

PennyMac Mortgage Investment Trust
Form 10-Q
August 11, 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 June 30, 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>Maryland (State or other jurisdiction of incorporation or organization)</p> <p>6101 Condor Drive, Moorpark, California (Address of principal executive offices)</p> <p style="text-align: center;">(818) 224-7442</p> <p style="text-align: center;">(Registrant's telephone number, including area code)</p>	<p>27-0186273 (IRS Employer Identification No.)</p> <p>93021 (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.

Class	Outstanding at August 7, 2014
Common Shares of Beneficial Interest, \$0.01 par value	74,139,570

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PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

June 30, 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)**

	June 30, 2014	December 31, 2013
	(in thousands, except share data)	
ASSETS		
Cash	\$ 37,902	\$ 27,411
Short-term investments	104,453	92,398
Mortgage-backed securities at fair value pledged to secure assets sold under agreements to repurchase	218,725	197,401
Mortgage loans acquired for sale at fair value (includes \$905,044 and \$454,210 pledged to secure assets sold under agreements to repurchase)	909,085	458,137
Mortgage loans at fair value (includes \$2,407,512 and \$1,963,266 pledged to secure assets sold under agreements to repurchase)	2,697,821	2,600,317
Mortgage loans under forward purchase agreements at fair value pledged to secure borrowings under forward purchase agreements		218,128
Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value	190,244	138,723
Derivative assets	14,594	7,976
Real estate acquired in settlement of loans (includes \$107,684 and \$89,404 pledged to secure assets sold under agreements to repurchase)	240,471	138,942
Real estate acquired in settlement of loans under forward purchase agreements pledged to secure forward purchase agreements		9,138
Mortgage servicing rights (includes \$46,802 and \$26,452 carried at fair value)	315,484	290,572
Servicing advances	63,993	59,573
Due from PennyMac Financial Services, Inc.	4,137	6,009
Other assets	72,836	66,192
Total assets	\$ 4,869,745	\$ 4,310,917
LIABILITIES		
Assets sold under agreements to repurchase	\$ 2,701,755	\$ 2,039,605
Borrowings under forward purchase agreements		226,580
Asset-backed secured financing of the variable interest entity at fair value	170,201	165,415
Exchangeable senior notes	250,000	250,000
Derivative liabilities	6,347	1,961
Accounts payable and accrued liabilities	69,552	71,561
Due to PennyMac Financial Services, Inc.	19,636	18,636

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Income taxes payable	63,218	59,935
Liability for losses under representations and warranties	11,876	10,110
Total liabilities	3,292,585	2,843,803
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Common shares of beneficial interest authorized, 500,000,000 common shares of \$0.01 par value; issued and outstanding, 74,139,070 and 70,458,082 common shares, respectively	741	705
Additional paid-in capital	1,468,791	1,384,468
Retained earnings	107,628	81,941
Total shareholders equity	1,577,160	1,467,114
Total liabilities and shareholders equity	\$ 4,869,745	\$ 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 BALANCE SHEETS (UNAUDITED)**

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

	June 30, 2014	December 31, 2013
	(in thousands)	
ASSETS		
Mortgage loans at fair value	\$ 541,320	\$ 523,652
Other assets - interest receivable	1,702	1,584
	\$ 543,022	\$ 525,236
LIABILITIES		
Asset-backed secured financing at fair value	\$ 170,201	\$ 165,415
Accounts payable and accrued expenses - interest payable	492	497
	\$ 170,693	\$ 165,912

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)**

	Quarter ended		Six months ended June 30,	
	June 30,	2013	2014	2013
	2014	2013	2014	2013
	(in thousands, except per share data)			
Net investment income				
Net gain on mortgage loans acquired for sale	\$ 10,222	\$ 44,438	\$ 20,193	\$ 73,717
Loan origination fees	4,485	4,752	6,841	10,225
Net interest income:				
Interest income	48,518	26,797	87,864	43,672
Interest expense	21,865	14,144	41,640	25,380
	26,653	12,653	46,224	18,292
Net gain on investments	73,134	46,834	115,719	110,814
Net loan servicing fees	8,758	7,892	16,179	13,903
Results of real estate acquired in settlement of loans	(5,348)	(1,929)	(11,974)	(5,182)
Other	2,652	913	3,969	1,600
Net investment income	120,556	115,553	197,151	223,369
Expenses				
Expenses payable to PennyMac Financial Services, Inc.:				
Loan servicing fees	14,180	8,787	28,771	16,513
Loan fulfillment fees	12,433	22,054	21,335	50,298
Management fees	8,912	8,455	16,986	14,947
Professional services	2,690	1,339	4,421	3,723
Compensation	1,883	1,438	4,825	3,527
Other	7,154	5,571	11,221	10,517
Total expenses	47,252	47,644	87,559	99,525
Income before provision for income taxes	73,304	67,909	109,592	123,844
(Benefit from) provision for income taxes	(1,907)	13,412	(3,492)	16,051
Net income	\$ 75,211	\$ 54,497	\$ 113,084	\$ 107,793
Earnings per share				
Basic	\$ 1.01	\$ 0.92	\$ 1.54	\$ 1.81
Diluted	\$ 0.93	\$ 0.86	\$ 1.44	\$ 1.75
Weighted-average shares outstanding				
Basic	74,065	59,035	72,803	58,981
Diluted	82,750	65,104	81,535	62,217

Dividends declared per share	\$	0.59	\$	0.57	\$	1.18	\$	1.14
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**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
Balance at December 31, 2012	58,904	\$ 589	\$ 1,129,858	\$ 70,889	\$ 1,201,336
Net income				107,793	107,793
Share-based compensation	173	2	2,468		2,470
Dividends, \$1.14 per share				(67,249)	(67,249)
Underwriting and offering costs			(169)		(169)
Balance at June 30, 2013	59,077	\$ 591	\$ 1,132,157	\$ 111,433	\$ 1,244,181
Balance at December 31, 2013	70,458	\$ 705	\$ 1,384,468	\$ 81,941	\$ 1,467,114
Net income				113,084	113,084
Share-based compensation	234	2	2,956		2,958
Dividends, \$1.18 per share				(87,397)	(87,397)
Proceeds from offerings of common shares	3,447	34	82,419		82,453
Underwriting and offering costs			(1,052)		(1,052)
Balance at June 30, 2014	74,139	\$ 741	\$ 1,468,791	\$ 107,628	\$ 1,577,160

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)**

	Six months ended June 30,	
	2014	2013
	(in thousands)	
Cash flows from operating activities		
Net income	\$ 113,084	\$ 107,793
Adjustments to reconcile net income to net cash used by operating activities:		
Net gain on mortgage loans acquired for sale at fair value	(20,193)	(73,717)
Accrual of unearned discounts and amortization of premiums on mortgage-backed securities, mortgage loans at fair value, and asset-backed secured financing	(537)	
Capitalization of interest on mortgage loans at fair value	(30,353)	(11,814)
Accrual of interest on excess servicing spread	(6,001)	
Amortization of credit facility commitment fees and debt issuance costs	4,879	4,036
(Reversal) accrual of costs related to forward purchase agreements	(168)	251
Net gain on investments	(115,719)	(110,814)
Change in fair value, amortization and impairment of mortgage servicing rights	20,518	9,321
Results of real estate acquired in settlement of loans	11,974	5,182
Share-based compensation expense	2,958	2,471
Purchases of mortgage loans acquired for sale at fair value	(12,347,365)	(17,759,140)
Sales of mortgage loans acquired for sale at fair value to nonaffiliates	4,789,444	9,044,480
Sales of mortgage loans acquired for sale to PennyMac Financial Services, Inc.	7,085,859	8,282,163
(Increase) decrease in servicing advances	(15,218)	7,481
Decrease in due from PennyMac Financial Services, Inc.	2,812	1,766
(Increase) decrease in other assets	(25,427)	41,379
Decrease in accounts payable and accrued liabilities	(45,366)	(11,016)
Increase in payable to PennyMac Financial Services, Inc.	1,036	4,509
Increase in income taxes payable	3,283	15,088
Net cash used by operating activities	(570,500)	(440,581)
Cash flows from investing activities		
Net increase in short-term investments	(12,055)	(34,219)
Purchases of mortgage-backed securities at fair value	(19,638)	
Repayments of mortgage-backed securities at fair value	5,419	
Purchases of mortgage loans at fair value	(283,017)	(200,486)
Repayments and sales of mortgage loans at fair value	397,643	135,242
Repayments of mortgage loans under forward purchase agreements at fair value	6,413	
Purchase of excess servicing spread from PennyMac Financial Services, Inc.	(73,393)	
Repayment of excess spread investment	16,494	
Settlements of derivative financial instruments used for hedging	(9,785)	
Purchase of real estate acquired in settlement of loans	(3,049)	
Sales of real estate acquired in settlement of loans	76,903	63,017
	5,365	

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Sales of real estate acquired in settlement of loans under forward purchase agreements		
Purchase of mortgage servicing rights		(185)
Decrease (increase) in margin deposits and restricted cash	5,454	(13,426)
Net cash provided (used) by investing activities	112,754	(50,057)

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)**

	Six months ended June 30,	
	2014	2013
	(in thousands)	
Cash flows from financing activities		
Sales of assets under agreement to repurchase	15,938,914	16,841,470
Repurchases of assets sold under agreements to repurchase	(15,276,762)	(16,516,020)
Repurchases of real estate acquired in settlement of loans financed under agreement to repurchase		(15,656)
Repayments of borrowings under forward purchase agreements	(227,866)	
Repayments of asset-backed secured financing at fair value	(3,372)	
Issuance of exchangeable senior notes		250,000
Payment of exchangeable senior notes issuance costs		(7,425)
Proceeds from issuance of common shares	82,453	
Payment of common share underwriting and offering costs	(1,052)	(169)
Payment of contingent underwriting fees payable	(424)	(427)
Payment of dividends	(43,654)	(67,249)
Net cash provided by financing activities	468,237	484,524
Net increase (decrease) in cash	10,491	(6,114)
Cash at beginning of period	27,411	33,756
Cash at end of period	\$ 37,902	\$ 27,642

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Organization and Basis of Presentation

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

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

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

Most of the loans the Company has acquired in its correspondent production activities have been eligible for sale to government-sponsored entities such as the Federal National Mortgage Association (**Fannie Mae**) and 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, the Company pays PCM 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* 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.

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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.

Reclassification of previously presented balances

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*.

Following is a summary of the reclassifications:

	As reported		As previously reported		Reclassification	
	Quarter ended June 30, 2013	Six months ended June 30, 2013	Quarter ended June 30, 2013	Six months ended June 30, 2013	Quarter ended June 30, 2013	Six months ended June 30, 2013
	(in thousands)					
Net interest income (new caption):						
Interest income	\$ 26,797	\$ 43,672	\$ 26,797	\$ 43,672	\$	\$
Interest expense	14,144	25,380			14,144	25,380
	12,653	18,292	26,797	43,672	(14,144)	(25,380)
Net investment income	\$ 115,553	\$ 223,369	\$ 129,697	\$ 248,749	\$ (14,144)	\$ (25,380)
Expenses:						
Interest expense	\$	\$	\$ 14,144	\$ 25,380	\$ (14,144)	\$ (25,380)
Total expenses	\$ 47,644	\$ 99,525	\$ 61,788	\$ 124,905	\$ (14,144)	\$ (25,380)

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

Note 2 Concentration of Risks

As discussed in Note 1 *Organization and Basis of Presentation* above, PMT's operations and investing activities are centered in mortgage-related assets, a substantial portion of which are distressed at acquisition. 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;

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

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

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

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

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

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

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.:

	Quarter ended		Six months ended June 30,	
	June 30,	2013	2014	2013
	2014		2014	2013
	(in thousands)			
Investment portfolio purchases:				
Mortgage loans	\$ 27,203	\$ 243,109	\$ 284,403	\$ 443,582
REO	30	89	3,117	89
	\$ 27,233	\$ 243,198	\$ 287,520	\$ 443,671
Investment portfolio purchases above through one or more subsidiaries of Citigroup Inc.:				
Mortgage loans	\$ 26,737	\$ 242,886	\$ 26,737	\$ 443,183
REO	30	89	68	89
	\$ 26,767	\$ 242,975	\$ 26,805	\$ 443,272

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

	June 30, 2014	December 31, 2013
	(in thousands)	
Mortgage loans at fair value	\$ 1,067,099	\$ 1,138,131
Mortgage loans under forward purchase agreements at fair value		218,128
REO	111,946	84,726
REO under forward purchase agreements		8,705
	\$ 1,179,045	\$ 1,449,690
 Total mortgage loans and REO held at period end	 \$ 2,938,292	 \$ 2,966,525

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

The Company recognized 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:

	Quarter ended June 30, 2014		Six months ended June 30, 2013	
	2014	2013	2014	2013
	(in thousands)			
Statements of income:				
Interest income	\$ 1,430	\$ 260	\$ 3,584	\$ 260
Interest expense	\$ 783	\$ 251	\$ 2,364	\$ 251
Net gain on investments	\$ 1,743	\$ (690)	\$ 803	\$ (690)
Net loan servicing fees	\$ 201	\$	\$ 517	\$
Results of REO	\$ (72)	\$	\$ (473)	\$
Statements of cash flows:				
Repayments of mortgage loans	\$ 1,084	\$	\$ 3,463	\$
Sales of REO	\$ 3,743	\$	\$ 5,365	\$
Repayments of borrowings under forward purchase agreements	\$ (214,742)	\$	\$ (227,866)	\$

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.

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Management fee:				
Base	\$ 5,838	\$ 4,575	\$ 11,359	\$ 8,940
Performance incentive	3,074	3,880	5,627	6,007
	\$ 8,912	\$ 8,455	\$ 16,986	\$ 14,947

In the event of termination of the management agreement between the Company and PFSI, 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 performance incentive fee earned by PFSI, in each case during the 24-month period before termination.

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Mortgage loans acquired for sale at fair value:				
Base	\$ 29	\$ 90	\$ 46	\$ 169
Activity-based	51	111	77	183
	80	201	123	352
Distressed mortgage loans:				
Base	4,975	3,699	9,941	7,572
Activity-based	5,746	2,447	12,132	4,324
	10,721	6,146	22,073	11,896
MSRs:				
Base	3,323	2,363	6,471	4,126
Activity-based	56	77	104	139
	3,379	2,440	6,575	4,265
	\$ 14,180	\$ 8,787	\$ 28,771	\$ 16,513

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Fulfillment fee expense payable to PFSI	\$ 12,433	\$ 22,054	\$ 21,335	\$ 50,298
Unpaid principal balance of loans fulfilled by PFSI	\$ 2,991,764	\$ 4,323,885	\$ 4,911,342	\$ 9,110,711
Sourcing fees received from PFSI	\$ 1,125	\$ 1,349	\$ 2,017	\$ 2,359
Fair value of loans sold to PFSI	\$ 3,955,329	\$ 4,733,767	\$ 7,085,859	\$ 8,282,163
At period end:				
Mortgage loans included in mortgage loans acquired for sale pending sale to PFSI	\$ 304,707	\$ 290,567		

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Purchases of excess servicing spread	\$ 52,867	\$ 73,393	\$	\$
Interest income from excess servicing spread	\$ 3,138	\$ 6,001	\$	\$
Excess servicing spread recapture recognized	\$ 2,525	\$ 4,415	\$	\$
MSR recapture recognized	\$ 1	\$ 367	\$ 9	\$ 499

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 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 six months ended June 30, 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 and six months ended June 30, 2014, the Company paid \$315,000 and \$387,000 to the underwriters, respectively.

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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.

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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:

	Quarter ended June 30, Six months ended June 30,			
	2014	2013	2014	2013
	(in thousands)			
Reimbursement of:				
Common overhead incurred by PFSI	\$ 2,691	\$ 3,201	\$ 5,269	\$ 5,807
Expenses incurred on the Company's behalf	104	585	549	1,834
	\$ 2,795	\$ 3,786	\$ 5,818	\$ 7,641
Payments and settlements during the period (1)	\$ 14,894	\$ 32,616	\$ 33,280	\$ 65,290

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

Amounts due to PFSI are summarized below:

	June 30,	December 31,
	2014	2013
	(in thousands)	
Servicing fees	\$ 5,208	\$ 5,915
Management fees	8,912	8,924
Allocated expenses	3,764	2,009
Contingent underwriting fees	1,752	1,788
	\$ 19,636	\$ 18,636

Amounts due from affiliates totaled \$4.1 million and \$6.0 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014, the balance represents payments receivable relating to cash flows from the Company's investment in ESS and amounts receivable relating to unsettled MSR and ESS recaptures. At June 30, 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 at both June 30, 2014 and December 31, 2013.

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 common shares. Unvested share-based compensation awards containing non-forfeitable rights to receive dividends or dividend equivalents (collectively, dividends) are classified as participating securities and are included in the basic earnings per share calculation using the two-class method.

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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.

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 common shares outstanding, assuming all potentially dilutive securities were issued. In periods in which the Company records a loss, potentially dilutive securities are excluded from the diluted loss per share calculation, as their effect on loss per share is anti-dilutive.

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

	Quarter ended June 30, Six months ended June 30,			
	2014	2013	2014	2013
	(in thousands except per share amounts)			
Basic earnings per share:				
Net income	\$ 75,211	\$ 54,497	\$ 113,084	\$ 107,793
Effect of participating securities share-based compensation awards	(433)	(444)	(841)	(961)
Net income attributable to common shareholders	\$ 74,778	\$ 54,053	\$ 112,243	\$ 106,832
Weighted-average shares outstanding	74,065	59,035	72,803	58,981
Basic earnings per share	\$ 1.01	\$ 0.92	\$ 1.54	\$ 1.81
Diluted earnings per share:				
Net income	\$ 75,211	\$ 54,497	\$ 113,084	\$ 107,793
Interest on exchangeable senior notes, net of income taxes	2,079	1,382	4,156	1,382
Net income attributable to diluted shareholders	\$ 77,290	\$ 55,879	\$ 117,240	\$ 109,175
Weighted-average shares outstanding	74,065	59,035	72,803	58,981
Potentially dilutive securities:				
Shares issuable pursuant exchange of the Notes	8,393	5,709	8,393	2,870
Shares issuable under share-based compensation plan	292	360	338	366
Diluted weighted-average number of shares outstanding	82,750	65,104	81,534	62,217
Diluted earnings per share	\$ 0.93	\$ 0.86	\$ 1.44	\$ 1.75

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:

	Quarter ended June 30,		Six months ended	
	2014	2013	June 30,	2013
	(in thousands)			
Cash flows:				
Proceeds from sales	\$ 2,763,138	\$ 3,909,744	\$ 4,789,444	9,044,480
Servicing fees received (1)	\$ 19,019	\$ 11,772	\$ 34,907	\$ 20,908
Period end information:				
Unpaid principal balance of mortgage loans outstanding	\$ 29,268,039	\$ 19,850,609		
Unpaid principal balance of delinquent mortgage loans:				
30-89 days delinquent	\$ 90,091	\$ 44,436		
90 or more days delinquent				
Not in foreclosure	13,325	2,485		
In foreclosure or bankruptcy	11,306	3,163		
	24,631	5,648		
	\$ 114,722	\$ 50,084		

(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 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 repayment of the certificates.

Note 6 Netting of Financial Instruments

The Company uses derivative financial instruments to manage exposure to interest rate risk created by its MBS, interest rate lock commitments (IRLC), mortgage loans acquired for sale at fair value, mortgage loans at fair value, ESS and MSRs. All derivative financial instruments are recorded on the balance sheet at fair value. The Company has

elected to net derivative asset and liability positions, and cash collateral obtained (or posted) by (or to) its counterparties when subject to a legally enforceable master netting arrangement. The derivative financial instruments that are not subject to master netting arrangements are IRLCs.

Table of Contents*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.

	June 30, 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	Gross amounts of recognized assets	Gross amounts offset in the consolidated balance sheet	Net amounts of assets presented in the consolidated balance sheet
(in thousands)						
Derivatives subject to master netting arrangements:						
MBS put options	\$ 471	\$	\$ 471	\$ 272	\$	\$ 272
MBS call options	519		519			
Forward purchase contracts	14,723		14,723	1,229		1,229
Forward sale contracts	314		314	16,385		16,385
Treasury futures	545		545			
Put options on Eurodollar futures	181		181	566		566
Call options on Eurodollar futures	214		214			
Netting		(13,855)	(13,855)		(12,986)	(12,986)
	16,967	(13,855)	3,112	18,452	(12,986)	5,466
Derivatives not subject to master netting arrangements:						
Interest rate lock commitments	11,482		11,482	2,510		2,510
	\$ 28,449	\$ (13,855)	\$ 14,594	\$ 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.

	June 30, 2014			December 31, 2013			
	Net amount of assets presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet	Cash collateral received	Net amount of assets presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet	Cash collateral received	Net amount
	(in thousands)						
Interest rate lock commitments	\$ 11,482	\$	\$	\$ 11,482	\$ 2,510	\$	\$ 2,510
RBS Securities	433			433	133		133
RJ O'Brien	940			940	566		566
Nomura	284			284	273		273
JP Morgan	252			252			
Cantor Fitzgerald LP	210			210	613		613
Credit Suisse First Boston Mortgage Capital LLC	138			138	196		196
Bank of America, N.A.					1,024		1,024
Other	855			855	2,661		2,661
Total	\$ 14,594	\$	\$	\$ 14,594	\$ 7,976	\$	\$ 7,976

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.

	June 30, 2014			December 31, 2013		
	Gross amounts of recognized liabilities	Gross amounts offset in the consolidated balance sheet	Net amounts of liabilities presented in the consolidated balance sheet (in thousands)	Gross amounts of recognized liabilities	Gross amounts offset in the consolidated balance sheet	Net amounts of liabilities presented in the consolidated balance sheet
Derivatives subject to master netting arrangements:						
Forward purchase contracts	\$ 266	\$	\$ 266	\$ 7,420	\$	\$ 7,420
Forward sales contracts	23,236		23,236	1,295		1,295
Netting		(17,550)	(17,550)		(8,015)	(8,015)
	23,502	(17,550)	5,952	8,715	(8,015)	700
Derivatives not subject to master netting arrangements:						
Interest rate lock commitments	395		395	1,261		1,261
	23,897	(17,550)	6,347	9,976	(8,015)	1,961
Assets sold under agreements to repurchase						
	2,701,755		2,701,755	2,039,605		2,039,605
	\$ 2,725,652	\$ (17,550)	\$ 2,708,102	\$ 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.

	June 30, 2014			December 31, 2013			
	Gross amounts not offset in the consolidated balance sheet			Gross amounts not offset in the consolidated balance sheet			
Net amount of liabilities presented in the consolidated balance sheet	Cash			Net amount of liabilities presented in the consolidated balance sheet	Cash		
	Financial instruments	collateral pledged	Net amount		Financial instruments	collateral pledged	Net amount
(in thousands)							
Interest rate lock commitments	\$ 395	\$	\$ 395	\$ 1,261	\$	\$ 1,261	
Citibank	843,000	(842,377)	623	945,015	(944,856)	159	
Credit Suisse First Boston Mortgage Capital LLC	734,416	(734,416)		523,546	(523,546)		
Bank of America, N.A.	610,966	(610,218)	748	408,452	(408,452)		
RBS Securities	229,153	(229,153)					
Morgan Stanley Bank, N.A.	155,189	(154,457)	732	30,226	(30,226)		
Daiwa Capital Markets	131,334	(131,134)	200	132,525	(132,525)		
Fannie Mae Capital Markets	1,021		1,021				
Other	2,628		2,628	541		541	
Total	\$ 2,708,102	\$ (2,701,755)	\$ 6,347	\$ 2,041,566	\$ (2,039,605)	\$ 1,961	

Note 7 Fair Value

The Company's consolidated financial statements include assets and liabilities that are measured based on their fair values. Measurement at fair value may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability and whether management has elected to carry the item at its 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 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 VIE to be accounted for at fair value to reflect the generally offsetting changes in fair value of these borrowings to changes in fair value of the mortgage loans at fair value collateralizing this financing.

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' fair values. Management has identified these assets to be accounted for using the amortization method.

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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' fair values.

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 fair value on a recurring basis:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Short-term investments	\$ 104,453	\$	\$	\$ 104,453
Mortgage-backed securities at fair value		218,725		218,725
Mortgage loans acquired for sale at fair value		909,085		909,085
Mortgage loans at fair value		541,320	2,156,501	2,697,821
Excess servicing spread purchased from PFSI			190,244	190,244
Derivative assets:				
Interest rate lock commitments			11,482	11,482
MBS put options		471		471
MBS call options		519		519
Forward purchase contracts		14,723		14,723
Forward sales contracts		314		314
Treasury futures		545		545
Put options on Eurodollar futures		181		181
Call options on Eurodollar futures		214		214
Total derivative assets before netting		16,967	11,482	28,449
Netting (1)		(13,855)		(13,855)
Total derivative assets after netting		3,112	11,482	14,594
Mortgage servicing rights at fair value			46,802	46,802
	\$ 104,453	\$ 1,645,242	\$ 2,405,029	\$ 4,154,724
Liabilities:				
Asset-backed secured financing of the variable interest entity at fair value	\$	\$ 170,201	\$	\$ 170,201
Derivative liabilities:				
Interest rate lock commitments			395	395
Forward purchase contracts		266		266

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Forward sales contracts	23,236		23,236
Total derivative liabilities before netting	23,502	395	23,897
Netting (1)	(17,550)		(17,550)
Total derivative liabilities after netting	5,952	395	6,347
Total liabilities	\$ 176,153	\$ 395	\$ 176,548

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

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	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
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		523,652	2,076,665	2,600,317
Mortgage loans under forward purchase agreements at fair value			218,128	218,128
Excess servicing spread purchased from PFSI			138,723	138,723
Derivative assets:				
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		18,452	2,510	20,962
Netting (1)		(12,986)		(12,986)
Total derivative assets after netting		5,466	2,510	7,976
Mortgage servicing rights at fair value			26,452	26,452
	\$ 92,398	\$ 1,184,656	\$ 2,462,478	\$ 3,739,532
Liabilities:				
Asset-backed secured financing of the variable interest entity at fair value	\$	\$ 165,415	\$	\$ 165,415
Derivative liabilities:				
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)		(8,015)
Total derivative liabilities		700	1,261	1,961
Total liabilities	\$	\$ 166,115	\$ 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:

	Quarter ended June 30, 2014					
	Mortgage loans at fair value	Mortgage loans under forward purchase agreements	Excess servicing spread (in thousands)	Interest rate lock commitments(1)	Mortgage servicing rights	Total
Assets:						
Balance, March 31, 2014	\$ 2,079,020	\$ 202,661	\$ 151,019	\$ 3,271	\$ 36,181	\$ 2,472,152
Purchases	26,737	466	52,867			80,070
Repayments and sale	(140,807)	(1,084)	(9,080)			(150,971)
Accrual of interest			3,138			3,138
ESS received pursuant to a recapture agreement with PFSI			2,362			2,362
Interest rate lock commitments issued, net				19,158		19,158
Capitalization of interest	17,042	1,057				18,099
Servicing received as proceeds from sales of mortgage loans					15,385	15,385
Changes in fair value included in income arising from:						
Changes in instrument-specific credit risk	19,326	1,236				20,562
Other factors	52,525	507	(10,062)	9,563	(4,764)	47,769
	71,851	1,743	(10,062)	9,563	(4,764)	68,331
Transfers of mortgage loans under forward purchase agreements to mortgage loans to REO						
Transfers of mortgage loans under forward purchase agreements to mortgage loans to REO	201,443	(201,443)				(98,785)
Transfers of mortgage loans under forward purchase agreements to REO under forward purchase agreements						
Transfers of mortgage loans under forward purchase agreements to REO under forward purchase agreements		(3,400)				(3,400)
Transfers of interest rate lock commitments to mortgage loans acquired for sale at fair value						
Transfers of interest rate lock commitments to mortgage loans acquired for sale at fair value				(20,905)		(20,905)
Balance, June 30, 2014	\$ 2,156,501	\$	\$ 190,244	\$ 11,087	\$ 46,802	\$ 2,404,634
	\$ 50,613	\$	\$ (10,062)	\$ 11,088	\$ (4,764)	\$ 46,875

Changes in fair value recognized during the period relating to assets still held at June 30, 2014

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

	Quarter ended June 30, 2013				
	Mortgage loans at fair value	Mortgage loans under forward purchase agreements	Net interest rate lock commitments(1) (in thousands)	Mortgage servicing rights	Total
Assets:					
Balance, March 31, 2013	\$ 1,366,922	\$	\$ 11,052	\$ 1,305	\$ 1,379,279
Purchases	13	243,309		186	243,508
Repayments	(73,820)				(73,820)
Interest rate lock commitments issued, net			22,240		22,240
Capitalization of interest	6,584				6,584
Servicing received as proceeds from sales of mortgage loans				77	77
Changes in fair value included in income arising from:					
Changes in instrument-specific credit risk	11,050				11,050
Other factors	36,473	(689)	(20,678)	260	15,366
	47,523	(689)	(20,678)	260	26,416
Transfers of mortgage loans to REO	(37,457)	(89)			(37,546)
Transfers of interest rate lock commitments to mortgage loans acquired for sale			(29,581)		(29,581)
Balance, June 30, 2013	\$ 1,309,765	\$ 242,531	\$ (16,967)	\$ 1,828	\$ 1,537,157
Changes in fair value recognized during the period relating to assets still held at June 30, 2013					
	\$ 33,292	\$ (689)	\$ (16,967)	\$ 260	\$ 15,896

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

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Six months ended June 30, 2014

	Mortgage loans at fair value	Mortgage loans under forward purchase agreements	Excess servicing spread (in thousands)	Interest rate lock commitments(1)	Mortgage servicing rights	Total
Assets:						
Balance, December 31, 2013	\$ 2,076,665	\$ 218,128	\$ 138,723	\$ 1,249	\$ 26,452	\$ 2,461,217
Purchases	283,017	1,386	73,393			357,796
Repayments and sale	(387,430)	(6,413)	(16,494)			(410,337)
Accrual of interest			6,001			6,001
ESS received pursuant to a recapture agreement with PFSI			3,475			3,475
Interest rate lock commitments issued, net				31,754		31,754
Capitalization of interest	28,553	1,801				30,354
Servicing received as proceeds from sales of mortgage loans					27,142	27,142
Changes in fair value included in income arising from:						
Changes in instrument-specific credit risk	42,629	2,269				44,898
Other factors	70,080	(1,466)	(14,854)	11,993	(6,792)	58,961
	112,709	803	(14,854)	11,993	(6,792)	103,859
Transfers of mortgage loans under forward purchase agreements to mortgage loans	205,902	(205,902)				
Transfers of mortgage loans to REO	(162,915)					(162,915)
Transfers of mortgage loans under forward purchase agreements to REO under forward purchase agreements		(9,803)				(9,803)
Transfers of interest rate lock commitments to mortgage loans acquired for sale				(33,909)		(33,909)
Balance, June 30, 2014	\$ 2,156,501	\$	\$ 190,244	\$ 11,087	\$ 46,802	\$ 2,404,634
Changes in fair value recognized during the period relating to assets still held at June 30, 2014	\$ 73,951	\$	\$ (14,854)	\$ 11,087	\$ (6,792)	\$ 63,392

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

	Six months ended June 30, 2013				
	Mortgage loans at fair value	Mortgage loans under forward purchase agreements	Net interest rate lock commitments(1)	Mortgage servicing rights	Total
	(in thousands)				
Assets:					
Balance, December 31, 2012	\$ 1,189,971	\$	\$ 19,479	\$ 1,346	\$ 1,210,796
Purchases	200,486	243,309		186	443,981
Repayments	(135,242)				(135,242)
Interest rate lock commitments issued, net			57,654		57,654
Capitalization of interest	11,814				11,814
Servicing received as proceeds from sales of mortgage loans				104	104
Changes in fair value included in income arising from:					
Changes in instrument-specific credit risk	19,495				19,495
Other factors	92,008	(689)	(20,678)	192	70,833
	111,503	(689)	(20,678)	192	90,328
Transfers of mortgage loans to REO	(68,767)	(89)			(68,856)
Transfers of interest rate lock commitments to mortgage loans acquired for sale			(73,422)		(73,422)
Balance, June 30, 2013	\$ 1,309,765	\$ 242,531	\$ (16,967)	\$ 1,828	\$ 1,537,157
Changes in fair value recognized during the period relating to assets still held at June 30, 2013					
	\$ 77,771	\$ (689)	\$ (16,967)	\$ 192	\$ 60,307

(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 VIE):

	Fair value	June 30, 2014 Principal amount due upon maturity (in thousands)	Difference
Mortgage loans acquired for sale:			
Current through 89 days delinquent	\$ 909,085	\$ 866,821	\$ 42,264
90 or more days delinquent (1)			
Not in foreclosure			
In foreclosure			
	909,085	866,821	42,264
Mortgage loans and mortgage loans under forward purchase agreements at fair value:			
Current through 89 days delinquent	1,151,747	1,442,755	(291,008)
90 or more days delinquent (1)			
Not in foreclosure	629,021	1,002,407	(373,386)
In foreclosure	917,053	1,437,698	(520,645)
	1,546,074	2,440,105	(894,031)
	2,697,821	3,882,860	(1,185,039)
	\$ 3,606,906	\$ 4,749,681	\$ (1,142,775)

(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
Mortgage loans acquired for sale:			
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			
	169	162	7
	458,137	447,386	10,751
Mortgage loans and mortgage loans under forward purchase agreements at fair value:			
Current through 89 days delinquent	1,170,918	1,495,961	(325,043)
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)
	1,647,527	2,684,047	(1,036,520)
	2,818,445	4,180,008	(1,361,563)
	\$ 3,276,582	\$ 4,627,394	\$ (1,350,812)

(1) Loans delinquent 90 or more days are placed on nonaccrual status and previously accrued interest is reversed. Following are the changes in fair value included in current period income by consolidated statement of income line item for financial statement items accounted for under the fair value option:

	Quarter ended June 30, 2014				
	Net gain on mortgage loans acquired for sale	Net interest income	Net gain on investments (in thousands)	Net loan servicing fees	Total
Assets:					
Short-term investments	\$	\$	\$	\$	\$
Mortgage-backed securities at fair value		155	4,081		4,236
Mortgage loans acquired for sale at fair value	31,202				31,202
Mortgage loans at fair value		223	88,029		88,252

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Mortgage loans under forward purchase agreements at fair value				1,743		1,743
Excess servicing spread at fair value				(7,537)		(7,537)
Mortgage servicing rights at fair value					(4,764)	(4,764)
	\$ 31,202	\$ 378	\$ 86,316	\$ (4,764)		\$ 113,132

Liabilities:

Asset-backed secured financing at fair value	\$ (5,175)	\$ (80)	\$	\$		\$ (5,255)
	\$ (5,175)	\$ (80)	\$	\$		\$ (5,255)

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	Quarter ended June 30, 2013				
	Net gain on mortgage loans acquired for sale	Net interest income	Net gain on investments (in thousands)	Net loan servicing fees	Total
Assets:					
Short-term investments	\$	\$	\$	\$	\$
Mortgage loans acquired for sale at fair value	(56,951)				(56,951)
Mortgage loans at fair value			47,523		47,523
Mortgage loans under forward purchase agreements at fair value			(689)		(689)
Mortgage servicing rights at fair value				260	260
	\$ (56,951)	\$	\$ 46,834	\$ 260	\$ (9,857)

	Six months ended June 30, 2014				
	Net gain on mortgage loans acquired for sale	Net interest income	Net gain on investments (in thousands)	Net loan servicing fees	Total
Assets:					
Short-term investments	\$	\$	\$	\$	\$
Mortgage-backed securities at fair value		188	6,734		6,922
Mortgage loans acquired for sale at fair value	49,834				49,834
Mortgage loans at fair value		553	140,194		140,747
Mortgage loans under forward purchase agreements at fair value			803		803
Excess servicing spread at fair value			(10,438)		(10,438)
Mortgage servicing rights at fair value				(6,792)	(6,792)
	\$ 49,834	\$ 741	\$ 137,293	\$ (6,792)	\$ 181,076
Liabilities:					
Asset-backed secured financing at fair value	\$ (7,954)	\$ (204)	\$	\$	\$ (8,158)
	\$ (7,954)	\$ (204)	\$	\$	\$ (8,158)

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	Six months ended June 30, 2013				
	Net loss on mortgage loans acquired for sale	Net interest income	Net gain (loss) on investments (in thousands)	Net loan servicing fees	Total
Assets:					
Short-term investments	\$	\$	\$	\$	\$
Mortgage loans acquired for sale at fair value	(32,180)				(32,180)
Mortgage loans at fair value			111,503		111,503
Mortgage loans under forward purchase agreements at fair value			(689)		(689)
Mortgage servicing rights at fair value				192	192
	\$ (32,180)	\$	\$ 110,814	\$ 192	\$ 78,826

Financial Statement Items Measured at Fair Value on a Nonrecurring Basis

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

	June 30, 2014			Total
	Level 1	Level 2	Level 3 (in thousands)	
Real estate asset acquired in settlement of loans	\$	\$	\$ 102,660	\$ 102,660
Mortgage servicing rights at lower of amortized cost or fair value			56,171	56,171
	\$	\$	\$ 158,831	\$ 158,831

	December 31, 2013			Total
	Level 1	Level 2	Level 3 (in thousands)	
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

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

	Quarter ended		Six months ended June 30,	
	June 30, 2014	2013	2014	2013
	(in thousands)			
Real estate asset acquired in settlement of loans	\$ (7,942)	\$ (4,095)	\$ (12,525)	\$ (6,594)
Mortgage servicing rights at lower of amortized cost or fair value	(2,224)	1,222	(2,851)	3,708
	\$ (10,166)	\$ (2,873)	\$ (15,376)	\$ (2,886)

Real Estate Acquired in Settlement of Loans

The Company measures its investment in REO at the respective properties' 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 mortgage loan immediately before 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 amount 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 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%. MSR 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 MSR in any of the interest rate pools is below the amortized cost of the MSR reduced by the existing valuation allowance for that pool, those MSR are impaired.

When MSR are impaired, the impairment is recognized in current-period income and the carrying value of the MSR is adjusted using a valuation allowance. If the fair value of the MSR subsequently increases, the increase in fair 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 fair value of the impaired MSR 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 MSR 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 fair values of *Cash*, *Assets sold 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 June 30, 2014 due to the lack of current market activity and the Company's reliance on unobservable inputs to estimate these instruments' fair values.

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Exchangeable Senior Notes are carried at amortized cost. The fair value of the Notes at June 30, 2014 and December 31, 2013 was \$247.1 million and \$238.4 million, respectively. 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 June 30, 2014 due to the lack of current market activity and the use of broker's indication of value to estimate the instrument's fair values.

Valuation Techniques and Inputs

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 PFSI's 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.

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 the portion of mortgage loans at fair value held in a VIE, 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 the mortgage loans at fair value held in a VIE, the fair values of all of the

individual securities issued by the securitization trust are used to derive a price for the mortgage loans.

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Loans that are not saleable into active markets, comprised of the Company's mortgage loans at fair value held outside the VIE 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)			
	June 30, 2014		December 31, 2013	
<i>Mortgage loans at fair value</i>				
Discount rate	7.1%	16.9%	8.7%	16.9%
	(11.8%)		(12.7%)	
Twelve-month projected housing price index change	3.5%	9.1%	2.5%	4.3%
	(4.7%)		(3.7%)	
Prepayment speed (1)	0.0%	6.6%	0.0%	3.9%
	(2.5%)		(2.0%)	
Total prepayment speed (2)	0.8%	27.4%	0.3%	33.9%
	(21.8%)		(24.3%)	
<i>Mortgage loans under forward purchase agreements</i>				
Discount rate			9.5%	13.5%
	(11.9%)			
Twelve-month projected housing price index change			3.3%	4.2%
	(3.8%)			
Prepayment speed (1)			1.1%	2.9%
	(2.2%)			
Total prepayment speed (2)			13.4%	27.9%
	(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 fair 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 fair value. Reductions in the fair 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)	
	June 30, 2014	December 31, 2013
Unpaid principal balance of underlying mortgage loans (in thousands)	\$ 27,445,826	\$ 20,512,659
Average servicing fee rate (in basis points)	31	32
Average ESS rate (in basis points)	16	16
Pricing spread (1)	1.7% - 14.6%	2.8% - 14.4%
	(5.1%)	(5.4%)
Life (in years)	0.5 - 7.3	0.9 - 8.0
	(5.9)	(6.1)
Annual total prepayment speed (2)	7.6% - 67.0%	7.7% - 48.6%
	(10.3%)	(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 fair 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)	
	June 30, 2014	December 31, 2013
Pull-through rate	49.0% - 98.0%	64.8% - 98.0%
	(81.6%)	(86.4%)
MSR value expressed as:		
Servicing fee multiple	1.7 - 5.0	1.4 - 5.1

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

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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.

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 fair 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 fair 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.

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

Key inputs	Quarter ended June 30,							
	2014				2013			
	Range							
	(Weighted average)							
	Amortized cost		Fair value		Amortized cost		Fair value	
	(MSR recognized and unpaid principal balance of underlying loan amounts in thousands)							
MSR recognized	\$	13,356	\$	15,385	\$	50,978	\$	77
Unpaid principal balance of underlying mortgage loans	\$	1,244,538	\$	1,458,400	\$	3,840,110	\$	27,346
Weighted-average annual servicing fee rate (in basis points)		25		25		28		27
Pricing spread (1)		6.3% 14.3%		8.5% 10.3%		5.4% 13.5%		6.6% 11.9%
		(8.7%)		(9.1%)		(6.5%)		(7.5%)
Life (in years)		1.3 7.3		3.2 7.3		2.6 6.9		6.3 6.9
		(6.1)		(7.1)		(6.4)		(6.8)
Annual total prepayment speed (2)		7.6% 50.9%		8.1% 25.4%		8.5% 23.6%		8.8% 13.6%
		(10.4%)		(9.6%)		(9.1%)		(9.3%)
Annual per-loan cost of servicing		\$68 \$100		\$68 \$68		\$68 \$140		\$68 \$68
		(\$68)		(\$68)		(\$68)		(\$68)

Key inputs	Six months ended June 30,							
	2014				2013			
	Range							
	(Weighted average)							
	Amortized cost		Fair value		Amortized cost		Fair value	
	(MSR recognized and unpaid principal balance of underlying loan amounts in thousands)							
MSR recognized	\$	22,474	\$	27,142	\$	107,167	\$	104
Unpaid principal balance of underlying mortgage loans	\$	2,095,087	\$	2,550,114	\$	8,843,667	\$	29,946
Weighted-average annual servicing fee rate (in basis points)		25		25		26		27
Pricing spread (1)		6.3% 14.3%		8.5% 12.3%		5.4% 14.4%		6.6% 14.4%
		(8.6%)		(9.0%)		(6.8%)		(7.6%)
Life (in years)		1.1 7.3		2.8 7.3		2.6 6.9		2.8 6.9
		(6.0)		(7.1)		(6.4)		(6.7)
		7.6% 56.4%		8.0% 25.4%		8.5% 23.6%		8.8% 27.0%

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Annual total prepayment
speed (2)

	(10.4%)	(9.5%)	(9.1%)	(9.7%)
Annual per-loan cost of servicing	\$68 \$100	\$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 fair value from adverse changes in those assumptions (weighted averages are based upon unpaid principal balance or fair value where applicable):

	June 30, 2014				December 31, 2013			
	Amortized cost		Fair value		Amortized cost		Fair value	
	Range (Weighted average)							
	(Carrying value, unpaid principal balance and effect on value amounts in thousands)							
Carrying value	\$ 268,682	\$ 46,802	\$ 264,120	\$ 26,452				
Key inputs:								
Unpaid principal balance of underlying mortgage loans	\$ 24,639,750	\$ 4,758,331	\$ 23,399,612	\$ 2,393,321				
Weighted-average annual servicing fee rate (in basis points)	26	25	26	26				
Weighted-average note interest rate	3.72%	4.79%	3.68%	4.78%				
Pricing spread (1) (2)	6.3% 17.5%	7.6% 15.3%	6.3% 17.5%	7.3% 15.3%				
	(7.4%)	(9.2%)	(6.7%)	(8.6%)				
Effect on fair value of a:								
5% adverse change	\$ (5,302)	\$ (827)	\$ (5,490)	\$ (488)				
10% adverse change	\$ (10,427)	\$ (1,627)	\$ (10,791)	\$ (959)				
20% adverse change	\$ (20,177)	\$ (3,149)	\$ (20,861)	\$ (1,855)				
Weighted average life (in years)	1.1 7.2	2.4 7.2	1.3 7.3	2.8 7.3				
	(6.4)	(7.0)	(6.7)	(7.2)				
Prepayment speed (1) (3)	7.7% 58.9%	8.0% 30.6%	7.7% 51.9%	8.0% 20.0%				
	(8.6%)	(10.2%)	(8.2%)	(8.9%)				
Effect on fair value of a:								
5% adverse change	\$ (5,495)	\$ (1,160)	\$ (5,467)	\$ (568)				
10% adverse change	\$ (10,821)	\$ (2,277)	\$ (10,765)	\$ (1,117)				
20% adverse change	\$ (20,993)	\$ (4,390)	\$ (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	\$ (1,761)	\$ (290)	\$ (1,695)	\$ (158)				
10% adverse change	\$ (3,522)	\$ (580)	\$ (3,390)	\$ (316)				
20% adverse change	\$ (7,043)	\$ (1,159)	\$ (6,780)	\$ (633)				

(1) The effect on value of an adverse change in one of the above-mentioned 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 MSR.
- (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 MSRs acquired as proceeds from the sale of mortgage loans and purchased MSRs not backed by pools of distressed mortgage loans.
 - (3) Prepayment speed is measured using Life Total CPR.

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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.

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:

Loan type	June 30, 2014		December 31, 2013	
	Fair value	Unpaid principal balance	Fair value	Unpaid principal balance
	(in thousands)			
Conventional:				
Agency-eligible	\$ 507,887	\$ 485,096	\$ 311,162	\$ 304,749
Jumbo	96,491	93,110	34,615	35,050
Government-insured or guaranteed	304,707	288,616	112,360	107,587
	\$ 909,085	\$ 866,822	\$ 458,137	\$ 447,386
Loans pledged to secure assets sold under agreements to repurchase	\$ 905,044		\$ 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 MBS, IRLCs and inventory of mortgage loans acquired for sale.

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

Period/Instrument	Balance, beginning of period	Quarter ended June 30, 2014		Balance, end of period
		Additions	Dispositions/ expirations	
		(in thousands)		
Forward purchase contracts	1,777,353	11,967,081	(10,685,830)	3,058,604
Forward sales contracts	2,497,960	15,282,582	(13,594,909)	4,185,633
MBS put option	235,000	290,000	(255,000)	270,000
MBS call option		25,000		25,000

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Period/Instrument	Balance, beginning of period	Quarter ended June 30, 2013		Balance, end of period
		Additions	Dispositions/ expirations	
		(in thousands)		
Forward purchase contracts	1,890,960	15,323,298	(11,802,474)	5,411,784
Forward sales contracts	3,224,190	20,418,956	(15,915,080)	7,728,066
MBS put options	225,000	1,545,000	(1,310,000)	460,000
MBS call options	350,000	1,000,000	(625,000)	725,000

Period/Instrument	Balance, beginning of period	Six months ended June 30, 2014		Balance, end of period
		Additions	Dispositions/ expirations	
		(in thousands)		
Forward purchase contracts	2,781,066	18,364,898	(18,087,360)	3,058,604
Forward sales contracts	3,463,027	24,051,521	(23,328,915)	4,185,633
MBS put option	55,000	695,000	(480,000)	270,000
MBS call option	110,000	25,000	(110,000)	25,000

Period/Instrument	Balance, beginning of period	Six months ended June 30, 2013		Balance, end of period
		Additions	Dispositions/ expirations	
		(in thousands)		
Forward purchase contracts	2,206,539	27,765,642	(24,560,397)	5,411,784
Forward sales contracts	4,266,983	38,269,229	(34,808,146)	7,728,066
MBS put options	495,000	3,025,000	(3,060,000)	460,000
MBS call options		1,900,000	(1,175,000)	725,000

The Company recorded net (losses) gains on derivative financial instruments used to hedge the Company's IRLCs and inventory of mortgage loans totaling \$(28.8) million and \$129.1 million for the quarters ended June 30, 2014 and 2013, respectively, and \$(39.5) million and \$140.1 million for the six months ended June 30, 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.

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The following table summarizes the notional amount activity for derivative contracts used to hedge the Company's MSRs:

Period/Instrument	Quarter ended June 30, 2014			Balance, end of period
	Balance, beginning of period	Additions	Dispositions/ expirations	
(in thousands)				
Quarter ended June 30, 2014				
Forward purchase contracts		70,000	(70,000)	
Forward sales contracts		35,000	(35,000)	
MBS put option		25,000		25,000
MBS call option	35,000	70,000	(35,000)	70,000
Treasury Future sale contracts		4,000	(4,000)	
Treasury Future purchase contracts		4,000	(4,000)	
Put option on Eurodollar futures	325,000	40,000	(325,000)	40,000
Call option on Eurodollar futures	90,000	130,000	(90,000)	130,000

Period/Instrument	Six months ended June 30, 2014			Balance, end of period
	Balance, beginning of period	Additions	Dispositions/ expirations	
(in thousands)				
Six months ended June 30, 2014				
Forward purchase contracts		70,000	(70,000)	
Forward sales contracts		60,000	(60,000)	
MBS put option		25,000		25,000
MBS call option		130,000	(60,000)	70,000
Treasury Future sale contracts		32,800	(32,800)	
Treasury Future purchase contracts		25,600	(25,600)	
Put option on Eurodollar futures		365,000	(325,000)	40,000
Call option on Eurodollar futures		280,000	(150,000)	130,000

The Company recorded net gains (losses) on derivative financial instruments used as economic hedges of MSRs totaling \$4.3 million and none for the quarters ended June 30, 2014 and 2013, respectively, and \$4.2 million and \$(2.0) million for the six months ended June 30, 2014 and 2013, respectively. The derivative net gains (losses) are included in *Net loan servicing fees* in the Company's consolidated statements of income.

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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 in a VIE and MBS securities at fair value and the related variable LIBOR rate repurchase agreement liabilities:

Period/Instrument	Quarter ended June 30, 2014			Balance, end of period
	Balance, beginning of period	Additions	Dispositions/ expirations (in thousands)	
Quarter ended June 30, 2014				
Eurodollar Future sale contracts	6,084,000	336,000	(858,000)	5,562,000
Eurodollar Future purchase contracts		400,000	(400,000)	
Treasury Future sale contracts	75,000	113,000	(103,000)	85,000
Treasury Future purchase contracts		93,000	(93,000)	
Put options on Eurodollar futures	55,000	85,000	(55,000)	85,000
Call option on Eurodollar futures		100,000		100,000
MBS put option purchase contracts	25,000	97,500	(25,000)	97,500

Period/Instrument	Six months ended June 30, 2014			Balance, end of period
	Balance, beginning of period	Additions	Dispositions/ expirations (in thousands)	
Six months ended June 30, 2014				
Eurodollar Future sale contracts	8,779,000	462,000	(3,679,000)	5,562,000
Eurodollar Future purchase contracts		2,997,000	(2,997,000)	
Treasury Future sale contracts	105,000	188,000	(208,000)	85,000
Treasury Future purchase contracts		168,000	(168,000)	
Put options on Eurodollar futures	52,500	197,000	(164,500)	85,000
Call option on Eurodollar futures		100,000		100,000
MBS put option purchase contracts	15,000	122,500	(40,000)	97,500

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 \$8.2 million for the quarter ended June 30, 2014 and \$13.8 million for the six months ended June 30, 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 and six months ended June 30, 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, to the extent they are not held in a VIE securing an asset-backed financing, 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	June 30, 2014		December 31, 2013	
	Fair value	Unpaid principal balance	Fair value	Unpaid principal balance
(in thousands)				
Distressed lending				
Nonperforming loans	\$ 1,546,074	\$ 2,440,105	\$ 1,469,686	\$ 2,415,446
Performing loans:				
Fixed interest rate	320,212	475,586	310,607	475,568
Adjustable-rate mortgage (ARM)/hybrid	113,271	152,158	165,327	207,553
Interest rate step-up	176,794	281,758	130,906	215,702
Balloon	150	210	139	213
	610,427	909,712	606,979	899,036
Mortgage loans held in a VIE securing asset-backed financing				
Fixed interest rate jumbo	541,320	533,043	523,652	543,257
	\$ 2,697,821	\$ 3,882,860	\$ 2,600,317	\$ 3,857,739
Mortgage loans at fair value pledged to secure borrowings at period end:				
Assets sold under agreements to repurchase	\$ 2,407,512		\$ 1,963,266	
Mortgage loans held in a consolidated subsidiary whose stock is pledged to secure financings of such loans				
	\$ 309		\$ 989	
Mortgage loans held in a VIE securing an asset-backed financing				
	\$ 541,320		\$ 523,652	

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

Concentration	June 30, 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%	59%	61%
	21%	24%

Percentage of mortgage loans secured by California
real estate

Additional states contributing 5% or more of mortgage loans	New York Florida New Jersey	New York Florida New Jersey
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Table of Contents**Note 11 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:

Loan type	June 30, 2014		December 31, 2013	
	Fair value	Unpaid principal balance	Fair value	Unpaid principal balance
	(in thousands)			
Nonperforming loans	\$	\$	\$ 177,841	\$ 268,600
Performing loans:				
Fixed			19,292	29,496
ARM/hybrid			19,510	31,933
Interest rate step-up			1,485	2,455
			40,287	63,884
	\$	\$	\$ 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:

	June 30, 2014	December 31, 2013
Portion of mortgage loans originated between 2005 and 2007		72%
Percentage of mortgage loans secured by California real estate		25%
Additional states contributing 5% or more of mortgage loans		New Jersey Washington New York Maryland

Table of Contents**Note 12 Real Estate Acquired in Settlement of Loans**

Following is a summary of financial information relating to REO:

	Quarter ended		Six months ended June 30,	
	June 30, 2014	2013	2014	2013
	(in thousands)			
Balance at beginning of period	\$ 172,987	\$ 84,487	\$ 138,942	\$ 88,078
Purchases			3,049	
Transfers from mortgage loans at fair value and advances	105,245	37,117	174,147	68,803
Transfers from REO under forward purchase agreements	12,645		12,737	
Results of REO:				
Valuation adjustments, net	(8,865)	(4,978)	(17,273)	(11,067)
Gain on sale, net	3,590	3,049	5,772	5,885
	(5,275)	(1,929)	(11,501)	(5,182)
Proceeds from sales	(45,131)	(30,993)	(76,903)	(63,017)
Balance at end of period	\$ 240,471	\$ 88,682	\$ 240,471	\$ 88,682
At period end:				
REO pledged to secure assets sold under agreements to repurchase	\$ 76,258	\$ 9,253		
REO held in a consolidated subsidiary whose stock is pledged to secure financings of such properties	\$ 31,426	\$ 43,131		

Note 13 Real Estate Acquired in Settlement of Loans Under Forward Purchase Agreements

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance at beginning of period	\$ 13,890	\$	\$ 9,138	\$
Purchases	29		68	
Transfers from mortgage loans under forward purchase agreements at fair value and advances	2,542	89	9,369	89
Transfers to REO	(12,646)		(12,737)	
Results of REO under forward purchase agreements:				

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Valuation adjustments, net	(294)	(779)
Gain on sale, net	222	306
	(72)	(473)
Proceeds from sales	(3,743)	(5,365)
Balance at end of period	\$	\$ 89
		\$ 89

At June 30, 2014, the entire balance of REO under forward purchase agreements was subject to borrowings under forward purchase agreements.

Table of Contents**Note 14 Mortgage Servicing Rights***Carried at Fair Value:*

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance at beginning of period	\$ 36,181	\$ 1,305	\$ 26,452	\$ 1,346
Additions:				
Purchases		186		186
MSR's resulting from loan sales	15,385	77	27,142	104
Total additions	15,385	263	27,142	290
Change in fair value:				
Due to changes in valuation inputs or assumptions used in valuation model(1)	(3,636)	312	(4,868)	302
Other changes in fair value(2)	(1,128)	(52)	(1,924)	(110)
	(4,764)	260	(6,792)	192
Sales				
Balance at end of period	\$ 46,802	\$ 1,828	\$ 46,802	\$ 1,828

- (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:

	Quarter ended		Six months ended June 30,	
	June 30,	2013	2014	2013
	2014	2013	2014	2013
	(in thousands)			
Amortized Cost:				
Balance at beginning of period	\$ 268,450	\$ 184,197	\$ 266,697	\$ 132,977
Additions:				
MSR's resulting from loan sales	13,356	50,978	22,474	107,167
Purchases				
	13,356	50,978	22,474	107,167
Sales				
Amortization	(7,696)	(6,263)	(15,061)	(11,232)
Application of valuation allowance to write down MSR's with other-than temporary impairment				
Balance at end of period	274,110	228,912	274,110	228,912
Valuation Allowance:				
Balance at beginning of period	(3,204)	(5,061)	(2,577)	(7,547)
(Additions) reversals	(2,224)	1,222	(2,851)	3,708
Application of valuation allowance to write down MSR's with other-than temporary impairment				
Balance at end of period	(5,428)	(3,839)	(5,428)	(3,839)
MSR's, net	\$ 268,682	\$ 225,073	\$ 268,682	\$ 225,073
Fair value at end of period	\$ 289,226	\$ 242,104	\$ 289,226	\$ 242,104

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 June 30, 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.

Year ended June 30,	Estimated MSR amortization (in thousands)
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2015	\$	27,836
2016		27,188
2017		25,767
2018		24,080
2019		22,044
Thereafter		147,195
Total	\$	274,110

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

	Quarter ended June 30, Six months ended June 30,			
	2014	2013	2014	2013
	(in thousands)			
Contractually-specified servicing fees	\$ 18,234	\$ 11,534	\$ 35,051	\$ 20,471

Note 15 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:

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
During the period:				
Weighted-average interest rate (1)	2.20%	2.45%	2.21%	2.57%
Average balance	\$ 2,253,127	\$ 1,385,350	\$ 2,025,678	\$ 1,304,010
Total interest expense	\$ 15,143	\$ 10,814	\$ 27,682	\$ 21,526
Maximum daily amount outstanding	\$ 2,814,572	\$ 2,108,956	\$ 2,587,434	\$ 2,108,956
Period end:				
Balance	\$ 2,701,755	\$ 2,039,605		
Weighted-average interest rate	2.09%	2.16%		
Available borrowing capacity:				
Committed	\$ 344,923	\$ 1,242,189		
Uncommitted	\$ 828,885	\$ 50,000		
	\$ 1,173,808	\$ 1,292,189		
Margin deposits placed with counterparties				
	\$ 4,469	\$ 19,755		
Fair value of assets securing agreements to repurchase:				
Mortgage-backed securities	\$ 198,899	\$		
Mortgage loans acquired for sale at fair value	\$ 905,044	\$ 1,305,009		
Mortgage loans at fair value	\$ 2,407,821	\$ 1,252,561		
Real estate acquired in settlement of loans	\$ 107,684	\$ 52,384		
	\$ 3,619,448	\$ 2,609,954		

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- (1) Excludes the amortization of commitment fees and issuance costs of \$2.6 million and \$5.2 million for the quarter and six months ended June 30, 2014 and \$2.3 million and \$4.7 million for the quarter and six months ended June 30, 2013, respectively.

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

Remaining Maturity at June 30, 2014	Balance (in thousands)
Within 30 days	\$ 393,215
Over 30 to 90 days	899,290
Over 90 days to 180 days	820,116
Over 180 days to 1 year	589,134
	\$ 2,701,755
 Weighted average maturity (in months)	 3.4

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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.

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 June 30, 2014:

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

Counterparty	Amount at risk (in thousands)	Mortgage loans acquired for sale Weighted-average repurchase agreement maturity	Facility maturity
Credit Suisse First Boston Mortgage Capital LLC	\$ 238,695	September 20, 2014	October 31, 2014
Bank of America, N.A.	\$ 55,314	September 12, 2014	January 30, 2015
Morgan Stanley	\$ 10,832	August 20, 2014	December 18, 2014
The Royal Bank of Scotland Group	\$ 80,264		February 17, 2015
Citibank, N.A.	\$ 539,745		July 24, 2014

Securities sold under agreements to repurchase

Counterparty	Amount at risk (in thousands)	Maturity
Daiwa Capital Markets America, Inc	\$ 7,412	August 2, 2014
Credit Suisse First Boston Mortgage Capital LLC	\$ 4,770	July 15, 2014
Bank of America, N.A.	\$ 2,401	July 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 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 \$762.4 million), and PMC of \$150 million (net worth was \$345.4 million). These tangible net worth requirements limit the subsidiaries' abilities to transfer funds to the Company.

Table of Contents**Note 16 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:

	Quarter ended June 30, Six months ended June 30,			
	2014	2013	2014	2013
	(dollars in thousands)			
Period end:				
Balance	\$ 170,201	\$		
Interest rate	3.50%			
During the period:				
Weighted-average balance	\$ 165,495	\$	\$ 166,190	\$
Interest expense	\$ 1,561	\$	\$ 3,178	\$
Weighted-average effective interest rate	3.73%		3.80%	

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 17 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 the Company at a rate of 33.5733 common shares per \$1,000 principal amount of the Notes, which exchange rate increased from the initial exchange rate of 33.5149. The increase in the calculated exchange rate was the result of cash dividends exceeding the dividend threshold amount of \$0.57 as provided in the related indenture.

Following is financial information relating to the Notes:

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Period end:				
Balance	\$ 250,000	\$ 250,000		
Unamortized issuance costs (1)	\$ 6,388	\$ 7,281		
Interest rate	5.38%		5.38%	
During the period:				
Weighted-average balance	\$ 250,000	\$ 170,330	\$ 250,000	\$ 85,635
Interest expense (2)	\$ 3,588	\$ 2,384	\$ 7,172	\$ 2,384

(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 \$228,000 and \$453,000 during the quarter and six months ended June 30, 2014, respectively, and \$144,000 during the quarter and six months ended

June 30, 2013.

Table of Contents**Note 18 Borrowings under Forward Purchase Agreements**

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Period end:				
Balance	\$	\$ 244,047		
Interest rate	0.00%	3.00%		
Fair value of underlying loans and REO	\$	\$ 242,621		
During the period:				
Weighted-average effective interest rate	2.82%	3.00%	2.84%	3.00%
Weighted-average balance	\$ 109,793	\$ 33,097	\$ 165,471	\$ 16,640
Interest expense	\$ 783	\$ 251	\$ 2,364	\$ 251
Maximum daily amount outstanding	\$ 226,847	\$ 244,047	\$ 226,847	\$ 244,047

Note 19 Liability for Losses Under Representations and Warranties

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of period	\$ 10,854	\$ 6,231	\$ 10,110	\$ 4,441
Provision for losses	1,022	1,437	1,766	3,227
Incurred losses				
Balance, end of period	\$ 11,876	\$ 7,668	\$ 11,876	\$ 7,668

Following is a summary of the Company's repurchase activity:

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
During the period:				
Unpaid principal balance of mortgage loans repurchased	\$ 2,623	\$ 292	\$ 4,411	\$ 1,208
Unpaid principal balance of repurchased mortgage loans repurchased by correspondent lenders	\$ 1,922	\$ 394	\$ 2,811	\$ 1,104
At end of period:				
Unpaid principal balance of mortgage loans subject to pending claims for repurchase	\$ 19,805	\$ 824		
	\$ 29,806,058	\$ 19,829,437		

Unpaid principal balance of mortgage loans subject to
representations and warranties

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Table of Contents**Note 20 Commitments and Contingencies*****Litigation***

From time to time, the Company may be involved in various proceedings, claims and legal actions arising in the ordinary course of business. As of June 30, 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:

	June 30, 2014 (in thousands)
Commitments to purchase mortgage loans:	
Correspondent production	\$ 1,443,612

Note 21 Shareholders' Equity

At June 30, 2014, the Company had approximately \$115.0 million of common shares available for issuance under its ATM Equity Offering Sales AgreementSM. During the six months ended June 30, 2014, the Company sold a total of 3,447,022 of its common shares at a weighted average price of \$23.92 per share, providing net proceeds to the Company of approximately \$81.6 million, net of sales commissions of \$889,000.

At June 30, 2013, the Company had approximately \$197.5 million available for issuance under its ATM Equity Offering Sales AgreementSM. The Company did not sell any common shares under its ATM Equity OfferingSM Sales Agreement during the six months ended June 30, 2013.

Table of Contents**Note 22 Net Gain on Mortgage Loans Acquired for Sale**

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

	Quarter ended		Six months ended June 30,	
	June 30, 2014	2013	2014	2013
	(in thousands)			
Cash gain (loss):				
Sales proceeds, net	\$ (3,173)	\$ (71,706)	\$ (6,067)	\$ (98,952)
Hedging activities	(18,749)	32,092	(22,299)	45,705
	(21,922)	(39,614)	(28,366)	(53,247)
Non cash gain:				
Receipt of MSR in loan sale transactions	28,741	51,055	49,616	107,271
Provision for losses relating to representations and warranties provided in loan sales	(1,022)	(1,437)	(1,766)	(3,227)
Change in fair value relating to IRLCs, mortgage loans and hedging derivatives held at period end:				
IRLCs	7,816	(28,020)	9,838	(36,446)
Mortgage loans	6,660	(34,572)	8,073	(36,994)
Hedging derivatives	(10,051)	97,026	(17,202)	96,360
	4,425	34,434	709	22,920
	\$ 10,222	\$ 44,438	\$ 20,193	\$ 73,717

Note 23 Net Interest Income

Net interest income is summarized below:

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Interest income:				
Short-term investments	\$ 172	\$ 57	\$ 324	\$ 88
Mortgage-backed securities	1,961		3,722	
Mortgage loans acquired for sale at fair value	5,574	9,292	9,199	15,615
Mortgage loans at fair value	36,231	17,052	65,012	27,549
Mortgage loans under forward purchase agreements at fair value	1,430	260	3,584	260
Excess servicing spread purchased from PFSI, at fair value	3,138		6,001	
Other	12	136	22	160

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	48,518	26,797	87,864	43,672
Interest expense:				
Assets sold under agreements to repurchase	15,143	10,814	27,682	21,526
Borrowings under forward purchase agreements	783	251	2,363	251
Asset-backed secured financing	1,561		3,178	
Exchangeable senior notes	3,587	2,384	7,171	2,384
Other	791	695	1,246	1,219
	21,865	14,144	41,640	25,380
Net interest income	\$ 26,653	\$ 12,653	\$ 46,224	\$ 18,292

Table of Contents**Note 24 Net Gain on Investments**

Net gain on investments is summarized below:

	Quarter ended June 30, 2014		Six months ended June 30, 2013	
	2014	2013	2014	2013
	(in thousands)			
Net gain (loss) on investments:				
Mortgage-backed securities	\$ 1,467	\$	\$ 2,176	\$
Mortgage loans	84,379	46,834	131,935	110,814
Asset-backed secured financing	(5,175)		(7,954)	
Excess servicing spread purchased from PFSI, at fair value	(7,537)		(10,438)	
	\$ 73,134	\$ 46,834	\$ 115,719	\$ 110,814

Note 25 Net Loan Servicing Fees

Net loan servicing fees are summarized below:

	Quarter ended June 30, 2014		Six months ended June 30, 2013	
	2014	2013	2014	2013
	(in thousands)			
Servicing fees (1)	\$ 19,156	\$ 12,307	\$ 36,688	\$ 22,724
MSR recapture fee receivable from PFSI	1	367	9	499
Effect of MSR's:				
Carried at lower of amortized cost or fair value				
Amortization	(7,697)	(6,264)	(15,061)	(11,232)
(Provision for) reversal of impairment	(2,224)	1,222	(2,851)	3,707
Carried at fair value - change in fair value	(4,764)	260	(6,792)	193
Gains (losses) on hedging derivatives	4,286		4,186	(1,988)
	(10,399)	(4,782)	(20,518)	(9,320)
Net loan servicing fees	\$ 8,758	\$ 7,892	\$ 16,179	\$ 13,903

(1) Includes contractually specified servicing and ancillary fees.

Note 26 Share-Based Compensation Plans

On June 30, 2014 and 2013, the Company had one share-based compensation plan. The Company recognized compensation expense, which includes dividend equivalents paid to unvested restricted share unit holders, of

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\$1.6 million and \$1.3 million for the three and six months ended June 30, 2014, respectively, and \$4.1 million and \$3.0 million, for the three and six months ended June 30, 2013, respectively. The Company issued 300,131 and 250,948 restricted share units with a grant date fair value of \$6.0 million and 5.2 million for the quarter and six months ended June 30, 2014 and 2013, respectively, and had vestings of 149,529 and 87,154 units during the quarter ended June 30, 2014 and 2013, respectively, and 230,216 and 172,923 units during the six months ended June 30, 2014 and 2013, respectively.

Table of Contents**Note 27 Other Expenses**

Other expenses are summarized below:

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Common overhead allocation from PFSI	\$ 2,638	\$ 2,974	\$ 5,216	\$ 5,266
Servicing and collection costs	3,114	(30)	3,745	333
Loan origination	397	1,468	435	2,446
Insurance	252	218	491	429
Technology	227	235	474	354
Other expenses	526	706	860	1,689
	\$ 7,154	\$ 5,571	\$ 11,221	\$ 10,517

Note 28 Income Taxes

The Company had a tax benefit of \$1.9 million and \$3.5 million for the quarter and six months ended June 30, 2014 and a tax expense of \$13.4 million and \$16.1 million for the quarter and six months ended June 30, 2013. The Company's effective tax rate was (2.6)% and (3.2)% for the quarter and six months ended June 30, 2014 compared to 19.8% and 13.0% for the same periods in 2013. The decrease in the Company's effective tax rate for such periods is due primarily to a loss in the Company's taxable REIT subsidiary for the quarter and six months ended June 30, 2014 compared to income in that entity for the same periods 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.

Note 29 Segments and Related Information

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

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

Most of the loans the Company has acquired in its correspondent production 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:

Quarter ended June 30, 2014	Correspondent production	Investment activities	Intersegment elimination & other	Total
	(in thousands)			
Net investment income:				
Net gain on mortgage loans acquired for sale	\$ 10,222	\$	\$	\$ 10,222
Net gain on investments		73,134		73,134
Interest income	5,585	44,434	(1,501)	48,518
Interest expense	(4,881)	(18,485)	1,501	(21,865)
	704	25,949		26,653
Net loan servicing fees		8,758		8,758
Other investment income (loss)	4,485	(2,696)		1,789
	15,411	105,145		120,556
Expenses:				
Loan fulfillment, Servicing and Management fees payable to PennyMac Financial Services, Inc.	12,749	22,776		35,525
Other	265	11,462		11,727
	13,014	34,238		47,252
Pre-tax income	\$ 2,397	\$ 70,907	\$	\$ 73,304
Total assets at period end	\$ 927,849	\$ 3,941,896	\$	\$ 4,869,745

Quarter ended June 30, 2013	Correspondent production	Investment activities	Intersegment elimination & other	Total
	(in thousands)			
Net investment income:				
Net gain on mortgage loans acquired for sale	\$ 44,438	\$	\$	\$ 44,438
Net gain on investments		46,834		46,834
Interest income	9,291	19,260	(1,754)	26,797
Interest expense	(7,536)	(8,362)	1,754	(14,144)
	1,755	10,898		12,653
Net loan servicing fees		7,892		7,892
Other investment income (loss)	4,752	(1,016)		3,736

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	50,945	64,608		115,553
Expenses:				
Loan fulfillment, Servicing and Management fees payable to PennyMac Financial Services, Inc.	22,773	16,523		39,296
Other	69	8,279		8,348
	22,842	24,802		47,644
Pre-tax income	\$ 28,103	\$ 39,806	\$	\$ 67,909
Total assets at period end	\$ 1,384,084	\$ 2,260,883	\$ (201,583)	\$ 3,443,384

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Six months ended June 30, 2014	Correspondent production	Investment activities	Intersegment elimination & other	Total
	(in thousands)			
Net investment income:				
Net gain on mortgage loans acquired for sale	\$ 20,193	\$	\$	\$ 20,193
Net gain on investments		115,719		115,719
Interest income	9,220	81,032	(2,388)	87,864
Interest expense	(8,536)	(35,492)	2,388	(41,640)
	684	45,540		46,224
Net loan servicing fees		16,179		16,179
Other investment income (loss)	6,841	(8,005)		(1,164)
	27,718	169,433		197,151
Expenses:				
Loan fulfillment, Servicing and Management fees payable to PennyMac Financial Services, Inc.	21,821	45,271		67,092
Other	353	20,114		20,467
	22,174	65,385		87,559
Pre-tax income	\$ 5,544	\$ 104,048	\$	\$ 109,592
Total assets at period end	\$ 927,849	\$ 3,941,896	\$	\$ 4,869,745

Six months ended June 30, 2013	Correspondent production	Investment activities	Intersegment elimination & other	Total
	(in thousands)			
Net investment income:				
Net gain on mortgage loans acquired for sale	\$ 73,717	\$	\$	\$ 73,717
Net gain on investments		110,814		110,814
Interest income	15,615	29,852	(1,795)	43,672
Interest expense	(13,224)	(13,951)	1,795	(25,380)
	2,391	15,901		18,292
Net loan servicing fees		13,903		13,903
Other investment income (loss)	10,225	(3,582)		6,643
	86,333	137,036		223,369
Expenses:				
	48,227	30,247	3,284 (1)	81,758

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Loan fulfillment, Servicing and Management fees payable to PennyMac Financial Services, Inc.				
Other	1,123	16,644		17,767
	49,350	46,891	3,284	99,525
Pre-tax income	\$ 36,983	\$ 90,145	\$ (3,284)	\$ 123,844

- (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**

	Six months ended June 30,	
	2014	2013
	(in thousands)	
Cash paid for interest	\$ 50,926	\$ 25,543
Income tax (refund) payment	\$ (6,775)	\$ 962
Non-cash investing activities:		
Transfer of mortgage loans and advances to real estate acquired in settlement of loans	\$ 174,147	\$ 68,627
Purchase of mortgage loans financed through forward purchase agreements	\$ 1,386	\$ 243,096
Transfer of mortgage loans under forward purchase agreements to mortgage loans at fair value	\$ 205,903	\$
Transfer of mortgage loans under forward purchase agreements and advances to REO under forward purchase agreements	\$ 9,369	\$
Receipt of MSR as proceeds from sales of loans	\$ 49,616	\$ 107,271
Purchase of REO financed through forward purchase agreements	\$ 68	\$ 89
Receipt of ESS pursuant to recapture agreement with PFSI	\$ 3,475	\$
Transfer of REO under forward purchase agreements to REO	\$ 12,737	\$
Non-cash financing activities:		
Purchase of mortgage loans financed through forward purchase agreements	\$ 1,386	\$ 243,096
Purchase of REO financed through forward purchase agreements	\$ 68	\$ 89
Transfer of mortgage loans at fair value financed through agreements to repurchase to REO financed under agreements to repurchase	\$ 2,123	\$ 16,350
Dividends payable	\$ 43,743	\$

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 \$55.0 million and \$23.4 million, respectively. Management believes that PMC complies with Fannie Mae's and Freddie Mac's net worth requirement as of June 30, 2014.

Note 32 Recently Issued Accounting Pronouncements

In June of 2014, the FASB issued Accounting Standards Update No. 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (the Update) to the *Transfers and Servicing* topic of its *Accounting Standards Codification*. The amendments in the Update require two accounting changes. First, the amendments in the Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement.

The amendments in the Update require disclosures for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. The Update also specifies certain disclosure

requirements for those transactions outstanding at the reporting date and for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions, the transferor is required to make certain disclosures by type of transaction. The adoption of the Update is not expected to have a material effect on the Company's consolidated financial statements.

Note 33 Subsequent Events

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

On July 9, 2014, the Company, through the Operating Partnership and PMC, entered into a Master Repurchase Agreement with Bank of America, N.A. (BANA), pursuant to which the Operating Partnership may sell to BANA, and later repurchase, newly originated mortgage loans

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in an aggregate principal amount of up to \$550 million, \$350 million of which is committed (the Loan Repo Facility). Under the terms of the agreement, the Loan Repo Facility is committed to January 30, 2015, and the obligations of the Operating Partnership are fully guaranteed by the Company.

On July 9, 2014, the Company, through PMC, entered into an amendment to its Master Repurchase Agreement, dated November 7, 2011, by and among BANA, PMC, the Company and the Operating Partnership (the Repurchase Agreement). Under the terms of the Repurchase Agreement, PMC may sell to, and later repurchase from, BANA newly originated residential mortgage loans that are purchased from correspondent lenders by PMC and held for sale and/or securitization. Pursuant to the terms of the amendment, BANA and PMC agreed that they would not enter into any new transactions and that BANA would no longer be committed to enter into any additional transactions under the Repurchase Agreement. The purpose of the amendment was to wind down the Repurchase Agreement and transfer all financing activity thereunder from the Repurchase Agreement to the Loan Repo Facility described above.

All agreements to repurchase assets that matured between June 30, 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 mortgage-related assets and acquiring, pooling and selling newly originated prime credit quality residential mortgage loans (correspondent production).

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

During the quarter and six months ended June 30, 2014, we purchased loans with fair values totaling \$7.3 billion and \$12.3 billion, respectively, in furtherance of our correspondent production 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 \$1.1 million and \$2.0 million, recorded in *Net gain on mortgage loans acquired for sale*, relating to \$4.0 billion and \$7.1 billion of loans at fair value we sold to PLS for the quarter and six months ended June 30, 2014, compared to \$1.3 million and \$2.4 million relating to \$4.7 billion and \$8.3 billion of fair value loans we sold to PLS for the quarter and six months ended June 30, 2013, respectively.

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 and six months ended June 30, 2014, we acquired distressed mortgage loans with fair values totaling \$27.2 million and \$287.5 million, and we received proceeds from sales, liquidation, and payoffs from our portfolio of distressed mortgage loans and REO totaling \$191.1 million and \$476.6 million, respectively.

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

Acquisition of MSR or ESS from MSR. 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 and six months ended June 30, 2014, we purchased ESS with a fair value totaling \$52.9 million and \$73.4 million, respectively.

We also intend to continue to retain the MSRs that we receive as a portion of the proceeds from our sale or securitization of mortgage loans through our correspondent production operation. During the quarter and six months ended June 30, 2014, we retained MSRs with a fair value at initial recognition totaling \$28.7 million and \$49.6 million, respectively, compared to \$51.1 million and \$107.3 million during the quarter and six months ended June 30, 2013.

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To the extent that we transfer correspondent production 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 production business more attractive to lenders from which we acquire newly originated loans.

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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.

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 production business, is conducted in a taxable REIT subsidiary (our TRS), which is subject to corporate federal and state income taxes. Accordingly, we make 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 second quarter of 2014, real U.S. gross domestic product expanded at an annual rate of 4.0% compared to a revised 2.1% decrease for the first quarter of 2014 and a 2.5% increase for the second quarter of 2013. The national unemployment rate was 6.1% at June 30, 2014 and compares to a revised seasonally adjusted rate of 7.5% at June 30, 2013 and 6.7% at March 31, 2014. 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 first quarter of 2014, the delinquency rate on residential real estate loans held by commercial banks was 7.8%, a reduction from 9.7% during the first quarter of 2013.

The seasonally adjusted annual rate of existing home sales for June 2014 was 2.3% lower than for June 2013 and the national median existing home price for all housing types was \$223,300, a 4.3% increase from June 2013. On a national level, foreclosure filings during the second quarter of 2014 decreased by 19% as compared to the second quarter of 2013. Foreclosure activity across the country is on a decreasing trend; 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 4.16% to a high of 4.34% during the second quarter of 2014. During the second quarter of 2013, thirty-year fixed mortgage interest rates ranged from a low of 3.45% to a high of 4.07% (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 \$295 billion of home loans during the quarter ended June 30, 2014, down 52.9% from the quarter ended June 30, 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 recent periods, we have seen increased competition from new and existing market participants in our correspondent production 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.

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We believe there is significant long-term market opportunity in non-Agency jumbo mortgage loans. Pricing for non-Agency AAA rated bonds has steadily improved since the beginning of the year, however liquidity is fairly limited. During the six months ended June 30, 2014, prime jumbo MBS issuance totaled \$2.1 billion in unpaid principal balance compared to \$7.9 billion during the six months ended June 30, 2013. During the six months ended June 30, 2014, we produced approximately \$93.4 million in unpaid principal balance (UPB) of jumbo loans, compared to \$115.5 million in UPB of jumbo loans produced during the six months ended June 30, 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 second quarter of 2014, our Manager reviewed 57 mortgage loan pools with UPB totaling approximately \$18.2 billion. This compares to our Manager's review of 36 mortgage loan pools with unpaid principal balances totaling approximately \$11.1 billion and one pool of real estate acquired in settlement of loans totaling approximately \$108 million during the second quarter of 2013. During the quarter and six months ended June 30, 2014, we acquired distressed loans with fair value totaling \$27.2 million and \$287.5 million, respectively, and \$242.7 million and \$443.2 million during the same periods in 2013. While we expect to see a continued supply of distressed whole loans, we believe the pricing for recent transactions has been less attractive for buyers. 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.

Table of Contents**Results of Operations**

The following is a summary of our key performance measures:

	Quarter ended June 30,		Six months ended	
	2014	2013	June 30,	2013
	(in thousands except per share amounts)			
Net investment income	\$ 120,556	\$ 115,553	\$ 197,151	\$ 223,369
Income before provision for income taxes by segment:				
Correspondent production	\$ 2,397	\$ 28,103	\$ 5,544	\$ 36,983
Investment activities	70,907	39,806	104,048	90,145
Other (1)				(3,284)
	\$ 73,304	\$ 67,909	\$ 109,592	\$ 123,844
Net income	\$ 75,211	\$ 54,497	\$ 113,084	\$ 107,793
Earnings per share:				
Basic	\$ 1.01	\$ 0.92	\$ 1.54	\$ 1.81
Diluted	\$ 0.93	\$ 0.86	\$ 1.44	\$ 1.75
Dividends per share:				
Declared	\$ 0.59	\$ 0.57	\$ 1.18	\$ 1.14
Paid	\$ 0.59	\$ 0.57	\$ 1.18	\$ 1.14
Investment activities:				
Distressed mortgage loans and REO:				
Purchases	\$ 27,233	\$ 243,198	\$ 287,520	\$ 443,671
Cash proceeds from liquidation activities	\$ 200,764	\$ 104,814	\$ 486,324	\$ 198,259
MBS:				
Purchases	\$ 19,638	\$	\$ 19,638	\$
Cash proceeds from repayment and sales	\$ 3,441	\$	\$ 5,419	\$
ESS:				
Purchases from PFSI	\$ 52,867	\$	\$ 73,393	\$
Cash proceeds from repayments	\$ 9,081	\$	\$ 16,494	\$
Per share prices during the period:				
High	\$ 24.15	\$ 26.07	\$ 24.44	\$ 28.73
Low	\$ 20.78	\$ 19.17	\$ 20.78	\$ 16.75
At period end	\$ 21.94	\$ 22.95	\$ 21.94	\$ 19.73
At period end:				
Total assets	\$ 4,869,745	\$ 3,443,384		
Book value per share	\$ 21.27	\$ 21.06		

- (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 and six months ended June 30, 2014, we recorded net income of \$75.2 million and \$113.1 million, or \$0.93 and \$1.44 per diluted share, respectively. Our net income for the quarter and six months ended June 30, 2014 reflects net gains on our investments in financial instruments (comprised of net gain on investments and net gain on mortgage loans acquired for sale) totaling \$83.4 million and \$135.9 million, including \$63.7 million and \$96.9 million of valuation gains on mortgage loans at fair value, and mortgage loans under forward purchase agreements at fair value. These gains were supplemented by \$26.7 million and \$46.2 million of net interest income, respectively. During the quarter and six months ended June 30, 2014, we purchased \$7.3 billion and \$12.3 billion in fair value of newly originated mortgage loans. We recognized gains on such loans totaling approximately \$10.2 million and \$20.2 million. At June 30, 2014, we held mortgage loans acquired for sale with fair values totaling \$909.1 million, including \$304.7 million that were pending sale to PLS.

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During the quarter and six months ended June 30, 2013, we recorded net income of \$54.5 million and \$107.8 million, or \$0.86 and \$1.75 per diluted share, respectively. Our net income for the quarter and six months ended June 30, 2013 reflects net gains on our investments in financial instruments totaling \$91.3 million and \$184.5 million (comprised of net gain on investments and net gain on mortgage loans acquired for sale), including \$38.8 million and \$94.4 million of valuation gains on mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value. These gains were supplemented by \$12.7 million and \$18.3 million of net interest income. During the quarter and six months ended June 30, 2013, we purchased \$8.9 billion and \$17.8 billion, respectively, in fair value of newly originated mortgage loans. We recognized gains on such loans totaling approximately \$44.4 million and \$73.7 million, respectively. At June 30, 2013, we held mortgage loans acquired for sale with fair values totaling \$1.3 billion, including \$290.6 million that were pending sale to PLS.

Our net income increased during the quarter and six months ended June 30, 2014 due to increased pretax income in our investment activities segment partially offset by decreased pre-tax income in our correspondent production segment. In our investment activities, our average investment portfolio was approximately \$3.1 billion and \$3.0 billion during the quarter and six months ended June 30, 2014, an increase of \$1.8 billion, or 136%, and \$1.8 billion, or 141%, over the quarter and six months ended June 30, 2013, respectively. During the quarter and six months ended June 30, 2014, we recognized net investment income totaling approximately \$105.1 million and \$169.4 million in our investment activities segment, an increase of \$40.5 million, or 63%, and \$32.4 million, or 24%, from the quarter and six months ended June 30, 2013. During the quarter and six months ended June 30, 2013, we recognized net investment income totaling approximately \$64.6 million and \$137.0 million, respectively.

In our correspondent production activities, we received proceeds of \$2.8 billion and \$4.8 billion during the quarter and six months ended June 30, 2014, from the sale of mortgage loans to nonaffiliates and issued \$3.8 billion and \$6.0 billion of IRLCs relating to Agency and jumbo mortgage loans, a decrease of \$1.8 billion, or 32% and \$3.9 billion, or 39%, from the same period in 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 \$34.2 million, or 77% and \$53.5 million, or 73% during the quarter and six months ended June 30, 2014.

Net Investment Income

During the quarter and six months ended June 30, 2014, we recorded net investment income of \$120.6 million and \$197.2 million, respectively, comprised primarily of net gain on investments of \$73.1 million and \$115.7 million, supplemented by \$26.7 million and \$46.2 million of net interest income, \$10.2 million and \$20.2 million of net gain on mortgage loans acquired for sale, \$8.8 million and \$16.2 million of net loan servicing fees, and \$4.5 million and \$6.8 million of loan origination fees, partially offset by \$5.3 million and \$12.0 million of losses from results of REO, respectively. This compares to net investment income of \$115.6 million and \$223.4 million recognized during the quarter and six months ended June 30, 2013, comprised primarily of net gains on investments of \$46.8 million and \$110.8 million supplemented by gain on sale of loans acquired for sale of \$44.4 million and \$73.7 million, \$12.7 million and \$18.3 million of net interest income, \$4.8 million and \$10.2 million of loan origination fees and \$7.9 million and \$13.9 million of net loan servicing fees, partially offset by \$1.9 million and \$5.2 million from results of REO, respectively.

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 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 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 and accrual of unearned discounts relating to mortgage loans held in a VIE, as well as non-cash fair value adjustments relating to MSR and ESS.

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Net gain on mortgage loans acquired for sale				
Mortgage loans acquired for sale	\$ 6,660	\$ (34,572)	\$ 8,073	\$ (36,994)
IRLCs	7,816	(28,020)	9,838	(36,446)
Hedging derivatives	(10,051)	97,026	(17,202)	96,360
	4,425	34,434	709	22,920
Net interest income				
Capitalization of interest pursuant to mortgage loan modifications	17,883	6,584	30,353	11,814
Accrual of unearned discounts relating to loans held in a variable interest entity	223		553	
	18,106	6,584	30,906	11,814
Net gain (loss) on investments				
Mortgage-backed securities:				
Agency	4,081		6,734	
Non Agency	184		184	
Mortgage loans:				
at fair value	72,871	39,484	115,951	95,100
at fair value under forward purchase agreements	1,842	(690)	463	(690)
	74,713	38,794	116,414	94,410
ESS	(7,537)		(10,438)	
	71,441	38,794	112,894	94,410
Net loan servicing fees - MSR valuation adjustments				
	(5,860)	1,534	(7,720)	4,010
	\$ 88,112	\$ 81,346	\$ 136,789	\$ 133,154

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 the fair value of MSR 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.

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

	Quarter ended June 30,		Six months ended	
	2014	2013	2014	2013
	(in thousands)			
Proceeds	\$ 191,129	\$ 104,351	\$ 476,584	\$ 198,259
Accumulated net gains (1)	\$ 30,809	\$ 11,844	\$ 87,024	\$ 19,884
Net gains on liquidation (2)	\$ 13,694	\$ 11,088	\$ 22,707	\$ 22,289
Average investment in mortgage loans and REO	\$ 2,785,185	\$ 1,272,947	\$ 2,727,750	\$ 1,264,067

(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 increase in net investment income during the quarter ended June 30, 2014, as compared to the quarter ended June 30, 2013, primarily reflects the increase in net fair value gains in our investments in mortgage loans at fair value partially offset by reductions in net gain on mortgage loans acquired for sale during 2014 as compared to 2013.

Increases in gain on our investments in mortgage loans are due primarily to portfolio growth and observed increased marketplace demand for performing mortgage loans in our investment portfolio, partially tempered by an increase in the projected loss severity for long-held severely delinquent loans.

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 increasing competition as well as to the generally rising interest rate environment that prevailed during the quarter and six months ended June 30, 2014 when compared to the same periods in 2013.

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

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Cash gain (loss):				
Sales proceeds, net	\$ (3,173)	\$ (71,706)	\$ (6,067)	\$ (98,952)
Hedging activities	(18,749)	32,092	(22,299)	45,705
	(21,922)	(39,614)	(28,366)	(53,247)
Non cash gain:				
Receipt of MSR in loan sale transactions	28,741	51,055	49,616	107,271
Provision for losses relating to representations and warranties provided in loan sales	(1,022)	(1,437)	(1,766)	(3,227)
Change in fair value relating to IRLCs, mortgage loans and hedging derivatives held at period end:				
IRLCs	7,816	(28,020)	9,838	(36,446)
Mortgage loans	6,660	(34,572)	8,073	(36,994)
Hedging derivatives	(10,051)	97,026	(17,202)	96,360
	4,425	34,434	709	22,920
	\$ 10,222	\$ 44,438	\$ 20,193	\$ 73,717
Notional (Loan) amount of IRLCs issued	\$ 3,784,024	\$ 5,543,256	\$ 6,015,404	\$ 9,893,621
Purchases of mortgage loans acquired for sale				
At fair value	\$ 7,302,157	\$ 8,904,708	\$ 12,345,381	\$ 17,753,860
Unpaid principal balance	\$ 6,986,131	\$ 8,585,531	\$ 11,815,719	\$ 17,111,151
Proceeds from sales of mortgage loans acquired for sale:				
Cash:				
Sales to nonaffiliated investors	\$ 2,763,138	\$ 3,909,743	\$ 4,789,444	\$ 9,044,479
Sales of government-insured and guaranteed loans to PFSI	3,955,329	4,733,767	7,085,859	8,282,163
	\$ 6,718,467	\$ 8,643,510	\$ 11,875,303	\$ 17,326,642
Increase (decrease) in gain on mortgage loans acquired for sale due to:				
Change in fair value of IRLCs	\$ 35,836	\$ (36,645)	\$ 46,284	\$ (43,608)
Change in volume of loans sold	(16,376)	25,223	(35,437)	73,574

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Change in gain margin	(53,452)	36,926	(64,029)	10,677
Change in sourcing fees received from PFSI	(224)	888	(342)	1,658
	\$ (34,216)	\$ 26,392	\$ (53,524)	\$ 42,301

Our net gain on mortgage loans acquired for sale includes both cash and non-cash elements. We receive proceeds on sale that include both cash and our estimate of the fair value of MSRs. We 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 June 30, 2014 reflects the decreased volume of mortgage loan sales during the quarter ended June 30, 2014 as compared to the quarter ended June 30, 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.

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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 production activities, we make contractual commitments to correspondent lenders to purchase loans at specified terms. We call these commitments interest rate lock commitments, or IRLCs. We recognize the value of IRLCs at the time we make the commitment to the correspondent lender and adjust the fair value of such IRLCs as the loan approaches the point of purchase or the transaction is canceled.

An active, observable market for IRLCs does not exist. Therefore, we measure 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 MSR 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).

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.

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

Key inputs	Range (Weighted average)	
	June 30, 2014	December 31, 2013
Pull-through rate	49.0% - 98.0%	64.8% - 98.0%
	(81.6%)	(86.4%)
MSR value expressed as:		
Servicing fee multiple	1.7 - 5.0	1.4 - 5.1
	(3.9)	(4.1)
Percentage of unpaid principal balance	0.4% - 1.3%	0.4% - 1.3%
	(1.0%)	(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 June 30,							
	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	\$	13,356	\$	15,385	\$	50,978	\$	77
Unpaid principal balance of underlying mortgage loans	\$	1,244,538	\$	1,458,400	\$	3,840,110	\$	27,346
Weighted-average annual servicing fee rate (in basis points)		25		25		28		27
Pricing spread (1)		6.3% 14.3%		8.5% 10.3%		5.4% 13.5%		6.6% - 11.9%
		(8.7%)		(9.1%)		(6.5%)		(7.5%)
Life (in years)		1.3 7.3		3.2 7.3		2.6 6.9		6.3 - 6.9
		(6.1)		(7.1)		(6.4)		(6.8)
Annual total prepayment speed (2)		7.6% 50.9%		8.1% 25.4%		8.5% 23.6%		8.8% - 13.6%
		(10.4%)		(9.6%)		(9.1%)		(9.3%)
Annual per-loan cost of servicing		\$68 \$100		\$68 \$68		\$68 \$140		\$68 - \$68
		(\$68)		(\$68)		(\$68)		(\$68)

Key inputs	Six months ended June 30,							
	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	\$	22,474	\$	27,142	\$	107,167	\$	104
Unpaid principal balance of underlying mortgage loans	\$	2,095,087	\$	2,550,114	\$	8,843,667	\$	29,946
Weighted-average annual servicing fee rate (in basis points)		25		25		26		27
Pricing spread (1)		6.3% 14.3%		8.5% 12.3%		5.4% 14.4%		6.6% - 14.4%
		(8.6%)		(9.0%)		(6.8%)		(7.6%)
Life (in years)		1.1 7.3		2.8 7.3		2.6 - 6.9		2.8 - 6.9
		(6.0)		(7.1)		(6.4)		(6.7)
Annual total prepayment speed (2)		7.6% 56.4%		8.0% 25.4%		8.5% 23.6%		8.8% - 27.0%
		(10.4%)		(9.5%)		(9.1%)		(9.7%)
Annual per-loan cost of servicing		\$68 - \$100		\$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 MSRs acquired as proceeds from the sale of mortgage loans.

(2) Annual total prepayment speed is measured using Life Total Conditional Prepayment Rate (CPR).

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.

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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.

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

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
During the period:				
Unpaid principal balance of mortgage loans repurchased	\$ 2,623	\$ 292	\$ 4,411	\$ 1,208
Unpaid principal balance of repurchased mortgage loans repurchased by correspondent lenders	\$ 1,922	\$ 394	\$ 2,811	\$ 1,104
At end of period:				
Unpaid principal balance of mortgage loans subject to pending claims for repurchase	\$ 19,805	\$ 824		
Unpaid principal balance of mortgage loans subject to representations and warranties	\$ 29,806,058	\$ 19,829,437		

During the quarter and six months ended June 30, 2014, we repurchased mortgage loans with unpaid principal balances totaling \$2.6 million and \$4.4 million, respectively, 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.

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

	Quarter ended June 30, 2014		Six months ended June 30, 2013	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of period	\$ 10,854	\$ 6,231	\$ 10,110	\$ 4,441
Provision for losses	1,022	1,437	1,766	3,227
Incurring losses				
Balance, end of period	\$ 11,876	\$ 7,668	\$ 11,876	\$ 7,668

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 production 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.

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:

Period/Instrument	Balance, beginning of period	Quarter ended June 30, 2014		Balance, end of period
		Additions	Dispositions/ expirations	
		(in thousands)		
Forward purchase contracts	1,777,353	11,967,081	(10,685,830)	3,058,604
Forward sales contracts	2,497,960	15,282,582	(13,594,909)	4,185,633
MBS put option	235,000	290,000	(255,000)	270,000
MBS call option		25,000		25,000

Period/Instrument	Balance, beginning of period	Quarter ended June 30, 2013		Balance, end of period
		Additions	Dispositions/ expirations	
		(in thousands)		
Forward purchase contracts	1,890,960	15,323,298	(11,802,474)	5,411,784
Forward sales contracts	3,224,190	20,418,956	(15,915,080)	7,728,066

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MBS put options	225,000	1,545,000	(1,310,000)	460,000
MBS call options	350,000	1,000,000	(625,000)	725,000

Six months ended June 30, 2014

Period/Instrument	Balance, beginning of period	Additions	Dispositions/ expirations	Balance, end of period
	(in thousands)			
Forward purchase contracts	2,781,066	18,364,898	(18,087,360)	3,058,604
Forward sales contracts	3,463,027	24,051,521	(23,328,915)	4,185,633
MBS put option	55,000	695,000	(480,000)	270,000
MBS call option	110,000	25,000	(110,000)	25,000

Six months ended June 30, 2013

Period/Instrument	Balance, beginning of period	Additions	Dispositions/ expirations	Balance, end of period
	(in thousands)			
Forward purchase contracts	2,206,539	27,765,642	(24,560,397)	5,411,784
Forward sales contracts	4,266,983	38,269,229	(34,808,146)	7,728,066
MBS put options	495,000	3,025,000	(3,060,000)	460,000
MBS call options		1,900,000	(1,175,000)	725,000

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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.

Net Gain on Investments

During the quarter and six months ended June 30, 2014, we recognized net gains on MBS, mortgage loans and ESS totaling \$73.1 million and \$115.7 million, respectively. This compares to recognized net gains on investments totaling \$46.8 million and \$110.8 million during the quarter and six months ended June 30, 2013, respectively. The increase is primarily due to increased valuation gains in our portfolio of mortgage loans, including mortgage loans under forward purchase agreements.

The average portfolio balance of distressed mortgage loan investments (mortgage loans at fair value excluding mortgage loans at fair value held in a VIE and mortgage loans under forward purchase agreements at fair value) increased \$1.4 billion, or 111%, and \$1.4 billion, or 115%, during the quarter and six months ended June 30, 2014 as compared to the same period in 2013.

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

	Quarter ended June 30,		Six months ended	
	2014	2013	2014	2013
	(in thousands)			
Valuation changes:				
Performing loans	\$ 39,123	\$ 4,700	\$ 38,882	\$ 27,684
Nonperforming loans	24,587	34,094	58,001	66,726
	63,710	38,794	96,883	94,410
Payoffs	7,490	8,040	13,109	16,404
Sales	2,395		3,520	
	\$ 73,595	\$ 46,834	\$ 113,512	\$ 110,814
Average portfolio balance	\$ 2,570,533	\$ 1,219,196	\$ 2,537,168	\$ 1,177,454

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 \$63.7 million and \$38.8 million in the quarters ended June 30, 2014 and 2013, respectively, and \$96.9 million and \$94.4 million in the six months ended June 30, 2014 and 2013, respectively.

The valuation changes on performing loans is affected by the 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 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 and six months ended June 30, 2014, we capitalized interest totaling \$18.1 million and \$30.4 million compared to \$6.6 and \$11.8 for the quarter and six months ended June 30, 2013.

The increase in valuation gains reflects portfolio growth and observed and realized increases in demand for performing mortgage loans that resulted in a reduction of the discount rate we apply to our estimate of cash flows to be generated by our performing loans and an increase in such loans' valuations. The increase in the valuation gains for performing loans was partially tempered by an increase in the projected loss severity for long-held severely delinquent loans.

Cash is generated when mortgage loans and mortgage loans under forward purchase agreements are monetized through payoffs or sales, when we receive payments of principal and interest on such loans, generally after they are modified, or when the property securing a mortgage loan that has been settled through transfer of the

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property to us has been sold.

During the quarters ended June 30, 2014 and 2013, we received proceeds from liquidation of mortgage loans and REO of \$191.1 million and \$104.4 million, respectively, and during the six-month periods ended June 30, 2014 and 2013, we received proceeds from liquidation of mortgage loans and REO of \$476.6 million and \$198.3 million, respectively. These proceeds include \$70.3 million and \$264.3 million from the sale of \$81.3 million and \$313.4 million in unpaid principal balance of mortgage loans during the quarter and six months ended June 30, 2014, respectively. For each period's liquidations, we had recorded accumulated gains on the liquidated assets during the period we held those assets totaling \$30.8 million and \$11.8 million for the quarters ended June 30, 2014 and 2013, respectively, and \$87.0 million and \$19.9 million for the six-month periods ended June 30, 2014 and 2013, respectively, and we recorded additional gains of \$13.7 million and \$11.1 million for the quarters ended June 30, 2014 and 2013, respectively, and \$22.7 million and \$22.3 million for the six months ended June 30, 2014 and 2013, respectively, when the assets were liquidated.

During the quarters ended June 30, 2014 and 2013, we recognized gains on mortgage loan payoffs as summarized below:

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Number of loans	353	349	681	642
Unpaid principal balance	\$ 98,360	\$ 94,313	\$ 178,076	\$ 174,956
Gain recognized at payoff	\$ 7,489	\$ 8,040	\$ 13,109	\$ 16,404

Gains on sales of distressed mortgage loans are summarized below:

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Number of loans	396		1,362	
Unpaid principal balance	\$ 81,294	\$	\$ 313,420	\$
Gain recognized at sale	\$ 2,395	\$	\$ 3,520	\$

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The following tables present a summary of loan modifications completed:

Modification type (1)	Quarter ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
	Number of loans	Balance of loans (2)	Number of loans	Balance of loans (2)	Number of loans	Balance of loans (2)	Number of loans	Balance of loans (2)
	(dollars in thousands)							
Rate reduction	412	\$ 100,752	149	\$ 32,226	766	\$ 180,641	272	\$ 59,131
Term extension	482	122,371	127	28,816	870	216,040	238	51,396
Capitalization of interest and fees	615	155,083	250	54,442	1,116	273,352	468	100,627
Principal forbearance	218	65,245	60	16,157	369	112,172	109	25,088
Principal reduction	288	73,228	122	28,056	542	137,046	196	48,397
Total	615	155,083	250	54,442	1,116	273,352	468	100,627
Defaults of mortgage loans modified in the prior year period		\$ 2,388		\$ 2,796		\$ 6,197		\$ 7,134
As a percentage of balance of loans before modification		6%		10%		9%		9%
Defaults during the period of mortgage loans modified since acquisitions(3)		\$ 21,140		\$ 11,060		\$ 49,648		\$ 20,983
As a percentage of balance of loans before modification		7%		6%		18%		11%
Repayments and sales of mortgage loans modified in the prior year period		\$ 13,153		\$ 6,438		\$ 36,654		\$ 17,997
As a percentage of balance of loans before modification		25%		18%		37%		18%

(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.

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

Quarter ended June 30,

Six months ended June 30,

Category	2014		2013		2014		2013	
	Before modification	After modification	Before modification	After modification	Before modification	After modification	Before modification	After modification
	(dollars in thousands)							
Loan balance	\$ 252	\$ 256	\$ 218	\$ 197	\$ 245	\$ 246	\$ 215	\$ 197
Remaining term (months)	327	417	311	447	323	417	312	445
Interest rate	5.30%	3.68%	5.89%	4.18%	5.44%	3.71%	5.93%	4.17%
Forbearred principal	\$	\$ 15	\$	\$ 7	\$	\$ 13	\$	\$ 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 and six months ended June 30, 2014, we had our first significant sales of reperforming mortgage assets. We received proceeds of \$70.3 million and \$264.3 million from the sale of \$81.3 million and \$313.4 million in unpaid principal balance of mortgage loans during the quarter and six months ended June 30, 2014, respectively. There can be no assurance that this form of monetization will continue to be 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.

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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 to date during 2014.

Large-scale refinancing of modified mortgage loans is not expected to occur for several years. 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.

During the quarter and six months ended June 30, 2014, we recognized gains on MBS of \$1.5 million and \$2.2 million, respectively, net of hedging activities. The gains we recognized were due to decreases in market yields during the quarter. We did not hold any MBS during the six-month period ended June 30, 2013.

Table of Contents*Net Interest Income*

Net interest income is summarized below:

	Quarter ended June 30, 2014			Average balance	Annualized % interest yield/cost
	Coupon	Interest income/expense Discount/ fees (1)	Total		
(dollars in thousands)					
Assets:					
Correspondent production:					
Mortgage loans acquired for sale at fair value	\$ 5,574	\$	\$ 5,574	\$ 514,344	4.29%
Investment activities:					
Short-term investments	172		172	136,116	0.50%
Mortgage -backed securities:					
Agency	1,712	83	1,795	193,802	3.66%
Non-Agency prime jumbo	95	71	166	19,668	3.34%
	1,807	154	1,961	213,470	3.63%
Mortgage loans:					
at fair value	36,008	223	36,231	2,472,804	5.80%
under forward purchase agreements at fair value	1,430		1,430	97,729	5.79%
	37,438	223	37,661	2,570,533	5.79%
ESS	3,139		3,139	155,515	7.98%
Total investment activities	42,556	377	42,933	3,075,634	5.52%
Other interest	11		11		
	\$ 48,141	\$ 377	\$ 48,518	\$ 3,589,978	5.35%
Liabilities:					
Assets sold under agreements to repurchase	\$ 12,547	\$ 2,596	\$ 15,143	\$ 2,253,127	2.66%
Borrowings under forward purchase agreements	783		783	109,793	2.82%
Asset backed secured financing	1,481	80	1,561	165,495	3.73%
Exchangeable senior notes	3,359	228	3,587	250,000	5.68%
	18,170	2,904	21,074	2,778,415	3.03%
Other interest - Servicing	791		791		
	18,961	2,904	21,865	2,778,415	3.10%

Net interest income	\$ 29,180	\$ (2,527)	\$ 26,653	
Net interest margin				2.97%
Net interest spread				2.25%

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

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	Quarter ended June 30, 2013			Average balance	Annualized % interest yield/cost
	Interest income/expense				
	Coupon	Discount/ fees (1)	Total		
Assets:					
Correspondent production:					
Mortgage loans acquired for sale at fair value	\$ 9,292	\$	\$ 9,292	\$ 1,042,735	3.52%
Investment activities:					
Short-term investments	57		57	82,450	0.27%
Mortgage loans:					
at fair value	17,052		17,052	1,186,186	5.69%
under forward purchase agreements at fair value	260		260	33,010	3.12%
	17,312		17,312	1,219,196	5.62%
Total investment activities	17,369		17,369	1,301,646	5.34%
Other Interest					
	136		136		
	\$ 26,797	\$	\$ 26,797	\$ 2,344,381	4.52%
Liabilities:					
Assets sold under agreements to repurchase	\$ 8,561	\$ 2,253	\$ 10,814	\$ 1,385,350	3.12%
Borrowings under forward purchase agreements	251		251	33,096	3.00%
Exchangeable senior notes	2,240	144	2,384	170,330	3.39%
	11,052	2,397	13,449	1,588,776	3.39%
Other interest - Servicing	695		695		
	11,747	2,397	14,144	1,588,776	3.52%
Net interest income	\$ 15,050	\$ (2,397)	\$ 12,653		
Net interest margin					2.16%
Net interest spread					1.00%

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

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	Six months ended June 30, 2014			Average balance	Annualized % interest yield/cost
	Interest income/expense				
	Coupon	Discount/ fees (1)	Total		
Assets:					
Correspondent production:					
Mortgage loans acquired for sale at fair value	\$ 9,199	\$	\$ 9,199	\$ 424,890	4.31%
Investment activities:					
Short-term investments	324		324	116,458	0.55%
Mortgage -backed securities:					
Agency	3,440	116	3,556	194,977	3.63%
Non-Agency prime jumbo	95	71	166	19,668	5.45%
	3,535	187	3,722	214,645	3.45%
Mortgage loans:					
at fair value	64,459	553	65,012	2,386,352	5.42%
under forward purchase agreements at fair value	3,584		3,584	150,816	4.73%
	68,043	553	68,596	2,537,168	5.42%
ESS	6,001		6,001	145,891	8.18%
Total investment activities	77,903	740	78,643	3,014,162	5.19%
Other interest	22		22		
	\$ 87,124	\$ 740	\$ 87,864	\$ 3,439,052	5.08%
Liabilities:					
Assets sold under agreements to repurchase	\$ 22,462	\$ 5,220	\$ 27,682	\$ 2,025,678	2.72%
Borrowings under forward purchase agreements	2,363		2,363	165,471	2.84%
Asset backed secured financing	2,974	204	3,178	166,190	3.80%
Exchangeable senior notes	6,718	453	7,171	250,000	5.71%
	34,517	5,877	40,394	2,607,339	3.08%
Other interest - Servicing	1,246		1,246		
	35,763	5,877	41,640	2,607,339	3.18%
Net interest income	\$ 51,361	\$ (5,137)	\$ 46,224		
Net interest margin					2.67%
Net interest spread					1.91%

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

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	Six months ended June 30, 2013			Average balance	Annualized % interest yield/cost
	Interest income/expense				
	Coupon	Discount/ fees (1)	Total		
Assets:					
Correspondent production:					
Mortgage loans acquired for sale at fair value	\$ 15,615	\$	\$ 15,615	\$ 937,707	3.33%
Investment activities:					
Short-term investments	88		88	73,224	0.24%
Mortgage loans:					
at fair value	27,549		27,549	1,160,858	4.75%
under forward purchase agreements at fair value	260		260	16,596	3.12%
	27,809		27,809	1,177,454	4.72%
Total investment activities	27,897		27,897	1,250,678	4.46%
Other Interest					
	160		160		
	\$ 43,672	\$	\$ 43,672	\$ 2,188,385	3.97%
Liabilities:					
Assets sold under agreements to repurchase	\$ 16,862	\$ 4,664	\$ 21,526	\$ 1,304,010	3.30%
Borrowings under forward purchase agreements	251		251	16,640	3.00%
Exchangeable senior notes	2,240	144	2,384	85,635	5.54%
	19,353	4,808	24,161	1,406,285	3.42%
Other interest - Servicing	1,219		1,219		
	20,572	4,808	25,380	1,406,285	3.59%
Net interest income	\$ 23,100	\$ (4,808)	\$ 18,292		
Net interest margin					1.67%
Net interest spread					0.38%

(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:

	Quarter ended June 30, 2014 vs. Quarter ended June 30, 2013 Increase (decrease) due to changes in			Six months ended June 30, 2014 vs. Six months ended June 30, 2013 Increase (decrease) due to changes in		
	Rate	Volume	Total change (in thousands)	Rate	Volume	Total change
Correspondent production:						
Mortgage loans acquired for sale at fair value	\$ 1,704	\$ (5,422)	\$ (3,718)	\$ 3,778	\$ (10,194)	\$ (6,416)
Investment activities:						
Money market investment	64	51	115	163	73	236
Mortgage -backed securities:						
Agency		1,795	1,795		3,556	3,556
Non-Agency prime jumbo		166	166		166	166
		1,961	1,961		3,722	3,722
Mortgage loans:						
at fair value	334	18,845	19,179	4,606	32,857	37,463
under forward purchase agreements	356	814	1,170	200	3,124	3,324
Total mortgage loans	690	19,659	20,349	4,806	35,981	40,787
ESS		3,139	3,139		6,001	6,001
Total investment activities	754	24,810	25,564	4,969	45,777	50,746
Other interest		(125)	(125)		(138)	(138)
	2,458	19,263	21,721	8,747	35,445	44,192
Assets sold under agreements to repurchase:						
Borrowings under forward purchase agreement	(843)	5,172	4,329	(1,161)	7,317	6,156
Asset backed secured financing	(16)	548	532	(14)	2,126	2,112
Exchangeable senior notes	61	1,561	1,561	75	3,178	3,178
		1,142	1,203		4,712	4,787
Interest bearing liabilities	(798)	8,423	7,625	(1,100)	17,333	16,233
Other interest - servicing		96	96		27	27
	(798)	8,519	7,721	(1,100)	17,360	16,260
Net interest income	\$ 3,256	\$ 10,744	\$ 14,000	\$ 9,847	\$ 18,085	\$ 27,932

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In the quarter and six months ended June 30, 2014, we earned net interest income of \$26.7 million and \$46.2 million, respectively, compared to \$12.7 million and \$18.3 million for the same periods in 2013. The increase in net interest income between the quarters was primarily due to an increase in average interest-earning assets for the quarter and six months ended June 30, 2014 as compared to the same periods in 2013 supplemented by a 53% and 65% increase in our yield-cost spread.

We earned interest income on our portfolio of Agency MBS totaling \$2.0 million and \$3.7 million for the quarter and six months ended June 30, 2014, respectively. We did not hold Agency MBS during the quarter ended June 30, 2013.

In the quarter and six months ended June 30, 2014, we recognized interest income on mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value totaling \$37.7 million and \$68.6 million, respectively, including \$18.1 million and \$30.4 million, respectively, of interest capitalized pursuant to loan modifications, which compares to \$17.3 million and \$27.8 million, including \$6.6 million and \$11.8 million of interest capitalized pursuant to loan modifications, in the quarter and six months ended June 30, 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 111%, and \$1.4 billion, or 115%, for the quarter and six months ended June 30, 2014 when compared to the same period in 2013.

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At June 30, 2014, approximately 72% of the fair value of our distressed mortgage loan portfolio was nonperforming, as compared to 67% at June 30, 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 June 30, 2014, we held \$1.5 billion in fair value of nonperforming loans and \$240.5 million in carrying value of REO.

During the quarter and six months ended June 30, 2014, we incurred interest expense totaling \$21.9 million and \$41.6 million, respectively, as compared to \$14.1 million and \$25.4 million, respectively, during the quarter and six months ended June 30, 2013. Our interest cost on interest bearing liabilities was 3.03% and 3.08% for the quarter and six months ended June 30, 2014 as compared to 3.39% and 3.42% during the quarter and six months ended June 30, 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:

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Servicing fees (1)	\$ 19,156	\$ 12,307	\$ 36,688	\$ 22,724
MSR recapture fee receivable from PFSI	1	367	9	498
Effect of MSRs:				
Carried at lower of amortized cost or fair value				
Amortization	(7,697)	(6,264)	(15,061)	(11,232)
(Provision for) reversal of impairment	(2,224)	1,222	(2,851)	3,708
Carried at fair value - change in fair value	(4,764)	260	(6,792)	193
Gains (losses) on hedging derivatives	4,286		4,186	(1,988)

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	(10,399)	(4,782)	(20,518)	(9,319)
Net loan servicing fees	\$ 8,758	\$ 7,892	\$ 16,179	\$ 13,903

(1) Includes contractually specified servicing and ancillary fees.

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Net loan servicing fees increased \$900,000 and \$2.3 million during the quarter and six months ended June 30, 2014 compared to the same periods in 2013. The increase was primarily due to a \$6.8 million and \$14.0 million increase, respectively, in servicing fees, offset by a \$5.6 million and \$11.2 million increase, respectively, 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 \$9,000 of such income during the six months ended June 30, 2014.

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. MSR have a significant effect on net loan servicing fees, driven primarily by our monthly re-measurement of the fair value of MSR. 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 inputs 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, 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 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 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's 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's 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 to be accounted for using the amortization method.

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

	June 30, 2014	December 31, 2013
	(in thousands)	
MSR's carried at fair value	\$ 46,802	\$ 26,452
MSR carried at lower of amortized cost or fair value:		
Amortized cost	\$ 274,110	\$ 266,697
Valuation allowance	(5,428)	(2,577)
Carrying value	\$ 268,682	\$ 264,120
Fair value	\$ 289,226	\$ 289,737
Total MSR:		
Carrying value	\$ 315,484	\$ 290,572
Fair value	\$ 336,028	\$ 316,189
Unpaid principal balance of mortgage loans underlying MSR's	\$ 29,268,039	\$ 25,792,933
Average servicing fee rate (in basis points)		
MSR's carried at lower of amortized cost or fair value	26	26
MSR's carried at fair value	25	26
Average note interest rate		
MSR's carried at lower of amortized cost or fair value	3.72%	3.68%
MSR's carried at 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:

	June 30, 2014				December 31, 2013			
	Amortized cost		Fair value		Amortized cost		Fair value	
	(Carrying value, unpaid principal balance and effect on value amounts in thousands)							
Carrying value	\$	268,682	\$	46,802	\$	264,120	\$	26,452
Key inputs:								
Unpaid principal balance of underlying mortgage loans	\$	24,639,750	\$	4,758,331	\$	23,399,612	\$	2,393,321
Weighted-average annual servicing fee rate (in basis points)		26		25		26		26
Weighted-average note interest rate		3.72%		4.79%		3.68%		4.78%
Pricing spread (1) (2)		6.3% 17.5%		7.6% 15.3%		6.3% 17.5%		7.3% 15.3%
		(7.4%)		(9.2%)		(6.7%)		(8.6%)
Effect on fair value of a:								
5% adverse change	\$	(5,302)	\$	(827)	\$	(5,490)	\$	(488)
10% adverse change	\$	(10,427)	\$	(1,627)	\$	(10,791)	\$	(959)
20% adverse change	\$	(20,177)	\$	(3,149)	\$	(20,861)	\$	(1,855)
Weighted average life (in years)		1.1 - 7.2		2.4 - 7.2		1.3 - 7.3		2.8 - 7.3
		(6.4)		(7.0)		(6.7)		(7.2)
Prepayment speed (1) (3)		7.7% 58.9%		8.0% 30.6%		7.7% - 51.9%		8.0% - 20.0%
		(8.6%)		(10.2%)		(8.2%)		(8.9%)
Effect on fair value of a:								
5% adverse change	\$	(5,495)	\$	(1,160)	\$	(5,467)	\$	(568)
10% adverse change	\$	(10,821)	\$	(2,277)	\$	(10,765)	\$	(1,117)
20% adverse change	\$	(20,993)	\$	(4,390)	\$	(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	\$	(1,761)	\$	(290)	\$	(1,695)	\$	(158)
10% adverse change	\$	(3,522)	\$	(580)	\$	(3,390)	\$	(316)
20% adverse change	\$	(7,043)	\$	(1,159)	\$	(6,780)	\$	(633)

(1) The effect on value of an adverse change in one of the above-mentioned 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 MSRs acquired as proceeds from the sale of mortgage loans and purchased MSRs not backed by pools of distressed mortgage loans.

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

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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.

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 and six months ended June 30, 2014, we recorded net losses of \$5.3 million and \$12.0 million, respectively, in *Results of real estate acquired in settlement of loans* as compared to net losses of \$1.9 million and \$5.2 million, respectively, for the quarter and six months ended June 30, 2013.

Results of REO are summarized below:

	Quarter ended		Six months ended June 30,	
	June 30,	2013	2014	2013
	2014	2013	2014	2013
	(dollars in thousands)			
During the period:				
Proceeds from sales of REO	\$ 48,874	\$ 30,993	\$ 82,268	\$ 63,017
Results of real estate acquired in settlement of loans:				
Valuation adjustments, net	(9,159)	(4,978)	(18,052)	(11,067)
Gain on sale, net	3,811	3,049	6,078	5,885
	\$ (5,348)	\$ (1,929)	\$ (11,974)	\$ (5,182)
Number of properties sold	489	288	813	546
Average carrying value of REO	\$ 214,652	\$ 86,761	\$ 190,582	\$ 86,613
Period end:				
Carrying value	\$ 240,471	\$ 88,771		
Number of properties in inventory	1,619	640		

The increase in losses from REOs during the quarter and six months ended June 30, 2014 compared to the same periods in 2013 was due to slower property value appreciation during the quarter ended June 30, 2014 as compared to the quarter ended June 30, 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.

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Our expenses are summarized below:

	Quarter ended June 30, Six months ended June 30,			
	2014	2013	2014	2013
	(in thousands)			
Expenses payable to PFSI:				
Loan fulfillment fees	\$ 12,433	\$ 22,054	\$ 21,335	\$ 50,298
Loan servicing fees	14,180	8,787	28,771	16,513
Management fees	8,912	8,455	16,986	14,947
Professional services	2,690	1,339	4,421	3,723
Compensation	1,883	1,438	4,825	3,527
Other	7,154	5,571	11,221	10,517
	\$ 47,252	\$ 47,644	\$ 87,559	\$ 99,525

Expenses decreased \$392,000, or 1%, and \$12.0 million, or 12%, during the quarter and six months ended June 30, 2014, respectively, compared to the same periods in 2013. This decrease was primarily a result of lower fulfillment fees, reflecting decreased correspondent production activities, partially offset by increased servicing fees reflecting growth in both our investments in mortgage loans at fair value and our MSR portfolio.

Loan Fulfillment Fees

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:

	Quarter ended June 30,		Six months ended	
	2014	2013	June 30,	2013
	(in thousands)			
Fulfillment fee expense	\$ 12,433	\$ 22,054	\$ 21,335	\$ 50,298
UPB of loans fulfilled by PFSI	\$ 2,991,764	\$ 4,323,885	\$ 4,911,342	\$ 9,110,711

The decrease in loan fulfillment fees of \$9.6 million and \$29.0 million during the quarter and six months ended June 30, 2014, respectively, compared to the same periods in 2013 is primarily due to the decrease in the volume of Agency-eligible and jumbo mortgage loans we purchased in our correspondent production activities.

Loan Servicing Fees

Loan servicing fees increased by \$5.4 million, or 61%, and \$12.3 million, or 74%, during the quarter and six months ended June 30, 2014, respectively, compared to the same periods in 2013. Loan servicing fees increase as our investment in mortgage loans and MSRs increases. During the quarter ended June 30, 2014, our average investment in mortgage loans increased by 111%, compared to the quarter ended June 30, 2013. Our servicing portfolio increased to

\$29.3 billion at June 30, 2014 from \$19.9 billion at June 30, 2013.

Included in loan servicing fees are activity-based fees, which increased by \$3.2 million during the quarter ended June 30, 2014, generally relating to the increase in loan resolution activities during the quarter and six months ended June 30, 2014. 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 quarter and six months ended June 30, 2014, we paid PFSI \$700,000 and \$1.4 million, respectively, 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 servicers generally do not provide but are required by us because we have no employees or infrastructure.

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

	Quarter ended June 30, 2014		Six months ended June 30, 2013	
	2014	2013	2014	2013
	(in thousands)			
Mortgage loans acquired for sale at fair value:				
Base	\$ 29	\$ 90	\$ 46	\$ 169
Activity-based	51	111	77	183
	80	201	123	352
Distressed mortgage loans:				
Base	4,975	3,699	9,941	7,572
Activity-based	5,746	2,447	12,132	4,324
	10,721	6,146	22,073	11,896
MSRs:				
Base	3,323	2,363	6,471	4,126
Activity-based	56	77	104	139
	3,379	2,440	6,575	4,265
	\$ 14,180	\$ 8,787	\$ 28,771	\$ 16,513

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

	Quarter ended June 30, 2014		Six months ended June 30, 2013	
	2014	2013	2014	2013
	(in thousands)			
Management fee:				
Base	\$ 5,838	\$ 4,575	\$ 11,359	\$ 8,940
Performance incentive	3,074	3,880	5,627	6,007
	\$ 8,912	\$ 8,455	\$ 16,986	\$ 14,947

Management Fees

Management fees increased by \$457,000 and \$2.0 million during the quarter and six months ended June 30, 2014, respectively, 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.

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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

Professional services expense increased during the quarter and six months ended June 30, 2014 as compared to the quarter and six months ended June 30, 2013 by \$1.4 million and \$698,000, respectively, due to increased legal fees including those relating to the sales of reperforming loans during the quarter and six months ended June 30, 2014, partially offset by reduced due diligence expenses reflecting reduced distressed mortgage loan acquisition activity.

Other Expenses

Other expenses are summarized below:

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Common overhead allocation from PFSI	\$ 2,638	\$ 2,974	\$ 5,216	\$ 5,266
Servicing and collection costs	3,114	(30)	3,745	333
Loan origination	397	1,468	435	2,446
Insurance	252	218	491	429
Technology	227	235	474	354
Other expenses	526	706	860	1,689
	\$ 7,154	\$ 5,571	\$ 11,221	\$ 10,517

Other expenses increased during the quarter and six months ended June 30, 2014 as compared to the quarter and six months ended June 30, 2013 by \$1.6 million and \$704,000, respectively, primarily due to higher servicing and collection costs associated with the administration and sale of seasoned distressed loans, partially offset by decreased expenses associated with certain of our correspondent production activities.

Income Taxes

We have 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*.

The provision for income taxes decreased by \$15.3 million and \$19.5 million for the quarter and six months ended June 30, 2014 compared to the same periods in 2013. The Company had a tax benefit of \$1.9 million and \$3.5 million for the quarter and six months ended June 30, 2014 and a tax expense of \$13.4 million and \$16.1 million for the quarter and six months ended June 30, 2013. The Company's effective tax rate was (2.6)% and (3.2)% for the quarter and six months ended June 30, 2014 compared to 19.8% and 13.0% for the same periods in 2013. The decrease in the

Company's effective tax rate for the quarter and six months ended June 30, 2014 compared to the prior periods in 2013 is due primarily to a loss in the company's taxable REIT subsidiary for the quarter and six months ended June 30, 2014 compared to income in that entity for the same periods 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.

Table of Contents**Balance Sheet Analysis**

Following is a summary of key balance sheet items:

	June 30, 2014	December 31, 2013
	(in thousands)	
Assets		
Cash	\$ 37,902	\$ 27,411
Investments:		
Short-term investments	104,453	92,398
Mortgage-backed securities	218,725	197,401
Mortgage loans acquired for sale at fair value	909,085	458,137
Mortgage loans at fair value	2,697,821	2,818,445
Excess servicing spread	190,244	138,723
Derivative assets	14,594	7,976
Real estate acquired in settlement of loans	240,471	148,080
Mortgage servicing rights	315,484	290,572
	4,690,877	4,151,732
Other assets	140,966	131,774
Total assets	\$ 4,869,745	\$ 4,310,917
Liabilities		
Borrowings:		
Assets sold under agreements to repurchase	\$ 2,701,755	\$ 2,039,605
Borrowings under forward purchase agreements		226,580
Asset-backed secured financing of the variable interest entity	170,201	165,415
Exchangeable senior notes	250,000	250,000
	3,121,956	2,681,600
Other liabilities	170,629	162,203
Total liabilities	3,292,585	2,843,803
Shareholders equity	1,577,160	1,467,114
Total liabilities and shareholders equity	\$ 4,869,745	\$ 4,310,917

Total assets increased by approximately \$558.8 million, or 13%, during the period from December 31, 2013 through June 30, 2014, primarily due to an increase in mortgage loans acquired for sale at fair value of \$450.9 million, a \$51.5 million increase in ESS and an increase in REO of \$92.4 million, partly offset by a \$120.6 million decrease in mortgage loans at fair value. Our asset acquisitions are summarized below.

Table of Contents**Asset Acquisitions***Correspondent Production*

Following is a summary of our correspondent production acquisitions:

	Quarter ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Correspondent production loan purchases:				
Government-insured or guaranteed	\$ 4,209,932	\$ 4,480,570	\$ 7,276,142	\$ 8,417,013
Agency-eligible	3,010,028	4,315,652	4,974,383	9,220,206
Jumbo	82,197	108,486	94,856	116,641
	\$ 7,302,157	\$ 8,904,708	\$ 12,345,381	\$ 17,753,860

Fair value of correspondent production

loans in inventory at period end	\$ 909,085	\$ 1,309,830		
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Gain on mortgage loans acquired for sale	\$ 10,222	\$ 44,438	\$ 20,193	\$ 73,717
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During the quarter and six months ended June 30, 2014, we purchased for sale \$7.3 billion and \$12.3 billion, respectively, in fair value of correspondent production loans compared to \$8.9 billion and \$17.8 billion, respectively, in fair value of correspondent production loans during the quarter and six months ended June 30, 2013. The decrease in correspondent purchases is a result of the effects of increasing interest rates on the size of the mortgage market during the quarter ended June 30, 2014 as compared to the quarter ended June 30, 2013.

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

Investment Portfolio

Following is a summary of our acquisitions of mortgage investments other than correspondent production acquisitions as shown in the preceding table:

	Quarter ended		Six months ended June 30,	
	June 30,	2013	2014	2013
	2014	2013	2014	2013
	(in thousands)			
Distressed mortgage loans (1)(2)				
Performing	\$ 735	\$ 43,923	\$ 735	\$ 57,084

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Nonperforming	26,002	198,787	282,282	386,099
	26,737	242,710	283,017	443,183
REO (2)	29		3,117	
MSRs	28,741	51,241	49,616	107,457
ESS purchased from PennyMac Financial Services, Inc.	52,867		73,393	
	\$ 108,375	\$ 293,951	\$ 409,143	\$ 550,640

(1) Performance status as of the date of acquisition.

(2) \$26.8 million of distressed assets were acquired from or through one or more subsidiaries of Citigroup Inc. during the quarter and six months ended June 30, 2014 compared to \$243.0 million and \$443.3 million distressed assets so acquired during the quarter and six months ended June 30, 2013, respectively.

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Our acquisitions during the quarters ended June 30, 2014 and June 30, 2013 were financed through the use of a combination of equity and borrowings. We continue to identify additional means of increasing our investment portfolio through cash flow from our business operations, existing investments, borrowings, and transactions that minimize current cash outlays. However, we expect that, over time, our ability to continue our investment activities portfolio growth will depend on our ability to raise additional equity capital.

Investment Portfolio Composition*Mortgage-Backed Securities*

Our portfolio of MBS is backed by 30-year fixed interest rate mortgage loans. Following is a summary of our MBS portfolio.

	June 30, 2014					December 31, 2013				
	Fair value	Principal	Life (in years)	Average Coupon	Market yield	Fair value	Principal	Life (in years)	Average Coupon	Market yield
	(dollars in thousands)									
Agency:										
Freddie Mac	\$ 142,486	\$ 138,637	5.20	3.50%	2.85%	\$ 141,106	\$ 142,186	7.23	3.50%	3.63%
Fannie Mae	58,342	56,669	5.70	3.50%	2.86%	56,295	56,593	7.49	3.50%	3.57%
Prime jumbo	17,897	19,624	7.01	2.13%	3.65%				0.00%	0.00%
	\$ 218,725	\$ 214,930	5.50	3.37%	2.97%	\$ 197,401	\$ 198,779	7.30	3.50%	3.59%

Mortgage Loans

The relationship of the fair value of our mortgage loans at fair value and mortgage loans under forward purchase agreements (excluding mortgage loans acquired for sale at fair value and mortgage loans at fair value held by VIE) to the fair value of the real estate collateral underlying the loans is summarized below:

	June 30, 2014		December 31, 2013	
	Loan	Collateral	Loan	Collateral
	(in thousands)			
Fair values:				
Performing loans	\$ 610,427	\$ 899,574	\$ 647,266	\$ 986,075
Nonperforming loans	1,546,074	2,190,461	1,647,527	2,331,605
	\$ 2,156,501	\$ 3,090,035	\$ 2,294,793	\$ 3,317,680

The collateral values presented above do not represent our assessment of the amount of future cash flows to be realized from the mortgage loans and/or underlying collateral. Future cash flows will be influenced by, among other considerations, changes in borrower performance, our asset disposition strategies with respect to individual loans, the costs and expenses we incur in the disposition process and changes in the underlying collateral values.

The collateral values summarized above are estimated and may change over time due to various factors including our level of access to the properties securing the loans, changes in the real estate market or the condition of individual properties. The collateral values presented do not include any costs that would typically be incurred in obtaining the property in settlement of the loan, readying the property for sale or in the sale of a property.

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Following is a summary of the distribution of our mortgage loans at fair value (excluding mortgage loans acquired for sale at fair value and mortgage loans at fair value held by VIE):

Loan type	June 30, 2014						December 31, 2013					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
	(dollars in thousands)						(dollars in thousands)					
Fixed	\$ 320,212	52%	4.85%	\$ 656,592	42%	5.97%	\$ 329,899	51%	5.00%	\$ 751,611	46%	6.00%
ARM/Hybrid	113,271	19%	3.24%	861,988	56%	5.13%	184,837	29%	3.46%	877,086	53%	5.00%
Interest rate	176,794	29%	2.31%	26,137	2%	2.49%	132,391	20%	2.32%	18,830	1%	3.30%
Loan	150	0%	2.00%	1,357	0%	5.18%	139	0%	2.00%		0%	0.00%
	\$ 610,427	100%	3.79%	\$ 1,546,074	100%	5.45%	\$ 647,266	100%	4.01%	\$ 1,647,527	100%	5.50%

Loan position	June 30, 2014						December 31, 2013					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
	(dollars in thousands)						(dollars in thousands)					
Open	\$ 609,733	100%	3.79%	\$ 1,545,893	100%	5.44%	\$ 646,703	100%	4.01%	\$ 1,647,457	100%	5.50%
Lien	694	0%	4.50%	181	0%	10.30%	563	0%	4.97%	70	0%	10.60%
Secured		0%	0.00%		0%	0.00%		0%	0.00%		0%	0.00%
	\$ 610,427	100%	3.79%	\$ 1,546,074	100%	5.45%	\$ 647,266	100%	4.01%	\$ 1,647,527	100%	5.50%

Loan occupancy	June 30, 2014						December 31, 2013					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
	(dollars in thousands)						(dollars in thousands)					
Owner occupied	\$ 500,855	83%	3.88%	\$ 820,745	53%	5.42%	\$ 543,633	84%	4.02%	\$ 915,279	56%	5.40%
Investment	106,805	17%	3.39%	723,257	47%	5.47%	95,181	15%	3.95%	729,558	44%	5.50%
Other	2,767	0%	4.24%	2,072	0%	5.55%	8,452	1%	4.13%	2,690	0%	5.10%
	\$ 610,427	100%	3.79%	\$ 1,546,074	100%	5.45%	\$ 647,266	100%	4.01%	\$ 1,647,527	100%	5.50%

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Maturity	June 30, 2014						December 31, 2013					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate (dollars in thousands)	Fair value	% total	Average note rate	Fair value	% total	Average note rate (dollars in thousands)	Fair value	% total	Average note rate
Less than 12 months	\$ 393	0%	4.17%	\$	0%	0.42%	\$ 444	0%	3.54%	\$	0%	0.4%
13 to 35 months	801	0%	3.47%	792	0%	4.64%	11,063	2%	2.64%	3,075	0%	4.0%
36 to 59 months	30,486	5%	3.52%	32,754	2%	3.74%	54,150	8%	3.49%	55,669	3%	4.2%
60 months or more	578,747	95%	3.81%	1,512,528	98%	5.49%	581,609	90%	4.09%	1,588,783	97%	5.5%
	\$ 610,427	100%	3.79%	\$ 1,546,074	100%	5.45%	\$ 647,266	100%	4.01%	\$ 1,647,527	100%	5.5%

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	June 30, 2014						December 31, 2013					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average	Fair value	% total	Average	Fair value	% total	Average	Fair value	% total	
			note rate			note rate			note rate			
	(dollars in thousands)						(dollars in thousands)					
600	\$ 167,594	28%	4.22%	\$ 277,497	18%	5.79%	\$ 159,814	25%	4.51%	\$ 306,375	19%	
	130,152	21%	4.01%	290,815	19%	5.43%	130,561	20%	4.33%	303,402	18%	
	153,180	25%	3.66%	454,703	29%	5.41%	157,600	24%	3.85%	469,526	28%	
	116,660	19%	3.21%	370,378	24%	5.31%	131,930	20%	3.40%	399,819	24%	
greater	42,841	7%	3.41%	152,681	10%	5.27%	67,361	11%	3.52%	168,405	11%	
	\$ 610,427	100%	3.79%	\$ 1,546,074	100%	5.45%	\$ 647,266	100%	4.01%	\$ 1,647,527	100%	

	June 30, 2014						December 31, 2013					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average	Fair value	% total	Average	Fair value	% total	Average	Fair value	% total	
			note rate			note rate			note rate			
	(dollars in thousands)						(dollars in thousands)					
80%	\$ 120,517	20%	4.35%	\$ 224,811	15%	5.53%	\$ 145,449	23%	4.49%	\$ 223,442	14%	
99%	161,093	26%	3.96%	372,155	24%	5.38%	188,505	29%	4.00%	355,451	22%	
99.99%	177,543	29%	3.64%	369,731	24%	5.43%	174,830	27%	3.83%	413,316	25%	
greater	151,274	25%	3.54%	579,377	37%	5.46%	138,482	21%	3.89%	655,318	39%	
	\$ 610,427	100%	3.79%	\$ 1,546,074	100%	5.45%	\$ 647,266	100%	4.01%	\$ 1,647,527	100%	

- (1) Current loan-to-value is calculated based on the unpaid principal balance of the mortgage loan and our estimate of the value of the mortgaged property.

	June 30, 2014						December 31, 2013					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average	Fair value	% total	Average	Fair value	% total	Average	Fair value	% total	
			note rate			note rate			note rate			
	(dollars in thousands)						(dollars in thousands)					
California	\$ 156,001	26%	3.15%	\$ 305,846	20%	4.61%	\$ 184,457	28%	3.37%	\$ 370,347	23%	4.60%
New York	58,318	10%	3.45%	282,566	18%	5.89%	37,944	6%	4.29%	188,021	11%	5.97%
Florida	41,146	7%	3.73%	192,870	13%	5.88%	55,115	9%	3.68%	234,362	14%	5.91%
New Jersey	29,429	5%	3.23%	171,553	11%	5.66%	*	*	*	161,344	10%	5.65%
Other	325,533	52%	4.22%	593,239	38%	5.40%	369,750	57%	4.47%	693,453	42%	5.68%
	\$ 610,427	100%	3.79%	\$ 1,546,074	100%	5.45%	\$ 647,266	100%	4.01%	\$ 1,647,527	100%	5.50%

* Not included in the states representing the largest percentages as of the dates presented.

Mortgage status	June 30, 2014						December 31, 2013					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
	(dollars in thousands)						(dollars in thousands)					
Current	\$ 456,512	75%	3.69%	\$ -	0%	0.00%	\$ 501,218	77%	3.90%	\$ -	0%	0.00%
30 days delinquent	104,164	17%	4.14%	-	0%	0.00%	100,395	16%	4.32%	-	0%	0.00%
60 days delinquent	49,751	8%	4.01%	-	0%	0.00%	45,653	7%	4.40%	-	0%	0.00%
90 days or more delinquent	-	0%	0.00%	-	0%	0.00%	-	0%	0.00%	-	0%	0.00%
in foreclosure	-	0%	0.00%	629,021	41%	5.00%	-	0%	0.00%	738,043	45%	5.10%
in preforeclosure	-	0%	0.00%	917,053	59%	5.76%	-	0%	0.00%	909,484	55%	5.80%
	\$ 610,427	100%	3.79%	\$ 1,546,074	100%	5.45%	\$ 647,266	100%	4.01%	\$ 1,647,527	100%	5.50%

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We believe that our current fair value estimates are representative of fair value at the reporting date. However, the market for distressed mortgage assets is illiquid with a limited number of participants. Furthermore, our business strategy is to enhance value during the period in which the loans are held. Therefore, any resulting appreciation or depreciation in the fair value of the loans is recorded during such holding period and ultimately realized at the end of the holding period.

Following is a comparison of the valuation techniques and key inputs we use in the valuation of our financial assets using Level 3 inputs:

Key inputs	Range (Weighted average)			
	June 30, 2014		December 31, 2013	
<i>Mortgage loans at fair value</i>				
Discount rate	7.1%	16.9%	8.7%	16.9%
	(11.8%)		(12.7%)	
Twelve-month projected housing price index change	3.5%	9.1%	2.5%	4.3%
	(4.7%)		(3.7%)	
Prepayment speed (1)	0.0%	6.6%	0.0%	3.9%
	(2.5%)		(2.0%)	
Total prepayment speed (2)	0.8%	27.4%	0.3%	33.9%
	(21.8%)		(24.3%)	
<i>Mortgage loans under forward purchase agreements</i>				
Discount rate			9.5%	13.5%
			(11.9%)	
Twelve-month projected housing price index change			3.3%	4.2%
			(3.8%)	
Prepayment speed (1)			1.1%	2.9%
			(2.2%)	
Total prepayment speed (2)			13.4%	27.9%
			(22.8%)	

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

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

We monitor and value our investments in pools of distressed mortgage loans either by acquisition date or by payment status of the loans. Most of the measures we use to value and monitor the loan portfolio, such as projected prepayment and default speeds and discount rates, are applied or output at the pool level. The characteristics of the individual loans, such as loan size, loan-to-value ratio and current delinquency status, can vary widely within a pool.

The weighted average discount rate used in the valuation of mortgage loans at fair value decreased from 12.7% at December 31, 2013 to 11.8% at June 30, 2014 as market returns for similar assets decreased during the period.

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The weighted average twelve-month projected housing price index (HPI) change increased from 3.7% at December 31, 2013 to 4.7% at June 30, 2014 due to slightly different expectations in various geographies and different state composition of the portfolio.

The total prepayment speed of our portfolio of mortgage loans at fair value decreased from 24.3% at December 31, 2013 to 21.8% at June 30, 2014, largely due to our revised expectations of run off compared to our estimate at December 31, 2013.

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

Following is a summary of our REO by attribute:

Property type	June 30, 2014		December 31, 2013	
	Fair value	% total	Fair value	% total
	(dollars in thousands)			
1 - 4 dwelling units	\$ 169,825	71%	\$ 108,341	73%
Planned unit development	24,241	10%	23,106	15%
Condominium/Co-op	29,716	12%	9,805	7%
5+ dwelling units	16,689	7%	6,828	5%
	\$ 240,471	100%	\$ 148,080	100%

Geographic distribution	June 30, 2014		December 31, 2013	
	Fair value	% total	Fair value	% total
	(dollars in thousands)			
California	\$ 44,720	19%	\$ 25,224	17%
Florida	38,793	16%	21,659	15%
Maryland	23,304	10%	7,688	5%
Illinois	12,408	5%	*	*
Other	121,246	50%	93,509	63%
	\$ 240,471	100%	\$ 148,080	100%

* Not included in the states representing the largest percentages as of the dates presented.

Following is a summary of the status of our portfolio of acquisitions by quarter acquired (excluding acquisitions for the quarter ended June 30, 2014 due to close proximity of current status to quarter-end):

	Acquisitions for the quarter ended	
	At purchase	June 30, 2014
	(dollars in millions)	
Unpaid principal balance	\$ 439.0	\$ 424.9
Pool factor (1)	1.00	0.97
Collection status:		

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Delinquency		
Current	6.2%	10.3%
30 days	0.7%	1.5%
60 days	0.7%	1.6%
over 90 days	37.5%	28.6%
In foreclosure	53.8%	51.8%
REO	1.1%	6.3%

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	Acquisitions for the quarter ended							
	December 31, 2013		September 30, 2013		June 30, 2013		March 31, 2013	
	At purchase	June 30, 2014	At purchase	June 30, 2014	At purchase	June 30, 2014	At purchase	June 30, 2014
Unpaid principal balance	\$ 507.3	\$ 486.1	\$ 929.5	\$ 828.4	\$ 397.3	\$ 345.6	\$ 366.2	\$ 272.6
Pool factor (1)	1.00	0.96	1.00	0.89	1.00	0.87	1.00	0.74
Collection status:								
Delinquency								
Current	1.4%	6.9%	0.8%	11.1%	4.8%	20.4%	1.6%	36.7%
30 days	0.2%	0.9%	0.3%	1.4%	7.4%	6.0%	1.5%	7.9%
60 days	0.0%	0.2%	0.7%	0.8%	7.6%	3.7%	3.5%	4.1%
over 90 days	38.3%	30.4%	58.6%	34.8%	45.3%	25.3%	82.2%	22.1%
In foreclosure	60.0%	54.1%	39.6%	42.8%	34.9%	35.0%	11.2%	19.4%
REO	0.0%	7.6%	0.0%	9.2%	0.0%	9.6%	0.0%	9.7%

	Acquisitions for the quarter ended							
	December 31, 2012		September 30, 2012		June 30, 2012		March 31, 2012	
	At purchase	June 30, 2014	At purchase	June 30, 2014	At purchase	June 30, 2014	At purchase	June 30, 2014
Unpaid principal balance	\$ 290.3	\$ 211.9	\$ 357.2	\$ 234.5	\$ 402.5	\$ 176.0	\$ 0.0	\$ 0.0
Pool factor (1)	1.00	0.73	1.00	0.66	1.00	0.44		
Collection status:								
Delinquency								
Current	3.1%	25.6%	0.0%	21.1%	45.0%	35.5%	0.0%	0.0%
30 days	1.3%	7.2%	0.0%	1.8%	4.0%	10.5%	0.0%	0.0%
60 days	5.4%	4.4%	0.1%	1.9%	4.3%	4.8%	0.0%	0.0%
over 90 days	57.8%	18.4%	49.1%	17.5%	31.3%	23.4%	0.0%	0.0%
In foreclosure	32.4%	27.5%	50.8%	40.4%	15.3%	17.2%	0.0%	0.0%
REO	0.0%	17.0%	0.0%	17.2%	0.1%	8.6%	0.0%	0.0%

	Acquisitions for the quarter ended							
	December 31, 2011		September 30, 2011		June 30, 2011		March 31, 2011	
	At purchase	June 30, 2014	At purchase	June 30, 2014	At purchase	June 30, 2014	At purchase	June 30, 2014
Unpaid principal balance	\$ 49.0	\$ 29.3	\$ 542.6	\$ 185.9	\$ 259.8	\$ 105.8	\$ 515.1	\$ 183.1
Pool factor (1)	1.00	0.60	1.00	0.34	1.00	0.41	1.00	0.36
Collection status:								
Delinquency								
Current	0.2%	31.5%	0.6%	20.8%	11.5%	26.2%	2.0%	23.2%

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30 days	0.1%	3.4%	1.3%	3.9%	6.5%	8.6%	1.9%	5.8%
60 days	0.2%	5.2%	2.0%	3.2%	5.2%	3.9%	3.9%	2.9%
over 90 days	70.4%	22.8%	22.6%	27.0%	31.2%	24.0%	25.9%	18.8%
In foreclosure	29.0%	28.1%	73.0%	33.1%	43.9%	26.9%	66.3%	39.0%
REO	0.0%	9.0%	0.4%	12.0%	1.7%	10.4%	0.0%	10.3%

(1) Ratio of unpaid principal balance remaining to unpaid principal balance at acquisition.

Cash Flows

Our cash flows resulted in a net increase in cash of \$10.5 million during the six months ended June 30, 2014. The increase was due to cash provided in our investing and financing activities exceeding cash used by our operating activities.

Table of Contents*Operating activities*

Cash used by operating activities totaled \$570.5 million during the six months ended June 30, 2014 compared to cash used in operating activities of \$440.6 million during the six months ended June 30, 2013. Cash used by operating activities in both periods is primarily attributable to growth in our inventory of mortgage loans acquired for sale.

Investing activities

Net cash provided by our investing activities was \$112.8 million for the six months ended June 30, 2014 and reflects liquidations of investments in excess of new investment acquisitions. We realized cash inflows from repayments of mortgage loans and MBS, repayments of ESS and sales of REO totaling \$508.2 million. Partially offsetting these cash inflows were the use of cash to purchase mortgage loans at fair value, ESS and REO of \$379.1 million during the six months ended June 30, 2014.

Approximately 38% of our investments, comprised of short-term investments, MBS, non-correspondent production mortgage loans, ESS, REO and MSRs, were nonperforming assets as of June 30, 2014. Nonperforming assets include mortgage loans delinquent 90 or more days and REO. Accordingly, we expect that these assets will require a longer period to produce cash flow and the timing and amount of cash flows from these assets is less certain than for performing assets. During the six months ended June 30, 2014, we transferred \$183.5 million of mortgage loans to REO and realized cash proceeds from the sales and repayments of mortgage loans at fair values and REO totaling \$486.3 million.

As discussed above, our investing activities include the purchase of long-term assets which are not presently cash flowing or are at risk of interruption of cash flows in the near future. Furthermore, much of the investment income we recognize is in the form of valuation adjustments we record recognizing our estimates of the net appreciation in fair value of the assets as we work with borrowers to either modify their loans or acquire the property securing their loans in settlement thereof. Accordingly, the cash associated with a substantial portion of our revenues is often realized as part of the proceeds of the liquidation of the assets, either through payoff or sale of the mortgage loan or through acquisition and subsequent sale of the property securing the loans, many months after we record the revenues.

The following table illustrates, for assets liquidated during the periods presented, the net gain (loss) in value that we accumulated over the period during which we owned the liquidated assets, as compared to the proceeds actually received and the additional net gain (loss) realized upon liquidation of such assets:

	Quarter ended June 30,					
	2014			2013		
	Accumulated	Gain on		Accumulated	Gain on	
	Proceeds	gains (losses) (2)	liquidation (3)	Proceeds	gains (losses) (2)	liquidation (3)
	(in thousands)					
Mortgage loans (1)	\$ 142,255	\$ 27,580	\$ 9,883	\$ 73,358	\$ 10,689	\$ 8,039
REO	48,874	3,229	3,811	30,993	1,155	3,049
	\$ 191,129	\$ 30,809	\$ 13,694	\$ 104,351	\$ 11,844	\$ 11,088

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	Six months ended June 30,						
	2014			2013			
	Proceeds	Accumulated gains (losses) (2)	Gain on liquidation (3)	Proceeds	Accumulated gains (losses) (2)	Gain on liquidation (3)	
	(in thousands)						
Mortgage loans (1)	\$ 394,316	\$ 80,822	\$ 16,629	\$ 135,242	\$ 17,706	\$ 16,404	
REO	82,268	6,202	6,078	63,017	2,178	5,885	
	\$ 476,584	\$ 87,024	\$ 22,707	\$ 198,259	\$ 19,884	\$ 22,289	

- (1) For the quarter and six months ended June 30, 2014, the amounts include a sale of reperforming loans with loan sale proceeds of \$70.3 million and \$264.3 million, accumulated gains of \$18.6 million and \$62.8 million, and \$2.4 million and \$3.5 million gain on liquidation, respectively.
- (2) 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.
- (3) Represents the gain or loss recognized upon sale or repayment of the respective asset.

The amounts included in accumulated gains and gains on liquidation do not include the cost of managing the liquidated assets which may be substantial depending on the collection status of the loan at acquisition and on our success in working with the borrower to resolve the source of distress in the loan. Accumulated gains include the amount of accumulated valuation gains and losses recognized throughout the holding period and, in the case of REO, includes direct transaction costs incurred in the sale of the property. Accordingly, the preceding amounts do not represent periodic earnings on a cash basis and the amount of gain will have accumulated over varying periods depending on the holding periods and liquidation speed for individual assets.

The primary expenses incurred at a loan level in managing our portfolio of distressed assets are servicing and activity fees. From the time of acquisition of the distressed assets through their deboarding dates, we incurred servicing and activity fees of \$3.1 million for assets liquidated during the quarter ended June 30, 2014; \$1.6 million for assets liquidated during the quarter ended June 30, 2013; and \$8.1 million and \$4.4 million for assets liquidated during the six months ended June 30, 2014 and 2013, respectively.

Financing activities

Net cash provided by financing activities was \$468.2 million for the six months ended June 30, 2014, which was primarily used to fund the increase in our inventory of mortgage loans acquired for sale and mortgage loans at fair value. We do not raise equity or enter into borrowings for the purpose of financing the payment of dividends. We believe that our cash flows from the liquidation of our investments, which include accumulated gains recorded during the periods we hold those investments, along with our cash earnings, are adequate to fund our operating expenses and dividend payment requirements. As our business continues to grow, we manage our liquidity in the aggregate and are reinvesting our cash flows in new investments as well as using such cash to fund our dividend requirements.

Liquidity and Capital Resources

Our liquidity reflects our ability to meet our current obligations (including the purchase of loans from correspondent lenders, our operating expenses and, when applicable, retirement of, and margin calls relating to, our debt and derivatives positions), make investments as our Manager identifies them and make distributions to our shareholders. We generally need to distribute at least 90% of our taxable income each year (subject to certain adjustments) to our

shareholders to qualify as a REIT under the Internal Revenue Code. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

We expect our primary sources of liquidity to be proceeds from liquidations from our portfolio of distressed assets, cash earnings on our investments, cash flows from business activities, and proceeds from

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borrowings and/or additional equity offerings. We do not expect repayments from contractual cash flows from our investments to be a primary source of liquidity as the majority of our distressed asset investments are nonperforming. Our portfolio of distressed mortgage loans was acquired with the expectation that the majority of the cash flows associated with these investments would result from liquidation of the loan or the property securing the loan, rather than from scheduled principal and interest payments. Our mortgage loans acquired for sale are generally held for fifteen days or less, and therefore are not expected to generate significant cash flows from principal repayments.

Our current leverage strategy is to finance our assets where we believe such borrowing is prudent, appropriate and available. We have made borrowings in the form of borrowings under forward purchase agreements, and sales of assets under agreements to repurchase. We entered into two long-term financing agreements during the year ended December 31, 2013. To the extent available to us, we expect in the future to obtain long-term financing for assets with estimated future lives of more than one year; this may include term financing and securitization of performing (including newly purchased jumbo mortgage loans), nonperforming and/or reperforming mortgage loans.

The two long-term financing transactions are as follows:

In April 2013, our wholly-owned subsidiary, PMC, completed a private offering of \$250.0 million of Notes due 2020. The Notes bear interest at a rate of 5.375% per year, payable semiannually. The Notes are exchangeable into common shares of the Company at a rate of 33.5733 common shares per \$1,000 principal amount of the Notes, which exchange rate increased from the initial exchange rate of 33.5149 (equivalent to an initial exchange price of approximately \$29.84 per common share). The increase in the calculated exchange rate was the result of cash dividends exceeding the dividend threshold amount of \$0.57 as provided in the related indenture. The exchange rate is subject to adjustment upon the occurrence of other certain events, but will not be adjusted for any accrued and unpaid interest. The Notes will mature May 1, 2020, unless repurchased or exchanged in accordance with their terms before such date.

In September 2013, we financed \$536.8 million at fair value of jumbo loans through a private-label securitization transaction. We sold \$174.5 million of senior bonds backed by the loans and retained the remaining securities from the transaction, with a portion intended as long-term investments. We intend to sell a portion of the securities in the future as investor demand for private-label securities increases. We do not have plans to do additional financings through private-label securitizations until market conditions for such transactions improve.

We will continue to finance most of our assets on a short-term basis until long-term financing on favorable terms becomes more accessible. Our short-term financings will be primarily in the form of agreements to repurchase and other secured lending and structured finance facilities, pending the ultimate disposition of the assets, whether through sale, securitization or liquidation. Because a significant portion of our current debt facilities consist of short-term borrowings, we expect to renew these facilities in advance of maturity in order to ensure our ongoing liquidity and access to capital or otherwise allow ourselves sufficient time to replace any necessary financing.

Our repurchase agreements represent the sales of assets together with agreements for us to buy back the assets at a later date. During the quarter and six months ended June 30, 2014, the average balance outstanding under agreements to repurchase securities, mortgage loans, mortgage loans acquired for sale, mortgage loans held by VIE and REO totaled \$2.3 billion and 2.0 billion, and the maximum daily amount outstanding under such agreements totaled \$2.8 billion and 2.6 billion, respectively. The difference between the maximum and average daily amounts

outstanding was due to the timing of our mortgage loan purchases through our correspondent production segment and settlements of the mortgage loans into securities and our use of excess cash to temporarily reduce our borrowings. The total facility size of our borrowings was approximately \$3.9 billion at June 30, 2014.

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As of June 30, 2014 and December 31, 2013, we financed our investments in MBS, our inventory of mortgage loans acquired for sale at fair value, mortgage loans at fair value, mortgage loans at fair value held by VIE, and REO under agreements to repurchase and forward purchase agreements as follows:

	June 30, 2014	December 31, 2013
	(dollars in thousands)	
Assets financed	\$ 3,790,376	\$ 3,447,587
Total assets in classes of assets financed	\$ 4,066,102	\$ 3,787,478
Borrowings	\$ 2,871,956	\$ 2,431,600
Percentage of invested assets pledged	93%	91%
Advance rate against pledged assets	76%	71%
Leverage ratio(1)	1.98x	1.83x

(1) All borrowings divided by shareholders' equity at period end.

As discussed above, all of our repurchase agreements and forward purchase agreements have short-term maturities:

The transactions relating to mortgage loans and REO under agreements to repurchase mature between September 8, 2014 and February 17, 2015 and provide for the sale to major financial institution counterparties based on the fair value of the mortgage loans sold. The agreements provide for terms of approximately one year.

We do not currently have secured financing for our investments in MSR and ESS. Direct leverage on these assets has been difficult to obtain due to the requirement of each Agency that its rights and interest in the MSR and ESS remain senior to those of any lender extending credit. If we are unable to finance these asset classes, continued aggregation of MSR and acquisition of ESS could place stress on our capital and liquidity positions or require us to forego attractive investment opportunities.

Our debt financing agreements require us and certain of our subsidiaries to comply with various financial covenants. As of the filing of this Report, these financial covenants include the following:

profitability at each of the Company and our Operating Partnership, for at least one (1) of the previous two consecutive fiscal quarters, as of the end of each fiscal quarter, for both the prior two (2) calendar quarters and the prior three (3) calendar quarters;

a minimum of \$40 million in unrestricted cash and cash equivalents among the Company and/or our subsidiaries; a minimum of \$40 million in unrestricted cash and cash equivalents among our Operating Partnership and its consolidated subsidiaries; a minimum of \$25 million in unrestricted cash and cash equivalents between PMC and PMH; and a minimum of \$10 million in unrestricted cash and cash equivalents at each of PMC and PMH;

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a minimum tangible net worth for the Company of \$860 million; a minimum tangible net worth for our Operating Partnership of \$700 million; a minimum tangible net worth for PMH of \$250 million; and a minimum tangible net worth for PMC of \$150 million;

a maximum ratio of total liabilities to tangible net worth of less than 10:1 for PMC and 5:1 for the Company, our Operating Partnership and PMH; and

at least two warehouse or repurchase facilities that finance amounts and assets similar to those being financed under our existing debt financing agreements.

Although these financial covenants limit the amount of indebtedness we may incur and impact our liquidity through minimum cash reserve requirements, we believe that these covenants currently provide us with sufficient flexibility to successfully operate our business and obtain the financing necessary to achieve that purpose.

PLS is also subject to various financial covenants, both as a borrower under its own financing arrangements and as our Servicer under certain of our debt financing agreements. The most significant of these financial covenants currently include the following:

positive net income during each calendar quarter;

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a minimum in unrestricted cash and cash equivalents of \$20 million;

a minimum tangible net worth of \$90 million; and

a maximum ratio of total liabilities to tangible net worth of 10:1.

Our transactions relating to securities sold under agreements to repurchase contain margin call provisions that, upon notice from the applicable lender at its option, require us to transfer cash or additional securities in an amount sufficient to eliminate any margin deficit. A margin deficit will generally result from any decrease in the market value (as determined by the applicable lender) of the assets subject to an agreement to repurchase, although in some instances we may agree with the lender upon certain thresholds (in dollar amounts or percentages based on the market value of the assets) that must be exceeded before a margin deficit will arise. Upon notice from the applicable lender, we will generally be required to satisfy the margin call on the day of such notice or within one business day thereafter, depending on the timing of the notice.

The transactions relating to mortgage loans and/or equity interests in special purpose entities holding real property under agreements to repurchase contain margin call provisions that, upon notice from the applicable lender at its option, require us to transfer cash or additional mortgage loans or real property, as applicable, in an amount sufficient to eliminate any margin deficit. A margin deficit will generally result from any decrease in the market value (as determined by the applicable lender) of the assets subject to an agreement to repurchase. Upon notice from the applicable lender, we will generally be required to satisfy the margin call on the day of such notice or within one business day thereafter, depending on the timing of the notice.

Our Manager continues to explore a variety of additional means of financing our continued growth, including debt financing through bank warehouse lines of credit, additional repurchase agreements, term financing, securitization transactions and additional equity offerings. However, there can be no assurance as to how much additional financing capacity such efforts will produce, what form the financing will take or that such efforts will be successful.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-Balance Sheet Arrangements and Guarantees

As of June 30, 2014, we have not entered into any off-balance sheet arrangements or guarantees.

Contractual Obligations

As of June 30, 2014, we had on-balance sheet contractual obligations of \$2.7 billion for the financing of assets under agreements to repurchase with maturities between January 2, 2014 and December 18, 2014 as well as forward purchase agreements with maturities between June 16, 2014 and June 30, 2014. We also had contractual obligations of \$250.0 million in the Notes.

As of June 30, 2014, we had contractual obligations to purchase mortgage loans for resale totaling approximately \$1.4 million. Of the \$1.4 million in commitments to purchase mortgage loans for resale, we recorded IRLCs of \$11.5 million on our balance sheet as assets under the caption *Derivative assets* and \$395,000 as liabilities under the caption *Derivative liabilities*.

All agreements to repurchase assets that matured between June 30, 2014 and the date of this Report have been renewed, extended or repaid and are described in Note 16 *Assets Sold Under Agreements to Repurchase at Fair Value* in the accompanying consolidated financial statements.

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Payment obligations under these agreements are summarized below:

Contractual obligations	Total	Payments due by period			
		Less than 1 year (in thousands)	1 - 3 years	3 - 5 years	More than 5 years
Commitments to purchase mortgage loans from correspondent lenders	\$ 1,443,612	\$ 1,443,612	\$	\$	\$
Assets sold under agreements to repurchase	2,701,755	2,701,755			
Asset-backed secured financing	168,676				168,676
Exchangeable senior notes	250,000				250,000
Total	\$ 4,564,043	\$ 4,145,367	\$	\$	\$ 418,676

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) relating to the Company's assets sold under agreements to repurchase and forward purchase agreements is summarized by counterparty below as of June 30, 2014:

Counterparty	Amount at risk (in thousands)
Citibank, N.A.	\$ 540,781
Credit Suisse First Boston Mortgage Capital LLC	243,465
The Royal Bank of Scotland Group	80,264
Bank of America, N.A.	57,715
Morgan Stanley Bank, N.A.	10,832
Daiwa Capital Markets America, Inc	7,412
	\$ 940,469

Management Agreement. We are externally managed and advised by our Manager pursuant to a management agreement, which was amended and restated effective February 1, 2013. Our management agreement requires our Manager to oversee our business affairs in conformity with the investment policies that are approved and monitored by our board of trustees. Our Manager is responsible for our day-to-day management and will perform such services and activities related to our assets and operations as may be appropriate.

Pursuant to our management agreement, our Manager collects a base management fee and may collect a performance incentive fee, both payable quarterly and in arrears. The term of our management agreement expires on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

The base management fee is calculated at a defined annualized percentage of shareholders' equity. Our shareholders' equity is defined as the sum of the net proceeds from any issuances of our equity securities since our inception (weighted for the time outstanding during the measurement period); plus our retained earnings at the end of the

quarter; less any amount that we pay for repurchases of our common shares (weighted for the time held during the measurement period); and excluding one-time events pursuant to changes in GAAP and certain other non-cash charges after discussions between our Manager and our independent trustees and approval by a majority of our independent trustees.

Pursuant to our management agreement, the base management fee is equal to the sum of (i) 1.5% per annum of shareholders' equity up to \$2 billion, (ii) 1.375% per annum of shareholders' equity in excess of \$2 billion and up to \$5 billion, and (iii) 1.25% per annum of shareholders' equity in excess of \$5 billion. The base management fee is paid in cash.

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The performance incentive fee is calculated at a defined annualized percentage of the amount by which net income, on a rolling four-quarter basis and before deducting the incentive fee, exceeds certain levels of return on equity. For the purpose of determining the amount of the performance incentive fee, net income is defined as net income or loss computed in accordance with GAAP and certain other non-cash charges determined after discussions between our Manager and our independent trustees and approval by a majority of our independent trustees. For this purpose, equity is the weighted average of the issue price per common share of all of our public offerings, multiplied by the weighted average number of common shares outstanding (including restricted share units) in the four-quarter period.

The performance incentive fee is calculated quarterly and escalates as net income (stated as a percentage of return on equity) increases over certain thresholds. On each calculation date, the threshold amounts represent a stated return on equity, plus or minus a high watermark adjustment. The performance fee payable for any quarter is equal to: (a) 10% of the amount by which net income for the quarter exceeds (i) an 8% return on equity plus the high watermark, up to (ii) a 12% return on equity; plus (b) 15% of the amount by which net income for the quarter exceeds (i) a 12% return on equity plus the high watermark, up to (ii) a 16% return on equity; plus (c) 20% of the amount by which net income for the quarter exceeds a 16% return on equity plus the high watermark.

The high watermark is the quarterly adjustment that reflects the amount by which the net income (stated as a percentage of return on equity) in that quarter exceeds or falls short of the lesser of 8% and the Fannie Mae MBS Yield (the target yield) for such quarter. The high watermark starts at zero and is adjusted quarterly. If the net income is lower than the target yield, the high watermark is increased by the difference. If the net income is higher than the target yield, the high watermark is reduced by the difference. Each time a performance incentive fee is earned, the high watermark returns to zero. As a result, the threshold amounts required for our Manager to earn a performance incentive fee are adjusted cumulatively based on the performance of our net income over (or under) the target yield, until the net income in excess of the target yield exceeds the then-current cumulative high watermark amount, and a performance incentive fee is earned. The performance incentive fee may be paid in cash or in our common shares (subject to a limit of no more than 50% paid in common shares), at our option.

Under our management agreement, our Manager is entitled to reimbursement of its organizational and operating expenses, including third-party expenses, incurred on our behalf. Our Manager may also be entitled to a termination fee under certain circumstances. Specifically, the termination fee is payable for (1) our termination of our management agreement without cause, (2) our Manager's termination of our management agreement upon a default by us in the performance of any material term of the agreement that has continued uncured for a period of 30 days after receipt of written notice thereof or (3) our Manager's termination of the agreement after the termination by us without cause (excluding a non-renewal) of our MBWS agreement, our MSR recapture agreement, or our servicing agreement (each as described and/or defined below). 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, in each case earned by our Manager during the 24-month period before termination.

Our management agreement also provides that, prior to the undertaking by our Manager or its affiliates of any new investment opportunity or any other business opportunity requiring a source of capital with respect to which our Manager or its affiliates will earn a management, advisory, consulting or similar fee, our Manager shall present to us such new opportunity and the material terms on which our Manager proposes to provide services to us before pursuing such opportunity with third parties.

Servicing Agreement. We have entered into a servicing agreement with our Servicer pursuant to which our Servicer provides servicing for our portfolio of residential mortgage loans. The loan servicing provided by our Servicer includes collecting principal, interest and escrow account payments, if any, with respect to mortgage loans, as well as managing loss mitigation, which may include, among other things, collection activities, loan workouts, modifications,

foreclosures and short sales. Our Servicer also engages in certain loan origination activities that include refinancing mortgage loans and financings that facilitate sales of real estate owned properties, or REOs. The term of our servicing agreement, as amended, expires on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

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The base servicing fees for distressed whole loans are calculated based on a monthly per-loan dollar amount, with the actual dollar amount for each loan based on the delinquency, bankruptcy and/or foreclosure status of such loan or the related underlying real estate. Presently, the base servicing fees for distressed whole loans range from \$30 per month for current loans up to \$125 per month for loans that are severely delinquent and in foreclosure.

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

Except as otherwise provided in our MSR recapture agreement, when our Servicer effects a refinancing of a loan on our behalf and not through a third-party lender and the resulting loan is readily saleable, or our Servicer originates a loan to facilitate the disposition of the real estate acquired by us in settlement of a loan, our Servicer is entitled to receive from us market-based fees and compensation consistent with pricing and terms our Servicer offers unaffiliated third parties on a retail basis.

To the extent that our Servicer participates in HAMP (or other similar mortgage loan modification programs), our Servicer is entitled to retain any incentive payments made to it and to which it is entitled under HAMP, provided that, with respect to any incentive payments paid to our Servicer in connection with a mortgage loan modification for which we previously paid our Servicer a modification fee, our Servicer is required to reimburse us an amount equal to the incentive payments.

In addition, because we do not have any employees or infrastructure, our Servicer is required to provide a range of services and activities significantly greater in scope than the services provided in connection with a customary servicing arrangement. For these services, our Servicer receives a supplemental servicing fee of \$25 per month for each distressed whole loan and \$3.25 per month for each other subserviced loan; provided, however, that from and after January 1, 2014, the aggregate supplemental servicing fees for all loans that are owned by a third party investor and with respect to which we have acquired the related servicing rights (and that are not distressed whole loans) shall not exceed \$700,000 in any fiscal quarter. Our Servicer is entitled to reimbursement for all customary, bona fide reasonable and necessary out-of-pocket expenses incurred by our Servicer in connection with the performance of its servicing obligations.

Mortgage Banking and Warehouse Services Agreement. We have also entered into a mortgage banking and warehouse services agreement (the MBWS agreement), pursuant to which our Servicer provides us with certain mortgage banking services, including fulfillment and disposition-related services, with respect to loans acquired by us from correspondent lenders, and certain warehouse lending services, including fulfillment and administrative services, with respect to loans financed by us for our warehouse lending clients. The term of our MBWS agreement expires on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

Under our MBWS agreement, our Servicer has agreed to provide the mortgage banking services exclusively for our benefit, and our Servicer and its affiliates are prohibited from providing such services for any other third party. However, such exclusivity and prohibition shall not apply, and certain other duties instead will be imposed upon our Servicer, if we are unable to purchase or finance mortgage loans as contemplated under our MBWS agreement for any

reason.

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In consideration for the mortgage banking services provided by our Servicer with respect to our acquisition of mortgage loans, our Servicer is entitled to a fulfillment fee based on the type of mortgage loan that we acquire and equal to a percentage of the unpaid principal balance of such mortgage loan. Presently, the applicable percentages are (i) 0.50% for conventional mortgage loans, (ii) 0.88% for loans sold in accordance with the Ginnie Mae Mortgage-Backed Securities Guide, (iii) 0.80% for HARP mortgage loans with a loan-to-value ratio of 105% or less, (iv) 1.20% for HARP mortgage loans with a loan-to-value ratio of greater than 105%, and (v) 0.50% for all other mortgage loans not contemplated above; provided, however, that PLS may, in its sole discretion, reduce the amount of the applicable fulfillment fee and credit the amount of such reduction to the reimbursement otherwise due as described below. This reduction may only be credited to the reimbursement applicable to the month in which the related mortgage was funded.

At this time, we do not hold the Ginnie Mae approval required to issue Ginnie Mae MBS and act as a servicer. Accordingly, under our MBWS agreement, our Servicer currently purchases loans saleable in accordance with the Ginnie Mae Mortgage-Backed Securities Guide as is and without recourse of any kind from us at cost less an administrative fee paid by the correspondent lender to us plus accrued interest and a sourcing fee of three basis points.

In the event that we purchase mortgage loans with an aggregate unpaid principal balance in any month greater than \$2.5 billion, our Servicer has agreed to discount the amount of such fulfillment fees by reimbursing us an amount equal to the product of (i) 0.025%, and (ii) the amount of unpaid principal balance in excess of \$2.5 billion and less than or equal to \$5.0 billion, plus (b) the product of (i) 0.05%, and (ii) the amount of unpaid principal balance in excess of \$5 billion.

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

Notwithstanding any provision of our MBWS agreement to the contrary, if it becomes reasonably necessary or advisable for our Servicer to engage in additional services in connection with post-breach or post-default resolution activities for the purposes of a correspondent production agreement, a warehouse agreement or a re-warehouse agreement, then we have generally agreed with our Servicer to negotiate in good faith for additional compensation and reimbursement of expenses to be paid to our Servicer for the performance of such additional services.

MSR Recapture Agreement. Effective February 1, 2013, we entered into an MSR recapture agreement with our Servicer. Pursuant to the terms of our MSR recapture agreement, if our Servicer refinances via its retail lending business loans for which we previously held the MSRs, our Servicer is generally required to transfer and convey to us, without cost to us, the MSRs with respect to new mortgage loans originated in those refinancings (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the loans so originated. Where the fair market value of the aggregate MSRs to be transferred for the applicable month is less than \$200,000, our Servicer may, at its option, wire cash to us in an amount equal to such fair market value in lieu of transferring such MSRs. The initial term of our MSR recapture agreement expires, unless terminated earlier in accordance with the terms of the agreement, on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated in accordance with the terms of the

agreement.

Spread Acquisition and MSR Servicing Agreements. Effective February 1, 2013, we entered into a master spread acquisition and MSR servicing agreement (the 2/1/13 Spread Acquisition Agreement), pursuant to which we may acquire from our Servicer the rights to receive certain ESS arising from MSRs acquired by our Servicer from banks and other third party financial institutions. Our Servicer is generally required to service or subservice the related mortgage loans for the applicable agency or investor. The terms of each transaction under the 2/1/13 Spread Acquisition Agreement are subject to the terms thereof, as modified and supplemented by the terms of a confirmation executed in connection with such transaction.

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To the extent our Servicer refinances any of the mortgage loans relating to the ESS we have acquired, the 2/1/13 Spread Acquisition Agreement contains recapture provisions requiring that our Servicer transfer to us, at no cost, the ESS relating to a certain percentage of the unpaid principal balance of the newly originated mortgage loans. To the extent the fair market value of the aggregate ESS to be transferred for the applicable month is less than \$200,000, our Servicer may, at its option, wire cash to us in an amount equal to such fair market value in lieu of transferring such ESS.

On December 30, 2013, we entered into a second master spread acquisition and MSR servicing agreement with our Servicer (the 12/30/13 Spread Acquisition Agreement). The terms of the 12/30/13 Spread Acquisition Agreement are substantially similar to the terms of the 2/1/13 Spread Acquisition Agreement, except that we only intend to purchase ESS relating to Ginnie Mae MSRs under the 12/30/13 Spread Acquisition Agreement.

To the extent our Servicer refinances any of the mortgage loans relating to the ESS we have acquired, the 12/30/13 Spread Acquisition Agreement also contains recapture provisions requiring that our Servicer transfer to us, at no cost, the ESS relating to a certain percentage of the unpaid principal balance of the newly originated mortgage loans. However, under the 12/30/13 Spread Acquisition Agreement, in any month where the transferred ESS relating to newly originated Ginnie Mae mortgage loans is not equivalent to at least 90% of the product of the excess servicing fee rate and the unpaid principal balance of the refinanced mortgage loans, our Servicer is also required to transfer additional ESS or cash in the amount of such shortfall. Similarly, in any month where the transferred ESS relating to modified Ginnie Mae mortgage loans is not equivalent to at least 90% of the product of the excess servicing fee rate and the unpaid principal balance of the modified mortgage loans, the 12/30/13 Spread Acquisition Agreement contains provisions that require our Servicer to transfer additional ESS or cash in the amount of such shortfall. To the extent the fair market value of the aggregate ESS to be transferred for the applicable month is less than \$200,000, our Servicer may, at its option, wire cash to us in an amount equal to such fair market value in lieu of transferring such ESS.

In connection with our entry into the 12/30/13 Spread Acquisition Agreement, we were also required to enter into a Security and Subordination Agreement (the Security Agreement) with Credit Suisse First Boston Mortgage Capital LLC (CSFB). Under the terms of the Security Agreement, we pledged to CSFB our rights under the 12/30/13 Spread Acquisition Agreement and our interest in any ESS purchased thereunder. The Security Agreement was required as a result of a separate loan and security agreement between our Servicer and CSFB (the LSA), pursuant to which our Servicer pledged to CSFB all of its rights and interests in the Ginnie Mae MSRs it owns or acquires, and a separate acknowledgement agreement with respect thereto, by and among Ginnie Mae, CSFB and our Servicer. As a condition to permitting our Servicer to transfer to us the ESS relating to a portion of those pledged Ginnie Mae MSRs, CSFB required such transfer to be subject to CSFB's continuing lien on the ESS, the pledge and acknowledgement of which were effected pursuant to the Security Agreement. CSFB's lien on the ESS remains subordinate to the rights and interests of Ginnie Mae pursuant to the provisions of the 12/30/13 Spread Acquisition Agreement and the terms of the acknowledgement agreement.

The Security Agreement contains representations, warranties and covenants by us that are substantially similar to those contained in our other financing arrangements with CSFB. The Security Agreement also permits CSFB to liquidate our ESS along with the related MSRs to the extent there exists an event of default under the LSA, and it contains certain trigger events, including breaches of representations, warranties or covenants and defaults under other of our credit facilities, that would require our Servicer to either (i) repay in full the outstanding loan amount under the LSA or (ii) repurchase the ESS from us at fair market value. To the extent our Servicer is unable to repay the loan under the LSA or repurchase our ESS, an event of default would exist under the LSA, thereby entitling CSFB to liquidate the ESS and the related MSRs. In the event our ESS is liquidated as a result of certain actions or inactions of our Servicer, we generally would be entitled to seek indemnity under the 12/30/13 Spread Acquisition Agreement.

Reimbursement Agreement. In connection with the initial public offering of our common shares (IPO), on August 4, 2009, we entered into an agreement with our Manager pursuant to which we agreed to reimburse our Manager for the \$2.9 million payment that it made to the underwriters for the IPO (the Conditional

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Reimbursement) if we satisfied certain performance measures over a specified period of time. Effective February 1, 2013, we amended the terms of the reimbursement agreement to provide for the reimbursement of our Manager of the Conditional Reimbursement if we are required to pay our Manager performance incentive fees under our management agreement at a rate of \$10 in reimbursement for every \$100 of performance incentive fees earned. The reimbursement of the Conditional Reimbursement is subject to a maximum reimbursement in any particular 12-month period of \$1.0 million and the maximum amount that may be reimbursed under the agreement is \$2.9 million. The reimbursement agreement also provides for the payment to the IPO underwriters of the payment that we agreed to make to them at the time of the IPO if we satisfied certain performance measures over a specified period of time. As our Manager earns performance incentive fees under our management agreement, the IPO underwriters will be paid at a rate of \$20 of payments for every \$100 of performance incentive fees earned by our Manager. The payment to the underwriters is subject to a maximum reimbursement in any particular 12-month period of \$2.0 million and the maximum amount that may be paid under the agreement is \$5.9 million.

In the event the termination fee is payable to our Manager under our management agreement and our Manager 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.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices, real estate values and other market-based risks. The primary market risks that we are exposed to are real estate risk, credit risk, interest rate risk, prepayment risk, inflation risk and market value risk. A substantial portion of our investments are comprised of nonperforming loans. We believe that such assets' fair values respond primarily to changes in the fair value of the real estate securing such loans.

The following table summarizes the estimated change in fair value of our portfolio of our portfolio of distressed mortgage loans (comprised of mortgage loans at fair value, excluding mortgage loans at fair value held by VIE) as of June 30, 2014, given several hypothetical (instantaneous) changes in home values from those used in estimating fair value:

Property value shift in %	-15%	-10%	-5%	+5%	+10%	+15%
	(dollars in thousands)					
Fair value	\$ 1,936,221	\$ 2,015,253	\$ 2,088,825	\$ 2,217,930	\$ 2,273,373	\$ 2,323,059
Change in fair value:						
\$	\$ (220,280)	\$ (141,248)	\$ (67,676)	\$ 61,429	\$ 116,872	\$ 166,559
%	(10.21)%	(6.55)%	(3.14)%	2.85%	5.42%	7.72%

The following table summarizes the estimated change in fair value of our mortgage loans at fair value held by VIE as of June 30, 2014, net of the effect of changes in fair value of the related asset-backed secured financing of the VIE at fair value, given several hypothetical (instantaneous) changes in interest rates and parallel shifts in the yield curve:

Interest rate shift in basis points	-200	-100	-50	50	100	200
	(dollar in thousands)					
Fair value	\$ 383,132	\$ 384,298	\$ 379,673	\$ 361,402	\$ 351,542	\$ 332,608
Change in fair value:						

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\$	\$ 12,014	\$ 13,180	\$ 8,555	\$ (9,716)	\$ (19,576)	\$ (38,510)
%	3.24%	3.55%	2.31%	(2.62)%	(5.27)%	(10.38)%

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The following tables summarize the estimated change in fair value of MSR's accounted for using the amortization method as of June 30, 2014, given several shifts in pricing spreads, prepayment speed and annual per-loan cost of servicing:

Pricing spread shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollars in thousands)					
Fair value	\$ 312,394	\$ 300,399	\$ 294,715	\$ 283,924	\$ 278,799	\$ 269,049
Change in fair value:						
\$	\$ 23,168	\$ 11,173	\$ 5,489	\$ (5,302)	\$ (10,427)	\$ (20,177)
%	8.01%	3.86%	1.90%	(1.83)%	(3.61)%	(6.98)%
Prepayment speed shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollars in thousands)					
Fair value	\$ 313,065	\$ 300,757	\$ 294,899	\$ 283,731	\$ 278,405	\$ 268,233
Change in fair value:						
\$	\$ 23,838	\$ 11,531	\$ 5,673	\$ (5,495)	\$ (10,821)	\$ (20,993)
%	8.24%	3.99%	1.96%	(1.90)%	(3.74)%	(7.26)%
Per-loan servicing cost shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollars in thousands)					
Fair value	\$ 296,269	\$ 292,748	\$ 290,987	\$ 287,465	\$ 285,705	\$ 282,183
Change in fair value:						
\$	\$ 7,043	\$ 3,522	\$ 1,761	\$ (1,761)	\$ (3,522)	\$ (7,043)
%	2.44%	1.22%	0.61%	(0.61)%	(1.22)%	(2.44)%

The following tables summarize the estimated change in fair value of MSR's accounted for using the fair value option method as of June 30, 2014, given several shifts in pricing spreads, prepayment speed and annual per-loan cost of servicing:

Pricing spread shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollars in thousands)					
Fair value	\$ 50,414	\$ 48,544	\$ 47,658	\$ 45,975	\$ 45,176	\$ 43,654
Change in fair value:						
\$	\$ 3,611	\$ 1,742	\$ 856	\$ (827)	\$ (1,627)	\$ (3,149)
%	7.72%	3.72%	1.83%	(1.77)%	(3.48)%	(6.73)%
Prepayment speed shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollars in thousands)					
Fair value	\$ 51,918	\$ 49,260	\$ 48,008	\$ 45,642	\$ 44,525	\$ 42,412
Change in fair value:						

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\$	\$ 5,115	\$ 2,458	\$ 1,205	\$ (1,160)	\$ (2,277)	\$ (4,390)
%	10.93%	5.25%	2.57%	(2.48)%	(4.87)%	(9.38)%

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Per-loan servicing cost shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollars in thousands)					
Fair value	\$ 47,962	\$ 47,382	\$ 47,092	\$ 46,513	\$ 46,223	\$ 45,643
Change in fair value:						
\$	\$ 1,159	\$ 580	\$ 290	\$ (290)	\$ (580)	\$ (1,159)
%	2.48%	1.24%	0.62%	(0.62)%	(1.24)%	(2.48)%
<i>Excess servicing spread</i>						

The following tables summarize the estimated change in fair value of our ESS as of June 30, 2014, given several shifts in pricing spreads and prepayment speed:

Pricing spread shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollars in thousands)					
Fair value	\$ 199,426	\$ 194,727	\$ 192,459	\$ 188,079	\$ 185,963	\$ 181,870
Change in fair value:						
\$	\$ 9,182	\$ 4,483	\$ 2,215	\$ (2,165)	\$ (4,281)	\$ (8,374)
%	4.83%	2.36%	1.16%	(1.14)%	(2.25)%	(4.40)%

Prepayment speed shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollars in thousands)					
Fair value	\$ 209,090	\$ 199,286	\$ 194,675	\$ 185,983	\$ 181,882	\$ 174,132
Change in fair value:						
\$	\$ 18,847	\$ 9,043	\$ 4,431	\$ (4,261)	\$ (8,361)	\$ (16,112)
%	9.91%	4.75%	2.33%	(2.24)%	(4.40)%	(8.47)%

Factors That May Affect Our Future Results

This Report contains certain forward-looking statements that are subject to various risks and uncertainties.

Forward-looking statements are generally identifiable by use of forward-looking terminology such as may, will, should, potential, intend, expect, seek, anticipate, estimate, approximately, believe, could, plan or other similar words or expressions.

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

projections of our revenues, income, earnings per share, capital structure or other financial items;

descriptions of our plans or objectives for future operations, products or services;

forecasts of our future economic performance, interest rates, profit margins and our share of future markets;
and

descriptions of assumptions underlying or relating to any of the foregoing expectations regarding the timing of generating any revenues.

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

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You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this Report and as set forth in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

changes in our investment objectives or investment or operational strategies, including any new lines of business or new products and services that may subject us to additional risks;

volatility in our industry, the debt or equity markets, the general economy or the residential finance and real estate markets specifically, whether the result of market events or otherwise;

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

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

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

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

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

the concentration of credit risks to which we are exposed;

the degree and nature of our competition;

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

changes in personnel and lack of availability of qualified personnel at our Manager, Servicer or their affiliates;

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

the adequacy of our cash reserves and working capital;

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

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

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

the performance, financial condition and liquidity of borrowers;

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

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

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

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

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

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increased prepayments of the mortgages and other loans underlying our MBS or relating to our MSRs, excess servicing spread and other investments;

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

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

our failure to maintain appropriate internal controls over financial reporting;

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

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

developments in the secondary markets for our mortgage loan products;

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

changes in regulations or the occurrence of other events that impact the business, operations or prospects of government agencies such as the Ginnie Mae, FHA or the VA, or government-sponsored entities such as Fannie Mae or the Freddie Mac, or such changes that increase the cost of doing business with such entities;

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

the Consumer Financial Protection Bureau and its recently issued and future rules and the enforcement thereof;

changes in government support of homeownership;

changes in government or government-sponsored home affordability programs;

limitations imposed on our business and our ability to satisfy complex rules for us to qualify as a REIT for U.S. federal income tax purposes and qualify for an exclusion from the Investment Company Act of 1940 and the ability of certain of our subsidiaries to qualify as REITs or as a TRS for U.S. federal income tax purposes, as applicable, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;

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

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

the effect of public opinion on our reputation; and

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

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

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

In response to this Item 3, the information set forth on pages 105 through 107 is incorporated herein by reference.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. However, no matter how well a control system is designed and operated, it can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports.

Our management has conducted an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act. Based on our evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this Report, to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

From time to time, we may be involved in various legal proceedings, claims and actions arising in the ordinary course of business. As of June 30, 2014, we were not involved in any such legal proceedings, claims or actions that management believes would be reasonably likely to have a material adverse effect on us.

Item 1A. *Risk Factors*

There are no material changes from the risk factors set forth under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 28, 2014.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

None

Item 3. *Defaults Upon Senior Securities*

None

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Item 4. *Mine Safety Disclosures*

Not applicable

Item 5. *Other Information*

None

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Exhibit	
Number	Exhibit Description
3.1	Declaration of Trust of PennyMac Mortgage Investment Trust, as amended and restated (incorporated by reference to Exhibit 3.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
3.2	Amended and Restated Bylaws of PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on August 13, 2013).
4.1	Specimen Common Share Certificate of PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 4.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
4.2	Indenture for Senior Debt Securities, dated as of April 30, 2013, among PennyMac Corp., PennyMac Mortgage Investment Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on April 30, 2013).
4.3	First Supplemental Indenture, dated as of April 30, 2013, among PennyMac Corp., PennyMac Mortgage Investment Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.2 of our Current Report on Form 8-K filed on April 30, 2013).
4.4	Form of 5.375% Exchangeable Senior Notes due 2020 (included in Exhibit 4.3).
10.1	Amended and Restated Limited Partnership Agreement of PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.2	Registration Rights Agreement, dated as of August 4, 2009, among PennyMac Mortgage Investment Trust, Stanford L. Kurland, David A. Spector, BlackRock Holdco II, Inc., Highfields Capital Investments LLC and Private National Mortgage Acceptance Company, LLC (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.3	Amended and Restated Underwriting Fee Reimbursement Agreement, dated as of February 1, 2013, by and among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.6 of our Current Report on Form 8-K filed on February 7, 2013).
10.4	Amended and Restated Management Agreement, dated as of February 1, 2013, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on February 7, 2013).
10.5	Amended and Restated Flow Servicing Agreement, dated as of February 1, 2013, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on February 7, 2013).
10.6	Second Amended and Restated Flow Servicing Agreement, dated as of March 1, 2013, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to

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Exhibit 10.14 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).

- 10.7 Amendment No. 1 to Second Amended and Restated Flow Servicing Agreement, dated as of November 14, 2013, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on November 20, 2013).
- 10.8 Amendment No. 2 to Second Amended and Restated Flow Servicing Agreement, dated as of June 1, 2014, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC.
- 10.9 PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).

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Number	Exhibit Description
10.10	Form of Restricted Share Unit Award Agreement under the PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Amendment No. 3 to the Company's Registration Statement on Form S-11, filed with the SEC on July 24, 2009).
10.11	Master Repurchase Agreement, dated as of November 2, 2010, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.11 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.12	Amendment Number One to Master Repurchase Agreement, dated as of August 18, 2011, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.13 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.13	Amendment Number Two to Master Repurchase Agreement, dated as of September 28, 2011, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.14 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.14	Amendment Number Three to Master Repurchase Agreement, dated as of December 30, 2011, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.15 of our Annual Report on Form 10-K for the year ended December 31, 2011).
10.15	Amendment Number Four to Master Repurchase Agreement, dated as of December 28, 2012, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.17 of our Annual Report on Form 10-K for the year ended December 31, 2012).
10.16	Master Repurchase Agreement, dated as of November 2, 2010, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.13 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.17	Amendment Number One to Master Repurchase Agreement, dated as of May 20, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.15 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).
10.18	Amendment Number Two to Master Repurchase Agreement, dated as of July 14, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.20 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.19	Amendment Number Three to Master Repurchase Agreement, dated as of October 7, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.21 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.20	

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Amendment Number Four to Master Repurchase Agreement, dated as of November 1, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.22 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).

- 10.21 Amendment Number Five to Master Repurchase Agreement, dated as of November 30, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 30, 2011).

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Number	Exhibit Description
10.22	Amendment Number Six to Master Repurchase Agreement, dated as of March 29, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.25 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.23	Amendment Number Seven to Master Repurchase Agreement, dated as of July 25, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on July 31, 2012).
10.24	Amendment Number Eight to Master Repurchase Agreement, dated as of September 26, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 1, 2012).
10.25	Amendment Number Nine to Master Repurchase Agreement, dated as of October 29, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 29, 2012).
10.26	Amended and Restated Master Repurchase Agreement, dated as of June 1, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed June 5, 2013).
10.27	Amendment No. 1 to Amended and Restated Master Repurchase Agreement, dated as of August 29, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed September 5, 2013).
10.28	Amendment No. 2 to Amended and Restated Master Repurchase Agreement, dated as of October 1, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.31 of our Annual Report on Form 10-K for the year ended December 31, 2013).
10.29	Amendment No. 3 to Amended and Restated Master Repurchase Agreement, dated as of December 27, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed January 3, 2014).
10.30	Amendment No. 4 to Amended and Restated Master Repurchase Agreement, dated as of December 31, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.33 of our Annual Report on Form 10-K for the year ended December 31, 2013).
10.31	Amendment No. 5 to Amended and Restated Master Repurchase Agreement, dated as of January 10, 2014, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.33 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).

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- 10.32 Amendment No. 6 to Amended and Restated Master Repurchase Agreement, dated as of February 21, 2014, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on February 24, 2014).
- 10.33 Amendment No. 7 to Amended and Restated Master Repurchase Agreement, dated as of May 22, 2014, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P.

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Number	Exhibit Description
10.34	Guaranty, dated as of November 2, 2010, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. and Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 10.14 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.35	Master Repurchase Agreement, dated as of December 9, 2010, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and PennyMac Loan Services, LLC, and Citibank, N.A. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on December 15, 2010).
10.36	Amendment Number One to the Master Repurchase Agreement, dated as of February 25, 2011, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on March 3, 2011).
10.37	Amendment Number Two to the Master Repurchase Agreement, dated as of December 8, 2011, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.28 of our Annual Report on Form 10-K for the year ended December 31, 2011).
10.38	Amendment Number Three to the Master Repurchase Agreement, dated as of February 24, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.30 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.39	Amendment Number Four to the Master Repurchase Agreement, dated as of April 13, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.32 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.40	Amendment Number Five to the Master Repurchase Agreement, dated as of April 20, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.33 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.41	Amendment Number Six to the Master Repurchase Agreement, dated as of May 31, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on June 5, 2012).
10.42	Amendment Number Seven to the Master Repurchase Agreement, dated as of November 13, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.39 of our Annual Report on Form 10-K for the year ended December 31, 2012).
10.43	Amendment Number Eight to the Master Repurchase Agreement, dated as of December 31, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.40 of our Annual Report on Form 10-K for the year ended December 31, 2012).

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- 10.44 Amendment Number Nine to the Master Repurchase Agreement, dated as of March 12, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on March 13, 2013).
- 10.45 Amendment Number Ten to the Master Repurchase Agreement, dated as of April 19, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.47 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).

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Number	Exhibit Description
10.46	Amendment Number Eleven to the Master Repurchase Agreement, dated as of June 25, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.48 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).
10.47	Amendment Number Twelve to the Master Repurchase Agreement, dated as of July 25, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on July 31, 2013).
10.48	Amendment Number Thirteen to the Master Repurchase Agreement, dated as of September 26, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.48 of our Annual Report on Form 10-K for the year ended December 31, 2013).
10.49	Amendment Number Fourteen to the Master Repurchase Agreement, dated as of February 5, 2014, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.11 of our Current Report on Form 8-K filed on February 6, 2014).
10.50	Amendment Number Fifteen to the Master Repurchase Agreement, dated as of May 13, 2014, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC.
10.51	Guaranty Agreement, dated as of December 9, 2010, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on December 15, 2010).
10.52	Amended and Restated Master Repurchase Agreement, dated as of August 25, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.28 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.53	Amendment No. 1 to Amended and Restated Master Repurchase Agreement, dated as of June 6, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.38 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.54	Amendment No. 2 to Amended and Restated Master Repurchase Agreement, dated as of March 28, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.50 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).

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Number	Exhibit Description
10.55	Amendment No. 3 to Amended and Restated Master Repurchase Agreement, dated as of May 8, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.51 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.56	Amendment No. 4 to Amended and Restated Master Repurchase Agreement, dated as of October 1, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.54 of our Annual Report on Form 10-K for the year ended December 31, 2013).
10.57	Amendment No. 5 to Amended and Restated Master Repurchase Agreement, dated as of December 27, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Holdings, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on January 3, 2014).
10.58	Amendment No. 6 to Amended and Restated Master Repurchase Agreement, dated as of December 31, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Holdings, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.56 of our Annual Report on Form 10-K for the year ended December 31, 2013).
10.59	Master Repurchase Agreement, dated as of November 7, 2011, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 14, 2011).
10.60	Amendment No. 1 to Master Repurchase Agreement, dated as of August 17, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.45 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012).
10.61	Amendment No. 2 to Master Repurchase Agreement, dated as of January 3, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on January 7, 2013).
10.62	Amendment No. 3 to Master Repurchase Agreement, dated as of March 28, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on April 3, 2013).
10.63	Amendment No. 4 to Master Repurchase Agreement, dated as of January 31, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on February 6, 2014).
10.64	Amendment No. 5 to Master Repurchase Agreement, dated as of March 27, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.64 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).

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- 10.65 Amendment No. 6 to Master Repurchase Agreement, dated as of July 9, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on July 14, 2014).
- 10.66 Guaranty, dated as of November 7, 2011, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P., in favor of Bank of America, N.A. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 14, 2011).

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Exhibit	
Number	Exhibit Description
10.67	Master Repurchase Agreement, dated as of March 29, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on April 4, 2012).
10.68	Amendment No. 1 to Master Repurchase Agreement, dated as of July 25, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on July 31, 2012).
10.69	Amendment No. 2 to Master Repurchase Agreement, dated as of September 26, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 1, 2012).
10.70	Amendment No. 3 to Master Repurchase Agreement, dated as of October 29, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 31, 2012).
10.71	Amendment No. 4 to Master Repurchase Agreement, dated as of June 1, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on June 5, 2013).
10.72	Amendment No. 5 to Master Repurchase Agreement, dated as of August 29, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on September 5, 2013).
10.73	Amendment No. 6 to Master Repurchase Agreement, dated as of September 27, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.75 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
10.74	Amendment No. 7 to Master Repurchase Agreement, dated as of October 1, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.69 of our Annual Report on Form 10-K for the year ended December 31, 2013).
10.75	Amendment No. 8 to Master Repurchase Agreement, dated as of December 27, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Holdings, LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on January 3, 2014).
10.76	Amendment No. 9 to Master Repurchase Agreement, dated as of December 31, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Holdings, LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.71 of our

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Annual Report on Form 10-K for the year ended December 31, 2013).

- 10.77 Amendment No. 10 to Master Repurchase Agreement, dated as of January 10, 2014, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Holdings, LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.76 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
- 10.78 Amendment No. 11 to Master Repurchase Agreement, dated as of February 21, 2014, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Holdings, LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.4 of our Current Report on Form 8-K filed on February 24, 2014).

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Number	Exhibit Description
10.79	Amendment No. 12 to Master Repurchase Agreement, dated as of May 22, 2014, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Holdings, LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust.
10.80	Guaranty, dated as of March 29, 2012, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on March 29, 2012).
10.81	Master Repurchase Agreement, dated as of May 24, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on May 30, 2012).
10.82	Amendment Number One to the Master Repurchase Agreement, dated as of October 15, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 16, 2012).
10.83	Amendment Number Two to the Master Repurchase Agreement, dated as of November 13, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.62 of our Annual Report on Form 10-K for the year ended December 31, 2012).
10.84	Amendment Number Three to the Master Repurchase Agreement, dated as of December 31, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.72 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.85	Amendment Number Four to the Master Repurchase Agreement, dated as of May 23, 2013, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.77 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).
10.86	Amendment Number Five to the Master Repurchase Agreement, dated as of June 25, 2013, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.78 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).
10.87	Amendment Number Six to Master Repurchase Agreement, dated as of July 25, 2013, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on July 31, 2013).
10.88	Amendment Number Seven to Master Repurchase Agreement, dated as of February 5, 2014, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.12 of our Current Report on Form 8-K filed on February 6, 2014).
10.89	Guaranty, dated as of May 24, 2012, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on May 30, 2012).
10.90	Master Repurchase Agreement, dated as of July 2, 2012, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on July 10, 2012).
10.91	Amendment No. 1 to PennyMac Master Repurchase Agreement, dated as of February 1, 2013, among PennyMac Corp., PennyMac Loan Services, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.81 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).

- 10.92 Amendment No. 2 to PennyMac Master Repurchase Agreement, dated as of June 28, 2013, among PennyMac Corp., PennyMac Loan Services, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.82 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).

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Number	Exhibit Description
10.93	Master Repurchase Agreement, dated as of September 28, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 3, 2012).
10.94	Amendment No. 1 to Master Repurchase Agreement, dated as of May 8, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.80 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.95	Amendment No. 2 to Master Repurchase Agreement, dated as of December 31, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.90 of our Annual Report on Form 10-K for the year ended December 31, 2013).
10.96	Amendment No. 3 to Master Repurchase Agreement, dated as of January 10, 2014, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.98 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
10.97	Guaranty, dated as of September 28, 2012, by PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 3, 2012).
10.98	Master Repurchase Agreement, dated as of November 20, 2012, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 26, 2012).
10.99	Amendment Number One to the Master Repurchase Agreement, dated as of August 20, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.96 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
10.100	Amendment Number Two to the Master Repurchase Agreement, dated as of August 26, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.97 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
10.101	Amendment Number Three to Master Repurchase Agreement, dated as of November 14, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.95 of our Annual Report on Form 10-K for the year ended December 31, 2013).
10.102	Amendment Number Four to Master Repurchase Agreement, dated as of December 19, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.96 of our Annual Report on Form 10-K for the year ended December 31, 2013).
10.103	Guaranty, dated as of November 20, 2012, by PennyMac Mortgage Investment Trust in favor of Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to

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Exhibit 1.2 of our Current Report on Form 8-K filed on November 26, 2012).

- 10.104 Mortgage Banking and Warehouse Services Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 1.3 of our Current Report on Form 8-K filed on February 7, 2013).
- 10.105 Amendment No. 1 to Mortgage Banking and Warehouse Services Agreement, dated as of March 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.85 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).

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Number	Exhibit Description
10.106	Amendment No. 2 to Mortgage Banking and Warehouse Services Agreement, dated as of August 14, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on August 19, 2013).
10.107	MSR Recapture Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 1.4 of our Current Report on Form 8-K filed on February 7, 2013).
10.108	Amendment No. 1 to MSR Recapture Agreement, dated as of August 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.103 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
10.109	Master Spread Acquisition and MSR Servicing Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.5 of our Current Report on Form 8-K filed on February 7, 2013).
10.110	Amendment No. 1 to Master Spread Acquisition and MSR Servicing Agreement, dated as of September 30, 2013, by and between PennyMac Loan Services, LLC and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.105 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
10.111	Amendment No. 2 to Master Spread Acquisition and MSR Servicing Agreement, dated as of November 14, 2013, by and between PennyMac Loan Services, LLC and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.105 of our Annual Report on Form 10-K for the year ended December 31, 2013).
10.112	Amendment No. 3 to Master Spread Acquisition and MSR Servicing Agreement, dated as of March 19, 2014, by and between PennyMac Loan Services, LLC and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.114 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
10.113	Master Spread Acquisition and MSR Servicing Agreement, dated as of December 30, 2013, by and between PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.4 of our Current Report on Form 8-K filed on January 3, 2014).
10.114	Amendment No. 1 to Master Spread Acquisition and MSR Servicing Agreement, dated as of June 1, 2014, by and between PennyMac Loan Services, LLC and PennyMac Holdings, LLC.
10.115	Security and Subordination Agreement, dated as of December 30, 2013, between Credit Suisse First Boston Mortgage Capital LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.5 of our Current Report on Form 8-K filed on January 3, 2014).
10.116	Master Repurchase Agreement, dated as of February 18, 2014, between The Royal Bank of Scotland PLC, PennyMac Corp., PennyMac Holdings, LLC, and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on February 24, 2014).
10.117	Guaranty, dated as of February 18, 2014, of PennyMac Mortgage Investment Trust in favor of The Royal Bank of Scotland PLC (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on February 24, 2014).

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- 10.118 Confidentiality Agreement, dated as of February 6, 2013, between Private National Mortgage Acceptance Company, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.7 of our Current Report on Form 8-K filed on February 7, 2013).
- 10.119 Amended and Restated Confidentiality Agreement, dated as of March 1, 2013, between Private National Mortgage Acceptance Company, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.89 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).

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Number	Exhibit Description
10.120	Letter Agreement, dated as of June 14, 2013, between PennyMac Corp. and Citigroup Global Markets Realty Corp. (incorporated by reference to Exhibit 10.98 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).*
10.121	Letter Agreement, dated as of June 28, 2013, between PennyMac Corp. and Citigroup Global Markets Realty Corp. (incorporated by reference to Exhibit 10.99 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).*
10.122	Mortgage Loan Participation Purchase and Sale Agreement, dated as of December 23, 2011, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on February 6, 2014).
10.123	Amendment No. 1 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of August 17, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on February 6, 2014).
10.124	Amendment No. 2 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of October 29, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.4 of our Current Report on Form 8-K filed on February 6, 2014).
10.125	Amendment No. 3 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of December 5, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.5 of our Current Report on Form 8-K filed on February 6, 2014).
10.126	Amendment No. 4 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 3, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.6 of our Current Report on Form 8-K filed on February 6, 2014).
10.127	Amendment No. 5 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of March 28, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.7 of our Current Report on Form 8-K filed on February 6, 2014).
10.128	Amendment No. 6 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 2, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.8 of our Current Report on Form 8-K filed on February 6, 2014).
10.129	Amendment No. 7 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 31, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.9 of our Current Report on Form 8-K filed on February 6, 2014).
10.130	Amendment No. 8 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of March 27, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and

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PennyMac Operating Partnership, L.P.

- 10.131 Guaranty, dated as of December 23, 2011, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.10 of our Current Report on Form 8-K filed on February 6, 2014).
- 10.132 Master Repurchase Agreement, dated as of July 9, 2014, among Bank of America, N.a., PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on July 14, 2014).

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Number	Exhibit Description
10.133	Guaranty, dated as of July 9, 2014, by PennyMac Mortgage Investment Trust in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on July 14, 2014).
31.1	Certification of Stanford L. Kurland pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Anne D. McCallion pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Stanford L. Kurland pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Anne D. McCallion pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013, (ii) the Consolidated Statements of Income for the quarters ended June 30, 2014 and 2013, (iii) the Consolidated Statements of Changes in Shareholders' Equity for the quarters ended June 30, 2014 and 2013, (iv) the Consolidated Statements of Cash Flows for the quarters ended June 30, 2014 and 2013 and (v) the Notes to the Consolidated Financial Statements.

* Certain terms have been redacted pursuant to requests for confidential treatment submitted to the Securities and Exchange Commission concurrently with the filing of this Report.