:</b>		
<b>Mortgage loans acquired for sale at fair value:</b>		
Base	\$ 17	\$ 77
Activity-based	26	72
	43	149
<b>Distressed mortgage loans:</b>		
Base	4,966	3,875
Activity-based	6,386	1,877
	11,352	5,752
<b>MSRs:</b>		
Base	3,148	1,763
Activity-based	48	62
	3,196	1,825
	\$ 14,591	\$ 7,726

Following is a summary of correspondent lending activity between the Company and PFSI:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Fulfillment fees expense payable to PFSI	\$ 8,902	\$ 28,244
Unpaid principal balance of loans fulfilled by PFSI	\$ 1,919,578	\$ 4,786,826
Sourcing fees received from PFSI	\$ 892	\$ 1,010
Fair value of loans sold to PFSI	\$ 3,130,530	\$ 3,548,397
<b>At period end:</b>		
Mortgage loans included in mortgage loans acquired for sale pending sale to PFSI	\$ 48,909	\$ 542,490

Following is a summary of investment activity between the Company and PFSI:

**Quarter ended March 31,**

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	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Purchases of excess servicing spread	\$ 20,526	\$
Interest income from excess servicing spread	\$ 2,862	\$
Excess servicing spread recapture recognized	\$ 1,890	\$
MSR recapture recognized	\$ 8	\$ 133

*Other Transactions*

In connection with the initial public offering of PMT's common shares ( IPO ) on August 4, 2009, the Company entered into an agreement with PFSI pursuant to which the Company agreed to reimburse PFSI for the \$2.9 million payment that it made to the IPO underwriters if the Company satisfied certain performance measures over a specified period (the Conditional

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Reimbursement ). Effective February 1, 2013, the Company amended the terms of the reimbursement agreement to provide for the reimbursement of PFSI of the Conditional Reimbursement if the Company is required to pay PFSI performance incentive fees under the management agreement at a rate of \$10 in reimbursement for every \$100 of performance incentive fees earned. The reimbursement of the Conditional Reimbursement is subject to a maximum reimbursement in any particular 12-month period of \$1.0 million and the maximum amount that may be reimbursed under the agreement is \$2.9 million. During the quarter ended March 31, 2014, the Company paid \$36,000 to PFSI.

The reimbursement agreement also provides for the payment to the underwriters in such offering of the payment that the Company agreed to make to them at the time of the offering if the Company satisfied certain performance measures over a specified period. As PFSI earns performance incentive fees under the management agreement, such underwriters will be paid at a rate of \$20 of payments for every \$100 of performance incentive fees earned by PFSI. The payment to the underwriters is subject to a maximum reimbursement in any particular 12-month period of \$2.0 million and the maximum amount that may be paid under the agreement is \$5.9 million. During the quarter ended March 31, 2014, the Company paid \$72,000 to the underwriters.

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

The Company reimburses PFSI and its affiliates for other expenses, including common overhead expenses and other expenses incurred on its behalf by PFSI, in accordance with the terms of its management agreement as summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Reimbursement of:		
Common overhead incurred by PFSI	\$ 2,578	\$ 2,606
Expenses incurred on the Company's behalf	445	1,358
	\$ 3,023	\$ 3,964
Payments and settlements during the period (1)	\$ 18,386	\$ 33,362

(1) Payments and settlements include payments for management fees and correspondent lending activities itemized in the preceding tables and netting settlements made pursuant to master netting agreements between the Company and PFSI.

Amounts due to PFSI are summarized below:

<b>March 31,</b>	<b>December 31,</b>
<b>2014</b>	<b>2013</b>
<b>(in thousands)</b>	

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Contingent underwriting fees	\$ 1,752	\$ 1,788
Servicing fees	8,222	5,915
Management fees	8,074	8,924
Allocated expenses	2,764	2,009
	\$ 20,812	\$ 18,636

Amounts due from affiliates totaling \$3.6 million and \$6.0 million at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014, the balance represent payments receivable relating to cash flows from the Company's investment in ESS and amounts receivable relating to unsettled MSR and ESS recaptures. At March 31, 2013, amounts due from affiliates represent amounts receivable pursuant to loan sales to PFSI and reimbursable expenses paid on the affiliates' behalf by the Company.

PFSI held 75,000 of the Company's common shares of beneficial interest at both March 31, 2014 and December 31, 2013.



**Table of Contents****Note 4 Earnings Per Share**

Basic earnings per share is determined 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 using net income reduced by income attributable to the participating securities and divided by the weighted-average common shares outstanding during the period. 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 shares. Unvested share-based compensation awards containing non-forfeitable rights to receive dividends or dividend equivalents (collectively, dividends) are classified as participating securities and are included in the basic earnings per share calculation using the two-class method.

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

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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands, except per share amounts)</b>	
<b>Basic earnings per share:</b>		
Net income	\$ 37,873	\$ 53,296
Effect of participating securities share-based compensation awards	(408)	(518)
Net income attributable to common shareholders	\$ 37,465	\$ 52,778
Weighted-average shares outstanding	71,527	58,927
Basic earnings per share	\$ 0.52	\$ 0.90
<b>Diluted earnings per share:</b>		
Net income	\$ 37,873	\$ 53,296
Interest on exchangeable senior notes, net of income taxes	2,079	
Net income attributable to diluted shareholders	\$ 39,952	\$ 53,296
Weighted-average shares outstanding	71,527	58,927
<b>Potentially dilutive securities:</b>		
Shares issuable pursuant exchange of the Notes	8,379	
Shares issuable under share-based compensation	383	392
	80,289	59,319

Diluted weighted-average number of shares  
outstanding

Diluted earnings per share	\$	0.50	\$	0.90
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**Note 5 Loan Sales**

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

**Table of Contents***Unconsolidated VIEs with Continuing Involvement*

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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Cash flows:</b>		
Proceeds from sales	\$ 2,026,306	\$ 5,134,736
Servicing fees received (1)	\$ 16,838	\$ 9,136
<b>Period end information:</b>		
Unpaid principal balance of mortgage loans outstanding	\$ 27,192,550	\$ 16,642,130
Unpaid principal balance of delinquent mortgage loans:		
30-89 days delinquent	\$ 70,365	\$ 38,272
90 or more days delinquent		
Not in foreclosure or bankruptcy	\$ 7,700	\$ 2,731
In foreclosure or bankruptcy	\$ 10,569	\$ 1,526

(1) Net of guarantee fees

*Consolidated VIE*

On September 30, 2013, the Company completed a securitization transaction in which a wholly-owned VIE issued \$537.0 million in offered certificates backed by fixed rate prime jumbo mortgage loans of PMT Loan Trust 2013-J1, at a 3.9% weighted yield. The Company retained \$366.8 million of those certificates. Management concluded that the Company is the primary beneficiary of the VIE and, as a result, the Company consolidates the VIE. Consolidation of the VIE results in the securitized mortgage loans remaining on the consolidated balance sheets of the Company and the certificates issued by the VIE to nonaffiliates being accounted for as secured financing. The certificates are secured solely by the assets of the VIE and not by any other assets of the Company. The assets of the VIE are the only source of funds for repayment of the certificates.

The following table presents a summary of the assets and liabilities of the VIE. Intercompany balances have been eliminated for purposes of this presentation.

*Assets and Liabilities of Consolidated VIE*

<b>March</b>	<b>December 31,</b>
<b>31,</b>	<b>2013</b>
<b>2014</b>	<b>2013</b>
<b>(in thousands)</b>	

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<b>Assets</b>		
Mortgage loans at fair value held by VIE	\$ 529,680	\$ 523,652
Interest receivable, included in <i>Other assets</i>	1,718	1,584
Total	\$ 531,398	\$ 525,236
<b>Liabilities</b>		
Asset-backed secured financing of the variable interest entity at fair value	\$ 166,514	\$ 165,415
Interest payable, included in <i>Accounts payable and accrued liabilities</i>	497	497
Total	\$ 167,011	\$ 165,912

**Table of Contents****Note 6 Netting of Financial Instruments**

The Company uses derivative financial instruments to manage exposure to interest rate risk created by its interest rate lock commitments ( IRLC ), mortgage loans acquired for sale at fair value, MBS, ESS and MSR.s. All derivative financial instruments are recorded on the balance sheet at fair value. The Company has elected to net derivative asset and liability positions, and cash collateral obtained (or posted) by (or to) its counterparties when subject to a legally enforceable master netting arrangement. The derivative financial instruments that are not subject to master netting arrangements are IRLCs.

*Offsetting of Derivative Assets*

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

	March 31, 2014			December 31, 2013		
	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)	Gross amounts of recognized assets	Gross amounts offset in the consolidated balance sheet	Net amounts of assets presented in the consolidated balance sheet
Derivatives subject to master netting arrangements:						
MBS put options	\$ 1,027	\$	\$ 1,027	\$ 272	\$	\$ 272
MBS call options	93		93			
Forward purchase contracts	777		777	1,229		1,229
Forward sale contracts	5,434		5,434	16,385		16,385
Treasury futures	328		328			
Put options on Eurodollar futures	432		432	566		566
Call options on Eurodollar futures	66		66			
Netting		(3,738)	(3,738)		(12,986)	(12,986)
	8,157	(3,738)	4,419	18,452	(12,986)	5,466
Derivatives not subject to master netting arrangements:						
Interest rate lock commitments	3,509		3,509	2,510		2,510
	\$ 11,666	\$ (3,738)	\$ 7,928	\$ 20,962	\$ (12,986)	\$ 7,976

**Table of Contents***Derivative Assets and Collateral Held by Counterparty*

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

	March 31, 2014			December 31, 2013				
	Net amount of assets presented in the balance sheet	Gross amounts not offset in the consolidated balance sheet	Cash collateral received	Net amount	Net amount of assets presented in the balance sheet	Gross amounts not offset in the consolidated balance sheet	Cash collateral received	
	(in thousands)							
Interest rate lock commitments	\$ 3,509	\$	\$	\$ 3,509	\$ 2,510	\$	\$	\$ 2,510
RBS Securities	892			892				
RJ O Brien	826			826	566			566
Citibank	725			725				
Bank of America, N.A.	594			594	1,024			1,024
Wells Fargo	245			245	378			378
Credit Suisse First Boston Mortgage Capital LLC	234			234				
Daiwa Capital Markets	141			141	608			608
Fannie Mae Capital Markets					432			432
Morgan Stanley Bank, N.A.					546			546
Cantor Fitzgerald LP					613			613
Other	762			762	1,299			1,299
<b>Total</b>	<b>\$ 7,928</b>	<b>\$</b>	<b>\$</b>	<b>\$ 7,928</b>	<b>\$ 7,976</b>	<b>\$</b>	<b>\$</b>	<b>\$ 7,976</b>

**Table of Contents***Offsetting of Derivative Liabilities and Financial Liabilities*

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

	March 31, 2014			December 31, 2013		
	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet (in thousands)	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet
Derivatives subject to master netting arrangements:						
Forward purchase contracts	\$ 3,547	\$	\$ 3,547	\$ 7,420	\$	\$ 7,420
Forward contracts	1,219		1,219	1,295		1,295
MBS options	333		333			
Netting		(4,376)	(4,376)		(8,015)	(8,015)
	5,099	(4,376)	723	8,715	(8,015)	700
Derivatives not subject to master netting arrangements:						
Interest rate lock commitments	238		238	1,261		1,261
	5,337	(4,376)	961	9,976	(8,015)	1,961
Assets sold under agreements to repurchase						
	1,887,778		1,887,778	2,039,605		2,039,605
	\$ 1,893,115	\$ (4,376)	\$ 1,888,739	\$ 2,049,581	\$ (8,015)	\$ 2,041,566

**Table of Contents***Derivative Liabilities, Financial Liabilities and Collateral Held by Counterparty*

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

	<b>March 31, 2014</b>			<b>December 31, 2013</b>		
	<b>Net amount of liabilities presented in the consolidated balance sheet</b>	<b>Gross amounts not offset in the consolidated balance sheet</b>		<b>Net amount of liabilities presented in the consolidated balance sheet</b>	<b>Gross amounts not offset in the consolidated balance sheet</b>	
		<b>Financial instruments</b>	<b>Cash collateral pledged</b>		<b>Financial instruments</b>	<b>Cash collateral pledged</b>
			<b>Net amount</b>			
			<b>(in thousands)</b>			
Citibank	\$ 778,460	\$ (778,460)	\$	\$ 945,015	\$ (944,856)	\$ 159
Credit Suisse First Boston Mortgage Capital LLC	443,362	(443,362)		523,546	(523,546)	
Bank of America, N.A.	334,772	(334,772)		408,452	(408,452)	
Deutsche Bank				110		110
Daiwa Capital Markets	130,825	(130,825)		132,525	(132,525)	
Morgan Stanley Bank, N.A.	109,884	(109,707)	177	30,226	(30,226)	
RBS Securities	90,652	(90,652)				
JP Morgan				228		228
Interest rate lock commitments	238		238	1,261		1,261
Other	546		546	203		203
<b>Total</b>	<b>\$ 1,888,739</b>	<b>\$ (1,887,778)</b>	<b>\$ 961</b>	<b>\$ 2,041,566</b>	<b>\$ (2,039,605)</b>	<b>\$ 1,961</b>

**Note 7 Fair Value**

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



***Fair Value Accounting Elections***

Management identified all of its non-cash financial assets and MSR's relating to loans with initial interest rates of more than 4.5% to be accounted for at estimated fair value. Management has elected to account for these financial statement items at fair value so such changes in fair value will be reflected in income as they occur and more timely reflect the results of the Company's performance. Management has also identified its asset-backed secured financing of the variable interest entity to be accounted for at fair value to reflect the generally offsetting changes in fair value of these borrowings to changes in fair value of mortgage loans held by variable interest entity which are also carried at fair value.

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

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The Company's risk management efforts in connection with MSR's relating to mortgage loans with initial interest rates of more than 4.5% are generally aimed at moderating the effects of changes in interest rates on the assets' values. During the quarters ended March 31, 2014 and 2013, derivatives were used to hedge the fair value changes of the MSR's.

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

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

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

	<b>March 31, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(in thousands)</b>			
<b>Assets:</b>				
Short-term investments	\$ 91,338	\$	\$	\$ 91,338
Mortgage-backed securities at fair value		198,110		198,110
Mortgage loans acquired for sale at fair value		344,680		344,680
Mortgage loans at fair value			2,079,020	2,079,020
Mortgage loans under forward purchase agreements at fair value			202,661	202,661
Mortgage loans at fair value held by variable interest entity		529,680		529,680
Excess servicing spread purchased from PennyMac Financial Services, Inc.			151,019	151,019
<b>Derivative assets:</b>				
Interest rate lock commitments			3,509	3,509
MBS put options		1,027		1,027
MBS call options		93		93
Forward purchase contracts		777		777
Forward sales contracts		5,434		5,434
Treasury futures		328		328
Put options on Eurodollar futures		432		432
Call options on Eurodollar futures		66		66
Total derivative assets before netting		8,157	3,509	11,666
Netting (1)				(3,738)
Total derivative assets before netting		8,157	3,509	7,928
Mortgage servicing rights at fair value			36,181	36,181
	\$ 91,338	\$ 1,080,627	\$ 2,472,390	\$ 3,640,617

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<b>Liabilities:</b>				
Asset-backed secured financing of the variable interest entity at fair value	\$	\$ 166,514	\$	\$ 166,514
<b>Derivative liabilities:</b>				
Interest rate lock commitments			238	238
MBS call options		333		333
Forward purchase contracts		3,547		3,547
Forward sales contracts		1,219		1,219
Total derivative liabilities before netting		5,099	238	5,337
Netting (1)				(4,376)
Total derivative liabilities		5,099	238	961
Total liabilities	\$	\$ 171,613	\$ 238	\$ 167,475

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

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	<b>December 31, 2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(in thousands)</b>			
<b>Assets:</b>				
Short-term investments	\$ 92,398	\$	\$	\$ 92,398
Mortgage-backed securities at fair value		197,401		197,401
Mortgage loans acquired for sale at fair value		458,137		458,137
Mortgage loans at fair value			2,076,665	2,076,665
Mortgage loans under forward purchase agreements at fair value			218,128	218,128
Mortgage loans at fair value held by variable interest entity		523,652		523,652
Excess servicing spread purchased from PennyMac Financial Services, Inc.			138,723	138,723
<b>Derivative assets:</b>				
Interest rate lock commitments			2,510	2,510
MBS put options		272		272
Forward purchase contracts		1,229		1,229
Forward sales contracts		16,385		16,385
Options on Eurodollar futures		566		566
Total derivative assets before netting		18,452	2,510	20,962
Netting (1)				(12,986)
Total derivative assets		18,452	2,510	7,976
Mortgage servicing rights at fair value			26,452	26,452
	\$ 92,398	\$ 1,197,642	\$ 2,462,478	\$ 3,739,532
<b>Liabilities:</b>				
Asset-backed secured financing of the variable interest entity at fair value	\$	\$ 165,415	\$	\$ 165,415
<b>Derivative liabilities:</b>				
Interest rate lock commitments			1,261	1,261
Forward purchase contracts		7,420		7,420
Forward sales contracts		1,295		1,295
Total derivative liabilities		8,715	1,261	9,976
Netting (1)				(8,015)
Total derivative liabilities		8,715	1,261	1,961
Total liabilities	\$	\$ 174,130	\$ 1,261	\$ 167,376

(1) Derivatives are reported net of cash collateral received and paid and, to the extent that the criteria of the accounting guidance covering the offsetting of amounts related to certain contracts are met, positions with the

same counterparty are netted as part of a legally enforceable master netting agreement.

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The following is a summary of changes in items measured using Level 3 inputs on a recurring basis:

	<b>Mortgage loans at fair value</b>	<b>Mortgage loans under forward purchase agreements</b>	<b>Excess servicing spread (in thousands)</b>	<b>Interest rate lock commitments(1)</b>	<b>Mortgage servicing rights</b>	<b>Total</b>
<b>Assets:</b>						
Balance, December 31, 2013	\$ 2,076,665	\$ 218,128	\$ 138,723	\$ 1,249	\$ 26,452	\$ 2,461,217
Purchases	256,280	920	20,526			277,726
Repayments	(54,436)	(5,329)	(7,413)			(67,178)
Accrual of interest			2,862			2,862
ESS received pursuant to a recapture agreement with PFSI			1,113			1,113
Interest rate lock commitments issued, net				12,596		12,596
Capitalization of interest	11,726	744				12,470
Sales	(192,403)					(192,403)
Servicing received as proceeds from sales of mortgage loans					11,757	11,757
<b>Changes in fair value included in income arising from:</b>						
<b>Changes in instrument-specific</b>						
credit risk	15,742	2,397				18,139
Other factors	25,116	(3,337)	(4,792)	2,430	(2,028)	17,389
	40,858	(940)	(4,792)	2,430	(2,028)	35,528
<b>Transfers of mortgage loans under forward purchase agreements to mortgage loans agreements to mortgage loans to REO</b>						
	4,460	(4,460)				
	(64,130)					(64,130)
<b>Transfers of mortgage loans under forward purchase agreements to REO under forward purchase agreements</b>						
		(6,402)				(6,402)
<b>Transfers of interest rate lock commitments to mortgage loans acquired for sale</b>						
				(13,004)		(13,004)
Balance, March 31, 2014	\$ 2,079,020	\$ 202,661	\$ 151,019	\$ 3,271	\$ 36,181	\$ 2,472,152
Changes in fair value recognized during the period relating to	\$ 34,209	\$ (1,623)	\$ (4,792)	\$ 3,271	\$ (2,028)	\$ 29,037

assets still held at March 31,  
2014

(1) For the purpose of this table, the interest rate lock asset and liability positions are shown net.

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

(1) For the purpose of this table, the interest rate lock asset and liability positions are shown net.



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

	Fair value	March 31, 2014 Principal amount due upon maturity (in thousands)	Difference
<b>Mortgage loans acquired for sale:</b>			
Current through 89 days delinquent	\$ 344,515	\$ 332,267	\$ 12,248
90 or more days delinquent (1)			
Not in foreclosure	165	162	3
In foreclosure			
	344,680	332,429	12,251
<b>Mortgage loans and mortgage loans under forward purchase agreements at fair value:</b>			
Current through 89 days delinquent	541,634	859,763	(318,129)
90 or more days delinquent (1)			
Not in foreclosure	719,726	1,149,611	(429,885)
In foreclosure	1,020,321	1,635,615	(615,294)
	2,281,681	3,644,989	(1,363,308)
<b>Mortgage loans at fair value held by variable interest entity:</b>			
Current through 89 days delinquent	529,680	537,804	(8,124)
90 or more days delinquent (1)			
Not in foreclosure			
In foreclosure			
	529,680	537,804	(8,124)
	\$ 3,156,041	\$ 4,515,222	\$ (1,359,181)

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

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	Fair value	December 31, 2013 Principal amount due upon maturity (in thousands)	Difference
<b>Mortgage loans acquired for sale:</b>			
Current through 89 days delinquent	\$ 457,968	\$ 447,224	\$ 10,744
90 or more days delinquent (1)			
Not in foreclosure	169	162	7
In foreclosure			
	458,137	447,386	10,751
<b>Mortgage loans and mortgage loans under forward purchase agreements at fair value:</b>			
Current through 89 days delinquent	647,266	962,919	(315,653)
90 or more days delinquent (1)			
Not in foreclosure	738,043	1,190,403	(452,360)
In foreclosure	909,484	1,493,644	(584,160)
	2,294,793	3,646,966	(1,352,173)
<b>Mortgage loans at fair value held by variable interest entity:</b>			
Current through 89 days delinquent	523,652	543,257	(19,605)
90 or more days delinquent (1)			
Not in foreclosure			
In foreclosure			
	523,652	543,257	(19,605)
	\$ 3,276,582	\$ 4,637,609	\$ (1,361,027)

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

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

	<b>Quarter ended March 31, 2014</b>				
	<b>Net gain on mortgage loans acquired for sale</b>	<b>Net interest income</b>	<b>Net gain on investments (in thousands)</b>	<b>Net loan servicing fees</b>	<b>Total</b>
<b>Assets:</b>					
Short-term investments	\$	\$	\$	\$	\$
Mortgage-backed securities at fair value		33	2,652		2,685
Mortgage loans acquired for sale at fair value	18,632				18,632
Mortgage loans at fair value			40,858		40,858
Mortgage loans under forward purchase agreements at fair value			(940)		(940)
Mortgage loans at fair value held by variable interest entity		330	11,307		11,637
Excess servicing spread at fair value			(2,901)		(2,901)
Mortgage servicing rights at fair value				(2,027)	(2,027)
	\$ 18,632	\$ 363	\$ 50,976	\$ (2,027)	\$ 67,944
<b>Liabilities:</b>					
Asset-backed secured financing of the variable interest entity at fair value	\$	\$ (124)	\$ (2,780)	\$	\$ (2,904)
	\$	\$ (124)	\$ (2,780)	\$	\$ (2,904)

	<b>Quarter ended March 31, 2013</b>				
	<b>Net gain on mortgage loans acquired for sale</b>	<b>Net interest income</b>	<b>Net gain on investments (in thousands)</b>	<b>Net loan servicing fees</b>	<b>Total</b>
<b>Assets:</b>					
Short-term investments	\$	\$	\$	\$	\$
Mortgage loans acquired for sale at fair value	24,757				24,757
Mortgage loans at fair value			63,980		63,980
Mortgage servicing rights at fair value				(67)	(67)
	\$ 24,757	\$	\$ 63,980	\$ (67)	\$ 88,670



**Table of Contents****Financial Statement Items Measured at Fair Value on a Nonrecurring Basis**

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

	<b>March 31, 2014</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>(in thousands)</b>			
Real estate asset acquired in settlement of loans	\$	\$	\$ 75,025	\$ 75,025
Real estate asset acquired in settlement of loans under forward purchase agreements			10,236	10,236
Mortgage servicing rights at lower of amortized cost or fair value			49,108	49,108
	\$	\$	\$ 134,369	\$ 134,369

	<b>December 31, 2013</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>(in thousands)</b>			
Real estate asset acquired in settlement of loans	\$	\$	\$ 63,043	\$ 63,043
Real estate asset acquired in settlement of loans under forward purchase agreements			7,760	7,760
Mortgage servicing rights at lower of amortized cost or fair value			184,067	184,067
	\$	\$	\$ 254,870	\$ 254,870

The following table summarizes the net losses recognized during the period on assets measured at estimated fair values on a nonrecurring basis:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Real estate asset acquired in settlement of loans	\$ (7,314)	\$ (4,954)
Real estate asset acquired in settlement of loans under forward purchase agreements	(528)	
Mortgage servicing rights at lower of amortized cost or fair value	(627)	2,486
	\$ (8,469)	\$ (2,468)

*Real Estate Acquired in Settlement of Loans*

The Company measures its investment in REO at the respective properties' estimated fair values less cost to sell on a nonrecurring basis. The initial carrying value of the REO is measured by cost in the case of purchased REO or by the fair value of the property at the time of acquisition in the case of acquisition in settlement of a 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 management receiving indications that the property's 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 value at which the property was initially recorded is recognized in *Results of real estate acquired in settlement of loans* in the consolidated statements of income.

*Mortgage Servicing Rights at Lower of Amortized Cost or Fair Value*

The Company evaluates its MSR at lower of amortized cost or fair value for impairment with reference to the asset's fair value. For purposes of performing its MSR impairment evaluation, the Company stratifies its MSR at lower of amortized cost or fair

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value based on the interest rates borne by the mortgage loans underlying the MSR. Mortgage loans are grouped into pools of mortgage loans with 50 basis point interest rate ranges for fixed-rate mortgage loans with interest rates between 3% and 4.5% and a single pool for mortgage loans with interest rates below 3%. MSRs relating to adjustable rate mortgage loans with initial interest rates of 4.5% or less are evaluated in a single pool. If the fair value of MSRs in any of the interest rate pools is below the amortized cost of the MSRs for that pool reduced by the existing valuation allowance, those MSRs are impaired.

When MSRs are impaired, the impairment is recognized in current-period income and the carrying value of the MSRs is adjusted using a valuation allowance. If the value of the MSRs subsequently increases, the increase in value is recognized in current period income only to the extent of the valuation allowance for the respective impairment stratum.

Management periodically reviews the various impairment strata to determine whether the value of the impaired MSRs in a given stratum is likely to recover. When management deems recovery of the value to be unlikely in the foreseeable future, a write-down of the cost of the MSRs for that stratum to its estimated recoverable value is charged to the valuation allowance.

### ***Fair Value of Financial Instruments Carried at Amortized Cost***

The Company's cash balances as well as certain of its borrowings are carried at amortized cost. Management has concluded that the estimated fair values of *Cash*, *Securities sold under agreements to repurchase*, *Mortgage loans acquired for sale at fair value sold under agreements to repurchase*, *Mortgage loans at fair value sold under agreements to repurchase*, *Mortgage loans at fair value held by variable interest entity sold under agreements to repurchase*, *Real estate acquired in settlement of loans financed under agreements to repurchase*, and *Borrowings under forward purchase agreements* approximate the agreements' carrying values due to the immediate realizability of cash at its carrying amount and to the borrowing agreements' short terms and variable interest rates.

Cash is measured using Level 1 inputs. The Company's assets sold under agreements to repurchase and borrowings under forward purchase agreements are carried at amortized cost. The Company has classified these financial instruments as Level 3 financial statement items as of March 31, 2014 due to the lack of current market activity and the Company's reliance on unobservable inputs to estimate these instruments' fair values.

*Exchangeable Senior Notes* are carried at amortized cost. The fair value of the Notes at March 31, 2014 was \$242.0 million. The fair value of the Notes is estimated using a broker indication of value. The Company has classified the Notes as Level 3 financial statement items as of March 31, 2014 due to the lack of current market activity and the reliance on the broker's quote to estimate the instrument's fair values.

### ***Valuation Techniques and Assumptions***

Most of the Company's assets and a portion of its liabilities are carried at fair value with changes in fair value recognized in current period income. A substantial portion of those items are Level 3 financial statement items which require the use of significant unobservable inputs in the estimation of the assets' and liabilities' fair values. Unobservable inputs reflect the Company's own assumptions about the factors that market participants use in pricing an asset or liability, and are based on the best information available under the circumstances.

PFSI has assigned the responsibility for estimating the fair values of Level 3 financial statement items to its Financial Analysis and Valuation group (the FAV group), which is responsible for valuing and monitoring the Company's investment portfolios and maintenance of its valuation policies and procedures.

The FAV group reports to PFSI's valuation committee, which oversees and approves the valuations. The valuation committee includes the chief executive, financial, operating, credit, and asset/liability management officers of PFSI. The FAV group monitors the models used for valuation of the Company's Level 3 financial statement items, including the models' performance versus actual results and reports those results to the valuation committee. The results developed in the FAV group's monitoring activities are used to calibrate subsequent projections used for valuation.

The FAV group is responsible for reporting to PFSI's valuation committee on a monthly basis on the changes in the valuation of the Level 3 assets and liabilities it values, including major factors affecting the valuation and any changes in model methods and assumptions. To assess the reasonableness of its valuations, the FAV group presents an analysis of the effect on the valuation of each of the changes to the significant inputs to the valuation models.



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The following describes the valuation techniques and assumptions used in estimating the fair values of Level 2 and Level 3 financial statement items:

### *Mortgage-Backed Securities*

The Company's MBS securities are presently Agency MBS. Agency MBS are categorized as Level 2 financial statement items. Fair value of Agency MBS is estimated based on quoted market prices for similar securities.

### *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 the Company's mortgage loans acquired for sale at fair value and mortgage loans at fair value held by variable interest entity, are categorized as Level 2 financial statement items. The fair values of mortgage loans acquired for sale at fair value are estimated using their quoted market or contracted price or market price equivalent. For mortgage loans at fair value held by variable interest entity, the fair values of all of the individual securities issued by the securitization trust are used to derive a price for the mortgage loans.

Loans that are not saleable into active markets, comprised of the Company's mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value, are categorized as Level 3 financial statement items 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 or contracted selling price, discount rates and forecasts of future interest rates, home prices, prepayment speeds, default speeds and loss severities.

The valuation process includes the computation by stratum of loan population and a review for reasonableness of various measures such as weighted average life, projected prepayment and default speeds, and projected default and loss percentages. The FAV group computes the effect on the valuation of changes in input variables such as interest rates, home prices, and delinquency status to assess the reasonableness of changes in the loan valuation. The results of the estimates of fair value of Level 3 mortgage loans are reported to PFSI's valuation committee as part of its review and approval of monthly valuation results.

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 loan's delinquency status at period-end from the later of the beginning of the period or acquisition date.

The significant unobservable inputs used in the fair value measurement of the Company's mortgage loans at fair value and mortgage loans under forward purchase agreements 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 loans' fair value measurement. Increases in home price projections are generally accompanied by an increase in voluntary prepayment speeds.



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Following is a quantitative summary of key inputs used in the valuation of mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value:

Key inputs	Range (Weighted average)			
	March 31, 2014		December 31, 2013	
<i>Mortgage loans at fair value</i>				
Discount rate	8.5%	16.9%	8.7%	16.9%
	(12.4%)		(12.7%)	
Twelve-month projected housing price index change	2.1%	3.8%	2.5%	4.3%
	(3.5%)		(3.7%)	
Prepayment speed(1)	0.0%	6.0%	0.0%	3.9%
	(2.1%)		(2.0%)	
Total prepayment speed (2)	0.6%	32.9%	0.3%	33.9%
	(23.6%)		(24.3%)	
<i>Mortgage loans under forward purchase agreements</i>				
Discount rate	8.5%	15.2%	9.5%	13.5%
	(12.5%)		(11.9%)	
Twelve-month projected housing price index change	3.2%	3.8%	3.3%	4.2%
	(3.6%)		(3.8%)	
Prepayment speed(1)	1.9%	3.9%	1.1%	2.9%
	(2.7%)		(2.2%)	
Total prepayment speed (2)	11.3%	26.6%	13.4%	27.9%
	(21.6%)		(22.8%)	

(1) Prepayment speed is measured using Life Voluntary Conditional Prepayment Rate ( CPR ).

(2) Total prepayment speed is measured using Life Total CPR.

*Excess Servicing Spread Purchased from PennyMac Financial Services, Inc.*

The Company categorizes ESS as a Level 3 financial statement item. 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 prepayment speed and discount rate. Significant changes to those inputs in isolation could result in a significant change in the ESS fair value measurement. Changes in these key inputs are not necessarily directly related.

ESS is generally subject to loss in value when interest rates decrease. Decreasing mortgage rates normally encourage increased mortgage refinancing activity. Increased refinancing activity reduces the life of the loans underlying the ESS, thereby reducing ESS value. Reductions in the value of ESS affect income primarily through change in fair value.

Interest income for ESS is accrued using the interest method, based upon the expected interest yield from the ESS through the expected life of the underlying mortgages. Changes to expected interest yield result in a change in interest

income which is recorded in *Interest income*. Changes to expected cash flows result in a change to fair value that is recognized in *Net gain (loss) on investments*.

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

Key inputs	Range (Weighted average)	
	March 31, 2014	December 31, 2013
Unpaid principal balance of underlying mortgage loans (in thousands)	\$ 22,246,336	\$ 20,512,659
Average servicing fee rate (in basis points)	32	32
Average ESS rate (in basis points)	16	16
Pricing spread (1)	1.7% 14.4% (4.8%)	2.8% - 14.4% (5.4%)
Life (in years)	0.6 - 7.3 (5.7)	0.9 - 8.0 (6.1)
Annual total prepayment speed (2)	7.7% 63.8% (10.4%)	7.7% - 48.6% (9.7%)

(1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar London Interbank Offered Rate (LIBOR) curve for purposes of discounting cash flows relating to ESS.

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

*Derivative Financial Instruments*

The Company estimates the fair value of IRLCs based on quoted Agency MBS prices, its estimate of the fair value of the MSR it expects to receive in the sale of the loans and the probability that the mortgage loan will be purchased as a percentage of the commitments it has made (the pull-through rate). The Company categorizes IRLCs as Level 3 financial statement items.

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 value of the mortgage loans it has committed to purchase. Significant changes in the pull-through rate and the MSR component of the IRLCs, in isolation, could result in a significant change in fair value measurement. The financial effects of changes in these assumptions are generally inversely correlated as increasing interest rates have a positive effect on the fair value of the MSR component of IRLC value, but increase the pull-through rate for loans that have decreased in fair value.

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

Key inputs	Range (Weighted average)	
	March 31, 2014	December 31, 2013
Pull-through rate	64.0% - 98.0% (83.5%)	64.8% - 98.0% (86.4%)
MSR value expressed as:		
Servicing fee multiple	2.1 - 4.9	1.4 - 5.1

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	(3.9)	(4.1)
Percentage of unpaid principal balance	0.5% - 1.2%	0.4% - 1.3%
	(1.0%)	(1.0%)

The Company estimates the fair value of commitments to sell loans based on quoted MBS prices. The Company estimates the fair value of the interest rate options and futures it purchases and sells based on observed interest rate volatilities in the MBS market.

*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 financial statement item. Fair value of REO is estimated by using a current estimate of value from a broker's price opinion or a full appraisal, or the price given in a current contract of sale.

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REO values are reviewed by PCM's staff appraisers when the Company obtains multiple indications of value and there is a significant difference between the values received. PCM's staff appraisers will attempt to resolve the difference between the indications of value. In circumstances where the appraisers are not able to generate adequate data to support a value conclusion, the staff appraisers will order an additional appraisal to determine the value.

*Mortgage Servicing Rights*

MSRs are categorized as Level 3 financial statement items. The Company uses a discounted cash flow approach to estimate the fair value of MSRs. The key inputs used in the Company's discounted cash flow model are based on market factors which management believes are consistent with inputs and data used by market participants valuing similar MSRs. The key inputs used in the estimation of the fair value of MSRs include prepayment and default rates of the underlying loans, the applicable pricing spread or discount rate, and 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. The results of the estimates of fair value of MSRs are reported to PFSI's valuation committee as part of their review and approval of monthly valuation results.

MSRs are generally subject to loss in value when mortgage interest rates decrease. Decreasing mortgage interest rates normally encourage increased mortgage refinancing activity. Increased refinancing activity reduces the life of the loans underlying the MSRs, thereby reducing MSR value. Reductions in the value of MSRs affect income primarily through change in fair value and impairment charges. For MSRs backed by mortgage loans with historically low interest rates, factors other than interest rates (such as housing price changes) take on increasing influence on prepayment behavior of the underlying mortgage loans.

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

Key inputs	2014		Quarter ended March 31,		2013			
	Amortized cost		Range		Amortized cost			
	(MSR recognized and unpaid principal balance of underlying loan amounts in thousands)		(Weighted average)		(MSR recognized and unpaid principal balance of underlying loan amounts in thousands)			
MSR recognized	\$	9,118	\$	11,757	\$	56,190	\$	26
Unpaid principal balance of underlying mortgage loans	\$	850,548	\$	1,091,714	\$	5,003,557	\$	2,600
Weighted-average annual servicing fee rate (in basis points)		25		25		25		33
Pricing spread (1)		6.3% 14.3%		8.5% 12.3%		5.4% 14.4%		7.5% - 14.4%
		(8.5%)		(8.9%)		(7.0%)		(8.5%)
Life (in years)		1.1 7.3		2.8 7.3		2.7 - 6.9		2.8 - 6.8
		(5.9)		(7.1)		(6.4)		(6.1)
		7.6% 56.4%		8.0% 23.8%		8.5% 22.7%		10.4% - 27.0%

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Annual total prepayment  
speed (2)

	(10.3%)	(9.3%)	(9.1%)	(14.4%)
Annual per-loan cost of servicing	\$68 \$68	\$68 \$68	\$68 \$140	\$68 - \$68
	(\$68)	(\$68)	(\$68)	(\$68)

- (1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSR's acquired as proceeds from the sale of mortgage loans.
- (2) Prepayment speed is measured using Life Total CPR.



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Following is a quantitative summary of key inputs used in the valuation of MSR as of the dates presented, and the effect on the estimated fair value from adverse changes in those assumptions (weighted averages are based upon unpaid principal balance or fair value where applicable):

	March 31, 2014		December 31, 2013	
	Amortized cost (Carrying value)	Fair value (unpaid principal balance and effect on value amounts in thousands)	Amortized cost (Carrying value)	Fair value (unpaid principal balance and effect on value amounts in thousands)
Carrying value	\$ 265,246	\$ 36,181	\$ 264,120	\$ 26,452
<b>Key inputs:</b>				
Unpaid principal balance of underlying mortgage loans	\$ 23,897,201	\$ 3,426,693	\$ 23,399,612	\$ 2,393,321
Weighted-average annual servicing fee rate (in basis points)	26	26	26	26
Weighted-average note interest rate	3.70%	4.79%	3.68%	4.78%
Pricing spread (1)	6.3% 17.5% (6.9%)	7.3% 15.3% (8.8%)	6.3% 17.5% (6.7%)	7.3% 15.3% (8.6%)
Effect on fair value of a:				
5% adverse change	\$ (5,406)	\$ (656)	\$ (5,490)	\$ (488)
10% adverse change	\$ (10,628)	\$ (1,290)	\$ (10,791)	\$ (959)
20% adverse change	\$ (20,557)	\$ (2,495)	\$ (20,861)	\$ (1,855)
Weighted average life (in years)	1.1 - 7.3 (6.5)	2.6 - 7.3 (7.1)	1.3 - 7.3 (6.7)	2.8 - 7.3 (7.2)
Prepayment speed (2)	7.7% 56.4% (8.3%)	8.0% 23.9% (9.4%)	7.7% - 51.9% (8.2%)	8.0% - 20.0% (8.9%)
Effect on fair value of a:				
5% adverse change	\$ (5,443)	\$ (824)	\$ (5,467)	\$ (568)
10% adverse change	\$ (10,719)	\$ (1,619)	\$ (10,765)	\$ (1,117)
20% adverse change	\$ (20,800)	\$ (3,128)	\$ (20,886)	\$ (2,160)
Annual per-loan cost of servicing	\$68 \$140 (68)	\$68 \$140 (68)	\$68 \$140 (68)	\$68 \$140 (68)
Effect on fair value of a:				
5% adverse change	\$ (1,735)	\$ (220)	\$ (1,695)	\$ (158)
10% adverse change	\$ (3,471)	\$ (439)	\$ (3,390)	\$ (316)
20% adverse change	\$ (6,941)	\$ (878)	\$ (6,780)	\$ (633)

- (1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSR's acquired as proceeds from the sale of mortgage loans and purchased MSR's not backed by pools of distressed mortgage loans.
- (2) Prepayment speed is measured using Life Total CPR.

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

**Table of Contents****Note 8 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:

<b>Loan type</b>	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Fair value</b>	<b>Unpaid principal balance</b>	<b>Fair value</b>	<b>Unpaid principal balance</b>
	<b>(in thousands)</b>			
Conventional:				
Agency-eligible	\$ 282,250	\$ 272,765	\$ 311,162	\$ 304,749
Jumbo	13,521	13,092	34,615	35,050
Government-insured or guaranteed	48,909	46,572	112,360	107,587
	\$ 344,680	\$ 332,429	\$ 458,137	\$ 447,386
Loans pledged to secure assets sold under agreements to repurchase		\$ 339,153		\$ 454,210

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 lenders to PLS, which is a Ginnie Mae-approved issuer, and earns a sourcing fee of three basis points on the unpaid principal balance plus interest earned during the period it holds each such loan.

**Note 9 Derivative Financial Instruments**

The Company is exposed to price risk relative to its mortgage loans acquired for sale as well as to the IRLCs it issues to correspondent lenders. The Company bears price risk from the time an IRLC is issued to a correspondent lender to the time the purchased mortgage loan is sold. During this period, the Company is exposed to losses if mortgage interest rates increase because the value of the purchase commitment or mortgage loan acquired for sale decreases.

The Company engages in interest rate risk management activities in an effort to reduce the variability of earnings caused by changes in interest rates. To manage the price risk resulting from interest rate risk, the Company uses derivative financial instruments acquired 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 IRLCs and inventory of mortgage loans acquired for sale.

The Company is also exposed to risk relative to the fair value of its MSR. The Company is exposed to loss in value of its MSR when interest rates decrease. The Company periodically includes MSR in its hedging activities.

Beginning in the third quarter of 2013, the Company entered into Eurodollar futures, which settle daily, to economically hedge net fair value changes of a portion of fixed-rate mortgage loans at fair value held by variable interest entity and MBS securities at fair value and the related variable rate repurchase agreement liabilities indexed to

LIBOR. The Company uses the Eurodollar futures with the intention of moderating the risk of rising market interest rates that will result in unfavorable changes in the value of the Company's fixed-rate assets and economic performance of its LIBOR-indexed variable interest rate repurchase agreement liabilities.

The Company does not use derivative financial instruments for purposes other than in support of its risk management activities other than IRLCs, which are generated in the normal course of business when the Company commits to purchase mortgage loans acquired for sale. The Company records all derivative financial instruments at fair value and records changes in fair value in current period income.

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

Instrument	March 31, 2014			December 31, 2013		
	Notional amount	Fair value		Notional amount	Fair value	
		Derivative assets	Derivative liabilities		Derivative assets	Derivative liabilities
	(in thousands)					
Derivatives not designated as hedging instruments:						
Free-standing derivatives:						
Interest rate lock commitments	704,824	\$ 3,509	\$ 238	557,343	\$ 2,510	\$ 1,261
Forward sales contracts	2,497,960	5,434	1,219	3,588,027	16,385	1,295
Forward purchase contracts	1,777,353	777	3,547	2,781,066	1,229	7,420
MBS put options	260,000	1,027		55,000	272	
MBS call options	35,000	93	333	110,000		
Eurodollar futures	6,084,000			8,779,000		
Treasury futures	75,000	328		105,000		
Call options on Eurodollar futures	380,000	66				
Put options on Eurodollar futures	90,000	432		52,500	566	
Total derivative instruments before netting		11,666	5,337		20,962	9,976
Netting		(3,738)	(4,376)		(12,986)	(8,015)
		\$ 7,928	\$ 961		\$ 7,976	\$ 1,961
Margin deposits with (collateral received from) derivatives counterparties		\$ 638			\$ (4,971)	

The following table summarizes the notional amount activity for derivative contracts used to hedge the Company's IRLCs, inventory of mortgage loans acquired for sale and MSR:

Period/Instrument	Balance, beginning of period	Additions	Dispositions/ expirations	Balance, end of period
	(in thousands)			
Quarter ended March 31, 2014				
Forward purchase contracts	2,781,066	6,397,817	(7,401,530)	1,777,353
Forward sales contracts	3,588,027	8,668,939	(9,759,006)	2,497,960
MBS put option sales contracts	15,000		(15,000)	
MBS put option purchase contracts	55,000	405,000	(225,000)	235,000
MBS call option purchase contracts	110,000	60,000	(135,000)	35,000

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Treasury Future sale contracts	28,800	(28,800)	
Treasury Future purchase contracts	21,600	(21,600)	
Put option on Eurodollar futures	325,000		325,000
Call option on Eurodollar futures	150,000	(60,000)	90,000

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The Company recorded net gains on derivative financial instruments used to hedge the Company's IRLCs and inventory of mortgage loans totaling \$10.7 million and \$12.9 million for the quarters ended March 31, 2014 and 2013, respectively. Derivative gains and losses are included in *Net gains on mortgage loans acquired for sale* in the Company's consolidated statements of income.

The Company recorded net losses on derivative financial instruments used as economic hedges of MSRs totaling \$99,000 and \$2.0 million for the quarters ended March 31, 2014 and 2013, respectively. The derivative losses are included in *Net loan servicing fees* in the Company's consolidated statements of income.

The following table summarizes the notional amount activity for derivative contracts used to hedge the Company's net fair value changes of a portion of fixed-rate *Mortgage loans at fair value held by variable interest entity* and MBS securities at fair value and the related variable LIBOR rate repurchase agreement liabilities:

<b>Period/Instrument</b>	<b>Balance, beginning of period</b>	<b>Additions</b>	<b>Dispositions/ expirations</b>	<b>Balance, end of period</b>
		<b>(in thousands)</b>		
Quarter ended March 31, 2014				
Eurodollar Future sale contracts	8,779,000	126,000	(2,821,000)	6,084,000
Eurodollar Future purchase contracts		2,597,000	(2,597,000)	
Treasury Future sale contracts	105,000	75,000	(105,000)	75,000
Treasury Future purchase contracts		75,000	(75,000)	
Put options on Eurodollar futures	52,500	112,000	(109,500)	55,000
MBS put option purchase contracts	15,000	25,000	(15,000)	25,000

The Company recorded net losses on derivative financial instruments used to hedge the net change in fair value of fixed-rate assets and its variable LIBOR rate repurchase agreement liabilities of \$5.6 million for the quarter ended March 31, 2014. The derivative losses are included in *Net gain on investments* in the Company's consolidated statements of income. The Company had no similar economic hedges in place for the quarter ended March 31, 2013.

**Note 10 Mortgage Loans at Fair Value**

Mortgage loans at fair value are comprised of mortgage loans that are not acquired for sale and may be sold at a later date pursuant to a management determination that such a sale represents the most advantageous liquidation strategy for the identified loan.

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

Loan type	March 31, 2014		December 31, 2013	
	Fair value	Unpaid principal balance	Fair value	Unpaid principal balance
	(in thousands)			
Nonperforming loans	\$ 1,584,703	\$ 2,549,293	\$ 1,469,686	\$ 2,415,446
Performing loans:				
Fixed interest rate	277,352	440,005	310,607	475,568
Adjustable-rate mortgage ( ARM )/hybrid	95,550	134,357	165,327	207,553
Interest rate step-up	121,274	211,866	130,906	215,702
Balloon	141	212	139	213
	494,317	786,440	606,979	899,036
	\$ 2,079,020	\$ 3,335,733	\$ 2,076,665	\$ 3,314,482
Mortgage loans at fair value pledged to secure borrowings at period end:				
Assets sold under agreements to repurchase	\$ 1,913,828		\$ 1,963,266	
Mortgage loans held in a consolidated subsidiary whose stock is pledged to secure financings of such loans				
	\$ 679		\$ 989	

Following is a summary of certain concentrations of credit risk in the portfolio of mortgage loans at fair value:

Concentration	March 31, 2014	December 31, 2013
Portion of mortgage loans originated between 2005 and 2007	72%	72%
Percentage of fair value of mortgage loans with unpaid-principal-balance-to-current-property-value in excess of 100%	62%	61%
Percentage of mortgage loans secured by California real estate	21%	24%
Additional states contributing 5% or more of mortgage loans	New York Florida New Jersey Maryland	New York Florida New Jersey

**Note 11 Mortgage Loans at Fair Value Held by Variable Interest Entity**



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Following is a summary of the distribution of the Company's mortgage loans at fair value held by variable interest entity:

Loan type	March 31, 2014		December 31, 2013	
	Fair value	Unpaid principal balance	Fair value	Unpaid principal balance
	(in thousands)			
Jumbo fixed interest rate	\$ 529,680	\$ 537,804	\$ 523,652	\$ 543,257

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Following is a summary of certain concentrations of credit risk in the portfolio of mortgage loans at fair value held by variable interest entity:

<b>States comprising more than 5.00% of unpaid principal balance</b>		
	<b>March 31, 2014</b>	<b>December 31, 2013</b>
California	57%	57%
Washington	8%	8%
Texas	6%	6%
Virginia	6%	6%
Other	23%	23%

**Note 12 Mortgage Loans Under Forward Purchase Agreements at Fair Value**

Mortgage loans under forward purchase agreements at fair value are comprised of mortgage loans not acquired for resale. Such loans may be sold at a later date pursuant to a management determination that such a sale represents the most advantageous liquidation strategy for the identified loan. Following is a summary of the distribution of the Company's mortgage loans under forward purchase agreements at fair value:

<b>Loan type</b>	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Fair value</b>	<b>Unpaid principal balance</b>	<b>Fair value</b>	<b>Unpaid principal balance</b>
	<b>(in thousands)</b>			
Nonperforming loans	\$ 155,344	\$ 235,932	\$ 177,841	\$ 268,600
Performing loans:				
Fixed	21,860	32,728	19,292	29,496
ARM/hybrid	21,094	33,016	19,510	31,933
Interest rate step-up	4,363	7,580	1,485	2,455
	47,317	73,324	40,287	63,884
	\$ 202,661	\$ 309,256	\$ 218,128	\$ 332,484

Following is a summary of certain concentrations of credit risk in the portfolio of mortgage loans under forward purchase agreements at fair value:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Portion of mortgage loans originated between 2005 and 2007	73%	72%
Percentage of mortgage loans secured by California real estate	25%	25%
Additional states contributing 5% or more of mortgage loans	New Jersey	New Jersey

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	New York	Washington
	Washington	New York
	Maryland	Maryland
	Florida	

At March 31, 2014, the entire balance of mortgage loans under forward purchase agreements was held in a VIE by the seller of the loans to secure borrowings under forward purchase agreements.

**Table of Contents****Note 13 Real Estate Acquired in Settlement of Loans**

Following is a summary of financial information relating to REO:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Balance at beginning of period	\$ 138,942	\$ 88,078
Purchases	3,049	
Transfers from mortgage loans at fair value and advances	68,902	31,685
Transfers from REO under forward purchase agreements	92	
Results of REO:		
Valuation adjustments, net	(8,408)	(6,089)
Gain on sale, net	2,182	2,836
	(6,226)	(3,253)
Proceeds from sales	(31,772)	(32,024)
Balance at end of period	\$ 172,987	\$ 84,486
At period end:		
REO pledged to secure assets sold under agreements to repurchase	\$ 29,966	\$ 8,233
REO held in a consolidated subsidiary whose stock is pledged to secure financings of such properties	\$ 51,649	\$ 7,122

**Note 14 Real Estate Acquired in Settlement of Loans Under Forward Purchase Agreements**

Following is a summary of the activity in REO under forward purchase agreements:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Balance at beginning of period	\$ 9,138	\$
Purchases	38	
Purchases financed through forward purchase agreements		
Transfers from mortgage loans under forward purchase agreements at fair value and advances	6,828	
Transfers to REO	(92)	
Results of REO under forward purchase agreements:		
Valuation adjustments, net	(484)	
Gain on sale, net	84	

	(400)	
Proceeds from sales	(1,622)	
Balance at end of period	\$ 13,890	\$

At March 31, 2014, the entire balance of REO under forward purchase agreements was subject to borrowings under forward purchase agreements.

**Table of Contents****Note 15 Mortgage Servicing Rights***Carried at Fair Value:*

Following is a summary of MSR's carried at fair value:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Balance at beginning of period	\$ 26,452	\$ 1,346
Additions:		
Purchases		
MSR's resulting from loan sales	11,757	26
Total additions	11,757	26
Change in fair value:		
Due to changes in valuation inputs or assumptions used in valuation model(1)	(1,232)	(9)
Other changes in fair value(2)	(796)	(58)
	(2,028)	(67)
Sales		
Balance at end of period	\$ 36,181	\$ 1,305

(1) Principally reflects changes in pricing spread (discount rate) and prepayment speed inputs, primarily due to changes in interest rates.

(2) Represents changes due to realization of expected cash flows.

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*Carried at Lower of Amortized Cost or Fair Value:*

Following is a summary of MSR's carried at lower of amortized cost or fair value:

	<b>Quarter ended March 31, 2014          2013 (in thousands)</b>	
<b>Amortized Cost:</b>		
Balance at beginning of period	\$ 266,697	\$ 132,977
MSR's resulting from loan sales	9,118	56,190
Purchases		
	9,118	56,190
<b>Sales</b>		
Amortization	(7,365)	(4,970)
Application of valuation allowance to write down MSR's with other-than temporary impairment		
Balance at end of period	268,450	184,197
<b>Valuation Allowance:</b>		
Balance at beginning of period	(2,577)	(7,547)
(Additions) reversals	(627)	2,486
Application of valuation allowance to write down MSR's with other-than temporary impairment		
Balance at end of period	(3,204)	(5,061)
MSR's, net	\$ 265,246	\$ 179,136
Estimated fair value at end of period	\$ 289,934	\$ 186,209

The following table summarizes the Company's estimate of amortization of its existing MSR's carried at amortized cost. This projection was developed using the assumptions made by management in its March 31, 2014 valuation of MSR's. The assumptions underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

<b>Year ended March 31,</b>	<b>Estimated MSR amortization (in thousands)</b>
2015	\$ 26,661

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2016	26,082
2017	24,924
2018	23,513
2019	21,697
Thereafter	145,573
<b>Total</b>	<b>\$ 268,450</b>

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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Contractual servicing fees</b>	<b>\$ 16,816</b>	<b>\$ 8,937</b>



**Table of Contents****Note 16 Assets Sold Under Agreements to Repurchase at Fair Value**

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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(dollars in thousands)</b>	
<b>During the period:</b>		
Weighted-average interest rate (1)	2.21%	2.77%
Average balance	\$ 1,795,702	\$ 1,221,766
Total interest expense	\$ 12,539	\$ 10,712
Maximum daily amount outstanding	\$ 2,079,090	\$ 1,619,022
<b>Period end:</b>		
Balance	\$ 1,887,778	\$ 1,615,050
Weighted-average interest rate	2.31%	3.51%
<b>Available borrowing capacity:</b>		
Committed	\$ 1,195,414	\$ 884,950
Uncommitted	\$ 865,223	\$ 50,000
	\$ 2,060,637	\$ 934,950
Margin deposits placed with counterparties	\$ 3,780	\$ 2,973
<b>Fair value of assets securing agreements to repurchase:</b>		
Mortgage-backed securities	\$ 198,110	\$
Mortgage loans acquired for sale at fair value	\$ 339,153	\$ 1,122,940
Mortgage loans at fair value	\$ 1,914,507	\$ 1,203,788
Mortgage loans at fair value held by variable interest entity	\$ 356,170	\$
Real estate acquired in settlement of loans	\$ 81,615	\$ 15,355
	\$ 2,889,555	\$ 2,342,083

(1) Excludes the amortization of commitment fees and issuance costs of \$2.5 million and \$2.3 million for the quarters ended March 31, 2014 and 2013, respectively.

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

<b>Remaining Maturity at March 31, 2014</b>	<b>Balance</b>
	<b>(in thousands)</b>
Within 30 days	\$ 372,590
Over 30 to 90 days	130,825
Over 90 days to 180 days	704,238

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Over 180 days to 1 year 680,125

\$ 1,887,778

Weighted average maturity (in months) 4.5

The Company is subject to margin calls during the period the agreements are outstanding and therefore may be required to repay a portion of the borrowings before the respective agreements mature if the value (as determined by the applicable lender) of the assets securing those agreements decreases. Margin deposits are included in *Other assets* in the consolidated balance sheets.

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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 counterparty below as of March 31, 2014:

*Mortgage loans acquired for sale, mortgage loans and REO sold under agreements to repurchase*

<b>Counterparty</b>	<b>Amount at risk (in thousands)</b>	<b>Mortgage loans acquired for sale weighted-average repurchase agreement maturity</b>	<b>Facility maturity</b>
Credit Suisse First Boston Mortgage Capital LLC	\$ 339,267	June 22, 2014	October 31, 2014
Bank of America, N.A.	\$ 32,059	June 12, 2014	January 30, 2015
Morgan Stanley	\$ 6,317	May 20, 2014	December 18, 2014
The Royal Bank of Scotland Group	\$ 57,295		February 17, 2015
Citibank, N.A.	\$ 559,042	March 31, 2014	July 24, 2014

*Securities sold under agreements to repurchase*

<b>Counterparty</b>	<b>Amount at risk (in thousands)</b>	<b>Maturity</b>
Daiwa Capital Markets America, Inc	\$ 6,217	May 3, 2014
Credit Suisse First Boston Mortgage Capital LLC	\$ 2,374	April 15, 2014
Bank of America, N.A.	\$ 612	April 15, 2014

The Company's debt financing agreements require PMT and certain of its subsidiaries to comply with financial covenants that include a minimum tangible net worth for the Company of \$860 million; a minimum tangible net worth for certain of the Company's subsidiaries, including the Operating Partnership of \$700 million (net worth was \$1.6 billion, which includes PennyMac Holdings, LLC (PMH) and PennyMac Corp. (PMC)), PMH of \$250 million (net worth was \$694.5 million), and PMC of \$150 million (net worth was \$342.3 million). These tangible net worth requirements limit the subsidiaries' abilities to transfer funds to the Company.

**Note 17 Asset-backed secured financing of the variable interest entity at fair value**

Following is a summary of financial information relating to the asset-backed secured financing of the variable interest entity:

<b>Quarter ended March 31,</b>	
<b>2014</b>	<b>2013</b>

	(dollars in thousands)	
Period end:		
Balance	\$ 166,514	\$
Weighted-average interest rate	3.58%	
During the period:		
Weighted-average balance	\$ 166,894	0.00%
Interest expense	\$ 1,617	\$

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

#### **Note 18 Exchangeable Senior Notes**

PMC issued in a private offering \$250 million aggregate principal amount of Notes due May 1, 2020. The Notes bear interest at a rate of 5.375% per year, payable semiannually. The Notes are exchangeable into common shares of beneficial interest of the Company at a rate of 33.5149 common shares per \$1,000 principal amount of the Notes.

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Following is financial information relating to the Notes:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(dollars in thousands)</b>	
<b>Period end:</b>		
Balance	\$ 250,000	\$
Unamortized issuance costs (1)	\$ 6,616	\$
Weighted-average interest rate	5.38%	
<b>During the period:</b>		
Weighted-average balance	\$ 250,000	\$
Interest expense (2)	\$ 3,584	\$

(1) Unamortized issuance costs are included in *Other assets* in the consolidated balance sheets.

(2) Total interest expense includes amortization of debt issuance costs of \$225,000 during the quarter ended March 31, 2014.

**Note 19 Borrowings under Forward Purchase Agreements**

Following is a summary of financial information relating to borrowings under forward purchase agreements:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(dollars in thousands)</b>	
<b>Period end:</b>		
Balance	\$ 216,614	\$
Interest rate	3.01%	0.00%
Fair value of underlying loans and REO	\$ 215,693	\$
<b>During the period:</b>		
Weighted-average interest rate	2.85%	0.00%
Weighted-average balance	\$ 221,769	\$
Interest expense	\$ 1,580	\$
Maximum daily amount outstanding	\$ 226,848	\$

**Note 20 Liability for Losses Under Representations and Warranties**

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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Balance, beginning of period	\$ 10,110	\$ 4,441
Provision for losses	744	1,790

Incurred losses

Balance, end of period	\$ 10,854	\$ 6,231
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Following is a summary of the Company's repurchase activity:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>During the period:</b>		
Unpaid principal balance of mortgage loans repurchased	\$ 4,939	\$ 648
Unpaid principal balance of repurchased mortgage loans repurchased by correspondent lenders	\$ 1,333	\$ 710
<b>At end of period:</b>		
Unpaid principal balance of mortgage loans subject to pending claims for repurchase	\$ 12,097	\$
Unpaid principal balance of mortgage loans subject to representations and warranties	\$ 27,188,848	\$ 16,639,996

**Note 21 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, 2014, the Company was not involved in any such proceedings, claims or legal actions that in management's view would reasonably be likely to have a material adverse effect on the Company.

***Mortgage Loan Commitments***

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

	<b>March 31, 2014</b>
	<b>(in thousands)</b>
<b>Commitments to purchase mortgage loans:</b>	
Correspondent lending	\$ 704,824
Other mortgage loans	\$

**Note 22 Shareholders Equity**

At March 31, 2014, the Company had approximately \$117.6 million of common shares available for issuance under its ATM Equity Offering Sales Agreement<sup>SM</sup>. During the three months ended March 31, 2014, the Company sold a total of 3,387,022 of its common shares at a weighted average price of \$23.92 per share, providing net proceeds to the Company of approximately \$80.1 million, net of sales commissions of \$874,000.

**Table of Contents****Note 23 Net Gain on Mortgage Loans Acquired for Sale**

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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Cash gain (loss):</b>		
Sales proceeds, net	\$ (2,894)	\$ (27,247)
Hedging activities	(3,547)	13,614
	(6,441)	(13,633)
<b>Non cash gain:</b>		
Receipt of MSRs in loan sale transactions	20,875	56,216
Provision for losses relating to representations and warranties provided in loan sales	(744)	(1,790)
<b>Change in fair value relating to IRLCs, mortgage loans, and hedging derivatives held at period end:</b>		
IRLCs	2,022	(8,426)
Mortgage loans	1,411	(2,422)
Hedging derivatives	(7,152)	(666)
	(3,719)	(11,514)
	<b>\$ 9,971</b>	<b>\$ 29,279</b>



**Table of Contents****Note 24 Net Interest Income**

Net interest income is summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Interest income:</b>		
Short-term investments	\$ 152	\$ 31
Mortgage-backed securities	1,761	
Mortgage loans acquired for sale at fair value	3,625	6,323
Mortgage loans at fair value	23,286	10,497
Mortgage loans under forward purchase agreements at fair value	2,154	
Mortgage loans at fair value held by variable interest entity	5,495	
Excess servicing spread purchased from PFSI, at fair value	2,862	
Other	11	24
	39,346	16,875
<b>Interest expense:</b>		
Assets sold under agreements to repurchase	12,539	10,712
Borrowings under forward purchase agreements	1,580	
Asset-backed secured financing and the variable interest entity	1,617	
Exchangeable senior notes	3,584	
Other	455	524
	19,775	11,236
Net interest income	\$ 19,571	\$ 5,639

**Table of Contents****Note 25 Net Gain on Investments**

Net gain on investments is summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Net gain (loss) on investments:		
Mortgage-backed securities	\$ 709	\$
Mortgage loans	39,918	63,980
Mortgage loans held by VIE and related secured financing:		
Mortgage loans held by variable interest entity	7,639	
Asset-backed secured financing and the variable interest entity	(2,780)	
	4,859	
Excess servicing spread purchased from PFSI, at fair value	(2,901)	
	\$ 42,585	\$ 63,980

**Note 26 Net Loan Servicing Fees**

Net loan servicing fees are summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Servicing fees (1)	\$ 17,532	\$ 10,417
MSR recapture fee receivable from PFSI	8	133
Effect of MSR:		
Carried at lower of amortized cost or fair value		
Amortization	(7,365)	(4,970)
(Provision for) reversal of impairment	(627)	2,486
Carried at fair value - change in fair value	(2,028)	(67)
Losses on hedging derivatives	(99)	(1,988)
	(10,119)	(4,539)
Net loan servicing fees	\$ 7,421	\$ 6,011

(1) Includes contractually specified servicing and ancillary fees.

**Note 27 Share-Based Compensation Plans**

On March 31, 2014 and 2013, the Company had one share-based compensation plan. Compensation expense relating to grants under the plan of \$2.6 million and \$1.8 million, which includes dividend equivalents paid to unvested restricted share unit holders, was recognized for the three months ended March 31, 2014 and 2013, respectively. The Company issued no new grants and had vestings of 84,437 and 85,769 units during the three months ended March 31, 2014 and 2013, respectively.

**Note 28 Income Taxes**

The Company had a tax benefit of \$1.6 million for the three months ended March 31, 2014 and a tax expense of \$2.6 million for the three months ended March 31, 2013. The Company's effective tax rate was (4.4)% for the three months ended March 31, 2014 compared to 4.7% for the same period in 2013. The decrease in the Company's effective tax rate for the three months ended March 31, 2014 compared to the prior period in 2013 is due primarily to a loss in the Company's taxable REIT subsidiary for the first quarter of 2014 compared to income in that entity for the same period in 2013. The primary difference between the Company's effective tax rate and the statutory tax rate is non-taxable REIT income resulting from the deduction for dividends paid.

In general, cash dividends declared by the Company will be considered ordinary income to shareholders for income tax purposes. Some portion of the dividends may be characterized as capital gain distributions or a return of capital.

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**Note 29 Segments and Related Information**

The Company has two segments: correspondent lending and investment activities.

The correspondent lending segment represents the Company's operations aimed at serving as an intermediary between mortgage lenders and the capital markets by purchasing, pooling and reselling newly originated prime credit quality mortgage loans either directly or in the form of MBS, using the services of PCM and PLS, both subsidiaries of PFSI.

Most of the loans the Company has acquired in its correspondent lending activities have been eligible for sale to government-sponsored entities such as Fannie Mae and Freddie Mac or through government agencies such as Ginnie Mae.

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

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Financial highlights by operating segment are summarized below:

<b>Quarter ended March 31, 2014</b>	<b>Correspondent lending</b>	<b>Investment activities</b>	<b>Intersegment elimination &amp; other</b>	<b>Total</b>
	<b>(in thousands)</b>			
<b>Net investment income:</b>				
Net gain on mortgage loans acquired for sale	\$ 9,971	\$	\$	\$ 9,971
Net gain on investments		42,585		42,585
Interest income	3,635	36,598	(887)	39,346
Interest expense	(3,655)	(17,007)	887	(19,775)
	(20)	19,591		19,571
Net loan servicing fees		7,421		7,421
Other investment income (loss)	2,356	(5,309)		(2,953)
	12,307	64,288		76,595
<b>Expenses:</b>				
Loan fulfillment, Servicing and Management fees payable to PennyMac Financial Services, Inc.	9,071	22,496		31,567
Other	88	8,651		8,739
	9,159	31,147		40,306
Income before provision for income taxes	\$ 3,148	\$ 33,141	\$	\$ 36,289
Total assets at period end	\$ 359,348	\$ 3,868,189	\$	\$ 4,227,537

<b>Quarter ended March 31, 2013</b>	<b>Correspondent lending</b>	<b>Investment activities</b>	<b>Intersegment elimination &amp; other</b>	<b>Total</b>
	<b>(in thousands)</b>			
<b>Net investment income:</b>				
Net gain on mortgage loans acquired for sale	\$ 29,279	\$	\$	\$ 29,279
Net gain on investments		63,980		63,980
Interest income	6,324	10,592	(41)	16,875
Interest expense	(5,688)	(5,589)	41	(11,236)
	636	5,003		5,639
Net loan servicing fees		6,011		6,011
Other investment income (loss)	5,473	(2,566)		2,907

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	35,388	72,428		107,816
Expenses:				
Loan fulfillment, Servicing and Management fees payable to PennyMac Financial Services, Inc.	25,454	13,724	3,284(1)	42,462
Other	1,054	8,365		9,419
	26,508	22,089	3,284	51,881
Income before provision for income taxes	\$ 8,880	\$ 50,339	\$ (3,284)	\$ 55,935
Total assets at period end	\$ 1,142,774	\$ 1,829,246	\$ (44,860)	\$ 2,927,160

- (1) Corporate absorption of fulfillment fees for transition adjustment related to the amended and restated management agreement effective February 1, 2013.

**Table of Contents****Note 30 Supplemental Cash Flow Information**

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Cash paid for interest	\$ 25,490	\$ 11,192
Income tax payment	\$ 42	\$ 473
Non-cash investing activities:		
Transfer of mortgage loans and advances to real estate acquired in settlement of loans	\$ 68,902	\$ 31,510
Purchase of mortgage loans financed through forward purchase agreements	\$ 920	\$
Transfer of mortgage loans under forward purchase agreements to mortgage loans at fair value	\$ 4,460	\$
Transfer of mortgage loans under forward purchase agreements and advances to REO under forward purchase agreements	\$ 6,828	\$
Receipt of MSR as proceeds from sales of loans	\$ 20,875	\$ 56,216
Purchase of REO financed through forward purchase agreements	\$ 38	\$
Receipt of ESS pursuant to recapture agreement with PFSI	\$ 1,113	\$
Transfer of REO under forward purchase agreements to REO	\$ 92	\$
Non-cash financing activities:		
Purchase of mortgage loans financed through forward purchase agreements	\$ 920	\$
Purchase of REO financed through forward purchase agreements	\$ 38	\$
Transfer of mortgage loans at fair value financed through agreements to repurchase to REO financed under agreements to repurchase	\$ 2,046	\$
Dividends payable	\$ 43,618	\$

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**Note 31 Regulatory Net Worth**

PMC is a seller-servicer for Fannie Mae and Freddie Mac. To retain its status as an approved seller-servicer, PMC is required to meet Fannie Mae's and Freddie Mac's capital standards, which require PMC to maintain a minimum net worth of \$53.0 million and \$20.6 million, respectively. Management believes that PMC complies with Fannie Mae's and Freddie Mac's net worth requirement as of March 31, 2014.



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**Note 32 Subsequent Events**

Management has evaluated all events and transactions through the date the Company issued these consolidated financial statements. During this period:

On May 8, 2014, the Company purchased a pool of nonperforming mortgage loans with an aggregate unpaid principal balance of \$37.9 million.

On April 29, 2014, PFSI entered into a letter of intent with a third party to purchase a \$3.5 billion unpaid principal balance portfolio of Ginnie Mae MSR. The Company intends to purchase from PFSI approximately \$26 million of ESS from this MSR portfolio. The MSR acquisition by PFSI and the Company's purchase of ESS are subject to the negotiation and execution of definitive documentation, continuing due diligence and customary closing conditions and approvals. There can be no assurance that the committed amounts will ultimately be acquired or that the transactions will be completed at all.

All agreements to repurchase assets that matured between March 31, 2014 and the date of this Report were extended or renewed.

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

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, principally through dividends and secondarily through capital appreciation. We intend to achieve this objective largely by investing in distressed mortgage assets and acquiring, pooling and selling newly originated prime credit quality residential mortgage loans ( correspondent lending ).

We are externally managed by PCM, an investment adviser that specializes in and focuses on, residential mortgage loans. Most of our mortgage loan portfolio is serviced by PLS, an affiliate of PCM.

We invest in distressed mortgage loans through direct acquisitions of mortgage loan portfolios from institutions such as banks and mortgage companies. A substantial portion of the nonperforming loans we have purchased has been acquired from or through one or more subsidiaries of Citigroup Inc.

We seek to maximize the value of the distressed mortgage loans that we acquire 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 delinquency, our objective is to effect timely acquisition and/or liquidation of the property securing the loan through the use, in part, of short sales and deed-in-lieu of foreclosure programs. During the quarter ended March 31, 2014, we acquired distressed mortgage loans with fair values totaling \$257.2 million, and we received proceeds from sales, liquidation, and payoffs from our portfolio of distressed mortgage loans and REO totaling \$285.6 million.

Changes in the mortgage market have significantly reduced the outlets for sales of newly originated mortgage loans by mortgage lenders who have traditionally sold their loans to larger mortgage companies and banks who, in turn, sold those loans to Agencies and other investors or into securitizations. We believe that these changes are due in part to banks' responses to changes in regulatory requirements and to loan and securitization-related capital requirements, along with a change in focus toward retail lending; and that the changes provide us with the opportunity to act as a link between loan originators and the Agency and securitization markets.

During the quarter ended March 31, 2014, we purchased loans with fair values totaling \$5.0 billion, in furtherance of our correspondent lending business. To the extent that we purchase loans that are insured by the U.S. Department of Housing and Urban Development ( HUD ), through the Federal Housing Administration ( FHA ) or insured or guaranteed by the Veterans Administration ( VA ), we and PLS have agreed that PLS will fulfill and purchase such loans, as PLS is a Ginnie Mae-approved issuer and servicer and we are not. This arrangement has enabled us to compete with other correspondent lenders that purchase both government and conventional loans. We receive a sourcing fee from PLS of three basis points on the unpaid principal balance of each loan that we sell to PLS under such arrangement, and earn interest income on the loan for the time period we hold the loan prior to the sale to PLS. We received sourcing fees totaling \$892,000, recorded in *Net gain on mortgage loans acquired for sale*, relating to \$3.1 billion of loans at fair value we sold to PLS for the quarter ended March 31, 2014, compared to \$1.0 million relating to \$3.5 billion of loans at fair value that we sold to PLS for the quarter ended March 31, 2013.

We supplement these activities through participation in other mortgage-related activities, including:

Acquisition of MSRs or ESS from MSRs. We believe that MSR and ESS investments may allow us to earn attractive current returns and to leverage the loan servicing and origination capabilities of PLS to improve the assets' value. During the quarter ended March 31, 2014, we purchased ESS

with a fair value totaling \$20.5 million. We also intend to continue to retain the MSR's that we receive as a portion of the proceeds from our sale or securitization of mortgage loans through our correspondent lending operation. During the quarter ended March 31, 2014, we retained MSR's with a fair value at initial recognition totaling \$20.9 million, compared to \$56.2 million during the quarter ended March 31, 2013.

To the extent that we transfer correspondent lending loans into private label securitizations, retention of a portion of the securities created in the securitization transaction.

Acquisition of REIT-eligible mortgage-backed or mortgage-related securities.

Providing inventory financing of mortgage loans for mortgage lenders. We believe this activity may result in attractive investment assets and will supplement and make our correspondent lending business more attractive to lenders from which we acquire newly originated loans.

We conduct substantially all of our operations, and make substantially all of our investments, through our Operating Partnership and its subsidiaries. We are the sole limited partner and one of our subsidiaries is the sole general partner of our Operating Partnership.

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We believe that we qualify to be taxed as a REIT. We believe that we will not be subject to federal income tax on that portion of our income that is distributed to shareholders as long as we meet certain 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 lending business, is conducted in a taxable REIT subsidiary ( our 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.

**Observations on Current Market Opportunities**

Our business is affected by macroeconomic conditions in the United States, including economic growth, unemployment rates, the residential housing market and interest rate levels and expectations. During the first quarter of 2014, real U.S. gross domestic product expanded at an annual rate of 0.1% compared to revised 1.1% and 2.6% annual rates for the first and fourth quarters of 2013. The national unemployment rate was 6.7% at March 31, 2014 and compares to a revised seasonally adjusted rate of 7.5% at March 31, 2013 and 6.7% at December 31, 2013. While delinquency rates on residential real estate loans continue to decrease, they remain elevated compared to historical rates. As reported by the Federal Reserve Bank, during the fourth quarter of 2013, the delinquency rate on residential real estate loans held by commercial banks was 8.2%, a reduction from 10.0% during the fourth quarter of 2012.

Residential real estate activity was impacted by severe winter weather in many parts of the country during the first quarter of 2014. The seasonally adjusted annual rate of existing home sales for March 2014 was 7.5% lower than for March 2013 and the national median existing home price for all housing types was \$198,500, a 7.9% increase from March 2013. On a national level, foreclosure filings during the first quarter of 2014 decreased by 23% as compared to the first quarter of 2013. Foreclosure activity across the country decreased throughout 2013; however, it is expected to remain above historical average levels through 2014 and beyond.

Thirty-year fixed mortgage interest rates ranged from a low of 4.30% to a high of 4.43% during the first quarter of 2014 while during the first quarter of 2013, thirty-year fixed mortgage interest rates ranged from a low of 3.41% to a high of 3.57% (Source: the Federal Home Loan Mortgage Corporation's Weekly Primary Mortgage Market Survey).

Changes in fixed rate residential mortgage loan interest rates generally follow changes in long term U.S. Treasury yields. Toward the end of the second quarter of 2013, an increase in these Treasury yields led to an increase in mortgage loan interest rates. As a result of this increase in mortgage loan interest rates, market volumes for mortgage originations have decreased led by a reduction in refinance activity.

Mortgage lenders originated an estimated \$235 billion of home loans during the quarter ended March 31, 2014, down 58.0% percent from the quarter ended March 31, 2013. Mortgage originations are forecast to continue to decline, with current industry estimates for 2014 totaling \$1.2 trillion compared to \$1.9 trillion for 2013 (Source: Average of Fannie Mae, Freddie Mac and Mortgage Bankers Association forecasts).

In the first quarter of 2014, prime jumbo MBS issuances surpassed the first quarter of 2013, with securitizations totaling \$1.3 billion in unpaid principal balance. We believe there is significant long-term market opportunity in non-Agency jumbo mortgage loans. However, current investor demand for non-agency MBS is limited as evidenced by weaker pricing for securitizations issued in the second half of 2013. We believe that the Federal Housing Finance Agency ( FHFA ) will begin to reduce Agency conforming limits to pre-crisis levels beginning sometime in 2014. This would open a significant portion of the jumbo market to non-Agency securitization and move the market one step

closer to normalization. During the quarter ended March 31, 2014, we produced approximately \$12.5 million in unpaid principal balance ( UPB ) of jumbo loans, compared to \$8.1 million in UPB of jumbo loans produced during the quarter ended March 31, 2013.

Our Manager continues to see substantial volumes of distressed residential mortgage loan sales (sales of loan pools that consist of either nonperforming loans, troubled but performing loans or a combination thereof) offered for sale by a limited number of sellers. During the first quarter of 2014, our Manager reviewed 37 mortgage loan pools with UPB totaling approximately \$9.2 billion. This compares to our Manager's review of 27 mortgage loan pools with UPB totaling approximately \$5.7 billion during the first quarter of 2013. We acquired distressed loans with fair value totaling \$256.3 million and \$200.5 million during the quarters ended March 31, 2014 and 2013, respectively. While we expect to see a continued supply of distressed whole loans, we believe the pricing for recent transactions has been less attractive. We remain patient and selective in making new investments in distressed whole loans and we continue to monitor the market to assess best execution opportunities for our existing distressed portfolio investments.

In recent periods, we have seen increased competition from new and existing market participants in our correspondent lending business, as well as reductions in the overall level of refinancing activity. We believe that this change in supply and demand within the marketplace has been driving lower production margins in recent periods, which is reflected in our results of operations in our gains on mortgage loans acquired for sale. During the first several months of 2013, gains on mortgage loans acquired for sale benefited from wider secondary spreads (the difference between interest rates charged to borrowers and yields on mortgage-backed securities in the secondary market); however, secondary spreads narrowed in subsequent months and we expect them to continue to normalize toward their long-term averages in 2014.

**Table of Contents****Results of Operations**

The following is a summary of our key performance measures:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands except share amounts)</b>	
Net investment income	\$ 76,595	\$ 107,816
Income before provision for income taxes by segment:		
Correspondent lending	\$ 3,148	\$ 8,880
Investment activities	33,141	50,339
Other (1)		(3,284)
	\$ 36,289	\$ 55,935
Net income	\$ 37,873	\$ 53,296
Earnings per share:		
Basic	\$ 0.52	\$ 0.90
Diluted	\$ 0.50	\$ 0.90
Dividends per share:		
Declared	\$ 0.59	\$ 0.57
Paid	\$ 0.59	\$ 0.57
Correspondent lending:		
Notional (principal) amount of conventional and jumbo IRLCs issued	\$ 2,231,380	\$ 4,350,365
Purchases of mortgage loans acquired for sale		
At fair value	\$ 5,043,223	\$ 8,849,152
Unpaid principal balance	\$ 4,833,031	\$ 8,525,620
Proceeds from sales of mortgage loans acquired for sale:		
Cash:		
Sales to nonaffiliated investors	\$ 2,026,306	\$ 5,134,736
Sales of government-insured and guaranteed loans to PLS	3,130,531	3,548,397
	5,156,837	8,683,133
MSRs	20,875	56,216
	\$ 5,177,712	\$ 8,739,349
Investment activities:		
Distressed mortgage loans and REO:		
Purchases	\$ 260,287	\$ 200,473
Cash proceeds from liquidation activities	\$ 285,560	\$ 93,445

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MBS:			
Purchases	\$		\$
Cash proceeds from repayment and sales	\$	1,978	\$
ESS:			
Purchases from PFSI	\$	20,526	\$
Cash proceeds from repayments	\$	7,413	\$
Share prices during the period:			
High	\$	24.44	\$ 28.73
Low	\$	22.86	\$ 24.17
At period end	\$	23.90	\$ 25.89
At period end:			
Total assets	\$	4,227,537	\$ 2,927,160
Book value per share	\$	20.88	\$ 20.72

- (1) Represents corporate absorption of fulfillment fees for transition adjustment relating to the amended and restated mortgage banking and warehouse services agreement effective February 1, 2013.

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During the quarter ended March 31, 2014, we recorded net income of \$37.9 million, or \$0.50 per diluted share. Our net income for the quarter ended March 31, 2014 reflects net gains on our investments in financial instruments totaling \$52.6 million (comprised of net gain on investments and net gain on mortgage loans acquired for sale), including \$45.8 million of valuation gains on mortgage loans at fair value, mortgage loans under forward purchase agreements at fair value and mortgage loans at fair value held by variable interest entity. These gains were supplemented by \$19.6 million of net interest income. During the quarter ended March 31, 2014, we purchased \$5.0 billion in fair value of newly originated mortgage loans. We recognized gains on such loans totaling approximately \$10.0 million. At March 31, 2014, we held mortgage loans acquired for sale with fair values totaling \$344.7 million, including \$48.9 million that were pending sale to PLS.

During the quarter ended March 31, 2013, we recorded net income of \$53.3 million, or \$0.90 per diluted share. Our net income for the quarter reflects net gains on our investments in financial instruments totaling \$93.3 million (comprised of net gain on investments and net gain on mortgage loans acquired for sale), including \$55.6 million of valuation gains on mortgage loans, supplemented by \$5.6 million of net interest income. During the quarter ended March 31, 2013, we purchased \$8.8 billion in fair value of newly originated mortgage loans. We recognized gains on such loans totaling approximately \$29.3 million. At March 31, 2013, we held mortgage loans acquired for sale with fair values totaling \$1.2 billion.

Our net income decreased during the quarter ended March 31, 2014 due to decreased pretax income in both our investment activities and correspondent lending segments. In our investment activities, our average investment portfolio was approximately \$2.9 billion during the quarter ended March 31, 2014, an increase of \$1.7 billion, or 145%, over the quarter ended March 31, 2013. During the quarter ended March 31, 2014, we recognized net gain on investments, net interest income and net loan servicing fees totaling approximately \$69.6 million in our investment activities segment, a decrease of \$5.4 million, or 7%, from the quarter ended March 31, 2013. During the quarter ended March 31, 2013, we recognized net gain on investments, net interest income and net loan servicing fees totaling approximately \$75.0 million.

In our correspondent lending activities, we received proceeds of \$2.0 billion from the sale of loans to nonaffiliates and issued \$2.2 billion of IRLCs relating to Agency and jumbo mortgage loans during the quarter ended March 31, 2014, a decrease of \$2.1 billion, or 49%, from the quarter ended March 31, 2013. During 2014, rising interest rates negatively affected demand for mortgage loans as well as increased competition in the mortgage market, reducing both the volume of loans we purchased and the margins on our net gain on mortgage loans acquired for sale. As a result, we sold fewer loans during 2014 as compared to 2013, and our net gain on loans acquired for sale decreased by \$19.3 million, or 66%.

**Net Investment Income**

During the quarter ended March 31, 2014, we recorded net investment income of \$76.6 million, comprised primarily of net gain on investments of \$42.6 million, supplemented by \$19.6 million of net interest income, \$10.0 million of net gain on mortgage loans acquired for sale, \$7.4 million of net loan servicing fees, and \$2.4 million of loan origination fees, partially offset by \$6.6 million of losses from results of REO. This compares to net investment income of \$107.8 million in the quarter ended March 31, 2013, comprised primarily of net gain on investments in financial instruments of \$64.0 million supplemented by \$29.3 million of net gain on mortgage loans acquired for sale, \$6.0 million of net loan servicing fees, \$5.6 million of net interest income and \$5.5 million of loan origination fees, partially offset by \$3.3 million in losses from results of REO.

Net investment income includes non-cash fair value adjustments. Because we have elected to record our mortgage loan investments (which include mortgage loans at fair value, mortgage loans under forward purchase agreements at



fair value and mortgage loans at fair value held by variable interest entity) at fair value, a substantial portion of the income we record with respect to such loans results from non-cash changes in fair value. Net investment income also includes non-cash fair value adjustments related to mortgage loans acquired for sale at fair value, IRLCs, and the related derivatives we use to hedge such assets and non-cash interest income arising from capitalization of delinquent interest on mortgage loans upon completion of the modification of such loans, as well as non-cash fair value adjustments relating to MSRs and ESS.

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The amounts of non-cash fair value adjustments are as follows:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Net gain (loss) on investments		
MBS	\$ 2,652	\$
Mortgage loans:		
at fair value	34,552	55,615
at fair value under forward purchase agreements	(1,379)	
at fair value held in a variable interest entity	11,307	
asset-backed secured financing of the variable interest entity at fair value	(2,780)	
	41,700	55,615
ESS	(2,901)	
	41,451	55,615
Net loan servicing fees - MSR valuation adjustments	(1,859)	2,477
Net gain on mortgage loans acquired for sale		
Mortgage loans acquired for sale	1,411	(2,422)
IRLCs	2,022	(8,426)
Hedging derivatives	(7,152)	(666)
	(3,719)	(11,514)
	\$ 35,873	\$ 46,578

Cash is generated when mortgage loan investments are monetized through payoffs or sales, when payment of principal and interest occur on such loans, generally after they are modified, or upon the sale of the property securing a mortgage loan that has been settled through acquisition of the property securing the loan has been sold. 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 we recognize a liability for potential losses relating to representations and warranties created in the loan sales transactions. Cash flows relating to hedging instruments are generally produced when the instruments mature or when we effectively cancel the transactions through an offsetting trade.

Cash flows and gains from liquidation of distressed mortgage loan investments and REO are summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Proceeds	\$ 285,560	\$ 93,445
Accumulated net gains (1)	\$ 56,215	\$ 8,009

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Net gains on liquidation (2)	\$ 9,013	\$ 11,200
Average investment in mortgage loans and REO	\$ 2,669,018	\$ 1,221,182

(1) Represents valuation gains and losses recognized during the period we held the respective asset but excludes the gain or loss recorded upon sale or repayment of the respective asset.

(2) Represents the gain or loss recognized upon sale or repayment of the respective asset.

The decrease in net investment income during the three months ended March 31, 2014, as compared to three months ended March 31, 2013, primarily reflects the decrease in net fair value gains in our investments in mortgage loans at fair value along with reductions in net gain on mortgage loans acquired for sale during 2014 as compared to 2013.

Decreases in gain on our investments in mortgage loans are due primarily to decreases in the rate of appreciation in real estate values of the properties underlying our portfolio of distressed mortgage loans.

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During the quarter ended March 31, 2013, observed market demand for performing distressed loans improved, resulting in valuation gains. This was not repeated in the same magnitude in the quarter ended March 31, 2014.

The decrease in gains on mortgage loans acquired for sale is due to both the decrease in volume of mortgage loans sold and reduced margin on the loans sold as a result of the increasing interest rate environment that prevailed during the quarter ended March 31, 2014 as compared to the quarter ended March 31, 2013.

Our net gains on mortgage loans acquired for sale are summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Cash gain (loss):</b>		
Sales proceeds	\$ (2,894)	\$ (27,247)
Hedging activities	(3,547)	13,614
	(6,441)	(13,633)
<b>Non cash gain:</b>		
Receipt of MSR in loan sale transactions	20,875	56,216
Provision for losses relating to representations and warranties provided in loan sales	(744)	(1,790)
<b>Change in fair value relating to IRLCs, mortgage loans, and hedging derivatives held at period end:</b>		
IRLCs	2,022	(8,426)
Mortgage loans	1,411	(2,422)
Hedging derivatives	(7,152)	(666)
	(3,719)	(11,514)
	<b>\$ 9,971</b>	<b>\$ 29,279</b>
<b>Increase (decrease) in gain on mortgage loans acquired for sale due to:</b>		
Change in fair value of IRLCs	\$ 10,448	\$ (6,962)
Change in volume of loans sold	(16,063)	31,477
Change in gain margin	(13,575)	(9,376)
Change in sourcing fees received from PLS	(118)	770
	<b>\$ (19,308)</b>	<b>\$ 15,909</b>

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 MSR. We also recognize a liability for potential losses relating to representations and warranties created in the loan sales transactions.

The change in our cash loss on mortgage loans acquired for sale during the quarter ended March 31, 2014 reflects the decreased volume of mortgage loan sales during the quarter ended March 31, 2014 as compared to the quarter ended

March 31, 2013 as a result of reductions in the size of the mortgage market resulting from rising interest rates beginning in the second half of 2013.

We recognize a substantial portion of our net gain on mortgage loans acquired for sale at fair value before we purchase the loan. In the course of our correspondent lending activities, we make contractual commitments to correspondent lenders to purchase loans at specified terms. We call these commitments IRLCs. We recognize the value of IRLCs at the time we make the commitment to the correspondent lender and adjust the fair value as the loan approaches the point of purchase or the transaction is canceled.

An active, observable market for IRLCs does not exist. Therefore, we estimate the fair value of IRLCs using methods and assumptions we believe that market participants use in pricing IRLCs. We estimate the fair value of an IRLC based on quoted Agency MBS prices, our estimates of the fair value of the MSRs we expect to receive in the sale of the loans and the probability that the mortgage loan will be purchased as a percentage of the commitment we have made (the pull-through rate ).

Our estimates of pull-through rates and MSR fair values are based on our estimates as these inputs are difficult to observe in the mortgage marketplace. Changes in our estimate of the probability that a mortgage loan will fund and changes in interest rates are updated as the mortgage loans move through the purchase process and may result in significant changes in the estimates of the value of the IRLCs. Such changes are reflected in the change in fair value of IRLCs which is a component of our *Gain on mortgage loans acquired for sale* in the period of the change. The financial effects of changes in these assumptions are generally inversely correlated. Increasing interest rates have a positive effect on the fair value of the MSR component of IRLC value but increase the pull-through rate for loans that decrease in fair value.

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

<b>Key inputs</b>	<b>Range (Weighted average)</b>	
	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Pull-through rate	64.0% - 98.0% (83.5%)	64.8% - 98.0% (86.4%)
<b>MSR value expressed as:</b>		
Servicing fee multiple	2.1 - 4.9 (3.9)	1.4 - 5.1 (4.1)
Percentage of unpaid principal balance	0.5% - 1.2% (1.0%)	0.4% - 1.3% (1.0%)

MSRs represent the value of a contract that obligates us to service mortgage loans on behalf of the purchaser of the loan in exchange for servicing fees and the right to collect certain ancillary income from the borrower. We recognize MSRs initially at our estimate of the fair value of the contract to service the loans. As economic fundamentals influencing the loans we sell with servicing rights retained change, our estimate of the cash we expect to generate from the MSRs and, therefore, the fair value of MSRs will also change. As a result, we will record changes in fair value as a component of *Net loan servicing fees* for the MSRs we carry at fair value and we may recognize changes in fair value relating to our MSRs carried at the lower of amortized cost or fair value depending on the relationship of the asset's fair value to its carrying value at the measurement date.

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Following are the key inputs used in estimating the fair value of MSR's at the time of initial recognition:

Key inputs	Quarter ended March 31,							
	2014				2013			
	Amortized cost		Fair value		Amortized cost		Fair value	
	Range (Weighted average)							
	(MSR recognized and unpaid principal balance of underlying loan amounts in thousands)							
MSR recognized	\$	9,118	\$	11,757	\$	56,190	\$	26
Unpaid principal balance of underlying mortgage loans	\$	850,548	\$	1,091,714	\$	5,003,557	\$	2,600
Weighted-average annual servicing fee rate (in basis points)		25		25		25		33
Pricing spread (1)		6.3% 14.3% (8.5%)		8.5% 12.3% (8.9%)		5.4% 14.4% (7.0%)		7.5% -14.4% (8.5%)
Life (in years)		1.1 7.3 (5.9)		2.8 7.3 (7.1)		2.7 6.9 (6.4)		2.8 - 6.8 (6.1)
Annual total prepayment speed (2)		7.6% 56.4% (10.3%)		8.0% 23.8% (9.3%)		8.5% 22.7% (9.1%)		10.4% - 27.0% (14.4%)
Annual per-loan cost of servicing		\$68 \$68 (68)		\$68 \$68 (68)		\$68 \$140 (68)		\$68 - \$68 (68)

(1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSR's acquired as proceeds from the sale of mortgage loans.

(2) Annual total prepayment speed is measured using Life Total Conditional Prepayment Rate (CPR). During the quarter ended March 31, 2014, the weighted-average pricing spread at the time of initial recognition for MSR's accounted for at amortized cost increased from 7.0% to 8.5% due to the changing interest rate environment and differences in the characteristics of the MSR's capitalized in each period.

During the quarter ended March 31, 2014, the weighted-average life of MSR's carried at amortized cost decreased from 6.4 years to 5.9 years due to an increase in the proportion of 15-year and other mortgage loans with shorter expected lives.

We also provide for our estimate of the future losses that we may be required to incur as a result of our breach of representations and warranties provided to the purchasers of the loans we sold. Our agreements with the Agencies include representations and warranties related to the loans we sell to the Agencies. The representations and warranties require adherence to Agency origination and underwriting guidelines, including but not limited to the validity of the lien securing the 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. 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 lenders 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 lender.



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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>During the period:</b>		
Unpaid principal balance of mortgage loans repurchased	\$ 4,939	\$ 648
Unpaid principal balance of repurchased mortgage loans repurchased by correspondent lenders	\$ 1,333	\$ 710
<b>At end of period:</b>		
Unpaid principal balance of mortgage loans subject to pending claims for repurchase	\$ 12,097	\$
Unpaid principal balance of mortgage loans subject to representations and warranties	\$ 27,188,848	\$ 16,639,996

During the quarter ended March 31, 2014, we repurchased mortgage loans with unpaid principal balances totaling \$4.9 million and incurred no losses relating to such repurchases primarily as a result of our ability to recover any losses inherent in the repurchased loan from the selling correspondent lender. As the outstanding balance of loans we purchase and sell subject to representations and warranties increases and the loans sold season, we expect the level of repurchase activity to increase.

As economic fundamentals change, and as investor and Agency evaluation of their loss mitigation strategies (including claims under representations and warranties) change and as the mortgage market and general economic changes affect our correspondent lenders, the level of repurchase activity and ensuing losses will change, which may be material to our financial condition and results of operations.

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

Following is a summary of our liability for representations and warranties in the consolidated balance sheets:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Balance, beginning of period	\$ 10,110	\$ 4,441
Provision for losses	744	1,790
Incurred losses		
Balance, end of period	\$ 10,854	\$ 6,231

The level of the recourse liability is difficult to estimate and requires considerable management 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 loan from the selling correspondent lender and other external conditions that may change over the lives of the underlying loans. Our representations and warranties are generally not subject to stated limits of exposure. However, we believe that the current unpaid principal balance of loans sold by us to date represents the maximum exposure to repurchases related to representations and warranties. We believe the amount and range of reasonably possible losses in relation to the recorded liability is not material to our financial condition or results of operations.

Our hedging activities relating to correspondent lending primarily involve forward sales and purchases of our IRLCs and mortgage loans acquired for sale as well as purchases of put and call MBS options.

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Following is a summary of the notional activity in our hedging derivatives for our investment activities related to our IRLCs and inventory of mortgage loans acquired for sale:

<b>Period/Instrument</b>	<b>Balance, beginning of period</b>	<b>Additions</b>	<b>Dispositions/ expirations</b>	<b>Balance, end of period</b>
		<b>(in thousands)</b>		
<b>Quarter ended March 31, 2014</b>				
Forward purchase contracts	2,781,066	6,397,817	(7,401,530)	1,777,353
Forward sales contracts	3,588,027	8,768,939	(9,734,006)	2,622,960
MBS put options	55,000	405,000	(225,000)	235,000
MBS call options	110,000		(110,000)	

<b>Period/Instrument</b>	<b>Balance, beginning of period</b>	<b>Additions</b>	<b>Dispositions/ expirations</b>	<b>Balance, end of period</b>
		<b>(in thousands)</b>		
<b>Quarter ended March 31, 2013</b>				
Forward purchase contracts	2,206,539	12,442,344	(12,757,923)	1,890,960
Forward sales contracts	4,266,983	17,850,273	(18,893,066)	3,224,190
MBS put options	495,000	1,480,000	(1,750,000)	225,000
MBS call options		900,000	(550,000)	350,000

*Loan Origination Fees*

Loan origination fees represent fees we charge correspondent lenders relating to our purchase of loans from those lenders. The decrease in fees during 2014 compared to 2013 is due to a decrease in production volume.

**Investment Activities***Net Gain on Investments*

During the quarter ended March 31, 2014, we recognized net gains on MBS, mortgage loans and ESS totaling \$42.6 million. This compares to recognized net gains on investments totaling \$64.0 million during the quarter ended March 31, 2013. The decrease for the quarter ended March 31, 2014 as compared to the prior period is primarily due to reduced valuation gains in our portfolio of mortgage loans, including mortgage loans under forward purchase agreements, and reflects the slowing rates of appreciation in the fair value of real estate underlying our portfolio of distressed mortgage loans, partially offset by an increase in the average balance of our average investment in mortgage loans. The prior period experienced higher valuation gains due to improvements in actual and expected performance in the residential real estate market. Observed market demand for performing distressed loans improved during the quarter ended March 31, 2013, resulting in valuation gains. This was not repeated in the same magnitude in the quarter ended March 31, 2014. The average portfolio balance of distressed mortgage loan investments (mortgage loans at fair value excluding mortgage loans at fair value held in a variable interest entity) increased \$840.9 million, or 74%, during the quarter ended March 31, 2014 as compared to the prior period.



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Net gains on mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value are summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Valuation changes:		
Performing loans	\$ (3,286)	\$ 22,984
Nonperforming loans	36,459	32,632
	33,173	55,616
Payoffs	5,620	8,364
Sales	1,125	
	<b>\$ 39,918</b>	<b>\$ 63,980</b>

Because we have elected to record our mortgage loans and mortgage loans under forward purchase agreements at fair value, a substantial portion of the income we record with respect to such loans results from changes in fair value. Valuation changes amounted to \$33.2 million and \$55.6 million in the quarters ended March 31, 2014 and 2013, respectively.

The valuation changes on performing 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 loan. However, the modification may not result in an immediate increase in the loan's estimated fair value. As a result, the interest income we recognize is generally offset by a valuation loss. Valuation gains on loans with capitalized interest generally accrue as the borrower demonstrates performance in the periods following the capitalization. During the quarter ended March 31, 2014, we capitalized interest totaling \$12.5 million compared to \$5.2 million for the quarter ended March 31, 2013. Observed market demand for performing distressed loans improved in the quarter ended March 31, 2013, resulting in valuation gains. This was not repeated in the same magnitude in the quarter ended March 31, 2014.

Cash is generated when mortgage loans and mortgage loans under forward purchase agreements are monetized through payoffs or sales, when payments of principal and interest occur on such loans, generally after they are modified, or when the property securing a mortgage loan that has been settled through acquisition of the property has been sold. During the quarters ended March 31, 2014 and 2013, we received proceeds from liquidation of mortgage loans and REO of \$285.6 million and \$93.4 million, respectively. For these liquidations, we had recorded accumulated gains on the liquidated assets during the period we held those assets totaling \$56.2 million and \$8.0 million for the quarters ended March 31, 2014 and 2013, respectively, and we recorded additional gains of \$9.0 million and \$11.2 million for the quarters ended March 31, 2014 and 2013, respectively, when the assets were liquidated.

During the quarters ended March 31, 2014 and 2013, we recognized gains on mortgage loan payoffs as summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>

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	<b>(dollars in thousands)</b>	
Number of loans	328	293
Unpaid principal balance	\$ 79,715	\$ 80,642
Gain recognized at payoff	\$ 5,620	\$ 8,364

The decrease in gains recognized at payoff during the quarter ended March 31, 2014 was due to a higher rate of home price appreciation in 2013 compared to 2014 thus resulting in higher gains recognized at payoff.

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Gains on sales of distressed mortgage loans are summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(dollars in thousands)</b>	
Number of loans	966	
Unpaid principal balance	\$ 232,127	\$
Gain recognized at sale	\$ 1,125	\$

While we sold \$232.1 million in unpaid principal balance of mortgage loans during the quarter ended March 31, 2014, we recognized valuation gains totaling \$26.9 million relating to the sale of such mortgage loans during the fourth quarter of 2013 as the loans were subject to a contract of sale at December 31, 2013. The sale was consummated shortly thereafter, and resulted in an additional gain recognized at sale of \$1.1 million.

The following tables present a summary of loan modifications completed:

	<b>Quarter ended March 31,</b>			
	<b>2014</b>		<b>2013</b>	
<b>Modification type(1)</b>	<b>Number of loans</b>	<b>Balance of loans(2)</b>	<b>Number of loans</b>	<b>Balance of loans(2)</b>
	<b>(dollars in thousands)</b>			
Rate reduction	354	\$ 79,890	123	\$ 26,905
Term extension	388	93,668	111	22,580
Capitalization of interest and fees	501	118,268	218	46,185
Principal forbearance	151	46,927	49	8,931
Principal reduction	254	63,817	74	20,341
Total	501	118,268	218	46,185
Defaults of mortgage loans modified in the prior year period		\$ 1,679		\$ 2,084
As a percentage of balance of loans before modification		5%		4%
Defaults during the period of mortgage loans modified since acquisitions(3)		\$ 20,033		\$ 11,163
As a percentage of balance of loans before modification		7%		6%
Repayments and sales of mortgage loans modified in the prior year period		\$ 5,695		\$ 34,209
As a percentage of balance of loans before modification		13%		53%

(1) Modification type categories are not mutually exclusive and a modification of a single loan may be counted in multiple categories, if applicable. The total number of modifications noted in the table is therefore lower than the

sum of all of the categories.

- (2) Before modification.
- (3) Represents defaults of mortgage loans during the period that have been modified by us at any point since acquisition.



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The following table summarizes the average impact of the modifications noted above to the terms of the loans modified:

Category	Quarter ended March 31,			
	2014		2013	
	Before modification	After modification	Before modification	After modification
	(dollars in thousands)			
Loan balance	\$ 236	\$ 233	\$ 212	\$ 197
Remaining term (months)	318	418	313	442
Interest rate	5.62%	3.75%	5.99%	5.08%
Forbared principal	\$	\$ 12	\$	\$ 6

Implementing long-term, sustainable loan modification is one means by which we endeavor to increase the value of the distressed mortgage loans which we have typically purchased at discounts to their unpaid principal balance. Before the disruption of the mortgage securitization markets in 2008, an active market in securitizations of reperforming and modified mortgage loans existed. As a result of the disruptions that occurred in 2008, the market for securities backed by such loans has become illiquid.

As discussed above, during the quarter ended March 31, 2014, we had our first significant sale of reperforming mortgage assets, representing \$232.1 million in unpaid principal balance of mortgage loans. However there can be no assurance that this form of monetization will become a reliable means of liquidating reperforming mortgage assets in the future. We continue to monitor and explore the market for loan sales or securitizations backed by reperforming and modified mortgage loans as a means of recovering our investment in such loans in the future.

Absent sale or securitization of reperforming and modified mortgage loans, and unlike liquidation of a defaulted mortgage loan, we expect that recovery of our investment in a performing modified mortgage loan will take place generally over a period of several years, during which we earn and collect interest income on the loan. Our current expectations are that we will receive cash on modified mortgage loans through monthly borrower payments, HAMP incentive payments, payoffs or acquisition of the property securing the loans and liquidation of the property in the event the borrower subsequently defaults. Due to the recent addition of new modification programs, both through HAMP and proprietary programs, trends in default performance are difficult to discern. However, the addition of these new modification programs resulted in an increase in the volume of our modification activity during 2014.

Large-scale refinancing of modified mortgage loans is not expected to occur for an extended period. Borrowers who have recently modified their mortgage loans typically have credit profiles that do not qualify them for refinancing or have loans on properties whose loan-to-value ratios exceed current underwriting guidelines for new mortgage loans. Further, modified mortgage loans require a period of acceptable borrower performance, generally 12 months of timely mortgage payments, for consideration in most Agency refinance programs.

Certain programs such as the FHA's Negative Equity Refinance Program allow homeowners whose modified mortgage amount exceeds the fair value of the property securing the loan to refinance immediately following a modification. Our utilization of this program remains consistent in 2014 as compared to 2013. We continue to explore methods of accelerating recovery of our investment of modified mortgage loans through solicitations of refinancings of such loans into Agency-eligible loans which result in a full or partial repayment of our investment.

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During the quarter ended March 31, 2014, we recognized gains on MBS of \$709,000, net of hedging activities. The gains we recorded arose due to decreases in market yields on towards the end of the quarter. At March 31, 2013, we did not hold any MBS.

**Table of Contents***Net Interest Income*

Net interest income is summarized below:

	Quarter ended March 31, 2014			Average balance	Annualized % interest yield/cost
	Coupon	Interest income/expense Discount/ fees(1)	Total		
<b>(dollars in thousands)</b>					
<b>Assets:</b>					
Correspondent lending:					
Mortgage loans acquired for sale at fair value	\$ 3,625	\$	\$ 3,625	\$ 334,442	4.34%
Investment activities:					
Short-term investments	152		152	96,583	0.63%
Agency MBS	1,728	33	1,761	196,164	3.59%
Mortgage loans:					
at fair value	23,286		23,286	1,771,674	5.26%
under forward purchase agreements at fair value	2,154		2,154	204,492	4.21%
at fair value held by variable interest entity	5,165	330	5,495	527,266	4.17%
	30,605	330	30,935	2,503,432	
ESS	2,862		2,862	136,160	8.41%
Total investment activities	35,347	363	35,710	2,932,339	4.87%
Other interest	11		11		
	\$ 38,983	\$ 363	\$ 39,346	\$ 3,266,781	4.82%
<b>Liabilities:</b>					
Assets sold under agreements to repurchase:					
Securities	\$ 179	\$	\$ 179	\$ 189,506	0.38%
Mortgage loans acquired for sale at fair value	1,447	1,884	3,331	307,864	4.33%
Mortgage loans at fair value	7,992	740	8,607	1,264,857	2.72%
Real estate acquired in settlement of loans	297	125	422	33,475	5.05%
Borrowings under forward purchase agreements	1,580		1,580	221,769	2.85%
Asset backed secured financing	1,493	124	1,617	166,894	3.88%
Exchangeable senior notes	3,359	225	3,584	250,000	5.73%
	16,347	2,973	19,320	2,434,365	3.17%
Other interest - Servicing	455		455		
	16,802	2,973	19,775	2,434,365	3.25%

Net interest income	\$ 22,181	\$ (2,610)	\$ 19,571	
Net interest margin				2.40%
Net interest spread				1.57%

(1) Amounts in this column represent accrual of unearned discounts and amortization of facility commitment fees for liabilities.

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	Quarter ended March 31, 2013				Annualized % interest yield/cost
	Interest income/expense			Average balance	
	Coupon	Discount/ fees(1)	Total		
(dollars in thousands)					
<b>Assets:</b>					
Correspondent lending:					
Mortgage loans acquired for sale at fair value	\$ 6,323	\$	\$ 6,323	\$ 831,511	3.04%
Investment activities:					
Short-term investments	31		31	63,896	0.20%
Mortgage loans at fair value	10,497		10,497	1,135,248	3.70%
<b>Total investment activities</b>	<b>10,528</b>		<b>10,528</b>	<b>1,199,144</b>	<b>3.51%</b>
Other interest	24		24		
	\$ 16,875	\$	\$ 16,875	\$ 2,030,655	3.32%
<b>Liabilities:</b>					
Assets sold under agreements to repurchase:					
Mortgage loans acquired for sale at fair value	\$ 4,452	\$ 1,598	\$ 6,050	\$ 774,417	3.12%
Mortgage loans at fair value	3,794	563	4,357	442,151	3.94%
Real estate acquired in settlement of loans	55	125	180	5,198	13.83%
Notes payable secured by warehouse notes receivable		125	125		
	8,301	2,411	10,712	1,221,766	3.51%
Other interest - Servicing	524		524		
	8,825	2,411	11,236	1,221,766	3.68%
<b>Net interest income</b>	<b>\$ 8,050</b>	<b>\$ (2,411)</b>	<b>\$ 5,639</b>		
Net interest margin					1.11%
Net interest spread					(0.36%)

(1) Amounts in this column represent accrual of unearned discounts and amortization of facility commitment fees for liabilities.

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

	<b>Quarter ended March 31, 2014 vs. Quarter ended March 31, 2013 Increase (decrease) due to changes in (in thousands)</b>		
	<b>Rate</b>	<b>Volume</b>	<b>Total change</b>
<b>Correspondent lending:</b>			
Mortgage loans acquired for sale at fair value	\$ 2,021	\$ (4,719)	\$ (2,698)
<b>Investment activities:</b>			
Short - term investments	99	22	121
Agency MBS		1,761	1,761
<b>Mortgage loans:</b>			
at fair value	5,489	7,300	12,789
under forward purchase agreements		2,154	2,154
held by variable interest entity		5,495	5,495
<b>Total mortgage loans</b>	<b>5,489</b>	<b>14,949</b>	<b>20,438</b>
ESS		2,862	2,862
<b>Total investment activities</b>	<b>5,588</b>	<b>19,594</b>	<b>25,182</b>
<b>Other interest</b>		<b>(13)</b>	<b>(13)</b>
	7,609	14,862	22,471
<b>Assets sold under agreements to repurchase:</b>			
Securities		179	179
Mortgage loans acquired for sale at fair value	1,583	(4,427)	(2,844)
Mortgage loans at fair value	(1,706)	5,956	4,250
Real estate acquired in settlement of loans	(180)	422	242
Borrowings under forward purchase agreement		1,580	1,580
Asset backed secured financing		1,617	1,617
Exchangeable senior notes		3,584	3,584
<b>Interest bearing liabilities</b>	<b>(303)</b>	<b>8,911</b>	<b>8,608</b>
<b>Other interest - servicing</b>		<b>(69)</b>	<b>(69)</b>
	(303)	8,842	8,539
<b>Net interest income</b>	<b>\$ 7,912</b>	<b>\$ 6,020</b>	<b>\$ 13,932</b>

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In the quarter ended March 31, 2014, we earned net interest income of \$19.6 million compared to \$5.6 million for the quarter ended March 31, 2013. The increase in net interest income between the quarters was primarily due to an increase in our yield-cost spread, supplemented by a 61% increase in average interest-earning assets for the quarter ended March 31, 2014 as compared to the quarter ended March 31, 2013.

We earned interest income on our portfolio of Agency MBS totaling \$1.8 million for the quarter ended March 31, 2014. We did not hold Agency MBS during the quarter ended March 31, 2013.

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In the quarter ended March 31, 2014, we recognized interest income on mortgage loans at fair value, mortgage loans under forward purchase agreements at fair value and mortgage loans at fair value held by variable interest entity totaling \$30.9 million, including \$12.5 million of interest capitalized pursuant to loan modifications, which compares to \$10.5 million, including \$5.2 million of interest capitalized pursuant to loan modifications in the quarter ended March 31, 2013. The increases in interest income are due primarily to growth in the average balance of our mortgage loan portfolio of \$1.4 billion, or 121%, for the quarter ended March 31, 2014 when compared to the same period in 2013.

At March 31, 2014, approximately 76% of the fair value of our mortgage loan portfolio was nonperforming, as compared to 72% at March 31, 2013. We do not accrue interest on nonperforming loans and generally do not recognize revenues during the period we hold REO. We calculate the yield on our mortgage loan portfolio based on the portfolio's average fair value, which most closely reflects our investment in the mortgage loans. Accordingly, the yield we realize on our distressed mortgage loans is substantially higher than would be recorded based on the loans unpaid principal balances as we typically purchase our distressed mortgage loans at substantial discounts to their UPB.

Nonperforming loans and REO generally take longer to generate cash flow than performing loans due to the time required to work with borrowers to resolve payment issues through our modification programs and to acquire and liquidate the property securing the mortgage loans. The value and returns we realize from these assets are determined by our ability to assist borrowers in curing defaults, or when curing of borrower defaults is not a viable solution, by our ability to effectively manage the liquidation process. As a participant in HAMP, we are required to comply with the process specified by the HAMP program before liquidating a loan, and this may extend the resolution process. At March 31, 2014, we held \$1.7 billion in fair value of nonperforming loans and \$186.9 million in carrying value of REO.

During the quarter ended March 31, 2014, we incurred interest expense totaling \$19.8 million as compared to \$11.2 million during the quarter ended March 31, 2013. Our interest cost on interest bearing liabilities was 3.25% for the quarter ended March 31, 2014 as compared to 3.68% for the quarter ended March 31, 2013. The increase in interest expense reflects our increased use of borrowings in support of growth of our balance sheet, partially offset by the effect of lower borrowing costs relating to our mortgage loans at fair value during 2014 as compared to 2013.

*Net Loan Servicing Fees*

When we sell mortgage loans, we generally enter into a contract to service the mortgage loans and recognize the fair value of such contracts as MSR. Under these contracts, we are required to perform 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 loan payments; responding to borrower inquiries; accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising foreclosures and property dispositions.

Net loan servicing fees are summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Servicing fees (1)	\$ 17,532	\$ 10,417
MSR recapture fee receivable from PFSI	8	133



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Effect of MSRs:		
Carried at lower of amortized cost or fair value		
Amortization	(7,365)	(4,970)
(Provision for) reversal of impairment	(627)	2,486
Carried at fair value - change in fair value	(2,028)	(67)
Losses on hedging derivatives	(99)	(1,988)
	(10,119)	(4,539)
Net loan servicing fees	\$ 7,421	\$ 6,011

(1) Includes contractually specified servicing and ancillary fees.

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Net loan servicing fees increased \$1.4 million during the quarter ended March 31, 2014 from the quarter ended March 31, 2013. The increase was primarily due to a \$7.1 million increase in servicing fees, offset by a \$5.6 million increase in the effect of MSR on net loan servicing fees. The increase in servicing fees is attributable to continued growth in our mortgage loan servicing portfolio. Offsetting the increase in servicing fees was MSR activity which included increased amortization arising from growth in the MSR asset along with the recognition of fair value decreases and impairment as compared to net increases in fair value in the prior period.

Effective February 1, 2013, we entered into an MSR recapture agreement that requires PLS to transfer to us the increases MSR with respect to new mortgage loans originated in refinancing transactions where PLS refinances a mortgage loan for which we previously held the MSR. PLS is generally required to transfer MSR relating to such mortgage loans (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the loans so originated. Where the fair value of the aggregate MSR to be transferred for the applicable month is less than \$200,000, PLS may, at its option, settle in cash with PMT in an amount equal to such fair market value in lieu of transferring such MSR. We recognized approximately \$8,000 of such income during the quarter ended March 31, 2014.

Amortization, impairment and changes in fair value of MSR have a significant effect on net loan servicing fees, driven primarily by our monthly re-estimation of the fair value of MSR. As our investment in MSR grows, we expect that the effect of amortization, impairment and changes in fair value will have an increasing influence on our net income. The fair value of MSR is difficult to determine because MSR are not actively traded in observable standalone markets and are sensitive to changes in interest rate levels and marketplace expectations of future interest rates. Considerable judgment is required to estimate the fair values of these assets and the exercise of such judgment can significantly affect our income.

Our MSR valuation process combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value at each balance sheet date. The cash flow and prepayment assumptions used in our Manager's discounted cash flow model are based on market factors and include the historical performance of its managed MSR, which our Manager believes are consistent with assumptions and data used by market participants valuing similar MSR. The key assumptions used in the valuation of MSR include mortgage prepayment speeds and discount rates. These variables can, and generally do, change from period to period as market conditions change. Therefore, our estimate of the fair value of MSR changes from period to period. PCM's valuation committee reviews and approves the fair value estimates of our MSR.

We account for MSR either at our estimate of the asset's fair value with changes in fair value recorded in current period earnings or by using the amortization method with the MSR carried at the lower of estimated amortized cost or fair value based on whether we view the underlying mortgages as being sensitive to prepayments resulting from changing market interest rates. We have identified an initial mortgage interest rate of 4.5% as the threshold for whether such mortgage loans are sensitive to changes in interest rates:

Our risk management efforts in connection with MSR relating to mortgage loans with initial interest rates of more than 4.5% are aimed at moderating the effects of changes in interest rates on the assets' fair values.

For MSR relating to mortgage loans with initial interest rates of less than or equal to 4.5%, we have concluded that such assets present different risks than MSR relating to mortgage loans with initial

interest rates of more than 4.5% and therefore require a different risk management approach. Our risk management efforts relating to these assets are aimed at moderating the effects of non-interest rate risks on fair value, such as the effect of changes in home prices on the assets' fair values. We have identified these assets for accounting using the amortization method.

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Our MSR's are summarized by the basis on which we account for the assets below:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	
MSR's carried at fair value	\$ 36,181	\$ 26,452
MSR carried at lower of amortized cost or fair value:		
Amortized cost	\$ 268,450	\$ 266,697
Valuation allowance	(3,204)	(2,577)
Carrying value	\$ 265,246	\$ 264,120
Fair value	\$ 289,934	\$ 289,737
<b>Total MSR:</b>		
Carrying value	\$ 301,427	\$ 290,572
Fair value	\$ 326,115	\$ 316,189
Unpaid principal balance of mortgage loans underlying MSR's	\$ 27,192,550	\$ 25,792,933
<b>Average servicing fee rate (in basis points)</b>		
MSR's carried at		
Amortized cost	26	26
Fair value	26	26
<b>Average note interest rate</b>		
MSR's carried at		
Amortized cost	3.70%	3.68%
Fair value	4.79%	4.78%

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Key assumptions used in determining the fair value of MSR values and estimates of the sensitivity of MSR values to changes in these assumptions are as follows:

	March 31, 2014		December 31, 2013	
	Range			
	(Weighted average)			
	Amortized cost	Fair value	Amortized cost	Fair value
	(Carrying value, unpaid principal balance and effect on value amounts in thousands)			
Carrying value	\$ 265,246	\$ 36,181	\$ 264,120	\$ 26,452
<b>Key inputs:</b>				
Unpaid principal balance of underlying mortgage loans	\$ 23,897,201	\$ 3,426,693	\$ 23,399,612	\$ 2,393,321
Weighted-average annual servicing fee rate (in basis points)	26	26	26	26
Weighted-average note interest rate	3.70%	4.79%	3.68%	4.78%
Pricing spread (1) (2)	6.3% 17.5%	7.3% 15.3%	6.3% 17.5%	7.3% 15.3%
	(6.9%)	(8.8%)	(6.7%)	(8.6%)
Effect on fair value of a:				
5% adverse change	\$ (5,406)	\$ (656)	\$ (5,490)	\$ (488)
10% adverse change	\$ (10,628)	\$ (1,290)	\$ (10,791)	\$ (959)
20% adverse change	\$ (20,557)	\$ (2,495)	\$ (20,861)	\$ (1,855)
Weighted average life (in years)	1.1 - 7.3	2.6 - 7.3	1.3 - 7.3	2.8 - 7.3
	(6.5)	(7.1)	(6.7)	(7.2)
Prepayment speed (1) (3)	7.7% 56.4%	8.0% 23.9%	7.7% - 51.9%	8.0% - 20.0%
	(8.3%)	(9.4%)	(8.2%)	(8.9%)
Effect on fair value of a:				
5% adverse change	\$ (5,443)	\$ (824)	\$ (5,467)	\$ (568)
10% adverse change	\$ (10,719)	\$ (1,619)	\$ (10,765)	\$ (1,117)
20% adverse change	\$ (20,800)	\$ (3,128)	\$ (20,886)	\$ (2,160)
Annual per-loan cost of servicing	\$68 \$140	\$68 \$140	\$68 \$140	\$68 \$140
	(\$68)	(\$68)	(\$68)	(\$68)
Effect on fair value of a:				
5% adverse change	\$ (1,735)	\$ (220)	\$ (1,695)	\$ (158)
10% adverse change	\$ (3,471)	\$ (439)	\$ (3,390)	\$ (316)
20% adverse change	\$ (6,941)	\$ (878)	\$ (6,780)	\$ (633)

(1) The effect on value of an adverse change in one of the following key inputs may result in recognition of MSR impairment. The extent of impairment recognized will depend on the relationship of fair value to the carrying value of MSRs.

(2) Pricing spread represents a margin that is added to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for

purposes of discounting cash flows relating to MSR's acquired as proceeds from the sale of mortgage loans and purchased MSR's not backed by pools of distressed mortgage loans.

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

Significant changes to any of the key assumptions shown above in isolation could result in a significant change in the MSR fair value measurement. Changes in these key assumptions are not necessarily directly related. The preceding sensitivity analyses are limited in that they were performed as of a particular point in time; only contemplate the movements in the indicated variables; do not incorporate changes in the variables in relation to other variables; are subject to the accuracy of various models and inputs used; and do not take into account other factors that would affect our overall financial performance in such scenarios, including operational adjustments made by our Manager to account for changing circumstances. For these reasons, the preceding estimates should not be viewed as earnings forecasts.

**Table of Contents***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, 2014, we recorded net losses of \$6.6 million in *Results of real estate acquired in settlement of loans* as compared to net losses of \$3.3 million for the quarter ended March 31, 2013.

Results of REO are summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(dollars in thousands)</b>	
<b>During the period:</b>		
Proceeds from sales of REO	\$ 33,394	\$ 32,024
<b>Results of real estate acquired in settlement of loans:</b>		
Valuation adjustments, net	(8,892)	(6,089)
Gain on sale, net	2,266	2,836
	\$ (6,626)	\$ (3,253)
<b>Number of properties sold</b>	<b>324</b>	<b>258</b>
<b>Average carrying value of REO</b>	<b>\$ 165,586</b>	<b>\$ 85,934</b>
<b>Period end:</b>		
Carrying value	\$ 186,877	\$ 84,486
Number of properties in inventory	1,393	585

The increase in losses from REOs during the quarter ended March 31, 2014 compared to the quarter ended March 31, 2013 was due to slower property value appreciation during the quarter ended March 31, 2014 as compared to the quarter ended March 31, 2013, along with growth in the inventory of properties held between the periods. Since REO is carried at the lower of cost or fair value, we recognize valuation losses on properties where decreases in fair value are indicated but are generally unable to record fair value increases until the date of sale of properties.

**Expenses**

Our expenses are summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Expenses payable to PFSI:</b>		
Loan fulfillment fees	\$ 8,902	\$ 28,244
Loan servicing fees	14,591	7,726
Management fees	8,074	6,492

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Professional services	1,731	2,384
Compensation	2,942	2,089
Other	4,066	4,946
	\$ 40,306	\$ 51,881

Expenses decreased \$11.6 million, or 22%, during the quarter ended March 31, 2014, compared to the same period in 2013. This decrease was primarily a result of lower fulfillment fees, reflecting decreased correspondent lending activities, partially offset by increased servicing fees reflecting growth in both our investments in mortgage loans at fair value and our MSR portfolio.



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Loan fulfillment fees represent fees we pay to PFSI 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. Loan fulfillment fees and related fulfillment volume are summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Fulfillment fee expense	\$ 8,902	\$ 28,244
UPB of loans fulfilled by PLS	\$ 1,919,578	\$ 4,786,826

The decrease in loan fulfillment fees of \$19.3 million during the quarter ended March 31, 2014 compared to the same period in 2013 is primarily due to the decrease in the volume of Agency-eligible and jumbo mortgage loans we purchased in our correspondent lending activities.

Loan servicing fees increased by \$6.9 million, or 89%, to \$14.6 million in the first quarter of 2014, as compared to \$7.7 million in the first quarter of 2013. Loan servicing fees increase as our average investment in mortgage loans and MSR increases. During the quarter ended March 31, 2014, our average investment in mortgage loans increased by 121%, compared to the quarter ended March 31, 2013. Our servicing portfolio increased to \$27.2 billion during the quarter ended March 31, 2014 from \$16.6 billion during the quarter ended March 31, 2013. Included in loan servicing fees are activity-based fees, which increased by \$4.4 million during the quarter ended March 31, 2014, generally relating to the increase in loan resolution activities including the sale of reperforming loans during the first quarter. We amended our servicing agreement with PFSI effective January 1, 2014, to limit the supplemental fees we pay PFSI to no more than \$700,000 per quarter. During the first quarter of 2014, we paid PFSI \$695,000 in supplemental servicing fees relating to our MSR servicing portfolio. Supplemental servicing fees are a component of the total base servicing fee and compensate PFSI for providing certain services that are atypical for servicers to provide but required for us because we have no employees or infrastructure.

Loan servicing fees payable to PFSI and subsidiaries are summarized below:

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Mortgage loan servicing fees payable to PFSI:</b>		
Mortgage loans acquired for sale at fair value:		
Base	\$ 17	\$ 77
Activity-based	26	72
	43	149
<b>Distressed mortgage loans:</b>		
Base	4,966	3,875
Activity-based	6,386	1,877
	11,352	5,752

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MSRs:

Base	3,148	1,763
Activity-based	48	62
	3,196	1,825
	\$ 14,591	\$ 7,726

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

	<b>Quarter ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Management fee:</b>		
Base	\$ 5,521	\$ 4,364
Performance incentive	2,553	2,128
	<b>\$ 8,074</b>	<b>\$ 6,492</b>

Management fees increased by \$1.6 million during the quarter ended March 31, 2014 due to the effect of growth in shareholders' equity on the base management fee we pay to PFSI and recognition of performance incentive fees in 2014, which only were incurred beginning February 1, 2013. The increase in performance incentive fees resulted in part from a change in our management agreement with PFSI. Effective February 1, 2013, the management agreement was amended to adjust the basis on which both the base management fee and performance incentive fee are determined. Specifically, we amended:

The base management fee rate from 1.5% per year of shareholders' equity to a base management fee schedule based on tiered management fee rates beginning with a rate of 1.5% per year of shareholders' equity for the first \$2.0 billion of shareholders' equity and reduced rates as the balance of shareholders' equity increases. Our shareholders' equity did not reach a level that would have resulted in a reduced base management fee rate.

The definition of net income for purposes of determining the performance incentive fee to net income as determined in compliance with U.S. GAAP. Previously, net income for purposes of determining the performance incentive fee began with net income as determined in compliance with U.S. GAAP and was adjusted for non-cash gains and losses included in our income. As a result of this change, we recognized \$2.6 million in performance incentive fees during the quarter ended March 31, 2014.

We expect our management fees to fluctuate in the future based on: (1) changes in our shareholders' equity with respect to our base management fee; and (2) the level of our profitability in excess of the return thresholds specified in our management agreement with respect to the performance incentive fee.

Professional services expense decreased during the quarter ended March 31, 2014 as compared to the quarter ended March 31, 2013 by \$653,000 due to legal fees incurred during 2013 relating to renegotiation of certain agreements between us and our Manager as well as a decrease in due diligence expenses in 2014 as compared to 2013.

Other expense items decreased due to the decreased expenses associated with certain of our correspondent lending activities.

*PFSI Expense Reimbursement*

We reimburse PFSI for other expenses, including common overhead expenses incurred on our behalf, in accordance with the terms of the management agreement. Expense reimbursement amounts paid to PFSI during the quarters ended March 31, 2014 and March 31, 2013 are included in other expenses. The amount of total expense reimbursement that we paid PFSI increased \$286,000 from \$2.3 million in the quarter ended March 31, 2013 to \$2.6 million for the quarter ended March 31, 2014. The increase was due to growth in PFSI overhead expenses as well as growth in our balance sheet, resulting in an increase in the proportion of PFSI overhead expenses allocated to us.

*Income Taxes*

Previously, we had elected to treat PMC as a 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 the REIT. No such dividend distributions have been made to date.

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 Income*.

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The provision for income taxes decreased by \$4.2 million to a tax benefit of \$1.6 million for the three months ended March 31, 2014 from a tax expense of \$2.6 million for the three months ended March 31, 2013. The Company's effective tax rate was (4.4)% for the three months ended March 31, 2014 compared to 4.7% for the same period in 2013. The decrease in the Company's effective tax rate for the three months ended March 31, 2014 compared to the prior period in 2013 is due primarily to a loss in the TRS for the first quarter of 2014 compared to income in the TRS for the same period in 2013. The primary difference between the Company's effective tax rate and the statutory tax rate is non-taxable REIT income resulting from the deduction for dividends paid.

In general, cash dividends declared by us will be considered ordinary income to shareholders for income tax purposes. Some portion of the dividends may be characterized as capital gain distributions or a return of capital.

**Balance Sheet Analysis**

Following is a summary of key balance sheet items:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	
<b>Assets</b>		
Cash	\$ 11,871	\$ 27,411
<b>Investments:</b>		
Short-term investments	91,338	92,398
Mortgage-backed securities	198,110	197,401
Mortgage loans acquired for sale at fair value	344,680	458,137
Mortgage loans at fair value	2,811,361	2,818,445
Excess servicing spread	151,019	138,723
Derivative assets	7,928	7,976
Real estate acquired in settlement of loans	186,877	148,080
Mortgage servicing rights	301,427	290,572
	4,092,740	4,151,732
Other assets	122,926	131,774
Total assets	\$ 4,227,537	\$ 4,310,917
<b>Liabilities</b>		
<b>Borrowings:</b>		
Assets sold under agreements to repurchase	\$ 1,887,778	\$ 2,039,605
Borrowings under forward purchase agreements	216,614	226,580
Asset-backed secured financing of the variable interest entity	166,514	165,415
Exchangeable senior notes	250,000	250,000